



Apache County, Arizona

Single Audit

Year Ended June 30, 2009

Apache County, Arizona
Single Audit Reporting Package
Year Ended June 30, 2009

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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, 2009, 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, 2009, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through ix, the Budgetary Comparison Schedules on pages 28 through 31, and the Schedule of Agent Retirement Plans' Funding Progress on page 32 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 September 20, 2011, 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.


September 20, 2011

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, 2009. 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 \$34,381,481 (net assets). Of this amount, \$8,099,302 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets as reported in the statement of activities increased by \$662,815. This is a change from the prior year when net assets had increased by \$1,012,662.
- At the end of the fiscal year, unreserved fund balance for the general fund was \$8,415,240 or 48% of the total governmental funds' fund balances.
- Apache County's total long-term liabilities decreased by \$552,277 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, Apache County Health Services Districts, 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, Government Building, 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 9-27 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 and Road Funds.

Required supplementary information can be found on pages 28-32 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, 2009, assets exceeded liabilities by \$34,381,481.

Apache County Management's Discussion and Analysis

Condensed Statement of Net Assets June 30,

	Governmental Activities	
	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 19,944,902	\$ 27,140,092
Capital assets	<u>29,632,444</u>	<u>23,326,775</u>
Total assets	49,577,346	50,466,867
Current and other liabilities	2,318,283	3,318,341
Long-term liabilities	<u>12,877,582</u>	<u>13,429,860</u>
Total liabilities	15,195,865	16,748,201
 Net Assets		
Invested in capital assets, net of related debt	20,154,907	18,994,729
Restricted net assets	6,127,272	10,735,536
Unrestricted net assets	<u>8,099,302</u>	<u>3,988,401</u>
Total net assets	<u>\$ 34,381,481</u>	<u>\$ 33,718,666</u>

The largest portion (\$20,154,907 or 59%) 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 was driven by the County's library constructions and remodeling projects.

Restricted net assets (\$6,127,272 or 18%) represent resources that are subject to external restrictions on how they may be used. The decrease coincides with the disbursement of restricted loan proceeds for the County construction projects. The remaining balance of net assets (\$8,099,302 or 23%) are unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

Apache County Management's Discussion and Analysis

Long-term liabilities decreased due to the continued payment of the County's long term obligations.

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>2009</u>	<u>2008</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 3,290,750	\$ 3,152,589
Operating grants and contributions	15,581,396	16,054,975
Capital grants	90,593	185,035
General Revenues:		
Property taxes	11,034,154	8,217,913
Share of state sales taxes	5,816,042	6,461,335
Payments in lieu of taxes	4,615,906	3,672,207
Grants and contributions not restricted to specific programs	784,111	566,099
Investment income	373,400	745,835
Miscellaneous	<u>23,689</u>	<u>114,153</u>
Total revenues	<u>41,610,041</u>	<u>39,170,141</u>
Expenses:		
General government	10,894,819	9,713,995
Public safety	10,589,912	9,981,096
Highways and streets	10,162,946	11,123,741
Sanitation	67,607	105,596
Health	2,924,742	2,675,675
Culture and recreation	1,201,697	1,089,366
Education	4,507,466	3,057,304
Interest on long-term debt	<u>598,037</u>	<u>410,706</u>
Total expenses	<u>40,947,226</u>	<u>38,157,479</u>
Change in net assets	662,815	1,012,662
Net assets – beginning	<u>33,718,666</u>	<u>32,706,004</u>
Net assets – ending	<u>\$ 34,381,481</u>	<u>\$ 33,718,666</u>

Apache County Management's Discussion and Analysis

Property taxes increased by 2,816,241 or 34% due to the increase in assessed value of the Tucson Electronic Power's unit three being completed.

General government expenses increased \$1,180,824 or 12% due to a decrease in special revenues throughout the County which caused the departments to rely more heavily on general government revenues.

Highway and streets decreased \$960,795 or 9%, driven by a reduction in highway user revenue funds.

Educational expenses increased \$1,450,162 or 47% due to an increase in the Schools and Roads grants, which increased funding disbursed by the County to schools.

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, 2009, the County's General Fund reported an increase in fund balance of \$527,776 (7%), which was driven by the economy and the County's desire to stay conservative.

The Road fund balance decreased by \$1,109,124 (38%) because of increased road maintenance and the decrease in revenue over the year.

The Government Building fund decreased \$1,456,238 (44%) with the County completing its administration building for additional office space.

The Library Bond Fund reported a decrease in fund balance of \$4,057,580 (87%) due to the proceeds of the GADA bond being used for the construction of new libraries in Alpine, Eager, St. Johns, and Concho.

Apache County Management's Discussion and Analysis

General Fund Budgetary Highlights

Total general fund revenues were under budget by \$274,753. Historically Salt River Project (SRP) contributions in lieu of taxes have been budgeted as contributions, but reported as intergovernmental revenues in the financial statements. The amount received from SRP for the general fund was \$820,634. When this amount is compared to contributions instead of intergovernmental revenues, the contribution revenue variance is only \$22,439, which is due to adjustment to the assessed value; and the additional variance in revenue is driven mainly by lower than expected tax revenue and investment income.

Total general fund expenditures were under budget by \$9,256,373. The significant budget variances between the final budgeted expenditures and actual expenditures in the General Fund are discussed below:

- Attorney's department expenditures were \$200,598 lower due to vacancies that were not filled.
- Board of Supervisors departmental expenditures were \$390,497 lower than final budgeted amounts due to planned conservative spending for the benefit of the population.
- Contingency departmental expenditures were \$3,865,529 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.
- Data processing expenditures were \$171,755 lower due to vacancies that were not filled.
- Election department expenditures were \$163,861 lower due to management planning for an election that did not transpire.
- Grounds/maintenance departmental expenditures were \$185,147 lower than final budgeted amounts due to budgeting for the new buildings that were still under construction at the year end.
- Emergency services expenditures were \$431,531 lower due to unrealized grants.
- Sherriff's office expenditures were \$287,932 lower due to vacancies that were not filled.

Apache County Management's Discussion and Analysis

- Capital outlay was \$2,535,946 lower due to the anticipation of remodeling on an administration building that did not come to fruition.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital assets as of June 30, 2009, amounted to \$29,632,444 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>FY2009</u>	<u>FY2008</u>	
Land	\$ 2,000,093	\$ 1,921,583	4%
Improvements other than buildings	63,410	63,410	0%
Construction in progress	9,865,350	3,877,943	154%
Buildings	9,377,223	9,813,546	(4%)
Infrastructure	1,835,102	1,885,184	(3%)
Machinery and equipment	<u>6,491,266</u>	<u>5,765,109</u>	13%
Totals	<u>\$29,632,444</u>	<u>\$23,326,775</u>	21%

Construction in progress increased due to the current library buildings that are under construction. Additionally, the increase in machinery and equipment is the result of additional purchases of equipment during the year.

Long-Term Debt

On June 30, 2009, the County had a total of \$13,267,582 in long-term liabilities. Of this amount, \$10,944,000 was principal outstanding on general obligation, revenue, and special assessment bonds, \$580,233 was a contract payable, and \$242,010 was capital lease obligations. The remainder represents compensated absences payable.

Apache County Management's Discussion and Analysis

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.

Economic Factors and the Next Year's Budget

In FY2009 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 FY2010 in a conservative manner.

Going forward, Tucson Electric Power will complete construction of their 4th unit. 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, 2009

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 1,606,316
Investments	13,405,979
Receivables (net of allowance for uncollectibles):	
Property taxes	607,662
Accounts	136,332
Special assessments	80,185
Due from other governments	3,637,627
Inventories	289,038
Prepaid items	181,763
Capital assets, not being depreciated	11,928,853
Capital assets, being depreciated, net	<u>17,703,591</u>
Total assets	<u>49,577,346</u>
LIABILITIES	
Accounts payable	1,753,483
Accrued payroll and employee benefits	564,800
Noncurrent liabilities	
Due within 1 year	1,185,096
Due in more than 1 year	<u>11,692,486</u>
Total liabilities	<u>15,195,865</u>
NET ASSETS	
Invested in capital assets, net of related debt	20,154,907
Restricted for:	
Public safety	176,671
Highways and streets	1,936,365
Debt service	673,560
Capital projects	90,381
Other purposes	3,250,295
Unrestricted	<u>8,099,302</u>
Total net assets	<u>\$ 34,381,481</u>

See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
General government	\$ 10,894,819	\$ 1,454,597	\$ 656,208		\$ (8,784,014)
Public safety	10,589,912	1,358,108	1,948,904		(7,282,900)
Highways and streets	10,162,946	146,996	9,383,445		(632,505)
Sanitation	67,607		95,378	\$ 90,593	118,364
Health	2,924,742	141,335	1,525,842		(1,257,565)
Culture and recreation	1,201,697	7,714			(1,193,983)
Education	4,507,466	182,000	1,971,619		(2,353,847)
Interest on long-term debt	598,037				(598,037)
Total governmental activities	\$ 40,947,226	\$ 3,290,750	\$15,581,396	\$ 90,593	(21,984,487)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					6,786,003
Property taxes, levied for jail district					926,523
Property taxes, levied for juvenile jail district					463,176
Property taxes, levied for library					1,310,971
Property taxes, levied for library construction					665,262
Property taxes, levied for health service districts					728,575
Property taxes, levied for debt service					153,644
Shared revenue - state sales taxes					5,816,042
Payments in lieu of taxes					4,615,906
Grants and contributions not restricted to specific programs					784,111
Investment earnings					373,400
Miscellaneous					23,689
Total general revenues					22,647,302
Change in net assets					662,815
Net assets, July 1, 2008					33,718,666
Net assets, June 30, 2009					\$ 34,381,481

See accompanying notes to financial statements.

Apache County, Arizona
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

	General Fund	Road Fund	Government Building Fund	Library Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 784,438	\$ 40,519	\$ 248,428	\$ 63,850	\$ 469,081	\$ 1,606,316
Investments	6,546,757	338,162	2,073,329	532,876	3,914,855	13,405,979
Receivables (net of allowances for uncollectibles):						
Property taxes	230,710				376,952	607,662
Accounts	3,014	22,185			111,133	136,332
Special assessments					80,185	80,185
Due from:						
Other funds	455,504	334,968		4,334	130,746	925,552
Other governments	1,181,633	1,392,306			1,063,688	3,637,627
Inventories		289,038				289,038
Prepaid items	41,548	7,344			132,871	181,763
Total assets	<u>\$ 9,243,604</u>	<u>\$ 2,424,522</u>	<u>\$ 2,321,757</u>	<u>\$ 601,060</u>	<u>\$ 6,279,511</u>	<u>\$ 20,870,454</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 246,685	\$ 449,121	\$ 497,054	\$ 6,841	\$ 553,782	\$ 1,753,483
Accrued payroll and employee benefits	280,560	115,901			168,339	564,800
Due to:						
Other funds	132,107	68,330			725,115	925,552
Deferred revenue	127,464				363,932	491,396
Total liabilities	<u>786,816</u>	<u>633,352</u>	<u>497,054</u>	<u>6,841</u>	<u>1,811,168</u>	<u>3,735,231</u>
Fund balances:						
Reserved for:						
Inventories		289,038				289,038
Prepaid items	41,548	7,344			132,871	181,763
Unreserved, reported in:						
General fund	8,415,240					8,415,240
Special revenue funds		1,494,788	1,824,703		4,091,750	7,411,241
Capital projects funds					90,381	90,381
Debt service funds				594,219	153,341	747,560
Total fund balances	<u>8,456,788</u>	<u>1,791,170</u>	<u>1,824,703</u>	<u>594,219</u>	<u>4,468,343</u>	<u>17,135,223</u>
Total liabilities and fund balances	<u>\$ 9,243,604</u>	<u>\$ 2,424,522</u>	<u>\$ 2,321,757</u>	<u>\$ 601,060</u>	<u>\$ 6,279,511</u>	<u>\$ 20,870,454</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, 2009

Fund balances - total governmental funds		\$ 17,135,223
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$55,529,381 and the accumulated depreciation is \$25,896,937.</p>		29,632,444
<p>Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>		491,396
<p>Some liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Compensated absences payable	\$ (1,501,339)	
General obligation bonds payable	(6,500,000)	
Revenue bonds payable	(3,980,000)	
Special assessment bonds payable	(74,000)	
Installment purchase contract payable	(580,233)	
Capital leases payable	<u>(242,010)</u>	<u>(12,877,582)</u>
Net assets of governmental activities		<u>\$ 34,381,481</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, 2009

	General Fund	Road Fund	Government Building Fund	Library Bond Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Property taxes	\$ 4,934,961	\$ 2,353,095			\$ 6,675,877	\$ 13,963,933
Special assessments					10,734	10,734
Licenses and permits	188,020					188,020
Intergovernmental	9,623,111	6,745,032			7,434,409	23,802,552
Charges for services	352,434	1,564			1,778,581	2,132,579
Fines and forfeits	573,219				253,407	826,626
Investment earnings	88,910	17,747	\$ 78,305	\$ 75,365	113,072	373,399
Miscellaneous	<u>11,466</u>	<u>2,530</u>			<u>389,485</u>	<u>403,481</u>
Total revenues	<u>15,772,121</u>	<u>9,119,968</u>	<u>78,305</u>	<u>75,365</u>	<u>16,655,565</u>	<u>41,701,324</u>
EXPENDITURES						
Current:						
General government	9,148,623				2,108,729	11,257,352
Public safety	3,496,803				6,013,885	9,510,688
Highways and streets		8,485,376			409,496	8,894,872
Sanitation					67,607	67,607
Health	961,250				1,994,784	2,956,034
Culture and recreation	21,850			50,448	1,122,562	1,194,860
Education	274,253				4,185,478	4,459,731
Capital outlay	231,024	1,626,675	1,534,543	4,082,497	796,188	8,270,927
Debt service:						
Principal		29,055			933,087	962,142
Interest and other charges		1,391			596,646	598,037
Total expenditures	<u>14,133,803</u>	<u>10,142,497</u>	<u>1,534,543</u>	<u>4,132,945</u>	<u>18,228,462</u>	<u>48,172,250</u>
Excess (deficiency) of revenues over expenditures	<u>1,638,318</u>	<u>(1,022,529)</u>	<u>(1,456,238)</u>	<u>(4,057,580)</u>	<u>(1,572,897)</u>	<u>(6,470,926)</u>
OTHER FINANCING SOURCES (USES):						
Transfers in	200,670				1,397,807	1,598,477
Transfers out	(1,311,212)	(86,595)			(200,670)	(1,598,477)
Installment purchase agreement					165,000	165,000
Total other financing sources and uses	<u>(1,110,542)</u>	<u>(86,595)</u>			<u>1,362,137</u>	<u>165,000</u>
Net change in fund balances	527,776	(1,109,124)	(1,456,238)	(4,057,580)	(210,760)	(6,305,926)
Fund balances, July 1, 2008	7,949,772	2,947,410	3,280,941	4,651,799	4,591,050	23,420,972
Decrease in reserve for inventories	(9,862)	(47,116)				(56,978)
(Decrease)/increase in reserve for prepaid items	(10,898)				88,053	77,155
Fund balances, June 30, 2009	<u>\$ 8,456,788</u>	<u>\$ 1,791,170</u>	<u>\$ 1,824,703</u>	<u>\$ 594,219</u>	<u>\$ 4,468,343</u>	<u>\$ 17,135,223</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, 2009

Net change in fund balances - total governmental funds \$ (6,305,926)

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	\$ 8,546,271	
Depreciation expense	<u>(2,168,677)</u>	6,377,594

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. (71,925)

Revenues in the Statement of Activities that do not provide current financial resources and not reported as revenues in the funds. 90,617

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (165,000)

An increase in compensated absences payable decreases net assets of governmental activities but does not have any effect on fund balances of the governmental funds. (228,056)

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

Principal repayments:

General obligation bonds payable	690,000	
Special assessment bonds payable	70,000	
Installment purchase contract payable	96,807	
Capital leases payable	<u>88,526</u>	945,333

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	(56,978)	
Increase in prepaid items	<u>77,155</u>	<u>20,177</u>

Change in net assets of governmental activities \$ 662,815

See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2009

	Investment Trust Fund	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 14,900,110	\$ 196,522
Investments, at fair value	<u>103,337,927</u>	<u>1,640,130</u>
Total assets	<u>118,238,037</u>	<u>\$ 1,836,652</u>
LIABILITIES		
Due to other governments	_____	<u>\$ 1,836,652</u>
Total liabilities	_____	<u>\$ 1,836,652</u>
NET ASSETS		
Held in trust for investment trust participants	<u>\$118,238,037</u>	

See accompanying notes to financial statements.

Apache County, Arizona
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2009

	Investment Trust Fund
ADDITIONS:	
Contributions from participants	\$ 183,049,374
Investment earnings:	
Interest and dividends	3,483,703
Net decrease in the fair value of investments	<u>(1,399,585)</u>
Total investment earnings	<u>2,084,118</u>
Total additions	<u>185,133,492</u>
 DEDUCTIONS:	
Distributions to participants	<u>192,081,179</u>
Total deductions	<u>192,081,179</u>
 Change in net assets	 (6,947,687)
 Net assets, July 1, 2008	 <u>125,185,724</u>
 Net assets, June 30, 2009	 <u>\$ 118,238,037</u>

See accompanying notes to financial statements.

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Apache County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Apache County Health Services Districts	Provides comprehensive, culturally sensitive, quality health resources to the County's residents; 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 FINANCIAL STATEMENTS
June 30, 2009

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 *Government Building Fund* accounts for monies from grant revenues and debt issued to fund the development of public infrastructure.

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 one 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 FINANCIAL STATEMENTS
June 30, 2009

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 and personal 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.

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 FINANCIAL STATEMENTS
June 30, 2009

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 payable consists 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 government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

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 in the government-wide financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit fund balances - At June 30, 2009, the following funds reported significant deficits in fund balances:

Fund	Deficit
Health Services	\$ 90,146
D.P. Service School	57,619
ACCENT/Sheriff	28,224
ACCENT/Attorney	25,531
Jail District	575,490

These deficits resulted from operations during the year, but are expected to be corrected through normal operations and transfers from other funds in fiscal year 2010.

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 FINANCIAL STATEMENTS
June 30, 2009

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, 2009, the carrying amount of the County's deposits was \$2,794,219, and the bank balance was \$3,922,788. The County does not have a formal policy with respect to custodial credit risk.

Investments - The County's investments at June 30, 2009, were as follows:

<u>Investment Type</u>	<u>Amount</u>
U.S. agency securities	\$ 105,472,467
Corporate bonds	22,693,431
Money market funds	<u>4,124,287</u>
	<u>\$ 132,290,185</u>

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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, 2009, credit risk for the County's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
U.S. agency securities	AAA	Moody's	\$ 105,472,467
Corporate bonds	AA3	Moody's	502,880
Corporate bonds	AA2	Moody's	3,083,940
Corporate bonds	A3	Moody's	1,855,516
Corporate bonds	A2	Moody's	8,383,548
Corporate bonds	A1	Moody's	4,611,338
Corporate bonds	BAA3	Moody's	484,515
Corporate bonds	BAA2	Moody's	1,776,000
Corporate bonds	BA2	Moody's	425,063
Corporate bonds	Withdrawn Rate	Moody's	557,308
Corporate bonds	Unrated	Moody's	1,013,323
Money market funds	AAA	Moody's	4,124,287
			\$ 132,290,185

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, 2009, the County had \$105,472,467 of U.S. agency securities, \$22,693,431 of corporate bonds, and \$4,124,287 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, 2009, 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 11.7%, 31.0%, and 35.0%, 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, 2009, 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	\$ 105,472,467	\$ 14,224,722	\$ 91,247,745
Corporate bonds	22,693,431	3,956,981	18,736,450
Money market funds	4,124,287	4,124,287	
	\$ 132,290,185	\$ 22,305,990	\$ 109,984,195

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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	\$	2,580
Carrying amount of deposits		2,794,219
Amount of investments		<u>132,290,185</u>
Total		<u>\$135,086,984</u>

<u>Statement of Net Assets:</u>	<u>Governmental Activities</u>	<u>Investment Trust Fund</u>	<u>Agency Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,606,316	\$ 14,900,110	\$ 196,522	\$ 16,702,948
Investments	<u>13,405,979</u>	<u>103,337,927</u>	<u>1,640,130</u>	<u>118,384,036</u>
Total	<u>\$ 15,012,295</u>	<u>\$118,238,037</u>	<u>\$ 1,836,652</u>	<u>\$135,086,984</u>

NOTE 4 - DUE FROM OTHER GOVERNMENTS

Amounts due from other governments at June 30, 2009 in the General Fund include \$972,070 in state shared revenue from sales tax and excise tax and \$209,563 in various grants and contracts with other governmental units. Amounts due from other governments in the Road Fund include \$1,168,990 in highway user taxes, \$219,464 in vehicle license tax from the State of Arizona, and the remaining balances in various contracts with other governmental units. Amounts due from other governments in the Other Governmental Funds include \$608,343 in federal reimbursement grants. The remaining balances result from various grants and contracts with other government units.

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,921,583	\$ 78,510		\$ 2,000,093
Improvements other than buildings	63,410			63,410
Construction in progress	<u>3,877,943</u>	<u>7,007,251</u>	<u>\$ (1,019,844)</u>	<u>9,865,350</u>
Total capital assets not being depreciated	<u>5,862,936</u>	<u>7,085,761</u>	<u>(1,019,844)</u>	<u>11,928,853</u>
Capital assets being depreciated:				
Buildings	14,981,441	257,406		15,238,847
Machinery and equipment	24,537,441	2,222,948	(430,792)	26,329,597
Infrastructure	<u>2,032,084</u>			<u>2,032,084</u>
Total	<u>41,550,966</u>	<u>2,480,354</u>	<u>(430,792)</u>	<u>43,600,528</u>
Less accumulated depreciation for:				
Buildings	5,167,895	693,729		5,861,624
Machinery and equipment	18,772,332	1,424,866	(358,867)	19,838,331
Infrastructure	<u>146,900</u>	<u>50,082</u>		<u>196,982</u>
Total	<u>24,087,127</u>	<u>2,168,677</u>	<u>(358,867)</u>	<u>25,896,937</u>
Total capital assets being depreciated, net	<u>17,463,839</u>	<u>311,677</u>	<u>(71,925)</u>	<u>17,703,591</u>
Governmental activities capital assets, net	<u>\$ 23,326,775</u>	<u>\$ 7,397,438</u>	<u>\$ (1,091,769)</u>	<u>\$ 29,632,444</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 317,856
Public safety	614,520
Highways and streets	1,193,921
Health	21,190
Welfare	3,814
Education	<u>17,376</u>
Total depreciation expense - governmental activities	<u>\$ 2,168,677</u>

Construction Commitments

The County had major contractual commitments related to various capital projects at June 30, 2009, with estimated costs to complete and remaining contractual commitments of \$2,982,899 for the construction of libraries, district buildings, Round Valley forest building, and the Pioneer School building. The projects are financed through bond proceeds.

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 6 - LONG-TERM LIABILITIES

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2009:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>	<u>Due Within 1 Year</u>
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 7,190,000		\$ (690,000)	\$ 6,500,000	\$ 410,000
Revenue bonds	3,980,000			3,980,000	
Special assessment bonds with governmental commitment	<u>144,000</u>		<u>(70,000)</u>	<u>74,000</u>	<u>74,000</u>
Total bonds payable	11,314,000		(760,000)	10,554,000	484,000
Installment purchase contract payable	512,040	165,000	(96,807)	580,233	62,219
Capital leases payable	330,536		(88,526)	242,010	65,195
Compensated absences payable	<u>1,273,283</u>	<u>971,098</u>	<u>(743,042)</u>	<u>1,501,339</u>	<u>573,682</u>
Governmental activities long-term liabilities	<u>\$ 13,429,859</u>	<u>\$ 1,136,098</u>	<u>\$ (1,688,375)</u>	<u>\$ 12,877,582</u>	<u>\$ 1,185,096</u>

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

Bonds outstanding at June 30, 2009, were as follows:

Description	<u>Original Amount</u>	<u>Maturity Ranges</u>	<u>Interest Rates</u>	<u>Outstanding Principal</u>
General obligation bonds:				
Series 2007	\$ 7,190,000	7/1/10-21	4.5 - 5.0%	\$ 6,500,000
Revenue bonds:				
Series 2007B	3,980,000	8/1/13-27	4.0 - 5.0%	3,980,000
Special assessment bonds with governmental commitment:				
Greer Acres - Little Colorado Improvement District	575,000	1/1/10	6.10%	<u>74,000</u>
				<u>\$ 10,554,000</u>

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2009:

Year ending June 30,	General Obligation Bonds		Revenue Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 410,000	\$ 295,725		\$ 176,512	\$ 74,000	\$ 2,257
2011	430,000	276,250		176,512		
2012	450,000	255,825		176,512		
2013	470,000	234,450		176,512		
2014	495,000	213,300	\$ 195,000	172,613		
2015-2019	2,880,000	708,975	1,100,000	735,585		
2020-2024	1,365,000	92,925	1,360,000	467,412		
2025-2028			<u>1,325,000</u>	<u>128,868</u>		
Total	<u>\$ 6,500,000</u>	<u>\$ 2,077,450</u>	<u>\$ 3,980,000</u>	<u>\$ 2,210,526</u>	<u>\$ 74,000</u>	<u>\$ 2,257</u>

The County has pledged state shared revenues to repay the revenue bonds issued by the Greater Arizona Development Authority (the Authority). The bonds, issued by the Authority in November 2007 in the amount of \$3.98 million are to provide financing for construction of two administrative facilities and acquisition of two buildings and remodeling thereof to provide office space, and are payable through 2028. Annual interest payments on the bonds for 2009 required approximately 3.7% of the state shared revenue pledged. Principal payments are deferred until August 2013. Total principal and interest remaining to be paid on the bonds is \$6,190,526 as of June 30, 2009.

Installment purchase contracts - In August 2007, the County acquired land and an attached building under contract agreements at a total purchase price of \$625,000. In July 2008, the County acquired land and an attached building under contract agreements at a total purchase price of \$165,000. The following schedule details debt service requirements to maturity for the County's installment purchase contracts payable at June 30, 2009:

Year ended June 30,	Governmental Activities	
	Principal	Interest
2010	\$ 62,219	\$ 45,200
2011	64,484	42,935
2012	<u>453,530</u>	<u>36,272</u>
Total	<u>\$ 580,233</u>	<u>\$ 124,407</u>

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

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 6 - LONG-TERM LIABILITIES - CONTINUED

The assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and equipment	\$ 513,452
Less accumulated depreciation	200,913
Carrying value	\$ 312,539

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2009:

	Governmental Activities
Year ending June 30,	
2010	\$ 75,767
2011	75,767
2012	75,767
2013	37,885
Total minimum lease payments	265,186
Less amount representing interest	(23,176)
Present value of net minimum lease payments	\$ 242,010

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 - 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 2009, the County paid for compensated absences as follows: 69 percent from the General Fund, 24 percent from the Road Fund, and 7 percent from other funds.

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 7 - RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool, which are described below, and the Arizona Local Government Employee Benefit Trust, which is described on page 20.

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 \$300 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 Workers' Compensation Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium, based on an experience-rating formula, that allocates pool expenditures and liabilities among the members.

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

NOTE 8 - PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Plan Descriptions - The County contributes to four plans, three of which are described below. The Elected Officials Retirement System (EORP) 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 retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability 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.

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 8 - RETIREMENT PLANS - CONTINUED

The *Public Safety Personnel Retirement System* (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona, and 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) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium 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> 3300 North Central Ave. P.O. Box 33910 Phoenix, AZ 85067-3910 (602) 240-2000 or (800) 621-3778	<u>PSPRS and CORP</u> 3010 East Camelback Road, Suite 200 Phoenix, AZ 85016-4416 (602) 255-5575
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Funding Policy-The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates for ASRS, PSPRS, and CORP.

Cost-sharing plans - For the year ended June 30, 2009, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.45 percent (7.99 percent for retirement, 0.96 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

The County's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

<u>Year ended June 30</u>	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2009	\$ 880,772	\$ 105,826	\$ 54,735
2008	899,687	117,350	56,308
2007	853,772	118,737	56,541

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 8 - RETIREMENT PLANS - CONTINUED

Agent plans - For the year ended June 30, 2009, 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 27.11 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.93 percent of covered payroll. Active CORP members were required by statute to contribute 7.96 percent of the members' annual covered payroll and the County was required to contribute 6.58 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution was actuarially set at 1.10 percent of covered payroll.

Actuarial methods and assumptions-The contribution requirements for the year ended June 30, 2009, were established by the June 30, 2007, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions are subject to continual revision as actual results are compared to past expectations and new estimates are made. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of the plans' assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on 1) the plans as understood by the County and the plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2009 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	29 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50%-8.50% for PSPRS and CORP
includes inflation at	5.00%

Annual Pension/OPEB Cost-The County's pension/OPEB cost for the two agent plans for the year ended June 30, 2009, and related information follows.

	PSPRS		CORP	
	Pension	Health Insurance	Pension	Health Insurance
Annual pension/OPEB cost	\$ 386,486	\$ 27,037	\$ 71,419	\$ 8,544
Contributions made	399,978	13,545	79,963	0

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 8 - RETIREMENT PLANS - CONTINUED

Trend Information-Annual pension cost information for the current and two preceding years follows for each of the agent plans. Separately reported OPEB cost information for the last year of the required trend information will be reported next year when it becomes available.

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/(OPEB Obligation)
<u>PSPRS</u>				
Pension	2009	\$ 386,486	103 %	\$ 13,492
Health Insurance	2009	13,545	50 %	(13,492)
Pension	2008	309,621	101 %	1,803
Health Insurance	2008	19,408	91 %	(1,803)
Pension and health insurance	2007	280,987	100 %	0
<u>CORP</u>				
Pension	2009	\$ 79,963	112 %	\$ 8,544
Health Insurance	2009	8,544	0 %	(8,544)
Pension	2008	56,861	118 %	8,784
Health Insurance	2008	8,784	0 %	(8,784)
Pension and health insurance	2007	30,727	100 %	0

Funded Status-The funded status of the plans as of the most recent valuation date, June 30, 2009, along with the actuarial assumptions and methods used in those valuations follow.

	<u>PSPRS</u>		<u>CORP</u>	
	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>
Actuarial accrued liability (a)	\$ 8,352,034	\$ 228,725	\$ 1,340,391	\$ 76,840
Actuarial value of assets (b)	3,577,284	0	1,307,226	0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	4,774,750	228,725	33,165	76,840
Funded ratio (b) / (a)	42.8%	0%	97.5%	0%
Covered payroll (c)	\$ 1,556,734	\$ 1,556,734	\$ 692,519	\$ 692,519
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll $[(a) - (b)]/(c)$	306.7%	14.69%	4.8%	11.10%

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 8 - RETIREMENT PLANS - CONTINUED

The actuarial methods and assumptions used are the same for all plans and related benefits, and for the most recent valuation date are as follows:

Actuarial valuation date	June 30, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	27 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50%-8.50% for PSPRS and CORP
includes inflation at	5.50% for PSPRS and CORP

NOTE 9 - INTERFUND BALANCES AND ACTIVITY

Interfund receivables and payables-Interfund balances at June 30, 2009, were as follows:

<u>Payable from</u>	<u>Payable to</u>				Total
	General Fund	Road Fund	Library Bond Fund	Nonmajor Governmental Funds	
General Fund		\$ 30,456		\$ 101,651	\$ 132,107
Road Fund	\$ 39,235			29,095	68,330
Nonmajor Governmental Funds	<u>416,269</u>	<u>304,512</u>	<u>\$ 4,334</u>		<u>725,115</u>
Total	<u>\$ 455,504</u>	<u>\$ 334,968</u>	<u>\$ 4,334</u>	<u>\$ 130,746</u>	<u>\$ 925,552</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, 2009, were as follows:

<u>Transfer from</u>	<u>Transfer to</u>		Total
	General Fund	Nonmajor Governmental Funds	
General Fund		\$ 1,311,212	\$ 1,311,212
Road Fund		86,595	86,595
Nonmajor Governmental Funds	<u>\$ 200,670</u>		<u>200,670</u>
Total	<u>\$ 200,670</u>	<u>\$ 1,397,807</u>	<u>\$ 1,598,477</u>

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

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 10 - COUNTY TREASURER'S INVESTMENT POOL

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

The County Treasurer's investment pool is not registered with the Securities and Exchange Commission as an investment company, and there is no regulatory oversight of its operations. The pool's structure does not provide for shares, and the County has not provided or obtained any legally binding guarantees to support the value of the participants' investments. The Treasurer allocates interest earnings to each of the pool's participants.

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$777,416 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	\$ 105,375,004	1.4% - 5.4%	8/09 - 6/14	\$ 105,472,467
Corporate bonds	27,267,157	4.0% - 7.1%	7/09 - 1/13	22,693,431
Money market funds	4,124,287	None stated	N/A	4,124,287

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

Statement of Net Assets	
Assets	\$ 134,309,568
Liabilities	
Net Assets	<u>\$ 134,309,568</u>
Net assets held in trust for:	
Internal participants	\$ 16,071,531
External participants	<u>118,238,037</u>
Total net assets held in trust	<u>\$ 134,309,568</u>
Statement of Changes in Net Assets	
Total additions	\$ 228,043,493
Total deductions	<u>239,393,418</u>
Net decrease	<u>(11,349,925)</u>
Net assets held in trust:	
July 1, 2008	<u>145,659,493</u>
June 30, 2009	<u>\$ 134,309,568</u>

Apache County, Arizona
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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 \$97,605 of financial reserves to pay for these costs.

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

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

NOTE 12 - LITIGATION

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

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Property taxes	\$ 5,056,538	\$ 5,056,538	\$ 4,934,961	\$ (121,577)
Licenses and permits	242,500	242,500	188,020	(54,480)
Intergovernmental	8,915,254	8,915,254	9,623,111	707,857
Charges for services	232,000	232,000	352,434	120,434
Fines and forfeits	560,000	560,000	573,219	13,219
Investment income	171,000	171,000	88,910	(82,090)
Contributions	843,073	843,073		(843,073)
Miscellaneous	<u>26,509</u>	<u>26,509</u>	<u>11,466</u>	<u>(15,043)</u>
Total revenues	<u>16,046,874</u>	<u>16,046,874</u>	<u>15,772,121</u>	<u>(274,753)</u>
EXPENDITURES:				
General government				
Assessor	738,878	738,878	689,277	49,601
Attorney	1,043,825	1,043,825	843,227	200,598
Board of Supervisors	1,840,771	1,840,771	1,450,274	390,497
Clerk of the Court	584,820	584,820	532,101	52,719
Contingency	3,964,104	3,964,104	98,575	3,865,529
Data processing	550,118	550,118	378,363	171,755
Elections	437,959	437,959	274,098	163,861
Finance	540,389	540,389	470,390	69,999
Grounds/maintenance	969,386	969,386	784,239	185,147
JP-Chinle	185,680	185,680	162,429	23,251
JP-Puerco	314,582	314,582	290,972	23,610
JP-St. Johns	185,680	185,680	167,483	18,197
JP-Round Valley	325,760	325,760	293,219	32,541
Communication specialist and project	122,965	122,965	110,471	12,494
Community development	502,740	502,740	442,313	60,427
Recorder	508,717	508,717	462,072	46,645
Superior Court	546,241	546,241	460,643	85,598
Public Defenders	575,000	575,000	541,616	33,384
Jury fees and related	144,477	144,477	48,728	95,749
Support and care of persons	6,848	6,848	11,313	(4,465)
Treasurer	352,369	352,369	299,079	53,290
Legal services/judgments	30,000	30,000	31,989	(1,989)
Insurance	218,558	218,558	198,558	20,000
Public Fiduciary	90,601	90,601	84,113	6,488
Retirement reserve	<u>52,620</u>	<u>52,620</u>	<u>23,081</u>	<u>29,539</u>
Total general government	<u>14,833,088</u>	<u>14,833,088</u>	<u>9,148,623</u>	<u>5,684,465</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2009

(concluded)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Public Safety				
Constables	\$ 73,354	\$ 73,354	\$ 59,494	\$ 13,860
Emergency services	645,966	645,966	214,435	431,531
Adult probation	369,552	369,552	318,348	51,204
Juvenile probation	285,528	285,528	257,614	27,914
Sheriff	<u>2,934,846</u>	<u>2,934,846</u>	<u>2,646,912</u>	<u>287,934</u>
Total public safety	4,309,246	4,309,246	3,496,803	812,443
Health				
AHCCCS	1,078,200	1,078,200	961,250	116,950
Culture and recreation				
Agricultural extension	24,000	24,000	21,850	2,150
Education				
School Superintendent	378,672	378,672	274,253	104,419
Capital outlay	<u>2,766,970</u>	<u>2,766,970</u>	<u>231,024</u>	<u>2,535,946</u>
Total expenditures	<u>23,390,176</u>	<u>23,390,176</u>	<u>14,133,803</u>	<u>9,256,373</u>
Excess (deficiency) of revenues over expenditures	(7,343,302)	(7,343,302)	1,638,318	8,981,620
OTHER FINANCING SOURCES (USES):				
Transfers in	4,907,796	4,907,796	200,670	(4,707,126)
Transfers out	<u>(5,102,222)</u>	<u>(5,102,222)</u>	<u>(1,311,212)</u>	<u>3,791,010</u>
Total other financing sources and uses	<u>(194,426)</u>	<u>(194,426)</u>	<u>(1,110,542)</u>	<u>(916,116)</u>
Net change in fund balances	(7,537,728)	(7,537,728)	527,776	8,065,504
Fund balances, July 1, 2008	7,537,728	7,537,728	7,949,772	412,044
Increase in reserve for inventories			(9,862)	(9,862)
Increase in reserve for prepaids			<u>(10,898)</u>	<u>(10,898)</u>
Fund balances, June 30, 2009			<u>\$ 8,456,788</u>	<u>\$ 8,456,788</u>

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
ROAD FUND
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 7,412,000	\$ 7,412,000	\$ 2,353,095	\$ (5,058,905)
Intergovernmental	2,550,000	2,550,000	6,745,032	4,195,032
Charges for services	123,720	123,720	1,564	(122,156)
Investment income	1,000	1,000	17,747	16,747
Miscellaneous	42,480	42,480	2,530	(39,950)
Total revenues	<u>10,129,200</u>	<u>10,129,200</u>	<u>9,119,968</u>	<u>(1,009,232)</u>
EXPENDITURES:				
Highways and Streets				
Engineer	571,200	571,200	614,084	(42,884)
Safety	15,000	15,000	13,442	1,558
District #1	2,666,875	2,666,875	2,521,693	145,182
District #2	2,734,875	2,734,875	2,912,718	(177,843)
District #3	4,171,740	4,171,740	3,790,012	381,728
Liability insurance	242,681	242,681	242,681	
Contingency	405,032	405,032	47,867	357,165
Deferred	825,000	825,000		825,000
Total expenditures	<u>11,632,403</u>	<u>11,632,403</u>	<u>10,142,497</u>	<u>1,489,906</u>
Excess (deficiency) of revenues over expenditures	(1,503,203)	(1,503,203)	(1,022,529)	480,674
OTHER FINANCING SOURCES (USES):				
Transfers out	<u>(1,008,283)</u>	<u>(1,008,283)</u>	<u>(86,595)</u>	<u>921,688</u>
Net change in fund balances	(2,511,486)	(2,511,486)	(1,109,124)	1,402,362
Fund balances, July 1, 2008	2,947,410	2,947,410	2,947,410	
Increase in reserve for inventories			<u>(47,116)</u>	<u>(47,116)</u>
Fund balances, June 30, 2009	<u>\$ 435,924</u>	<u>\$ 435,924</u>	<u>\$ 1,791,170</u>	<u>\$ 1,355,246</u>

See accompanying notes to budgetary comparison schedule.

Apache County, Arizona
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO BUDGETARY COMPARISON SCHEDULES
June 30, 2009

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.

NOTE 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2009, 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:	
Legal services/judgments	\$ 1,989
Support and care of persons	4,465
Road Fund :	
Engineer	42,884
District # 2	177,843

Departments may exceed their department budgets 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, 2009

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]
Pension						
6/30/09	\$ 3,577,284	\$ 8,352,034	\$ (4,774,750)	42.8 %	\$ 1,556,734	306.7 %
Health Insurance						
6/30/09	0	228,725	(228,725)	0.0 %	1,556,734	14.7 %
Pension						
6/30/08	3,341,532	7,484,212	(4,142,680)	44.6 %	1,338,474	309.5 %
Health Insurance						
6/30/08	0	248,221	(248,221)	0.0 %	1,338,474	18.6 %
Pension and Health Insurance						
6/30/07	3,389,592	7,776,398	(4,386,806)	43.6 %	1,376,019	318.8 %

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]
Pension						
6/30/09	\$ 1,307,226	\$ 1,340,391	\$ (33,165)	97.6 %	\$ 692,519	4.8 %
Health Insurance						
6/30/09	0	76,840	(76,840)	0.0 %	692,519	11.1 %
Pension						
6/30/08	1,189,066	1,271,850	(82,784)	93.5 %	798,548	10.4 %
Health Insurance						
6/30/08	0	50,585	(50,585)	0.0 %	798,548	6.3 %
Pension and Health Insurance						
6/30/07	1,081,457	1,128,276	(46,819)	95.9 %	654,758	7.2 %

For valuation years prior to 2008, which was prior to the implementation of GASB Statement Nos. 43 and 45, the actuarial measurements were made in the aggregate as to pension and health insurance benefits. In future years when GASB Statement Nos. 43 and 45 measurements are made and reported, the pension and health insurance benefits information will be disaggregated and reported separately for all years presented.

SUPPLEMENTARY INFORMATION

Apache County, Arizona
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	HG861142	\$ 110,339
Schools and Roads - Grants to States, passed through the Arizona State Treasurer	10.665	None	<u>1,507,557</u>
Total U.S. Department of Agriculture			<u>1,617,896</u>
U.S. Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants	14.218	N/A	<u>66,203</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226	N/A	<u>2,098,722</u>
U.S. Department of Justice			
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	2JC91098	40,072
Edward Byrne Memorial Formula Grant Program, passed through the Administrative Office of the Courts	16.579	2JC91109	75,749
Edward Byrne Memorial Formula Grant Program, passed through the Arizona Criminal Justice Commission	16.579	2JC90381	<u>55,706</u>
<i>Total Edward Byrne Memorial Formula Grant Program</i>			<u>131,455</u>
Total U.S. Department of Justice			<u>171,527</u>
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	663TRN	310,464
U.S. Department of Health and Human Services			
Public Health Emergency Preparedness, passed through the Arizona Department of Health Services	93.069	HG754192	311,316
Family Planning Services, passed through the Arizona Department of Health Services	93.217	361314-5	9,145
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG854296	45,905
Voting Access for Individuals with Disabilities-Grants to States, passed through the Arizona Secretary of State	93.617	26H24747	30,430
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs, passed through the Arizona Department of Health Services	93.919	20H06588	91,562
HIV Prevention Activities - Health Department Based, passed through the Arizona Department of Health Services	93.940	HG852280	6,586
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	HG854369	40,325
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG854248;HG561262	<u>125,202</u>
Total U.S. Department of Health and Human Services			<u>660,471</u>
U.S. Department of Homeland Security			
Citizen Corps, passed through the Arizona Division of Emergency Management	97.053	2NSH8024	353
Homeland Security Grant, passed through the Arizona Department of Homeland Security	97.067	2NSH8015	<u>95,864</u>
Total U.S. Department of Homeland Security			<u>96,217</u>
Total Expenditures of Federal Awards			<u>\$ 5,021,500</u>

See accompanying notes to schedule.

Apache County, Arizona
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2009

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 2009 Catalog of Federal Domestic Assistance.

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	\$1,507,557

**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, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 20, 2011. 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 audit 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 described 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 09-01 through 09-06 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 09-01 through 09-06 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*.

The County's responses to the findings identified in our audit are presented on page 44. 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.

September 20, 2011

**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, 2009. 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, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133, and that is described in the accompanying Schedule of Findings and Questioned Costs as item 09-101.

Internal Control over Compliance

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

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 as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider item 09-101 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

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. We consider significant deficiency 09-101 described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

The County's responses to the findings identified in our audit are presented on page 44. 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.

Foster & Chapman P.C.

September 20, 2011

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major reporting:			
Material weakness identified in internal control over major programs?	<u>X</u>		
Significant deficiencies identified that are not considered to be material weaknesses?			<u>X</u> (None reported)
Type of auditors' report issued on compliance for major programs:			Unqualified
Any audit findings disclosed that are required to be reported in accordance with section .510[a] of Circular A-133?	<u>X</u>		

Identification of major programs:		
	<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	10.665	Schools and Roads - Grants to States
	15.226	Payments in Lieu of Taxes
	20.205	Highway Planning and Construction
	93.069	Public Health Emergency Preparedness

Dollar threshold used to distinguish between Type A and Type B programs:		\$	300,000
Auditee qualified as low-risk auditee?			<u>X</u>

Other Matters:

Auditee's Summary Schedule of Prior Findings required to be reported in accordance with Circular A-133 (section .315[b])?			<u>X</u>
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Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

FINANCIAL STATEMENT FINDINGS

09-01 INTERNAL CONTROL OVER CASH AND INVESTMENTS HELD AT THE COUNTY TREASURER'S OFFICE (REPEAT FINDING: SEE 08-01)

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 and investment losses were not recorded timely basis causing the investment balances to be materially misstated.

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.
- Reconcile the Treasurer's cash journal to the Treasurer's report and bank statements monthly. This should be done 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, 2009

FINANCIAL STATEMENT FINDINGS - CONTINUED

09-02 TIMELINESS OF FINANCIAL REPORTING (REPEAT FINDING: SEE 08-02)

- Criteria:** The County should provide timely and accurate record keeping.
- Condition:** The County did not prepare its financial records for audit in a timely manner.
- Cause:** Unknown
- Effect:** The financial statements 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 and to ensure that audits required are performed and submitted when due. Failure to prepare the financial statements 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.
- Recommendation:** The County should prepare its financial records for audit in a timely manner.

09-03 FINANCIAL RECORDS

- Criteria:** A trial balance should be in balance and any unusual items or discrepancies noted should be investigated and resolved immediately to facilitate preparation of the financial statements. (UAMAC VI-B-6)
- Condition:** The working trial balances for the general fund, road fund and other governmental funds were not in balance.
- Cause:** Unknown
- Effect:** Prior to audit adjustments, the County's working trial balances for the general fund, road fund and other governmental funds were out of balance by \$41,230, \$2,298, and \$166,217, respectively.
- Recommendation:** The County should establish policies and procedures to prepare and review financial reports and supporting working trial balances periodically, so errors in the general ledger can be identified and corrected in a timely manner.

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

FINANCIAL STATEMENT FINDINGS - CONTINUED

09-04 REVENUE CUT-OFF (REPEAT FINDING: SEE 08-05)

- Criteria:** "During the 60-day encumbrance period following June 30, the County should maintain separate accounting records of each fund for prior and current fiscal years. Revenues susceptible to accrual prior to receipt include sales tax collected and held by the State at year-end" (UAMAC V-2 and VI-B-5).
- Condition:** The County did not properly accrue intergovernmental revenue and receivables at its fiscal year-end.
- Cause:** Unknown
- Effect:** Prior to audit adjustments, the County's intergovernmental revenue and receivables were understated by \$43,113, net.
- Recommendation:** The County should consistently adhere to its policies and procedures and properly accrue all intergovernmental receivables.

09-05 JOURNAL ENTRIES

- Criteria:** The County should review and reconcile information entered online, journal entries, and source documents, as applicable, to ensure that information is processed accurately and timely (UAMAC-VI-B-7).
- Condition:** The County improperly reported an expense transaction as an operating transfer, during its journal entry process.
- Cause:** Unknown
- Effect:** Prior to audit adjustments, operating transfers were overstated and expenses were understated by \$68,499.
- Recommendation:** The County should implement procedures to ensure that journal entries are properly supported, authorized, and processed accurately.

Apache County, Arizona
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2009

FINANCIAL STATEMENT FINDINGS - CONTINUED

09-06 BANK RECONCILIATION (REPEAT FINDING: SEE 08-04)

- Criteria:** The County should receive and reconcile monthly bank statements for each account to the general ledger to ensure that any discrepancies are promptly identified and resolved (UAMAC VI-C-13).
- Condition:** Departmental bank accounts were not reconciled with the general ledger in a timely manner.
- Cause:** Departmental bank accounts maintained separately from the County Finance Department were not reconciled to the general ledger in a timely manner.
- Effect:** Incorrect cash balances were included in the general ledger.
- Recommendation:** To help ensure that the County's bank accounts are adequately controlled, safeguarded, and reported, the County should regularly reconcile all accounts to the general ledger.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

09-101

CFDA Number: 20.205 Highway Planning and Construction
U.S. Department of Transportation
Passed through the Arizona Department of Transportation
Questioned Costs: Not Applicable

- Criteria:** The Code of Federal Regulations 49 CFR Section 18.20 (b)(2) requires grantees to maintain records that adequately identify the source and application of funds provided for financially assisted activities.
- Condition/Context:** The County's accounting records did not contemporaneously identify expenditures specifically designated for the Highway Planning and Construction program separately from the Road fund. As a result it was necessary to apply additional audit effort and review the County's subsidiary ledger in order to determine the expenditures charged to the federal program.
- Cause:** Unknown
- Effect:** This finding is a material weakness in internal control over compliance and noncompliance as there was a significant risk that Road fund transactions could have been commingled with the Highway Planning and Construction program.
- Recommendation:** The County should identify and maintain a system that separately identifies road fund expenditures that are paid for with federal monies.



APACHE COUNTY
Finance Department

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

Date 9/20/11

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

Dear Ms. Davenport:

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

Sincerely,

Ryan Patterson, CPA
Finance Director

Financial Statement Findings

09-01 Internal Control Over Cash and Investments Held At the Apache County Treasurer's Office

Contact Person: Sandra Klinchock

Anticipated Completion Date: First Quarter 2012

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. They are also bringing in outside consultants in order to reconcile the bank statements to their books.

09-02 Timeliness of Financial Reporting

Contact Person: Ryan Patterson

Anticipation Completion Date: First Quarter 2012

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.

09-03 Financial Records

Contact Person: Ryan Patterson

Anticipation Completion Date: Completed

The finance office has gone through several changes due to the downturn in the economy. The office has currently taken over several other duties and lost a position. The capital assets have been reassigned and the County has implemented procedures whereby material transactions are tracked properly and recorded in a timely manner.

09-04 REVENUE CUT-OFF

Contact Person: Ryan Patterson

Anticipation Completion Date: Completed

The County has implemented procedures whereby accounts are regularly reconciled to the general ledger in a timely manner in order to capture all revenue.

09-05 JOURNAL ENTRIES

Contact Person: Ryan Patterson

Anticipation Completion Date: Completed

The County has implemented procedures whereby material transactions are tracked properly and recorded in a timely proper manner.

09-06 BANK RECONCILIATIONS

Contact Person: Ryan Patterson

Anticipation Completion Date: Completed

The County has reconciled all accounts each month for fiscal year 2009. Due to the accounting system and new personnel a journal entry was not processed in a timely manner. Once the County found the oversight the County's auditors were notified and the issue was resolved.

Federal Award Findings

09-101 Highway Planning and Construction

Contact Person: Ferrin Crosby

Anticipated Completion Date: Completed

The County did sufficiently identify expenditures specifically designated for the Highway Planning and Construction program separately from the Road fund. The amounts had not been accounted for in the same manner as previous years, which caused some confusion on the auditor's part. Once the auditors requested that the County stay consistent with previous years the amounts were moved into the designated funds.



APACHE COUNTY Finance Department

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

Apache County, Arizona Summary Schedule of Prior Audit Findings Year Ended June 30, 2009

Status of Federal Award Findings and Questioned Costs

CFDA No:	93.069 Public Health Emergency Preparedness
Finding No:	08-101 Reporting
Status:	Fully corrected.