



Apache County, Arizona

Single Audit

Year Ended June 30, 2007

Apache County, Arizona
Single Audit Reporting Package
Year Ended June 30, 2007

Table of Contents Page

FINANCIAL SECTION

Independent Auditors' Report	
Required Supplementary Information - Management's Discussion and Analysis	i
Government-Wide Statements	
Statement of Net Assets.....	1
Statement of Activities.....	2
Fund Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet to the Statement of Net Assets.....	4
Statement of Revenues, Expenditures, and Changes in Fund Balances.....	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	6
Fiduciary Funds	
Statement of Fiduciary Net Assets.....	7
Statement of Changes in Fiduciary Net Assets.....	8
Notes to the Financial Statements.....	9
Other Required Supplementary Information	
Budgetary Comparison Schedules.....	26
Schedule of Agent Retirement Plans' Funding Progress.....	31
Supplementary Information	
Schedule of Expenditures of Federal Awards.....	32

Apache County, Arizona
Single Audit Reporting Package
Year Ended June 30, 2007

Table of Contents Page

SINGLE AUDIT SECTION

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 <i>Government Auditing Standards</i>	34
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	36
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results.....	38
Financial Statement Findings.....	39

COUNTY RESPONSES

Corrective Action Plan.....	42
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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, Arizona as of and for the year ended June 30, 2007, 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 aggregate remaining fund information of Apache County, Arizona as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis on pages i through ix, the Budgetary Comparison Schedules on pages 26 through 30, and Schedule of Agent Retirement Plans' Funding Progress on page 31 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 our opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards 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 transportation 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 November 30, 2009, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and 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.

Foster & Chapman P.C.

November 30, 2009

Apache County Management's Discussion and Analysis

As management of the County of Apache, we offer readers of the County of Apache financial statements this narrative overview and analysis of the financial activities of the County of Apache for fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished herein.

Financial Highlights

- The assets of Apache County exceeded its liabilities at the close of the fiscal year by \$32,706,004 (net assets). Of this amount, \$283,413 (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 decreased by \$7,061. This is a change from the prior year when net assets had increased \$3,352,868.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$7,886,988 or 35% of the total governmental funds' fund balances.
- Apache County's total long-term liabilities increased by \$5,626,340 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. The 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

Apache County Management's Discussion and Analysis

cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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. Funds 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. 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. Reconciliations are provided for both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances 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, TEA 21, and Library Bond Funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The governmental funds 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. The notes 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. In addition to the basic financial statements and accompanying notes, the report 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, Road, and TEA 21 Funds.

Required supplementary information can be found on pages 26-31 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, 2007, assets exceeded liabilities by \$32,706,004.

Apache County Management's Discussion and Analysis

Condensed Statement of Net Assets June 30,

	Governmental Activities	
	<u>2006</u>	<u>2007</u>
Current and other assets	\$ 21,388,548	\$ 25,097,391
Capital assets	<u>17,095,252</u>	<u>19,094,627</u>
Total assets	38,483,800	44,192,018
Current and other liabilities	1,913,143	2,002,082
Long-term liabilities	<u>3,857,592</u>	<u>9,483,932</u>
Total liabilities	5,770,735	11,486,014
Net Assets		
Invested in capital assets, net of related debt	14,937,037	18,021,644
Restricted net assets	5,666,185	14,100,947
Unrestricted net assets	<u>12,109,843</u>	<u>283,413</u>
Total net assets	<u>\$ 32,713,065</u>	<u>\$ 32,706,004</u>

The largest portion (\$18,021,644 or 55%) 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. The current year's increase is primarily the result of the purchase of the Pioneer School from the City of St. Johns, along with the coinciding debt.

Restricted net assets (\$14,100,947 or 43%) represent resources that are subject to external restrictions on how they may be used. The increase coincides with general obligation bonds and other debt issued during the year that are restricted for the purchase and construction of capital assets throughout the County. The remaining balance of net assets (\$283,413 or 1%) are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

Current and other assets increased due to larger fund carryovers in FY 2007. This was due to the County being conservative during the economic downturn.

Apache County Management's Discussion and Analysis

Long-term liabilities increased due to the issuance of the Library's general obligation bond of \$7,190,000. The County also entered into a bond anticipation note for \$694,801 in order to purchase the Pioneer School Building from the City of St. Johns.

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>2006</u>	<u>2007</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 2,891,622	\$ 3,331,595
Operating grants and contributions	16,222,635	16,159,510
Capital grants	363,731	272,811
General Revenues:		
Property taxes	7,047,165	7,080,176
Share of state sales taxes	6,401,716	6,189,428
Payments in lieu of taxes	3,639,071	3,620,091
Grants and contributions not restricted to specific programs	567,423	579,888
Investment income	480,998	598,149
Miscellaneous	1,367,292	425,083
Gain on sale of capital assets	<u>67,918</u>	<u>-</u>
Total revenues	<u><u>32,713,065</u></u>	<u><u>38,256,731</u></u>
Expenses:		
General government	10,037,167	11,561,198
Public safety	9,053,540	9,232,442
Highways and streets	9,476,400	10,703,672
Sanitation	101,217	106,126
Health	2,510,606	2,530,336
Welfare	172,323	148,242
Culture and recreation	1,136,073	940,221
Education	3,062,732	2,998,490
Interest on long-term debt	<u>146,645</u>	<u>43,065</u>
Total expenses	<u><u>35,696,703</u></u>	<u><u>38,263,792</u></u>
Change in net assets	3,352,868	(7,061)
Net assets – beginning	<u>29,360,197</u>	<u>32,713,065</u>
Net assets – ending	<u><u>\$ 32,713,065</u></u>	<u><u>\$ 32,706,004</u></u>

Apache County Management's Discussion and Analysis

Charges for services increased by \$439,973 or 15%, due to increased activity throughout the County and its departments. The two main drivers were more aggressive charging for election services and fees for minor building growth.

Operating grants and contributions decreased by \$63,125 or less than 1%, which is immaterial.

The County's share of sales tax revenues decreased \$212,288 or 3%. This decrease reflects the influence of the downturn in the economy across the State of Arizona.

Miscellaneous income decreased due to fewer tax lien land sales by the Board of Supervisors in 2007.

General government expenses increased \$1,524,031 or 15% with increases throughout the County and no real main drivers other than increased pricing due to transportation cost increase.

Highway and streets increased \$1,227,272 or 13%, primarily due to depreciation expense related to large road equipment purchases made during the year.

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, 2007, the County's General Fund reported a decrease in fund balance of \$2,813,452 (26%), which was driven by the payoff of a general obligation bond.

The Road fund balance decreased by \$560,400 (13%) because of large purchases of equipment made during the year.

The TEA 21 Fund was reported as a major fund this year due to increased funding provided by the state for road improvements.

Apache County Management's Discussion and Analysis

The Library Bond Fund reported an increase in fund balance of \$7,218,516 due to the issuance of a general obligation bond. The library bond was approved by the voters of Apache County and the bonds were issued in 2007. The proceeds will be used to build new libraries in Alpine, Eager, St. Johns, and Concho.

General Fund Budgetary Highlights

Total general fund revenues were under budget by \$680,869. 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 \$902,040. When this amount is compared to contributions instead of intergovernmental revenues, the variance is only \$15,994, which is immaterial; and the additional variance in intergovernmental revenues is driven by Homeland Security grant funds that did not materialize and lower than expected sales tax revenue.

Total general fund expenditures were under budget by \$8,053,059. The significant budget variances between the final budgeted expenditures and actual expenditures in the General Fund are discussed below:

- Attorney's department expenditures were \$106,954 lower due to vacancies that were not filled.
- Board of Supervisors departmental expenditures were \$215,651 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 \$3,907,883 lower than final budgeted amounts due to the budgeting of prior year's 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 budgeted these funds as contingency spending to protect them from actual expenditures due to the expenditure limitations imposed by the State of Arizona.
- Emergency Services departmental expenditures were \$895,402 lower than final budgeted amounts due to budgeting for grants that have not yet been realized.
- Capital outlay had a positive variance of approximately \$2,486,470 due to continued construction on new libraries that will be ongoing through 2010.

Apache County Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital assets as of June 30, 2007, amounted to \$19,094,627, net of accumulated depreciation. This investment in capital assets includes land, improvements other than buildings, construction in progress, buildings, infrastructure, and machinery and equipment.

Capital Assets / Net of Depreciation

	Governmental Activities		Increase (Decrease) Percent of Change
	<u>FY2006</u>	<u>FY2007</u>	
Land	\$ 1,617,200	\$ 1,832,823	13%
Improvements other than buildings	301,430	54,636	(82%)
Construction in progress	0	363,953	100%
Buildings	8,521,846	9,156,156	7%
Infrastructure	1,422,150	1,384,792	(3%)
Machinery and equipment	<u>5,232,625</u>	<u>6,302,267</u>	20%
Totals	<u>\$17,095,251</u>	<u>\$19,094,627</u>	12%

Construction in progress increased due to the current library buildings that are under construction. The decrease in improvements other than buildings was due to reclassification. Additionally, the increase in machinery and equipment is the result of large road equipment purchases during the year.

Long-Term Debt

On June 30, 2007, the County had a total of \$9,483,932 in long-term liabilities. Of this amount, \$7,400,000 was principal outstanding on general obligation and special assessment bonds, \$694,801 was a bond anticipation note, and \$56,760 was capital lease obligations. The remainder represents compensated absences payable.

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 through 20 of this report.

Apache County Management's Discussion and Analysis

Economic Factors and the Next Year's Budget

In FY2007 Apache County experienced the same economic slowdown that was felt throughout the State of Arizona. As such, the County expected severe drops in revenue and has budgeted FY2008 in a conservative manner.

Going forward, Tucson Electric Power will begin to ramp up their 4th unit construction. Once the construction is completed and operations have begun, the County expects additional revenues generated by increased assessed valuation as well as new permanent employment. This should help offset the downturn in the economy.

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, 2007

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,814,610
Investments	18,026,175
Receivables (net of allowance for uncollectibles):	
Property taxes	387,738
Accounts	202,690
Special assessments	7,558
Accrued interest	146,003
Due from other governments	4,118,820
Inventories	347,153
Prepaid items	46,644
Capital assets, not being depreciated	2,251,412
Capital assets, being depreciated, net	<u>16,843,215</u>
Total assets	<u>44,192,018</u>
 LIABILITIES	
Accounts payable	1,591,759
Accrued payroll and employee benefits	406,610
Due to other governments	3,713
Noncurrent liabilities	
Due within 1 year	649,036
Due in more than 1 year	<u>8,834,896</u>
Total liabilities	<u>11,486,014</u>
 NET ASSETS	
Invested in capital assets, net of related debt	18,321,644
Restricted for:	
Public safety	396,374
Highways and streets	3,808,418
Debt service	327,723
Capital projects	7,308,897
Other purposes	2,259,535
Unrestricted	<u>283,413</u>
Total net assets	<u>\$ 32,706,004</u>

See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 11,561,198	\$ 1,842,892	\$ 830,139		\$ (8,888,167)
Public safety	9,232,442	907,982	1,954,607	\$ 765	(6,369,088)
Highways and streets	10,703,672	227,119	11,134,142		657,589
Welfare	148,242				(148,242)
Sanitation	106,126		105,927	272,046	271,847
Health	2,530,336	114,495	1,176,562		(1,239,279)
Culture and recreation	940,221	7,351	80,820		(852,050)
Education	2,998,490	231,756	877,313		(1,889,421)
Interest on long-term debt	43,065				(43,065)
Total governmental activities	\$ 38,263,792	\$ 3,331,595	\$16,159,510	\$ 272,811	(18,499,876)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					4,784,041
Property taxes, levied for jail district					652,124
Property taxes, levied for juvenile jail district					323,796
Property taxes, levied for library					1,169,015
Property taxes, levied for flood control					620
Property taxes, levied for debt service					150,580
Shared revenue - state sales taxes					6,189,428
Payments in lieu of taxes					3,620,091
Grants and contributions not restricted to specific programs					579,888
Investment earnings					598,149
Miscellaneous					425,083
Total general revenues					18,492,815
Change in net assets					(7,061)
Net assets, July 1, 2006					32,713,065
Net assets, June 30, 2007					\$ 32,706,004

See accompanying notes to financial statements.

Apache County, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	General Fund	Road Fund	TEA 21 Fund	Library Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 594,044	\$ 109,424	\$ 895	\$ 507,903	\$ 602,344	\$ 1,814,610
Investments	6,378,703	1,434,489	11,736	6,658,344	3,542,903	18,026,175
Receivables (net of allowances for uncollectibles):						
Property taxes	159,698				228,040	387,738
Accounts	479				202,211	202,690
Special assessments					7,558	7,558
Accrued interest	44,727	11,906	91	51,686	37,593	146,003
Due from:						
Other funds	240,930	604,270		583	49,307	895,090
Other governments	1,235,135	1,558,230	576,677		748,778	4,118,820
Inventories	11,779	335,374				347,153
Prepaid items	32,240	6,710			7,694	46,644
Total assets	<u>\$ 8,697,735</u>	<u>\$ 4,060,403</u>	<u>\$ 589,399</u>	<u>\$ 7,218,516</u>	<u>\$ 5,426,428</u>	<u>\$ 25,992,481</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 445,379	\$ 357,720			\$ 788,660	\$ 1,591,759
Accrued payroll and employee benefits	190,706	93,836			122,068	406,610
Due to:						
Other funds	30,162	34,849	\$ 576,677		253,402	895,090
Other governments	3,713					3,713
Deferred revenue	96,768				327,849	424,617
Total liabilities	<u>766,728</u>	<u>486,405</u>	<u>576,677</u>		<u>1,491,979</u>	<u>3,321,789</u>
Fund balances:						
Reserved for:						
Inventories	11,779	335,374				347,153
Prepaid items	32,240	6,710			7,694	46,644
Unreserved, reported in:						
General fund	7,886,988					7,886,988
Special revenue funds		3,231,914	12,722		3,499,385	6,744,021
Capital projects funds				\$ 7,218,516	90,381	7,308,897
Debt service fund					336,989	336,989
Total fund balances	<u>7,931,007</u>	<u>3,573,998</u>	<u>12,722</u>	<u>7,218,516</u>	<u>3,934,449</u>	<u>22,670,692</u>
Total liabilities and fund balances	<u>\$ 8,697,735</u>	<u>\$ 4,060,403</u>	<u>\$ 589,399</u>	<u>\$ 7,218,516</u>	<u>\$ 5,426,428</u>	<u>\$ 25,992,481</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, 2007

Fund balances - total governmental funds		\$ 22,670,692
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 \$41,063,404 and the accumulated depreciation is \$21,968,777.		19,094,627
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.		424,617
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	\$ (1,332,371)	
General obligation bonds payable	(7,190,000)	
Special assessment bonds payable	(210,000)	
Bond anticipation note payable	(694,801)	
Capital leases payable	<u>(56,760)</u>	<u>(9,483,932)</u>
Net assets of governmental activities		<u>\$ 32,706,004</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, 2007

	General Fund	Road Fund	TEA 21 Fund	Library Bond Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Property taxes	\$ 4,099,640	\$ 2,600,561			\$ 3,947,176	\$ 10,647,377
Special assessments					88,472	88,472
Licenses and permits	225,519					225,519
Intergovernmental	8,942,752	7,975,533	\$ 576,677		6,046,609	23,541,571
Charges for services	447,048	4,197			1,352,173	1,803,418
Fines and forfeits	670,450				412,338	1,082,788
Investment earnings	243,472	68,846	589	\$ 111,552	173,691	598,150
Miscellaneous	418,748	2,568			31,767	453,083
	<u>15,047,629</u>	<u>10,651,705</u>	<u>577,266</u>	<u>111,552</u>	<u>12,052,226</u>	<u>38,440,378</u>
Total revenues						
EXPENDITURES						
Current:						
General government	9,674,870				1,293,699	10,968,569
Public safety	3,718,995				5,036,209	8,755,204
Highways and streets		8,345,762	576,677		461,672	9,384,111
Welfare					145,568	145,568
Sanitation					106,126	106,126
Health	1,015,151				1,513,019	2,528,170
Culture and recreation	18,000				951,683	969,683
Education	328,077				2,663,525	2,991,602
Capital outlay	1,243,530	1,755,858		83,036	1,448,085	4,530,509
Debt service:						
Principal retirement		26,454			2,137,000	2,163,454
Interest and other charges		3,991			39,074	43,065
Total expenditures	<u>15,998,623</u>	<u>10,132,065</u>	<u>576,677</u>	<u>83,036</u>	<u>15,795,660</u>	<u>42,586,061</u>
Excess (deficiency) of revenues over expenditures	<u>(950,994)</u>	<u>519,640</u>	<u>589</u>	<u>28,516</u>	<u>(3,743,434)</u>	<u>(4,145,683)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	1,378,946				3,449,739	4,828,685
Transfers out	(3,254,650)	(1,129,664)			(444,371)	(4,828,685)
Bond anticipation note issued					694,801	694,801
General obligation bonds issued				7,190,000		7,190,000
Sale of capital assets	13,246	49,624			73,076	135,946
Total other financing sources and uses	<u>(1,862,458)</u>	<u>(1,080,040)</u>		<u>7,190,000</u>	<u>3,773,245</u>	<u>8,020,747</u>
Net change in fund balances	(2,813,452)	(560,400)	589	7,218,516	29,811	3,875,064
Fund balances, July 1, 2006	10,760,247	4,188,627	12,133		3,906,136	18,867,143
Decrease in reserve for inventories	(83)	(53,109)				(53,192)
Decrease in reserve for prepaid items	(15,705)	(1,120)			(1,498)	(18,323)
Fund balances, June 30, 2007	<u>\$ 7,931,007</u>	<u>\$ 3,573,998</u>	<u>\$ 12,722</u>	<u>\$ 7,218,516</u>	<u>\$ 3,934,449</u>	<u>\$ 22,670,692</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, 2007

Net change in fund balances - total governmental funds \$ 3,875,064

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	\$ 4,795,038	
Depreciation expense	<u>(2,400,887)</u>	2,394,151

In the Statement of Activities, only the gain/loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold. (394,775)

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities (183,646)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets (7,884,801)

Decrease of compensated absences payable increases net assets of governmental activities but does not have any effect on fund balances of the governmental funds. 95,007

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	2,075,000	
Special assessment bonds payable	62,000	
Capital leases payable	<u>26,454</u>	2,163,454

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.

Decrease in inventories	(53,192)	
Decrease in prepaid items	<u>(18,323)</u>	<u>(71,515)</u>

Change in net assets of governmental activities	<u>\$ (7,061)</u>
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See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 10,451,173	\$ 51,906
Interest and dividends receivable	817,615	9,733
Investments, at fair value	<u>99,454,371</u>	<u>680,456</u>
Total assets	<u>110,723,159</u>	<u>\$ 742,095</u>
LIABILITIES		
Due to other governments	<u> </u>	<u>\$ 742,095</u>
Total liabilities	<u> </u>	<u>\$ 742,095</u>
NET ASSETS		
Held in trust for investment trust participants	<u>\$110,723,159</u>	

See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2007

	Investment Trust Fund
ADDITIONS:	
Contributions from participants	\$ 198,272,699
Investment earnings:	
Interest and dividends	4,354,519
Net decrease in the fair value of investments	<u>(567,358)</u>
Total investment earnings	<u>3,787,161</u>
Total additions	<u>202,059,860</u>
DEDUCTIONS:	
Distributions to participants	<u>184,082,607</u>
Total deductions	<u>184,082,607</u>
Change in net assets	17,977,253
Net assets, July 1, 2006	<u>92,745,906</u>
Net assets, June 30, 2007	<u>\$ 110,723,159</u>

See accompanying notes to financial statements.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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, 2007

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 TEA 21 Fund accounts for monies from grant revenues that are restricted to specific transportation programs.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

The *Library Bond Fund* accounts for resources accumulated and payments made for principal and interest on long-term general obligation bond debt issued for the construction of libraries.

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 charges for services, and investment earnings. 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, 2007

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 levies various personal property taxes that become 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, 2007

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, 2007, the following funds reported significant deficits in fund balances:

Fund	Deficit
Health Services	\$ 57,987
CASA	2,254
Ganado School Deputies	12,052
Victims' Assistance	5,529
Jail District	767,644

These deficits resulted from operations during the year, but are expected to be corrected through normal operation and transfers from other funds in fiscal year 2008.

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, 2007

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, 2007, the carrying amount of the County's deposits was \$3,290,567, and the bank balance was \$4,194,017. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2007, \$3,404,820 of the County's bank balance was exposed to custodial credit risk as follows:

	Fair Value
Uninsured and uncollateralized	\$ 58,807
Uninsured with collateral held by the pledging financial institution	3,346,013
	\$ 3,404,820

Investments - The County's investments at June 30, 2007, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 115,291,768
Corporate bonds	7,449,566
Repurchase agreement	3,507,049
Money market funds	926,031
	\$ 127,174,414

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS - CONTINUED

Credit Risk - The County does not have a formal investment policy with respect to credit risk. At June 30, 2007, 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	S&P	\$ 115,291,768
Corporate bonds	A	S&P	3,258,010
Corporate bonds	A+	S&P	1,236,608
Corporate bonds	AA-	S&P	2,954,948
Money market funds:			
ML WCMA money fund	AAA	S&P	863,379
WF Advantage Government MMF	AAA	S&P	62,652
			<u>\$ 123,667,365</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, 2007, the County had \$115,291,768 of U.S. agency securities, \$7,449,566 of corporate bonds, \$3,507,049 invested in repurchase agreements, and \$926,031 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, 2007, 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 15.0%, 38.0%, and 33.0%, 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, 2007, 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	\$ 115,291,768	\$ 14,769,449	\$ 100,522,319
Corporate bonds	7,449,566	250,804	7,198,762
Repurchase agreement	3,507,049	3,507,049	
Money market funds	926,031	926,031	
	<u>\$ 127,174,414</u>	<u>\$ 19,453,333</u>	<u>\$ 107,721,081</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

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		\$	13,710
Carrying amount of deposits			3,290,567
Amount of investments			<u>127,174,414</u>
Total			<u>\$130,478,691</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	\$ 1,814,610	\$ 10,451,173	\$ 51,906	\$ 12,317,689
Investments	18,026,175	99,454,371	680,456	118,161,002
Total	<u>\$ 19,840,785</u>	<u>\$ 109,905,544</u>	<u>\$ 732,362</u>	<u>\$ 130,478,691</u>

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2007 in the General Fund include \$1,067,038 in sales taxes and \$168,097 in various grants and contracts with other governmental units. Amounts due from other governments in the Road Fund include \$1,273,783 in highway user taxes, \$251,153 in auto lieu taxes from the State of Arizona, and \$33,294 in various contracts with other governmental units. Amounts due from other governments in the TEA 21 Fund consists of \$576,677 due from the State of Arizona. Amounts due from other governments in the Other Governmental Funds include \$324,057 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, 2007

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,617,200	\$ 215,623		\$ 1,832,823
Improvements other than buildings	301,430	55,746	\$ (302,540)	54,636
Construction in progress		<u>363,953</u>		<u>363,953</u>
Total capital assets not being depreciated	<u>1,918,630</u>	<u>635,322</u>	<u>(302,540)</u>	<u>2,251,412</u>
Capital assets being depreciated:				
Buildings	12,949,448	1,159,481	(143,460)	13,965,469
Machinery and equipment	20,973,282	3,000,235	(621,328)	23,352,189
Infrastructure	<u>1,494,334</u>			<u>1,494,334</u>
Total	<u>35,417,064</u>	<u>4,159,716</u>	<u>(764,788)</u>	<u>38,811,992</u>
Less accumulated depreciation for:				
Buildings	4,427,602	467,309	(85,598)	4,809,313
Machinery and equipment	15,740,657	1,896,220	(586,955)	17,049,922
Infrastructure	<u>72,184</u>	<u>37,358</u>		<u>109,542</u>
Total	<u>20,240,443</u>	<u>2,400,887</u>	<u>(672,553)</u>	<u>21,968,777</u>
Total capital assets being depreciated, net	<u>15,176,621</u>	<u>1,758,829</u>	<u>(92,235)</u>	<u>16,843,215</u>
Governmental activities capital assets, net	<u>\$ 17,095,251</u>	<u>\$ 2,394,151</u>	<u>\$ (394,775)</u>	<u>\$ 19,094,627</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 504,496
Public safety	634,258
Highways and streets	1,218,392
Health	21,870
Welfare	3,937
Education	<u>17,934</u>
Total depreciation expense - governmental activities	<u>\$ 2,400,887</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

NOTE 6 - LONG-TERM LIABILITIES

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within 1 Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 2,075,000	\$ 7,190,000	\$ (2,075,000)	7,190,000	
Special assessment bonds with government commitment	<u>272,000</u>		<u>(62,000)</u>	<u>210,000</u>	\$ 66,000
Total bonds payable	2,347,000	7,190,000	(2,137,000)	7,400,000	66,000
Bond anticipation note		694,801		694,801	
Capital leases payable	83,214		(26,454)	56,760	27,720
Compensated absences payable	<u>1,427,378</u>	<u>683,971</u>	<u>(778,978)</u>	<u>1,332,371</u>	<u>555,316</u>
Governmental activities long-term liabilities	<u>\$ 3,857,592</u>	<u>\$ 8,568,772</u>	<u>\$ (2,942,432)</u>	<u>\$ 9,483,932</u>	<u>\$ 649,036</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

During the year ended June 30, 2007, the County issued general obligation bonds, totaling \$7,190,000 for the Apache County Library District to be used for the purpose of providing improvements within the District.

In October, 2006, the County utilized \$2,114,123 of funds set aside in a debt service fund for the prepayment and defeasance of the County's Series 2001 general obligation debt. At the time of defeasance, the remaining principal was \$2,075,000, which was paid in full.

Bonds outstanding at June 30, 2007, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
General obligation bonds:				
Series 2007	\$ 7,190,000	7/1/08-21	4.5 - 5.0%	\$ 7,190,000
Special assessment bonds with governmental commitment:				
Greer Acres - Little Colorado Improvement District	575,000	1/1/08-10	6.10%	<u>210,000</u>
				<u>\$ 7,400,000</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2007:

Year ending June 30,	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2008	\$	\$ 397,187	\$ 66,000	\$ 10,797
2009	300,000	315,225	70,000	6,649
2010	390,000	295,725	74,000	2,257
2011	410,000	276,250		
2012	430,000	255,825		
2013-2017	2,480,000	806,400		
2018-2021	3,180,000	443,250		
Total	<u>\$ 7,190,000</u>	<u>\$ 2,789,862</u>	<u>\$ 210,000</u>	<u>\$ 19,703</u>

Bond Anticipation Note - In May, 2007, the County issued a nine-month, interest-free note in the amount of \$694,801 for the purchase of real property, with the intent of refinancing with long-term infrastructure revenue bonds. In November, 2007, the County issued \$3,980,000 of infrastructure revenue bonds through the Greater Arizona Development Authority and refinanced the bond anticipation note.

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 211,952
Less accumulated depreciation	<u>147,925</u>
Carrying value	<u>\$ 64,027</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2007:

	Governmental Activities
Year ending June 30,	
2008	\$ 30,445
2009	<u>30,435</u>
Total minimum lease payments	60,880
Less amount representing interest	<u>(4,120)</u>
Present value of net minimum lease payments	<u>\$ 56,760</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

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 2007, the County paid for compensated absences as follows: 39 percent from the General Fund, 33 percent from the Road Fund, and 28 percent from other funds. The County paid for claims and judgments entirely from the General Fund during the year ended June 30, 2007.

NOTE 7 - RISK MANAGEMENT

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$5,000 per occurrence for property claims and \$5,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$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.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

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.

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) 255-5575
(602) 240-2000 or (800) 621-3778	

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, 2007, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 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, 2007, 2006, and 2005 were \$1,029,050, \$820,952, and \$568,439, respectively, which were equal to the required contributions for the year.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

NOTE 8 - RETIREMENT PLANS - CONTINUED

Agent plans - For the year ended June 30, 2007, 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 18.23 percent. Active CORP members were required by statute to contribute 8.50 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.90 percent.

Annual Pension Cost-The County's pension cost for the two agent plans for the year ended June 30, 2007, and related information follows.

	PSPRS	CORP
Contribution rates:		
County	18.23%	2.90%
Plan Members	7.65%	8.5%
Annual pension cost	\$280,987	\$30,727
Contributions made	\$280,987	\$30,727

The current-year annual required contributions for both the PSPRS and CORP were determined as part of their June 30, 2005, actuarial valuations using the projected unit credit cost method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 percent to 8.50 percent per year. (B) included an inflation component of 5.00 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, 2005, was 30 years.

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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2007	\$ 280,987	100%	\$0
	2006	230,364	100	0
	2005	194,814	100	0
CORP	2007	\$ 30,727	100%	\$0
	2006	33,797	100	0
	2005	18,276	100	0

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

NOTE 9 - INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables-Interfund balances at June 30, 2007, were as follows:

<u>Payable from</u>	<u>Payable to</u>				Total
	General Fund	Road Fund	Library Fund	Nonmajor Governmental Funds	
General Fund		\$ 25,460		\$ 4,702	\$ 30,162
Road Fund	\$ 1,495			33,354	34,849
TEA 21 Fund		576,677			576,677
Nonmajor Governmental Funds	<u>239,435</u>	<u>2,133</u>	\$ 583	<u>11,251</u>	<u>253,402</u>
Total	<u>\$ 240,930</u>	<u>\$ 604,270</u>	<u>\$ 583</u>	<u>\$ 49,307</u>	<u>\$ 895,090</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, 2007, were as follows:

<u>Transfer from</u>	<u>Transfer to</u>		
	General Fund	Nonmajor Governmental Funds	Total
General Fund		\$ 3,254,650	\$ 3,254,650
Road Fund	\$ 1,008,866	120,798	1,129,664
Nonmajor Governmental Funds	<u>370,080</u>	<u>74,291</u>	<u>444,371</u>
Total	<u>\$ 1,378,946</u>	<u>\$ 3,449,739</u>	<u>\$ 4,828,685</u>

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

NOTE 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.

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

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.

NOTE 10 - COUNTY TREASURER'S INVESTMENT POOL - CONTINUED

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$1,710 of cash on hand and \$972,011 of deposits. 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>
U.S. agency securities	\$115,908,007	3.25-6.1%	7/07-6/12	\$ 115,291,768
Corporate bonds	7,561,125	4.5%-6.9%	7/07-12/12	7,449,566
Repurchase agreements	3,507,049	Unknown	Unknown	3,507,049
Money market funds	926,031	None stated	N/A	926,031

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

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

Statement of Net Assets	
Assets	\$130,124,385
Liabilities	
Net Assets	<u>\$130,124,385</u>

Net assets held in trust for:	
Internal participants	\$ 19,401,226
External participants	<u>110,723,159</u>
Total net assets held in trust	<u>\$130,124,385</u>

Statement of Changes in Net Assets	
Total additions	\$245,668,944
Total deductions	<u>224,378,737</u>
Net increase	<u>21,290,207</u>
Net assets held in trust:	
July 1, 2006	<u>108,834,178</u>
June 30, 2007	<u>\$130,124,385</u>

Apache County, Arizona
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007

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 will assume the financial responsibility for these costs if the Association is unable to pay 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 October 1, 2008, the County estimated the closure costs to be \$179,700 and postclosure care costs to be \$178,370 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 2006. According to its audited financial statements for the year ended June 30, 2008, the landfill had used approximately 5 percent of its estimated capacity, and the Association had accumulated \$83,982 of financial reserves to pay for these costs.

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

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

NOTE 12 - LITIGATION

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

NOTE 13 - SUBSEQUENT EVENTS

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, the construction of two buildings, and remodeling of office space and paying off bond anticipation note.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 4,005,211	\$ 4,005,211	\$ 4,099,640	\$ 94,429
Licenses and permits	242,500	242,500	225,519	(16,981)
Intergovernmental	9,304,664	9,304,664	8,942,752	(361,912)
Charges for services	180,500	180,500	447,048	266,548
Fines and forfeits	604,000	604,000	670,450	66,450
Investment income	101,000	101,000	243,472	142,472
Contributions	918,034	918,034		(918,034)
Miscellaneous	<u>372,589</u>	<u>372,589</u>	<u>418,748</u>	<u>46,159</u>
Total revenues	<u>15,728,498</u>	<u>15,728,498</u>	<u>15,047,629</u>	<u>(680,869)</u>
EXPENDITURES:				
General government				
Assessor	749,003	749,003	688,436	60,567
Attorney	1,028,356	1,028,356	921,402	106,954
Board of Supervisors	1,793,836	1,793,836	1,578,185	215,651
Clerk of the Court	585,972	585,972	574,102	11,870
Contingency	3,945,017	3,945,017	37,134	3,907,883
Data processing	450,247	450,247	375,226	75,021
Elections	447,700	447,700	490,486	(42,786)
Finance	446,529	446,529	392,129	54,400
Grounds/maintenance	828,757	828,757	799,219	29,538
JP-Chinle	192,347	192,347	169,784	22,563
JP-Puerco	312,088	312,088	291,996	20,092
JP-St. Johns	183,119	183,119	171,612	11,507
JP-R.V.	316,499	316,499	286,680	29,819
Communication specialist and project	123,938	123,938	121,257	2,681
Planning & zoning	179,001	179,001	178,736	265
Building Inspector	264,547	264,547	257,889	6,658
Purchasing	58,140	58,140	49,022	9,118
Recorder	370,690	370,690	338,822	31,868
Superior Court	528,114	528,114	503,731	24,383
Public Defenders	534,000	534,000	620,541	(86,541)
Jury fees and related	150,000	150,000	46,697	103,303
Support and care of persons	11,848	11,848	4,714	7,134
Treasurer	340,038	340,038	334,703	5,335
Legal services/judgments	200,000	200,000	258,410	(58,410)
Insurance	219,662	219,662	183,957	35,705
Retirement reserve	<u>44,052</u>	<u>44,052</u>		<u>44,052</u>
Total general government	<u>14,303,500</u>	<u>14,303,500</u>	<u>9,674,870</u>	<u>4,628,630</u>

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public Safety				
Constables	\$ 46,360	\$ 46,360	\$ 37,899	\$ 8,461
Emergency services	1,012,304	1,012,304	116,902	895,402
Adult probation	374,003	374,003	343,664	30,339
Juvenile probation	294,317	294,317	373,932	(79,615)
Medical Examiner	40,000	40,000	51,812	(11,812)
Sheriff	<u>2,856,318</u>	<u>2,856,318</u>	<u>2,794,786</u>	<u>61,532</u>
Total public safety	4,623,302	4,623,302	3,718,995	904,307
Health				
AHCCCS	1,015,151	1,015,151	1,015,151	
Culture and recreation				
Agricultural extension	18,000	18,000	18,000	
Education				
School Superintendent	361,729	361,729	328,077	33,652
Capital outlay	<u>3,730,000</u>	<u>3,730,000</u>	<u>1,243,530</u>	<u>2,486,470</u>
Total expenditures	<u>24,051,682</u>	<u>24,051,682</u>	<u>15,998,623</u>	<u>8,053,059</u>
Excess (deficiency) of revenues over expenditures	<u>(8,323,184)</u>	<u>(8,323,184)</u>	<u>(950,994)</u>	<u>7,372,190</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	4,604,946	4,604,946	1,378,946	(3,226,000)
Transfers out	(6,491,762)	(6,491,762)	(3,254,650)	3,237,112
Sale of capital assets			13,246	13,246
Total other financing sources and uses	<u>(1,886,816)</u>	<u>(1,886,816)</u>	<u>(1,862,458)</u>	<u>24,358</u>
Net change in fund balances	<u>(10,210,000)</u>	<u>(10,210,000)</u>	<u>(2,813,452)</u>	<u>7,396,548</u>
Fund balances, July 1, 2006	10,210,000	10,210,000	10,760,247	550,247
Increase in reserve for inventories			(83)	(83)
Decrease in reserve for prepaids			<u>(15,705)</u>	<u>(15,705)</u>
Fund balances, June 30, 2007	<u>\$</u>	<u>\$</u>	<u>\$ 7,931,007</u>	<u>\$ 7,931,007</u>

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ROAD FUND
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 2,600,000	\$ 2,600,000	\$ 2,600,561	\$ 561
Intergovernmental	7,639,520	7,639,520	7,975,533	336,013
Charges for services	72,500	72,500	4,197	(68,303)
Investment income	36,000	36,000	68,846	32,846
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>2,568</u>	<u>568</u>
Total revenues	<u>10,350,020</u>	<u>10,350,020</u>	<u>10,651,705</u>	<u>301,685</u>
EXPENDITURES:				
Highways and Streets				
Engineer	595,000	595,000	593,031	1,969
Safety	20,000	20,000	12,457	7,543
District #1	3,198,536	3,198,536	2,717,676	480,860
District #2	2,836,536	2,836,536	2,268,133	568,403
District #3	4,383,563	4,383,563	3,734,961	648,602
Liability insurance	244,032	244,032	244,032	
Contingency	409,143	409,143	561,775	(152,632)
Deferred	<u>850,000</u>	<u>850,000</u>		<u>850,000</u>
Total expenditures	<u>12,536,810</u>	<u>12,536,810</u>	<u>10,132,065</u>	<u>2,404,745</u>
Excess (deficiency) of revenues over expenditures	<u>(2,186,790)</u>	<u>(2,186,790)</u>	<u>519,640</u>	<u>2,706,430</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(1,107,866)	(1,107,866)	(1,129,664)	(21,798)
Sale of capital assets			<u>49,624</u>	<u>49,624</u>
Total other financing sources and uses	<u>(1,107,866)</u>	<u>(1,107,866)</u>	<u>(1,080,040)</u>	<u>27,826</u>
Net change in fund balances	<u>(3,294,656)</u>	<u>(3,294,656)</u>	<u>(560,400)</u>	<u>2,734,256</u>
Fund balances, July 1, 2006	3,294,656	3,294,656	4,188,627	893,971
Increase in reserve for inventories			(53,109)	(53,109)
Decrease in reserve for prepaids			<u>(1,120)</u>	<u>(1,120)</u>
Fund balances, June 30, 2007	<u>\$</u>	<u>\$</u>	<u>\$ 3,573,998</u>	<u>\$ 3,573,998</u>

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
TEA 21 FUND
YEAR ENDED June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Intergovernmental	\$ 576,677	\$ 576,677	\$ 576,677	
Investment Income			<u>589</u>	\$ 589
Total revenues	<u>576,677</u>	<u>576,677</u>	<u>577,266</u>	<u>589</u>
EXPENDITURES:				
Highways and Streets	<u>588,677</u>	<u>588,677</u>	<u>576,677</u>	12,000
Total expenditures	<u>588,677</u>	<u>588,677</u>	<u>576,677</u>	<u>12,000</u>
Excess (deficiency) of revenues over expenditures	<u>(12,000)</u>	<u>(12,000)</u>	<u>589</u>	<u>12,589</u>
Net change in fund balances	<u>(12,000)</u>	<u>(12,000)</u>	<u>589</u>	<u>12,589</u>
Fund Balances, July 1, 2006	<u>12,000</u>	<u>12,000</u>	<u>12,133</u>	<u>133</u>
Fund Balances, June 30, 2007	<u>\$</u>	<u>\$</u>	<u>\$ 12,722</u>	<u>\$ 12,722</u>

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO BUDGETARY COMPARISON SCHEDULES
June 30, 2007

NOTE 1 - Budgeting and Budgetary Control

Arizona Revised Statutes (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, 2007, 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:	
Elections	\$ 42,786
Public Defenders	86,541
Legal services	58,410
Juvenile probation	79,615
Medical Examiner	11,812
Road Fund:	
Contingency	152,632

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, 2007

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)
6/30/07	\$3,389,592	\$7,776,398	\$(4,386,806)	43.6%	\$1,376,019	-318.80%
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%

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)
6/30/07	\$1,081,457	\$1,128,276	(\$46,817)	95.9%	\$654,758	-7.2%
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

SUPPLEMENTARY INFORMATION

Apache County, Arizona
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

<u>Federal Grantor/Program Title/Pass-Through Grantor</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	\$ 99,535
Schools and Roads-Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>392,190</u>
Total U.S. Department of Agriculture			<u>491,725</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's Program, passed through the Arizona Department of Housing	14.228	132-05,183-05 184-05	<u>158,919</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226	N/A	<u>956,164</u>
U.S. Department of Justice			
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	2JC70626	13,429
Edward Byrne Memorial Formula Grant Program, passed through the Administrative Office of the Courts	16.579	PC-07-110	22,818
Edward Byrne Memorial Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	AC-07-170	<u>108,708</u>
Total Edward Byrne Memorial Formula Grant Program			<u>131,526</u>
Edward Byrne Memorial Justice Assistance Grant Program, passed through the Arizona Criminal Justice Commission	16.738	JAG-06-107	<u>549</u>
Total U.S. Department of Justice			<u>145,504</u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	663TRN	<u>576,677</u>
U.S. Department of Health and Human Services			
Family Planning Services, passed through the Arizona Department of Health Services	93.217	361314-5	12,347
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG352195	157,009
Centers for Disease Control and Prevention - Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	252030	288,021
Voting Access for Individuals with Disabilities-Grants to States, passed through Arizona Governor's Office	93.617	26H24747	304,627
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs, passed through the Arizona Department of Health Services	93.919	HG361205	83,255
HIV Prevention Activities - Health Department Based, passed through the Arizona Department of Health Services	93.940	HG352239	7,682
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	354176	39,851
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG461046	37,344
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	27H27272	<u>88,657</u>
Total Maternal and Child Health Services Block Grants to the States			<u>126,001</u>
Total U.S. Department of Health and Human Services			<u>1,018,793</u>
U.S. Department of Homeland Security			
Citizen Corps, passed through the Arizona Division of Emergency Management	97.053	MAB3ES01970	<u>62,043</u>
Total Expenditures of Federal Awards			<u>\$ 3,409,825</u>

See accompanying notes to schedule.

Apache County, Arizona
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

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 2007 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	\$392,190

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Apache County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Apache County, Arizona as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 30, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 07-01 through 07-05 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first

paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 7- 01 through 07-04 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*.

Apache County's responses to the findings identified in our audit are presented on page 43. We did not audit the County's responses and, accordingly, we express no opinion on them.

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, management, 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.

November 30, 2009

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Apache County, Arizona

Compliance

We have audited the compliance of Apache County, Arizona with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Apache County, Arizona complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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, management, 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.

November 30, 2009

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditors' Report issued: Unqualified

	Yes	No
Material weaknesses identified in internal control over financial reporting?	<u>X</u>	
Significant deficiency identified not considered to be a material weakness?	<u>X</u>	
Noncompliance material to the financial statements noted?		<u>X</u>

Federal Awards

Material weakness identified in internal control over major programs?		<u>X</u>
Significant deficiency identified not considered to be a material weakness?		<u>X</u> (None reported)

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.665	Schools and Roads - Grants to States
14.228	Community Development Block Grants/State's Program
15.226	Payments in Lieu of Taxes
93.617	Voting Access for Individuals with Disabilities - Grants to States

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

Auditee qualified as low-risk auditee? X

Other Matters:

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

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

FINANCIAL STATEMENT FINDINGS

07-01 INTERNAL CONTROL OVER CASH AND INVESTMENTS HELD AT THE COUNTY TREASURER'S OFFICE

Criteria:

The County Treasurer manages cash for County departments, school districts, and other special districts. The Treasurer's principal duties include receiving, recording, safeguarding, investing, and disbursing cash for these entities. To fulfill the responsibilities of managing these monies, the Treasurer's Office should implement the following controls:

- Unused Treasurer's checks should be maintained in the custody of an employee who does not have the authority to sign the checks or have access to the facsimile signature plates.
- Bank accounts should be reconciled at least monthly to the Treasurer's journal by an employee independent of cash receipts and cash disbursements functions.
- The Treasurer's written investment procedures should require that proper authorization be obtained for the purchase or sale of investments, modification in terms of investments, release of collateral, and the receipt and delivery of securities.

Condition:

- The Treasurer's Office has inadequate segregation of duties that allows the Chief Deputy both to issue a Treasurer's check and have access to the Treasurer's journal.
- The monthly reconciliation of the Treasurer's journal to the bank statements was prepared by the Chief Deputy, who is not independent of the cash disbursement function. In addition, the reconciliation was incomplete and inaccurate.
- The Treasurer's office does not have written investment procedures that require the proper authorization of wire transfers and investment management. As a result, the Treasurer's internal controls are not adequate to ensure that investments are properly safeguarded.

Cause:

Unknown

Effect:

The risk of financial statement misstatements and the misappropriation of assets is increased.

Recommendation:

To help strengthen internal controls and ensure account balances are accurately recorded for the County and other political subdivisions and to properly safeguard assets, the Treasurer's Office should perform the following:

- Develop internal control procedures that require blank checks and check signing authority be segregated from the authorization and record keeping functions.
- Reconciliation of the Treasurer's cash journal to the Treasurer's report and bank statements should be performed monthly by an employee independent of the cash disbursement process.
- Develop and formally adopt detailed written investment procedures that clearly define the authorization process.

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

FINANCIAL STATEMENT FINDINGS - CONTINUED

07-02 INTEREST RECEIVABLE ACCRUAL

Criteria:

The Treasurer's Office should record and apportion interest earned, but not received, on pooled investments.

Condition:

At year-end the County did not properly accrue interest receivable totaling \$146,004.

Cause:

Unknown

Effect:

Prior to audit adjustments, the County's revenues and accrued interest receivables were understated by \$146,004.

Recommendation:

The County should implement procedures whereby interest income is accrued as it is earned.

07-03 TIMELINESS OF FINANCIAL REPORTING

Criteria:

The County should provide timely and accurate record keeping.

Condition/Context:

The County did not prepare its financial records for audit in a timely manner.

Effect:

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 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.

Cause:

Accounting staff turnover.

Recommendation:

The County should prepare its financial records for audit in a timely manner. A similar finding (06-02) was reported in the prior fiscal year.

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

FINANCIAL STATEMENT FINDINGS - CONTINUED

07-04 FINANCIAL RECORDS

Criteria:

Transactions should be completely and accurately recorded in the financial records.

Condition/Context:

The County did not record bond anticipation note proceeds for one bond in its financial records. In addition, the County did not record several of the prior year audit adjustments in the accounting records and made erroneous entries to beginning fund balances.

Effect:

Prior to audit adjustments, the County's expenditures and proceeds from the bond anticipation note were understated by \$694,800, and its beginning fund balances were understated by \$428,000.

Cause:

Unknown

Recommendation:

The County should implement procedures whereby all material transactions are tracked and properly recorded in the financial records in a timely manner.

07-05 INFRASTRUCTURE

Criteria:

Maintaining complete and accurate capital asset accounting records is essential to safeguard those assets against theft and misuse; to provide documentation for insurance purposes; to effectively plan future acquisitions, replacements, and maintenance; and to accurately report them in the financial statements.

Condition/Context:

The County did not include infrastructure acquired since the implementation of GASBS #34 in its capital assets records.

Effect:

Prior to the County's correction of the capital assets schedule, infrastructure in the amount of approximately \$1,494,000 was not included in the County's capital assets.

Cause:

Unknown

Recommendation:

To help ensure that capital assets are adequately controlled, safeguarded, and reported, the County should adhere to its policies and procedures that provide for the accurate and complete preparation of capital asset schedules.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings that were specific to a major program. However, see item 07-03 for a finding that was applicable to all federal agencies.



APACHE COUNTY FINANCE DEPARTMENT

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

DIRECT LINE: (928) 337-4364
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November 23, 2009

Debra K. Davenport, CPA
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, AZ 85016

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, CPA
Finance Director

Financial Statement Findings

07-01 Internal Control Over Cash and Investments Held At the Apache County Treasurer's Office

Contact Person: Sandra Klinchock

Anticipated Completion Date: Completed

The Apache County Treasurer's Office has hired an additional employee in order to enact necessary procedures and segregate duties to comply with Audit findings.

07-02 Interest Receivable Accrual

Contact Person: Sandra Klinchock

Anticipated Completion Date: Completed

The Apache County Treasurer's Office will be receiving interest and earnings statements monthly and has implemented procedures to ensure that revenues and accrued interest is earned and apportioned accurately.

07-03 Timeliness

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.

07-04 Financial Records

Contact Person: Ryan Patterson

Anticipation Completion Date: Completed

The finance office was unaware of the details of a bond anticipation note and due to turnover in the department once the transaction was complete it was never recorded. The County has implemented procedures whereby material transaction are tracked properly and recorded in a timely manner.

07-05 Infrastructure

Contact Person: Ryan Patterson

Anticipation Completion Date: Completed

The County has added an additional position and has reorganized workloads among the department to ensure that capital assets are adequately controlled, safeguarded and reported.