



Apache County, Arizona

Single Audit

Year Ended June 30, 2006

Apache County, Arizona
Single Audit Reporting Package
Year Ended June 30, 2006

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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, 2006, 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, 2006, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through ix, the Budgetary Comparison Schedules on pages 26 through 29, and the Schedule of Agent Retirement Plans' Funding Progress on page 30 are not required parts 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 connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2 and any other dedicated state transportation revenues received by the County solely for the authorized purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2008, 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.

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, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Fester & Chapman P.C.

May 7, 2008

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, 2006.

Financial Highlights

- The assets of Apache County exceeded its liabilities at the close of the fiscal year by \$32,713,065 (net assets). Of this amount, \$12,109,843 (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 \$3,352,868. This is a change from the prior year when net assets had increased \$666,923.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$10,700,440 or 57% of the total governmental funds' fund balances.
- Apache County's total long-term liabilities decreased by \$526,063 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, Road, 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 Road 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, 2006, assets exceeded liabilities by \$32,713,065.

Apache County Management's Discussion and Analysis

Condensed Statement of Net Assets June 30,

	Governmental Activities	
	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 18,036,562	\$ 21,388,548
Capital assets	<u>16,965,858</u>	<u>17,095,252</u>
Total assets	35,002,420	38,483,800
Current and other liabilities	1,258,568	1,913,143
Long-term liabilities	<u>4,383,655</u>	<u>3,857,592</u>
Total liabilities	5,642,223	5,770,735
Net Assets		
Invested in capital assets, net of related debt	14,307,402	14,937,037
Restricted net assets	6,632,681	5,666,185
Unrestricted net assets	<u>8,420,114</u>	<u>12,109,843</u>
Total net assets	<u>\$ 29,360,197</u>	<u>\$ 32,713,065</u>

The largest portion (\$14,937,037 or 46%) 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 (\$5,666,185 or 17%) represent resources that are subject to external restrictions on how they may be used. The remaining balance of net assets (\$12,109,843 or 37%) are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

Current and other assets combined with unrestricted net assets increased due to larger fund carryovers in FY 2006. This was in anticipation of a slower economy in an attempt to smooth out the economic down turn.

Current and other liabilities increased by 52%, primarily due to an increase in accounts payable relating to road construction expenses.

Apache County Management's Discussion and Analysis

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

Statement of Activities

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

Condensed Statement of Activities Year Ended June 30

	Governmental Activities	
	<u>2005</u>	<u>2006</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 2,704,527	\$ 2,891,622
Operating grants and contributions	15,388,999	16,222,635
Capital grants	443,545	363,731
General Revenues:		
Property taxes	5,945,560	7,047,165
Share of state sales taxes	5,654,950	6,401,716
Payments in lieu of taxes	2,983,112	3,639,071
Grants and contributions not restricted to specific programs	556,485	567,423
Investment income	218,310	480,998
Miscellaneous	2,004,458	1,367,292
Gain on sale of capital assets		67,918
Total revenues	<u>35,899,946</u>	<u>32,713,065</u>
Expenses:		
General government	10,233,396	10,037,167
Public safety	9,489,460	9,053,540
Highways and streets	8,767,275	9,476,400
Sanitation	106,299	101,217
Health	2,507,426	2,510,606
Welfare	166,011	172,323
Culture and recreation	1,161,637	1,136,073
Education	2,621,584	3,062,732
Capital outlay	0	0
Principle & Interest on long-term debt	179,935	146,645
Total expenses	<u>35,233,023</u>	<u>35,696,703</u>
Increase in net assets	666,923	3,352,868
Net assets – beginning	<u>28,693,274</u>	<u>29,360,197</u>
Net assets – ending	<u>\$ 29,360,197</u>	<u>\$ 32,713,065</u>

Apache County Management's Discussion and Analysis

The increase in operating grants and contributions was comprised of several small increases among the County's different operating grants. The main portion was due to additional HURF monies received throughout the fiscal year and a state grant for \$635,469 to make improvements to the Concho Highway.

Property tax collections increased by \$1,101,605, or 18%, primarily due to an increase in tax levies caused by the County's growth in funding needs.

Payment in Lieu of Taxes increased by \$655,959, or 22%. This increase was due to increase in tax levies caused by the County's growth in funding needs.

The County's share of sales tax revenues increased \$746,766, or 13%. This increase reflects the influence of the construction activity on the new unit at the Tucson Electric Power plant.

Expenses increased by \$463,680 or 1%, which is insignificant.

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, 2006, the County's General fund reported an increase in fund balance of \$1,493,626 (16%), which was driven with increases in major revenues of property taxes and intergovernmental and no significant increase in expenditures.

The Road Fund balance increased by \$466,168 (12%) because of an increase in the realization of the major regular revenues. Regular expenditures in this fund did 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.

The Bond Interest and Redemption Fund balance increased by \$14,783 (22%) primarily due to an increase in property tax revenues.

Apache County Management's Discussion and Analysis

General Fund Budgetary Highlights

Total general fund revenues were over budget by \$278,105. Historically Salt River Project 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 \$817,588. When this amount is compared to contributions instead of intergovernmental revenues, the variance is only \$26,159, which is immaterial; and the additional variance in intergovernmental revenues is driven by Homeland Security grant funds that did not materialize.

Miscellaneous revenues were lower than budgeted by \$327,512 due to sales of parcels that did not materialize as anticipated at the time of the budget.

Total general fund expenditures were under budget by \$10,041,666. 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 \$283,777 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.
- Contingency departmental expenditures were \$5,621,571 lower than final budgeted amounts due to the budgeting of prior years sales tax revenues that had been held in litigation. These funds were awarded to the county when the case was settled in 1999. The county has been budgeting these funds as contingency spending to protect them from actual expenditures due to the expenditure limitations imposed by the state of Arizona.
- Legal Services departmental expenditures were \$150,434 lower than final budgeted amounts due to the account normally being budgeted high due to the possibility of court cases developing throughout the year.
- Sheriff's department expenditures were \$240,268 lower due to deputy vacancies that were not filled.
- Emergency Services departmental expenditures were \$325,882 lower than final budgeted amounts due to budgeting for grants that have not yet been realized.
- Capital outlay had a positive variance of approximately \$3 million due to a delay in starting the construction on new libraries that was postponed until fiscal year 2007.

Apache County Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

The County's capital assets as of June 30, 2006, amounted to \$17,095,252, net of accumulated depreciation. These capital assets include land, improvements other than buildings, construction in progress, buildings, infrastructure, and machinery and equipment.

Capital Assets / Net of Depreciation

	Governmental Activities		
	<u>FY2005</u>	<u>FY2006</u>	Increase (Decrease) Percent of <u>Change</u>
Land	\$ 1,576,889	\$ 1,617,200	3%
Improvements other than buildings	256,550	301,430	17%
Construction in progress	0	0	0%
Buildings	8,631,283	8,521,846	(1%)
Infrastructure	538,943	1,494,334	164%
Machinery and equipment	<u>5,962,193</u>	<u>5,232,626</u>	(12%)
Totals	<u>\$16,965,858</u>	<u>\$17,095,252</u>	(2.8%)

The increase in IOTB was additional perimeter fencing added to several of the County's sub-stations. The increase to infrastructure was driven by two large paving projects on County roads. Additionally, the decrease in machinery and equipment is a reflection of depreciation throughout the year.

Long-Term Debt

On June 30, 2006, the County had a total of \$3,857,592 in long-term liabilities. Of this amount, \$2,347,000 was principal outstanding on general obligation and special assessment bonds, and \$83,214 was capital lease obligations. The remainder represents compensated absences payable. No new bonding was issued or capital lease obligations entered into during fiscal year 2006.

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.

Apache County Management's Discussion and Analysis

Economic Factors and the Next Year's Budget

In FY2005, Tucson Electric Power was in full ramp up on their 3rd 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, 2006

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 16,220,174
Receivables (net of allowance for uncollectibles):	
Property taxes	419,024
Accounts	114,494
Special assessments	275,427
Other	117,538
Due from other governments	3,776,580
Inventories	400,345
Prepaid items	64,967
Capital assets, not being depreciated	1,918,630
Capital assets, being depreciated, net	<u>15,176,621</u>
Total assets	<u>38,483,800</u>
LIABILITIES	
Accounts payable	1,547,851
Accrued payroll and employee benefits	359,241
Due to other governments	6,051
Noncurrent liabilities	
Due within 1 year	1,159,401
Due in more than 1 year	<u>2,698,191</u>
Total liabilities	<u>5,770,735</u>
NET ASSETS	
Invested in capital assets, net of related debt	14,937,037
Restricted for:	
Public safety	779,593
Highways and streets	4,276,213
Debt service	400,656
Capital projects	87,244
Other purposes	122,479
Unrestricted	<u>12,109,843</u>
Total net assets	<u>\$ 32,713,065</u>

See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental activities:					Governmental Activities
General government	\$ 10,037,167	\$ 1,323,943	\$ 937,385		\$ (7,775,839)
Public safety	9,053,540	1,175,972	2,007,683		(5,869,885)
Highways and streets	9,476,400	52,948	11,093,862		1,670,410
Welfare	172,323		168,414		(3,909)
Sanitation	101,217		101,645	\$ 363,731	364,159
Health	2,510,606	164,135	1,214,443		(1,132,028)
Culture and recreation	1,136,073	6,948	310,896		(818,229)
Education	3,062,732	205,176	388,307		(2,469,249)
Interest on long-term debt	<u>146,645</u>				<u>(146,645)</u>
Total governmental activities	\$ <u>35,696,703</u>	\$ <u>2,929,122</u>	\$ <u>16,222,635</u>	\$ <u>363,731</u>	<u>(16,181,215)</u>

General revenues:

Taxes:

Property taxes levied for general purposes	4,648,455
Property taxes levied for jail district	609,178
Property taxes levied for juvenile jail district	303,365
Property taxes levied for library	914,770
Property taxes levied for flood control	124,395
Property taxes levied for debt service	447,002
Share of state sales taxes	6,401,716
Payments in lieu of taxes	3,639,071
Grants and contributions not restricted to specific programs	567,423
Investment earnings	480,998
Gain on sale of capital assets	1,329,792
Gain on sale of capital assets	<u>67,918</u>
Total general revenues	<u>19,534,083</u>
Change in net assets	3,352,868
Net assets, July 1, 2005	<u>29,360,197</u>
Net assets, June 30, 2006	<u>\$ 32,713,065</u>

See accompanying notes to financial statements.

Apache County, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Road Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 8,372,142	\$ 3,107,492	\$ 1,129,077	\$ 3,611,463	\$ 16,220,174
Receivables (net of allowances for uncollectibles):					
Property taxes	154,530		27,538	236,956	419,024
Accounts	16,453	91,819		6,222	114,494
Special assessments				275,427	275,427
Other	69,304		9,127	39,107	117,538
Due from:					
Other funds	1,335,071	77,242		77,235	1,489,548
Other governments	1,344,354	1,613,711		818,515	3,776,580
Inventories	11,862	388,483			400,345
Prepaid items	47,945	7,830		9,192	64,967
Total assets	<u>\$ 11,351,661</u>	<u>\$ 5,286,577</u>	<u>\$ 1,165,742</u>	<u>\$ 5,074,117</u>	<u>\$ 22,878,097</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 229,689	\$ 970,118		\$ 348,044	\$ 1,547,851
Accrued payroll and employee benefits	164,843	85,559		108,839	359,241
Due to:					
Other funds	66,865	42,273	\$ 1,062,425	317,985	1,489,548
Other governments	6,051				6,051
Deferred revenue	123,966		21,775	462,522	608,263
Total liabilities	<u>591,414</u>	<u>1,097,950</u>	<u>1,084,200</u>	<u>1,237,390</u>	<u>4,010,954</u>
Fund balances:					
Reserved for:					
Inventories	11,862	388,483			400,345
Prepaid items	47,945	7,830		9,192	64,967
Debt service				363,293	363,293
Unreserved, reported in:					
General fund	10,700,440				10,700,440
Special revenue funds		3,792,314		3,376,998	7,169,312
Capital projects funds				87,244	87,244
Debt service fund			81,542		81,542
Total fund balances	<u>10,760,247</u>	<u>4,188,627</u>	<u>81,542</u>	<u>3,836,727</u>	<u>18,867,143</u>
Total liabilities and fund balances	<u>\$ 11,351,661</u>	<u>\$ 5,286,577</u>	<u>\$ 1,165,742</u>	<u>\$ 5,074,117</u>	<u>\$ 22,878,097</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, 2006

Fund balances - total governmental funds		\$ 18,867,143
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. The cost of the assets is \$37,335,694 and the accumulated depreciation is \$20,240,443.		17,095,251
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.		608,263
Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.		
Compensated absences payable	\$ (1,427,378)	
General obligation bonds payable	(2,075,000)	
Special assessment bonds payable	(272,000)	
Capital leases payable	<u>(83,214)</u>	<u>(3,857,592)</u>
Net assets of governmental activities		<u>\$ 32,713,065</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, 2006

	General Fund	Road Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 3,603,011	\$ 2,673,204	\$ 447,002	\$ 3,855,157	\$ 10,578,374
Special assessments				91,685	91,685
Licenses and permits	210,907				210,907
Intergovernmental	9,218,530	8,413,683	135,938	5,957,987	23,726,138
Charges for services	245,724	1,770		1,669,828	1,917,322
Fines and forfeits	558,980			117,902	676,882
Investment income	235,970	100,305	30,275	114,448	480,998
Miscellaneous	<u>1,186,377</u>	<u>11,371</u>		<u>121,719</u>	<u>1,319,467</u>
Total revenues	<u>15,259,499</u>	<u>11,200,333</u>	<u>613,215</u>	<u>11,928,726</u>	<u>39,001,773</u>
EXPENDITURES					
Current:					
General government	8,826,882		351	927,343	9,754,576
Public safety	3,517,326			4,904,702	8,422,028
Highways and streets		7,930,962		165,769	8,096,731
Welfare				168,313	168,313
Sanitation				101,217	101,217
Health	961,352			1,521,830	2,483,182
Culture and recreation	18,000			1,118,073	1,136,073
Education	320,125			2,724,935	3,045,060
Capital outlay	273,018	1,840,454		136,065	2,249,537
Debt service:					
Principal retirement		25,242	475,000	58,000	558,242
Interest and other charges		5,203	123,081	23,941	152,225
Total expenditures	<u>13,916,703</u>	<u>9,801,861</u>	<u>598,432</u>	<u>11,850,188</u>	<u>36,167,184</u>
Excess of revenues over expenditures	<u>1,342,796</u>	<u>1,398,472</u>	<u>14,783</u>	<u>78,538</u>	<u>2,834,589</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	1,110,717			1,061,999	2,172,716
Transfers out	(971,679)	(988,430)		(212,607)	(2,172,716)
Sale of capital assets	11,792	56,126			67,918
Total other financing sources and uses	<u>150,830</u>	<u>(932,304)</u>		<u>849,392</u>	<u>67,918</u>
Net change in fund balances	1,493,626	466,168	14,783	927,930	2,902,507
Fund balances, July 1, 2005	9,286,310	3,882,608	66,759	2,913,936	16,149,613
Increase in reserve for inventories	871	131,481			132,352
Decrease in reserve for prepaid items	(20,560)	(291,630)		(5,139)	(317,329)
Fund balances, June 30, 2006	<u>\$ 10,760,247</u>	<u>\$ 4,188,627</u>	<u>\$ 81,542</u>	<u>\$ 3,836,727</u>	<u>\$ 18,867,143</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, 2006

Net change in fund balances - total governmental funds \$ 2,902,507

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	\$ 2,338,965	
Depreciation expense	<u>(2,209,572)</u>	129,393

Collections of revenues in the funds exceeded revenues reported in the Statement of Activities.	(20,118)
---	----------

Increase of compensated absences payable decreases net assets of governmental activities but does not have any effect on fund balances of the governmental funds.	(32,179)
---	----------

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	475,000	
Special assessment bonds payable	58,000	
Capital leases payable	<u>25,242</u>	558,242

Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.

Increase in inventories	132,352	
Decrease in prepaid items	<u>(317,329)</u>	<u>(184,977)</u>

Change in net assets of governmental activities	<u>\$ 3,352,868</u>
---	---------------------

See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 38,338,952	\$ 830,750
Interest and dividends receivable	37,669	
Investments, at fair value	54,369,285	
Total assets	92,745,906	\$ 830,750
LIABILITIES		
Due to other governments		\$ 830,750
Total liabilities		\$ 830,750
NET ASSETS		
Held in trust for investment trust participants	\$ 92,745,906	

See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2006

	Investment Trust Fund
ADDITIONS:	
Contributions from participants	\$ 181,070,765
Investment earnings:	
Interest and dividends	1,331,345
Net increase in the fair value of investments	1,708,106
Total investment earnings	3,039,451
Total additions	184,110,216
DEDUCTIONS:	
Distributions to participants	190,703,530
Change in net assets	(6,593,314)
Net assets, July 1, 2005	99,339,220
Net assets, June 30, 2006	\$ 92,745,906

See accompanying notes to financial statements.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide 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 the 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 the 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 the board of directors	Blended	Not available
Apache County Library District	Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the 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 the board of directors	Blended	Not available

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation

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

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

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

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

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

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

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

The County reports the following major governmental funds:

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

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

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.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 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 agency funds, 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. The County's major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, and charges for services. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

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

D. Cash and Investments

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.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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

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 levied various personal property taxes that were due the second Monday of every month following receipt of the tax notice and become delinquent 30 days later.

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

G. Capital Assets

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All		
Construction in progress	\$ 5,000		
Improvements other than buildings	\$ 5,000		
Buildings	\$ 5,000	Straight line	25-40 years
Machinery and equipment	\$ 5,000	Straight line	5-8 years
Infrastructure	\$ 5,000	Straight line	40-45 years

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

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

Deficit fund balances - At June 30, 2006, the following funds reported significant deficits in fund balances:

Fund	Deficit
Health Services	\$ 34,129
ACCENT/Attorney	3,822
Ganado School Deputies	46,728
Victim's Assistance	4,684
Jail District	236,414

These deficits resulted from operations during the year, but are expected to be corrected through normal operations in fiscal year 2007.

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, 2006

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 that 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, 2006, the carrying amount of the County's deposits was \$2,215,861, and the bank balance was \$3,895,968. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2006, \$3,116,100 of the County's bank balance was exposed to custodial credit risk as follows:

	Fair Value
Uninsured with collateral held by the pledging financial institution	<u>\$ 3,116,100</u>

Investments - The County's investments at June 30, 2006, were as follows:

Investment Type	Amount
State Treasurer's investment pools	\$ 816,193
U.S. agency securities	52,995,210
Corporate bonds	6,406,389
Repurchase agreements	19,031,799
Money market funds	<u>28,279,354</u>
	<u>\$107,528,945</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED

The State Board of Investment provides oversight for the State Treasurer's pools. 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, 2006, 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	\$ 52,995,210
Corporate bonds	Aa3	Moody's	6,406,389
State Treasurer's investment pools	Unrated	Not Applicable	816,193
Money market funds:			
ML Government Fund	AAAm	S&P	27,999,950
WF Advantage Government MMF	AAA	Moody's	279,404
			<u>\$ 88,497,146</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, 2006, the County had \$52,995,210 of U.S. agency securities, \$6,406,389 of corporate bonds, \$19,031,799 invested in repurchase agreements, and \$28,279,354 in money market funds 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. The County had investments at June 30, 2006, of 5 percent or more in Freddie Mac (Federal Home Loan Mortgage Corporation), Fannie Mae (Federal National Mortgage Association), and Federal Home Loan Bank. These investments were 13.8%, 8.5%, and 23.0%, 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, 2006, 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>
U.S. agency securities	\$ 52,995,210	\$ 14,957,370	\$ 38,037,840
Corporate bonds	6,406,389	250,841	6,155,548
Repurchase agreements	19,031,799	19,031,799	
State Treasurer's investment pools	816,193	816,193	
Money market funds	28,279,354	28,279,354	
	<u>\$ 107,528,945</u>	<u>\$ 63,335,557</u>	<u>\$ 44,193,388</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED

Foreign currency risk - State statutes do not allow foreign investments

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

Cash and investments:

Cash on hand	\$	14,355
Carrying amount of deposits		2,215,861
Amount of investments		<u>107,528,945</u>
Total		<u>\$109,759,161</u>

	<u>Governmental Activities</u>	<u>Investment Trust Fund</u>	<u>Agency Funds</u>	<u>Total</u>
Statement of Net Assets:				
Cash and cash equivalents	\$ 16,220,174	\$ 38,338,952	\$ 830,750	\$ 55,389,876
Investments		<u>54,369,285</u>		<u>54,369,285</u>
Total	<u>\$ 16,220,174</u>	<u>\$ 92,708,237</u>	<u>\$ 830,750</u>	<u>\$ 109,759,161</u>

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2006, in the General Fund include \$1,034,471 in sales taxes and \$211,122 in federal reimbursement grants. Amounts due from other governments in the Road Fund include \$1,323,076 in highway user taxes and \$261,598 in auto lieu taxes from the State of Arizona. Amounts due from other governments in the Other Governmental Funds include \$447,554 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, 2006

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2006</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,576,889	\$ 40,311		\$ 1,617,200
Improvements other than buildings	<u>256,550</u>	<u>44,880</u>		<u>301,430</u>
Total capital assets not being depreciated	<u>1,833,439</u>	<u>85,191</u>		<u>1,918,630</u>
Capital assets being depreciated:				
Buildings	12,757,250	192,198		12,949,448
Machinery and equipment	19,885,626	1,134,552	\$ (46,896)	20,973,282
Infrastructure	<u>567,310</u>	<u>927,024</u>		<u>1,494,334</u>
Total	<u>33,210,186</u>	<u>2,253,774</u>	<u>(46,896)</u>	<u>35,417,064</u>
Less accumulated depreciation for:				
Buildings	4,125,967	301,635		4,427,602
Machinery and equipment	13,923,433	1,864,120	(46,896)	15,740,657
Infrastructure	<u>28,367</u>	<u>43,817</u>		<u>72,184</u>
Total	<u>18,077,767</u>	<u>2,209,572</u>	<u>(46,896)</u>	<u>20,240,443</u>
Total capital assets being depreciated, net	<u>15,132,419</u>	<u>44,202</u>		<u>15,176,621</u>
Governmental activities capital assets, net	<u>\$ 16,965,858</u>	<u>\$ 129,393</u>	<u>\$</u>	<u>\$ 17,095,251</u>

Depreciation expenses were charged to functions as follows:

Governmental activities:	
General government	\$ 314,574
Public safety	626,373
Highways and streets	1,219,520
Health	27,423
Welfare	4,010
Education	<u>17,672</u>
Total depreciation expense - governmental activities	<u>\$ 2,209,572</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 6 - LONG-TERM LIABILITIES

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within 1 Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 2,550,000		\$ (475,000)	\$ 2,075,000	\$ 500,000
Special assessment bonds with government commitment	<u>330,000</u>		<u>(58,000)</u>	<u>272,000</u>	<u>62,000</u>
Total bonds payable	2,880,000		(533,000)	2,347,000	562,000
Capital leases payable	108,456		(25,242)	83,214	26,450
Compensated absences payable	<u>1,395,199</u>	<u>\$ 812,441</u>	<u>(780,262)</u>	<u>1,427,378</u>	<u>570,951</u>
Governmental activities long-term liabilities	<u>\$ 4,383,655</u>	<u>\$ 812,441</u>	<u>\$ (1,338,504)</u>	<u>\$ 3,857,592</u>	<u>\$ 1,159,401</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, 2006, were as follows:

<u>Description</u>	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
General obligation bonds:				
Series 2001	\$ 3,000,000	7/1/06-10	4.4 - 6.375%	\$ 2,075,000
Special assessment bonds with governmental commitment:				
Greer Acres - Little Colorado Improvement District	575,000	1/1/07-10	6.10%	<u>272,000</u>
				<u>\$ 2,347,000</u>

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2006:

Year ending June 30,	<u>General Obligation Bonds</u>		<u>Special Assessment Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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>\$ 2,075,000</u>	<u>\$ 237,950</u>	<u>\$ 272,000</u>	<u>\$ 34,404</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

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:

	<u>Governmental Activities</u>
Machinery and equipment	\$ 211,952
Less accumulated depreciation	<u>121,431</u>
Carrying value	<u>\$ 90,521</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2006:

	<u>Governmental Activities</u>
Year ending June 30,	
2007	\$ 30,445
2008	30,445
2009	<u>30,445</u>
Total minimum lease payments	91,335
Less amount representing interest	<u>(8,121)</u>
Present value of net minimum lease payments	<u>\$ 83,214</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 2006, the County paid for compensated absences as follows: 46 percent from the General Fund, 24 percent from the Road Fund, and 30 percent from other funds. The County paid for claims and judgments entirely from the General Fund during the year ended June 30, 2006.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

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 on the previous page.

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 \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however it may withdraw after the initial 3-year period. 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 every 5 years. 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 participating 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, 2006

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

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

Cost-sharing plans - For the year ended June 30, 2006, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 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, 2006, 2005, and 2004 were \$820,952, \$568,439, and \$552,469, respectively, which were equal to the required contributions for the year.

Agent plans - For the year ended June 30, 2006, 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 16.57 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 5.4 percent.

Annual Pension Cost-The County's pension cost for the two agent plans for the year ended June 30, 2006, and related information follows.

	<u>PSPRS</u>	<u>CORP</u>
Contribution rates:		
County	16.57%	5.40%
Plan Members	7.65%	8.5%
Annual pension cost	\$230,364	\$33,797
Contributions made	\$230,364	\$33,797

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2004, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 8.75 percent investment rate of return and (b) projected salary increases ranging from 6.25 percent to 9.25 percent per year. Both (a) and (b) included an inflation component of 5.25 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 7-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, 2004, was 20 years.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 8 - RETIREMENT PLANS - CONTINUED

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	2006	\$ 230,364	100%	\$0
	2005	194,814	100	0
	2004	204,730	100	0
CORP	2006	\$ 33,797	100%	\$0
	2005	18,276	100	0
	2004	20,005	100	0

NOTE 9 - INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables-Interfund balances at June 30, 2006, were as follows:

Payable from	Payable to			Total
	General Fund	Road Fund	Nonmajor Governmental Funds	
General Fund		\$ 61,870	\$ 4,995	\$ 66,865
Road Fund	\$ 42,273			42,273
Bond Interest and Redemption Fund	1,062,425			1,062,425
Nonmajor Governmental Funds	230,373	15,372	72,240	317,985
Total	<u>\$ 1,335,071</u>	<u>\$ 77,242</u>	<u>\$ 77,235</u>	<u>\$ 1,489,548</u>

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

Interfund transfers-Interfund transfers for the year ended June 30, 2006, were as follows:

Transfer from	Transfer to		Total
	General Fund	Nonmajor Governmental Funds	
General Fund		\$ 971,679	\$ 971,679
Road Fund	\$ 900,955	87,475	988,430
Nonmajor Governmental Funds	209,762	2,845	212,607
Total	<u>\$ 1,110,717</u>	<u>\$ 1,061,999</u>	<u>\$ 2,172,716</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 9 - INTERFUND BALANCES AND ACTIVITY - CONTINUED

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

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

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$2,355 of cash on hand and \$960,297 of cash in bank. 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 risks.

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	\$ 816,193	None stated	None stated	\$ 816,193
U.S. agency securities	53,464,276	2.8-6.1%	7/06-4/11	52,995,210
Corporate bonds	6,579,149	4.5%-6.9%	7/07-12/10	6,406,389
Repurchase agreements	19,031,799	Unknown	Unknown	19,031,799
Money market funds	28,279,354	None stated	N/A	28,279,354

Information pertaining to the interest rates and maturities of the repurchase agreements was unavailable.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2006

NOTE 10 - COUNTY TREASURER'S INVESTMENT POOL - CONTINUED

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

Statement of Net Assets	
Assets	\$108,834,178
Liabilities	
Net Assets	<u>\$108,834,178</u>
Net assets held in trust for:	
Internal participants	\$ 16,088,272
External participants	<u>92,745,906</u>
Total net assets held in trust	<u>\$108,834,178</u>
Statement of Changes in Net Assets	
Total additions	\$221,973,396
Total deductions	<u>225,245,045</u>
Net decrease	<u>(3,271,649)</u>
Net assets held in trust:	
July 1, 2005	<u>112,105,827</u>
June 30, 2006	<u>\$108,834,178</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, 2006, the landfill had used approximately 5 percent of its estimated capacity, and the Association had accumulated \$80,270 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, 2006

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. In addition, in November, 2007, the County issued \$3,980,000 of infrastructure revenue bonds through the Greater Arizona Development Authority. The proceeds are to be used for the acquisition of two buildings, construction of two buildings, and remodeling of office space.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 3,631,672	\$ 3,631,672	\$ 3,603,011	\$ (28,661)
Licenses and permits	175,000	175,000	210,907	35,907
Intergovernmental	8,189,086	8,189,086	9,218,530	1,029,444
Charges for services	146,000	146,000	245,724	99,724
Fines and forfeits	408,500	408,500	558,980	150,480
Investment income	73,500	73,500	235,970	162,470
Contributions	843,747	843,747		(843,747)
Miscellaneous	1,513,889	1,513,889	1,186,377	(327,512)
Total revenues	<u>14,981,394</u>	<u>14,981,394</u>	<u>15,259,499</u>	<u>278,105</u>
EXPENDITURES:				
General government				
Assessor	690,327	697,369	702,924	(5,555)
Attorney	966,258	967,347	969,582	(2,235)
Board of Supervisors	1,661,652	1,661,652	1,377,875	283,777
Clerk of the Court	529,803	529,803	529,741	62
Contingency	5,903,486	5,643,830	22,259	5,621,571
Data processing	432,556	432,556	373,237	59,319
Elections	290,540	290,540	201,323	89,217
Finance	343,667	343,667	323,977	19,690
Grounds/maintenance	791,809	791,809	797,387	(5,578)
JP-Chinle	172,533	172,533	168,235	4,298
JP-Puerco	276,723	286,069	286,068	1
JP-St. Johns	156,745	161,150	161,150	
JP-R.V.	287,501	291,874	281,280	10,594
Communication specialist and project	160,576	160,771	115,331	45,440
Planning & zoning	149,444	149,444	137,010	12,434
Building Inspector	239,724	246,864	246,993	(129)
Purchasing	53,874	53,874	46,237	7,637
Recorder	327,101	369,160	372,973	(3,813)
Superior Court	367,531	405,709	428,147	(22,438)
Public Defenders	493,910	503,224	503,224	
Jury fees and related	110,582	191,336	152,892	38,444
Treasurer	299,308	324,649	314,917	9,732
Legal services/judgments	200,000	200,000	49,566	150,434
Insurance	276,670	276,670	246,670	30,000
Retirement reserve	11,664	11,664		11,664
Salary adjustments	75,000	75,000	17,884	57,116
Total General government	<u>15,268,984</u>	<u>15,238,564</u>	<u>8,826,882</u>	<u>6,411,682</u>

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public Safety				
Constables	\$ 35,581	\$ 35,581	\$ 32,191	\$ 3,390
Emergency services	603,215	603,215	277,333	325,882
Adult probation	360,480	366,460	367,063	(603)
Juvenile probation	283,704	283,704	267,882	15,822
Medical Examiner	20,000	43,561	43,561	
Sheriff	<u>2,768,685</u>	<u>2,769,564</u>	<u>2,529,296</u>	<u>240,268</u>
Total public safety	4,071,665	4,102,085	3,517,326	584,759
Health				
AHCCCS	961,352	961,352	961,352	
Culture and recreation				
Agricultural extension	18,000	18,000	18,000	
Education				
School Superintendent	331,368	331,368	320,125	11,243
Capital outlay	<u>3,307,000</u>	<u>3,307,000</u>	<u>273,018</u>	<u>3,033,982</u>
Total expenditures	<u>23,958,369</u>	<u>23,958,369</u>	<u>13,916,703</u>	<u>10,041,666</u>
Excess (deficiency) of revenues over expenditures	<u>(8,976,975)</u>	<u>(8,976,975)</u>	<u>1,342,796</u>	<u>10,319,771</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,160,717	1,160,717	1,110,717	(50,000)
Transfers out	(973,667)	(973,667)	(971,679)	1,988
Sale of assets			<u>11,792</u>	<u>11,792</u>
Total other financing sources and uses	<u>187,050</u>	<u>187,050</u>	<u>150,830</u>	<u>(36,220)</u>
Net change in fund balances	<u>(8,789,925)</u>	<u>(8,789,925)</u>	<u>1,493,626</u>	<u>10,283,551</u>
Fund balances, July 1, 2005	8,789,925	8,789,925	9,286,310	496,385
Increase in reserve for inventories			871	871
Decrease in reserve for prepaids			<u>(20,560)</u>	<u>(20,560)</u>
Fund balances, June 30, 2006	<u>\$</u>	<u>\$</u>	<u>\$ 10,760,247</u>	<u>\$ 10,760,247</u>

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ROAD FUND
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 2,200,000	\$ 2,200,000	\$ 2,673,204	\$ 473,204
Intergovernmental	7,878,053	7,878,053	8,413,683	535,630
Charges for services	35,500	35,500	1,770	(33,730)
Investment income	28,000	28,000	100,305	72,305
Miscellaneous	1,000	1,000	11,371	10,371
Total revenues	<u>10,142,553</u>	<u>10,142,553</u>	<u>11,200,333</u>	<u>1,057,780</u>
EXPENDITURES:				
Highways and Streets				
Engineer	475,000	475,000	493,465	(18,465)
Safety	20,000	20,000	9,404	10,596
District #1	2,969,716	2,969,716	2,206,345	763,371
District #2	2,550,516	2,550,516	2,523,664	26,852
District #3	3,867,368	3,867,368	3,591,418	275,950
Liability insurance	301,486	301,486	301,486	
Contingency	662,144	662,144	40,610	621,534
Concho Snowflake Road	688,853	688,853	635,469	53,384
Deferred	795,000	795,000	795,000	
Total expenditures	<u>12,330,083</u>	<u>12,330,083</u>	<u>9,801,861</u>	<u>2,528,222</u>
Excess (deficiency) of revenues over expenditures	<u>(2,187,530)</u>	<u>(2,187,530)</u>	<u>1,398,472</u>	<u>3,586,002</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(1,019,739)	(1,019,739)	(988,430)	31,309
Sale of assets	_____	_____	56,126	56,126
Total other financing sources and uses	<u>(1,019,739)</u>	<u>(1,019,739)</u>	<u>(932,304)</u>	<u>87,435</u>
Net change in fund balances	<u>(3,207,269)</u>	<u>(3,207,269)</u>	<u>466,168</u>	<u>3,673,437</u>
Fund balances, July 1, 2005	3,207,269	3,207,269	3,882,608	675,339
Increase in reserve for inventories	_____	_____	131,481	131,481
Decrease in reserve for prepaids	_____	_____	(291,630)	(291,630)
Fund balances, June 30, 2006	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 4,188,627</u>	<u>\$ 4,188,627</u>

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO BUDGETARY COMPARISON SCHEDULES
June 30, 2006

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, 2006, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Assessor	\$ 5,555
Attorney	2,235
Grounds/Maintenance	5,578
Building Inspector	129
Recorder	3,813
Superior Court	22,438
Adult Probation	603
Road Fund:	
Engineer	18,465

Departments may exceed their department's budget for various reasons, including unexpected events. When departments exceed their budget, it is noted and addressed with the departments in subsequent budget meetings with the County Manager and the Board of Supervisors.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF AGENT RETIREMENT PLANS' FUNDING PROGRESS
June 30, 2006

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)
6/30/06	\$3,690,905	\$7,112,973	\$(3,422,068)	51.9%	\$1,360,811	-251.50%
6/30/05	\$3,666,566	\$6,726,835	\$(3,060,269)	54.5%	\$1,390,428	-220.01%
6/30/04	\$3,557,501	\$5,051,921	\$(1,494,420)	70.4%	\$1,440,265	-103.80%

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)
6/30/06	\$1,050,905	\$1,027,478	\$23,427	102.3%	\$558,967	N/A
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

SUPPLEMENTARY INFORMATION

Apache County, Arizona
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	361071	\$ 97,604
Schools and Roads-Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>388,307</u>
Total U.S. Department of Agriculture			<u><u>485,911</u></u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement grants	14.218	N/A	117,366
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226	N/A	946,414
U.S. Department of Justice			
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-06-049	9,062
Byrne Formula Grant Program, passed through the Administrative Office of the Courts	16.579	PC-110-06	46,194
Byrne Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	AC-170-06	<u>136,975</u>
Total Byrne Formula Grant Program			<u><u>183,169</u></u>
Local Law Enforcement Block Grants Program, passed through Arizona Criminal Justice Commission	16.592	LLBG-06-107	<u>8,450</u>
Total U.S. Department of Justice			<u><u>200,681</u></u>
U.S. Department of Labor			
WIA Cluster			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	E5706001,E5705001, E5704001	77,159
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	E5706001,E5705001, E5704001	70,755
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	E5706001,E5705001, E5704001	<u>20,399</u>
Total WIA Cluster and U.S. Department of Labor			<u><u>168,313</u></u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	663TRN	635,469
U.S. Department of Health and Human Services			
Family Planning Services, passed through the Arizona Department of Health Services	93.217	152039	9,543
Immunization Grants, passed through the Arizona Department of Health Services	93.268	352195	35,890
Immunization Grants, non-cash vaccines, passed through the Arizona Department of Health Services	93.268	352195	<u>40,357</u>
Total Immunization Grants			<u><u>76,247</u></u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	754192	352,727
Centers for Disease Control and Prevention - Help America Vote Act Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs, passed through the Arizona Department of Health Services	93.617	N/A	6,467
	93.919	761263	81,104

See accompanying notes to schedule.

Apache County, Arizona
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

HIV Prevention Activities - Health Department Based, passed through the Arizona Department of Health Services	93.940	352239	8,088 (Continued)
		Pass-Through Grantor's Number	
Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Number	Expenditures
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	354176	23,899
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	361314	37,344
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	None	<u>85,373</u>
Total Maternal and Child Health Services Block Grant to the States			<u>122,717</u>
Total U.S. Department of Health and Human Services			<u><u>680,792</u></u>
U.S. Department of Homeland Security			
Homeland Security Grant Program Cluster:			
State Domestic Preparedness Equipment Support Program, passed through the Arizona Division of Emergency Management	97.004	MAB3ES00850	7,190
State Homeland Security Program, passed through the Arizona Division of Emergency Management	97.073	MAB3ES03420	<u>52,265</u>
Total Homeland Security Grant Program Cluster			<u>59,455</u>
Citizen Corps, passed through the Arizona Division of Emergency Management	97.053	MAB3ES01970	7,106
Competitive Training Grants, passed through the Arizona Division of Emergency Management	97.068	MAB3ES00809	<u>29,697</u>
Total U.S. Department of Homeland Security			<u>96,258</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,331,204</u></u>

See accompanying notes to schedule.

Apache County, Arizona
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

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 2006 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	\$388,307

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, 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, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 7, 2008. 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, and report financial data consistent with the assertions of management in the basic financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-01, 06-02, and 06-03.

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, of the reportable conditions described above, we consider items 06-01, 06-02, and 06-03 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Fester & Chapman P.C.

May 7, 2008

**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, 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, 2006. The County's major federal programs are identified in the Summary of the Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major 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 each major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Apache County, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2006.

Internal Control over Compliance

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

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Foster & Chapman PC.

May 7, 2008

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Material weakness identified in internal control over major programs?		<input checked="" type="checkbox"/>
Reportable conditions identified not considered to be material weaknesses?		<input checked="" type="checkbox"/> (None reported)

Type of auditors report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

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
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee?

Other Matters:

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

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

FINANCIAL STATEMENT FINDINGS

06-01

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

The primary responsibility of the County Treasurer's Office is to manage public and trust monies of the County and related public subdivisions. At June 30, 2006, the County Treasurer's Office was entrusted with over \$107 million in public monies. To fulfil the responsibilities of managing those monies, the County Treasurer's Office should ensure that internal controls are in place and functioning properly to promote overall operational efficiency and effectiveness, compliance with laws and regulations, and reliable financial reporting. However, the County Treasurer's Office had not established or implemented an adequate control environment and control activities, or assessed possible areas of fraud, theft, or abuse. A similar finding (05-01) was reported in fiscal year ending June 30, 2005.

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

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

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

- Implement all prior audit recommendations;
- Develop comprehensive written internal control policies and procedures to provide operational guidance to employees and monitor these controls to ensure effectiveness;
- Implement existing policies and procedures, and additional procedures, to prepare accurate reporting records, such as detailed schedules and ledgers that are reconciled to supporting documentation.
- Asses operational areas for the risk of fraud, theft and abuse on an ongoing basis.

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

FINANCIAL STATEMENT FINDINGS - CONTINUED

06-02

CFDA Number : All Agencies

The County should provide timely and accurate record keeping

The County did not prepare its financial records for audit in a timely manner. As a result, the financial statements and the schedule of expenditures of Federal awards (SEFA) were not completed until over two years after the end of the fiscal year. According to OMB Circular A-133 sections .300(d) and (e), a recipient of federal awards is required to prepare appropriate financial statements, including the schedule of expenditures and to ensure that audits required are properly performed and submitted when due. Failure to prepare the financial statements and SEFA and completing the audit in accordance with OMB Circular A-133 could result in the suspension of federal funding. Additionally, untimely financial information has the result of preventing those charged with governance from making informed financial decisions. The County should strive to prepare its financial records for audit and financial statements in a timely manner.

06-03

CFDA Number: All Agencies

The County's financial reporting system should provide complete and accurate information for federal reporting.

OMB Circular A-133 sections .300(a) and .310(b) require the County to identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received and to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the financial statements. However, the County did not include one program that was administered by the State on the County's behalf, with road construction expenditures totalling \$635,000, in its financial records or on the SEFA; and, it did not include another Federal program with expenditures totalling \$117,000 on the SEFA. The County adjusted the SEFA and the financial records for these errors. The County should establish sufficient internal control to help ensure that it administers Federal programs and reports Federal expenditures accurately.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings that were specific to a major program. However, see items 06-02 and 06-03 for findings that were applicable to all federal agencies.



APACHE COUNTY
Finance Department

P.O. BOX 428
ST. JOHNS, ARIZONA 85936-0428
DIRECT LINE: (928) 337-4364

May 7, 2008

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

Dear Ms. Davenport:

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

Sincerely,

Ryan Patterson
Finance Director

**Apache County Arizona
Corrective Action Plan
Year Ended June 30, 2006**

06-01 Internal Control in the County Treasurer's Office

Contact Person: Sandra Klinchock

Anticipation Completion Date: Fourth 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 had an outside consultant create adequate controls and a system for reconciling and accounting for all investments. They are currently implementing this system.

06-02 Timely and accurate record keeping

Contact Person: Ryan Patterson

Anticipation Completion Date: Fourth Quarter 2009

The County has added an additional position in order to manage work flow in order to be able to dedicate more time to financial reporting.

06-03 Complete and accurate federal reporting

Contact Person: Ryan Patterson

Anticipation Completion Date: Completed

The finance office was unaware that the project was a County project administered by the State. Additional communication has been put in place with the Engineering Department to eliminate this issue in the future.