

Apache County, Arizona
Basic Financial Statements

Year ended June 30, 2014

Apache County, Arizona

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditor’s Report | 1-2 |
| Management’s Discussion and Analysis | 3-9 |
| Basic Financial Statements | |
| Government-Wide Financial Statements | |
| Statement of Net Position | 10 |
| Statement of Activities | 11 |
| Fund Financial Statements | |
| <i>Governmental Funds</i> | |
| Balance Sheet – Governmental Funds | 12 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 13 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 14 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 15 |
| <i>Fiduciary Funds</i> | |
| Statement of Net Position – Fiduciary Funds | 16 |
| Statement of Changes in Fiduciary Net Position – Fiduciary Funds | 17 |
| Notes to the Financial Statements | 18-41 |

Apache County, Arizona

Table of Contents — continued

| | <u>Page</u> |
|---|-------------|
| Required Supplementary Information | |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund | 42-43 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Road Fund | 44 |
| Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Junior College Fund | 45 |
| Notes to Required Supplementary Information | 46 |
| Schedule of Agent Retirement Plans' Funding Progress | 48 |

Independent Auditors' Report

The Auditor General of the State of Arizona

Honorable Board of Supervisors of
Apache County, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Apache County, Arizona ("County") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the County as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 9, the Budgetary Comparison Schedules on pages 43 through 48, and the Schedule of Agent Retirement Plans' Funding Progress on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies

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, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph 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, and other responsible parties within the County and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2016, 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, and 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* in considering the County's internal control over financial reporting and compliance.

Walker & Armstrong, LLP

Phoenix, Arizona
May 23, 2016

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2014

As management of the County of Apache (the "County"), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for fiscal year ended June 30, 2014. 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 \$34.202 million (net position). Of this amount, \$8.366 million (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- ◆ The County's total net position as reported in the statement of activities decreased by \$2.127 million.
- ◆ At the end of the fiscal year, unassigned fund balance for the general fund was \$9.097 million or 54% of the total governmental funds' fund balances.

Overview of 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 notes to the financial statements. Required supplementary information is included in addition to the basic financial statements.

Government -Wide 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 position presents information on all County assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2014

District, Apache County Health Services District, and Greer Acres – Little Colorado Special Improvement District.

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is 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. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County reports three 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 fund, road fund, and the junior college fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The governmental fund financial statements can be found on pages 12–15 of this report.

Fiduciary funds—The fiduciary funds are used 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 16-17 of this report.

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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 to the financial statements can be found on pages 18-42 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 43-49 of this report.

Government-Wide Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the County, at June 30, 2014, assets exceeded liabilities by \$34.20 million.

Condensed Statement of Net Position
As of June 30,

| | <u>Governmental Activities</u> | |
|-----------------------------------|--------------------------------|----------------------|
| | <u>2014</u> | <u>2013</u> |
| Assets | | |
| Current and other assets | \$ 19,283,737 | \$ 21,766,912 |
| Capital assets | <u>27,270,226</u> | <u>27,574,995</u> |
| Total assets | <u>46,553,963</u> | <u>49,341,907</u> |
| Liabilities | | |
| Current and other liabilities | 2,014,040 | 1,876,309 |
| Long-term liabilities outstanding | <u>10,337,890</u> | <u>11,136,473</u> |
| Total liabilities | <u>12,351,930</u> | <u>13,012,782</u> |
| Net Position | | |
| Net investment in capital assets | 18,633,866 | 18,023,388 |
| Restricted | 7,202,547 | 10,529,429 |
| Unrestricted | <u>8,365,620</u> | <u>7,776,308</u> |
| Total net position | <u>\$ 34,202,033</u> | <u>\$ 36,329,125</u> |

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2014

The largest portion (\$18.63 million, or 54.5%) of the County's net position reflects the investment in capital assets (e.g., land, improvements other than buildings, buildings, machinery and equipment, infrastructure, and construction in progress) less accumulated depreciation and debt used to acquire those assets. The County uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position (\$7.2 million, or 21%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net position (\$8.37 million or 24.5%) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. Total net position decreased in the current year due to continued downturn in economy. Restricted net position increased due to highway and streets.

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Statement of Activities

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

Condensed Statement of Activities
For the Years Ended June 30,

| | Governmental Activities | |
|--------------------------------------|--------------------------------|-----------------------------|
| | 2014 | 2013 |
| Revenues | | |
| <i>Program revenues</i> | | |
| Charges for services | \$ 2,315,302 | \$ 2,894,828 |
| Operating grants and contributions | 12,737,836 | 12,258,068 |
| Capital grants | - | 13,083 |
| <i>General revenues</i> | | |
| Property taxes | 8,971,291 | 8,439,359 |
| County excise tax | 1,258,013 | 1,101,722 |
| Share of state sales taxes | 4,782,584 | 4,379,384 |
| Payments in lieu of taxes | 7,456,724 | 6,815,619 |
| Lottery revenue | 550,038 | - |
| Investment income (loss) | 138,607 | 683,403 |
| Miscellaneous | 311,767 | 497,825 |
| Total revenues | <u>38,522,162</u> | <u>37,083,291</u> |
| Expenses | | |
| General government | 11,169,591 | 11,842,196 |
| Public safety | 10,236,746 | 9,028,717 |
| Highways and streets | 8,851,148 | 8,532,546 |
| Sanitation | - | 145,611 |
| Health | 3,099,323 | 3,147,945 |
| Culture and recreation | 1,878,466 | 1,816,560 |
| Education | 5,005,373 | 4,083,227 |
| Interest on long-term debt | 408,607 | 436,056 |
| Total expenses | <u>40,649,254</u> | <u>39,032,858</u> |
| Change in net position | (2,127,092) | (1,949,567) |
| Net position, beginning, as restated | <u>36,329,125</u> | <u>38,278,692</u> |
| Net position, end of year | <u><u>\$ 34,202,033</u></u> | <u><u>\$ 36,329,125</u></u> |

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Net position decreased by \$2.13 million, as the economy continued to be sluggish and the continued burdens are passed on by the state.

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.

The decrease in general government spending was due to the loss of \$3.5 million override election monies, as such the County had to reduce spending. The increase in public safety expenditures was from the additional grant revenue and the hiring of additional deputies. Highway and streets increase was driven by additional road projects throughout the County.

Governmental 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, unassigned 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, 2014, the County's general fund reported an increase in fund balance of \$122 thousand. This was primarily due to a conservative budgeting during the slow recovery of the economy.

The road fund balance only decreased by \$58 thousand due to normal roads operations.

General Fund Budgetary Highlights

Total general fund expenditures were under budget by \$5.224 million. This variance between the final budgeted expenditures and actual expenditures in the general fund is due to cuts in spending in anticipation of reduced spending in future years.

Capital Assets and Debt Administration

Capital assets—The County's investment in capital assets as of June 30, 2014, amounted to \$27.270 million, net of accumulated depreciation and related debt. This investment in capital assets includes land, improvements other than buildings, construction in progress, buildings, infrastructure, and machinery and equipment.

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Capital Assets/Net of Depreciation
June 30,

| | Governmental Activities | | |
|-----------------------------------|-------------------------|---------------|--|
| | 2014 | 2013 | Increase (Decrease) Percent of Change |
| Land | \$ 1,937,957 | \$ 1,981,157 | -2.2% |
| Improvements other than buildings | 71,780 | 89,482 | -19.8% |
| Construction in progress | 467,079 | 212,672 | 119.6% |
| Buildings | 20,017,966 | 20,651,159 | -3.1% |
| Infrastructure | 607,617 | 298,309 | 103.7% |
| Machinery and equipment | 4,167,827 | 4,342,216 | -4.0% |
| Totals | \$ 27,270,226 | \$ 27,574,995 | -1.1% |

Long-term debt—On June 30, 2014, the County had a total of \$10.338 million in long-term liabilities. Of this amount, \$7.825 million was principal outstanding on general obligation and revenue bonds and \$811 thousand was capital lease obligations. The decrease in capital leases was caused by regular scheduled payments. The remainder balance of \$1.702 million represents compensated absences payable.

Additional information on the County's long-term liabilities can be found in Note 6 of the notes to the financial statements on pages 31-33 of this report.

Economic Factors and Next Year's Budgets

The significant downturn in the national and state economies that began the latter part of 2008 continued to affect the County in fiscal year 2014. The U.S. and State economies continued to experience a moderate recovery during 2014 and continued minimal improvement is expected in fiscal year 2015. The County closely monitors revenues, expenditures and applicable economic indicators to ensure that the County remains fiscally strong. The County continues to budget conservatively for revenue estimates and other factors affecting the County.

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.

Government-Wide Financial Statements

Apache County, Arizona
Statement of Net Position
June 30, 2014

| | Governmental Activities |
|---|----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 3,063,167 |
| Investments | 12,332,210 |
| Receivables (net of allowance for uncollectibles) | |
| Property taxes | 433,318 |
| Accounts | 277,172 |
| Due from other governments | 2,835,591 |
| Inventories | 327,856 |
| Prepaid items | 14,423 |
| Capital assets not being depreciated | 2,405,036 |
| Capital assets, being depreciated, net | 24,865,190 |
| Total assets | 46,553,963 |
| Liabilities | |
| Accounts payable | 998,040 |
| Accrued payroll and employee benefits | 1,016,000 |
| Noncurrent liabilities | |
| Due within one year | 1,743,749 |
| Due in more than one year | 8,594,141 |
| Total liabilities | 12,351,930 |
| Net Position | |
| Net investment in capital assets | 18,633,866 |
| Restricted for: | |
| Public safety | 1,371,321 |
| Highways and Streets | 2,968,198 |
| Health | 290,868 |
| Education | 139,407 |
| Library | 563,404 |
| Debt service | 1,869,349 |
| Unrestricted | 8,365,620 |
| Total net position | \$ 34,202,033 |

The accompanying notes are an integral part of these financial statements.

Apache County, Arizona
Statement of Activities
For the Year Ended June 30, 2014

| | Expenses | Charges for Services |
|---|---------------|-------------------------|
| Functions/Programs | | |
| Governmental activities | | |
| General government | \$ 11,169,591 | \$ 1,277,714 |
| Public safety | 10,236,746 | 438,054 |
| Highways and streets | 8,851,148 | 276,771 |
| Health | 3,099,323 | 165,351 |
| Culture and recreation | 1,878,466 | 18,417 |
| Education | 5,005,373 | 138,995 |
| Interest on long-term debt | 408,607 | - |
| Total governmental activities | \$ 40,649,254 | \$ 2,315,302 |
| General revenues | | |
| Taxes | | |
| Property taxes, levied for general purposes | | |
| Property taxes, levied for jail district | | |
| Property taxes, levied for juvenile jail district | | |
| Property taxes, levied for library | | |
| Property taxes, levied for library construction | | |
| Property taxes, levied for health service districts | | |
| Property taxes, levied for junior college | | |
| Property taxes, levied for fire districts | | |
| Property taxes, levied for post secondary education | | |
| County excise tax- general purposes | | |
| Shared revenue – state sales taxes | | |
| Payments in lieu of taxes | | |
| Investment income (loss) | | |
| Miscellaneous State assistance | | |
| Miscellaneous | | |
| Total general revenues | | |
| Change in net position | | |
| Net position, beginning | | |
| Net position, end of year | | |

| Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--|--|--|
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| \$ 689,503 | \$ - | \$ (9,202,374) |
| 2,242,501 | - | (7,556,191) |
| 6,714,448 | - | (1,859,929) |
| 1,666,978 | - | (1,266,994) |
| 25,000 | - | (1,835,049) |
| 1,399,406 | - | (3,466,972) |
| - | - | (408,607) |
| <u>\$ 12,737,836</u> | <u>\$ -</u> | <u>\$ (25,596,116)</u> |

| |
|----------------------|
| 2,588,985 |
| 1,066,430 |
| 492,856 |
| 1,154,095 |
| 438,856 |
| 678,767 |
| 1,581,433 |
| 431,593 |
| 538,276 |
| 1,258,013 |
| 4,782,584 |
| 7,456,724 |
| 138,607 |
| 550,038 |
| 311,767 |
| <u>23,469,024</u> |
| (2,127,092) |
| <u>36,329,125</u> |
| <u>\$ 34,202,033</u> |

The accompanying notes are an integral part of these financial statements.

Fund Financial Statements

Apache County, Arizona
Balance Sheet — Governmental Funds
June 30, 2014

| | General Fund | Road Fund | Junior College Fund | Other Governmental Funds | Total Governmental Funds |
|--|----------------------|---------------------|------------------------|--------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents | \$ 1,729,696 | \$ 296,806 | \$ 13,334 | \$ 1,023,331 | \$ 3,063,167 |
| Investments | 6,964,936 | 1,194,654 | 53,671 | 4,118,949 | 12,332,210 |
| Receivables (net of allowance for uncollectibles) | | | | | |
| Property taxes | 131,214 | - | 69,318 | 232,786 | 433,318 |
| Accounts | 96,863 | 43,190 | - | 137,119 | 277,172 |
| Due from | | | | | |
| Other funds | 514,688 | - | - | 620 | 515,308 |
| Other governments | 600,800 | 1,180,596 | 174,825 | 879,370 | 2,835,591 |
| Inventories | - | 327,856 | - | - | 327,856 |
| Prepaid items | 8,418 | 2,407 | - | 3,598 | 14,423 |
| Total assets | <u>10,046,615</u> | <u>3,045,509</u> | <u>311,148</u> | <u>6,395,773</u> | <u>19,799,045</u> |
| Liabilities | | | | | |
| Accounts payable | 315,361 | 193,269 | 20,093 | 469,317 | 998,040 |
| Accrued payroll and employee benefits | 514,991 | 163,997 | - | 337,012 | 1,016,000 |
| Due to | | | | | |
| Other funds | 620 | 52,886 | 324,545 | 137,257 | 515,308 |
| Total liabilities | <u>830,972</u> | <u>410,152</u> | <u>344,638</u> | <u>943,586</u> | <u>2,529,348</u> |
| Deferred inflows of resources | | | | | |
| Unavailable revenue-property taxes | 110,455 | - | 55,586 | 191,052 | 357,093 |
| Total deferred inflows of resources | <u>110,455</u> | <u>-</u> | <u>55,586</u> | <u>191,052</u> | <u>357,093</u> |
| Fund balances | | | | | |
| Nonspendable | 8,418 | 330,263 | - | 3,598 | 342,279 |
| Restricted | - | 2,305,094 | - | 5,257,537 | 7,562,631 |
| Unassigned | 9,096,770 | - | (89,076) | - | 9,007,694 |
| Total fund balances | <u>9,105,188</u> | <u>2,635,357</u> | <u>(89,076)</u> | <u>5,261,135</u> | <u>16,912,604</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 10,046,615</u> | <u>\$ 3,045,509</u> | <u>\$ 311,148</u> | <u>\$ 6,395,773</u> | <u>\$ 19,799,045</u> |

The accompanying notes are an integral part of these financial statements.

Apache County, Arizona
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2014

| | | |
|--|----------------|-----------------------------|
| Total governmental funds — fund balances | | \$ 16,912,604 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$63,052,693 and the accumulated depreciation is \$35,782,467. | | 27,270,226 |
| Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds. | | 357,093 |
| Some liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| Compensated absences payable | \$ (1,701,530) | |
| General obligation bonds payable | (4,245,000) | |
| Revenue bonds payable | (3,580,000) | |
| Capital leases payable | (811,360) | (10,337,890) |
| Net position of governmental activities | | <u>\$ 34,202,033</u> |

The accompanying notes are an integral part of these financial statements.

Apache County, Arizona
Statement of Revenues, Expenditures and Changes in
Fund Balances — Governmental Funds
For the Year Ended June 30, 2014

| | General Fund | Road Fund | Junior College Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | |
| Property taxes | \$ 2,635,269 | \$ - | \$ 1,567,234 | \$ 4,646,428 | \$ 8,848,931 |
| County excise tax | 1,258,013 | - | - | - | 1,258,013 |
| Licenses and permits | 124,220 | - | - | - | 124,220 |
| Intergovernmental | 8,497,845 | 8,434,208 | 1,104,443 | 7,660,972 | 25,697,468 |
| Charges for services | 322,260 | 276,771 | - | 492,365 | 1,091,396 |
| Fines and forfeits | 461,332 | - | - | 468,068 | 929,400 |
| Investment income | 54,747 | 15,511 | 3,448 | 64,901 | 138,607 |
| Miscellaneous | 38,636 | 50,151 | - | 222,980 | 311,767 |
| Total revenues | <u>13,392,322</u> | <u>8,776,641</u> | <u>2,675,125</u> | <u>13,555,714</u> | <u>38,399,802</u> |
| Expenditures | | | | | |
| General government | 9,211,329 | - | - | 1,375,722 | 10,587,051 |
| Public safety | 3,346,696 | - | - | 6,278,536 | 9,625,232 |
| Highways and streets | - | 7,032,133 | - | 881,475 | 7,913,608 |
| Health | 1,101,916 | - | - | 1,950,718 | 3,052,634 |
| Culture and recreation | 25,000 | - | - | 1,621,822 | 1,646,822 |
| Education | 323,056 | - | 2,862,398 | 1,771,385 | 4,956,839 |
| Capital outlay | 619,907 | 754,888 | - | 708,854 | 2,083,649 |
| Debt service | - | - | - | - | - |
| Principal | - | 43,082 | - | 872,165 | 915,247 |
| Interest and other charges | 1,850 | 12,402 | - | 394,355 | 408,607 |
| Total expenditures | <u>14,629,754</u> | <u>7,842,505</u> | <u>2,862,398</u> | <u>15,855,032</u> | <u>41,189,689</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,237,432)</u> | <u>934,136</u> | <u>(187,273)</u> | <u>(2,299,318)</u> | <u>(2,789,887)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 2,419,561 | - | - | 1,174,653 | 3,594,214 |
| Transfers out | (1,110,653) | (991,682) | - | (1,491,879) | (3,594,214) |
| Sale of capital assets | 50,417 | - | - | - | 50,417 |
| Total other financing sources (uses) | <u>1,359,325</u> | <u>(991,682)</u> | <u>-</u> | <u>(317,226)</u> | <u>50,417</u> |
| Net change in fund balances | 121,893 | (57,546) | (187,273) | (2,616,544) | (2,739,470) |
| Fund balances, beginning | 8,983,295 | 2,696,699 | 98,197 | 7,877,679 | 19,655,870 |
| Changes in nonspendable resources | - | - | - | - | - |
| Decrease in inventories | - | (3,796) | - | - | (3,796) |
| Fund balances, ending | <u>\$ 9,105,188</u> | <u>\$ 2,635,357</u> | <u>\$ (89,076)</u> | <u>\$ 5,261,135</u> | <u>\$ 16,912,604</u> |

The accompanying notes are an integral part of these financial statements.

Apache County, Arizona
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014

| | | |
|--|--------------------|------------------------------|
| Net change in fund balances — total governmental funds | | \$ (2,739,470) |
| 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. | | |
| Sale of assets | \$ (50,417) | |
| Loss on disposal | (4,018) | |
| Capital outlay | 2,083,649 | |
| Depreciation expense | <u>(2,333,983)</u> | (304,769) |
| Revenues in governmental funds that provided current financial resources in the current year were reported as revenues in the statement of activities when earned in a prior year. | | |
| | | 122,360 |
| Increase in compensated absences payable decreases net position of governmental activities but does not have any effect on fund balances of the governmental funds. | | |
| | | (116,664) |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | |
| General obligation bonds repaid | 495,000 | |
| Revenue bonds repaid | 205,000 | |
| Capital leases repaid | <u>215,247</u> | 915,247 |
| 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 | | <u>(3,796)</u> |
| Change in net position of governmental activities | | <u>\$ (2,127,092)</u> |

The accompanying notes are an integral part of these financial statements.

Fiduciary Funds

Apache County, Arizona
Statement of Net Position
Fiduciary Funds
June 30, 2014

| | Investment Trust Fund | Agency Funds |
|---|--------------------------|-----------------|
| Assets | | |
| Cash and cash equivalents | \$ 11,351,605 | \$ 51,347 |
| Investments, at fair value | <u>45,701,178</u> | <u>206,720</u> |
| Total assets | <u>57,052,783</u> | <u>258,067</u> |
| Liabilities | | |
| Due to other governments | <u>-</u> | <u>258,067</u> |
| Total liabilities | <u>-</u> | <u>258,067</u> |
| Net Position | | |
| Held in trust for investment trust participants | <u>57,052,783</u> | <u>-</u> |
| Total net position | <u>\$ 57,052,783</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these financial statements.

Apache County, Arizona
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014

| | Investment Trust Fund |
|---|-----------------------------|
| Additions | |
| Contributions from participants | \$ 217,032,360 |
| Net decrease in the fair value of investments | <u>(168,586)</u> |
| Total additions | <u>216,863,774</u> |
| Deductions | |
| Distributions to participants | <u>231,724,123</u> |
| Total deductions | <u>231,724,123</u> |
| Change in net position | (14,860,349) |
| Net position, July 1, 2013 | <u>71,913,132</u> |
| Net position, June 30, 2014 | <u><u>\$ 57,052,783</u></u> |

The accompanying notes are an integral part of these financial statements.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

1) Summary of Significant Accounting Policies

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

For the year ended June 30, 2014, the County implemented the provisions of GASB 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and recognizes certain other items that were previously reported as assets and liabilities as revenues or expenses.

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 so intertwined with the County that they 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 |
|---|--|------------------|
| 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. County management has operational responsibility for the component unit. | Blended |
| 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. County management has operational responsibility for the component unit. | Blended |

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

| Component Unit | Description; Criteria for Inclusion | Reporting Method |
|--|--|------------------|
| 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. County management has operational responsibility for the component unit. | Blended |
| 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. County management has operational responsibility for the component unit. | Blended |
| 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. County management has operational responsibility for the component unit. | Blended |
| 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. County management has operational responsibility for the component unit. | Blended |

Separately issued financial statements for these component units are not available.

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 information’s usefulness.

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

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 the County levies or imposes, 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:

- ◆ *General Fund*—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.
- ◆ *Road Fund*—The road fund accounts for monies from specific revenue sources that are restricted for road maintenance and operations and for pavement preservation.
- ◆ *Junior College Fund*—The college fund accounts for monies from property taxes that the County pays the state for out of County tuition.

The County also reports the following fund types:

- ◆ *Investment Trust Fund*—The investment trust fund accounts for pooled assets the County Treasurer holds and invests on behalf of other governmental entities.
- ◆ *Agency Funds*—The agency funds account for assets the County holds as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, and special districts.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities. 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.

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 resources available to finance the program. The County applies grant resources to such programs before using general revenues.

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.

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 the time of purchase are stated at amortized cost. All other investments are stated at fair value.

Inventories

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.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

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 as nonspendable fund balance to indicate that they do not constitute “available spendable resources.” These inventories are stated at cost using the first-in, first-out method.

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.

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 | | |
| Buildings | \$ 5,000 | Straight line | 25–40 years |
| Improvements other than 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, 2014

Deferred Inflows of Resources

The balance sheet includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as a revenue in future periods.

Fund Balance Classifications

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by (creditors, such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the County's Board of Supervisors approved, which is the highest level of decision-making authority within the County. Only the Board can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Supervisors has authorized the county manager and finance director to make assignments of resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, it is the County's policy to use restricted fund balance first. For the disbursement of unrestricted fund balances, it is the County's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

Investment Earnings

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Compensated Absences

Compensated absences payable consists of vacation leave and a calculated amount of sick leave employees earned based on services already rendered. Employees may accumulate up to 280 hours of vacation, but they forfeit any unused vacation hours in excess of the maximum amount at fiscal year-end. Upon termination of employment, the County pays all unused and unforfeited vacation benefits 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 employees forfeit them 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. 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.

2) Stewardship, Compliance, Accountability, and Fund Balance Classifications

Deficit fund balances—At June 30, 2014, the following nonmajor funds reported deficit in fund balances in excess of \$25,000:

| Fund | Deficit |
|---------------------------|------------|
| Sheriff's Grants | \$ 118,263 |
| Flood Control | 116,344 |
| Library Construction Bond | 103,050 |
| Declared Emergency | 44,281 |
| Forest Thinning | 43,544 |
| Various Grants | 32,675 |
| CDBG - Administrative | 25,075 |

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 2015.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

The fund balance classifications for the governmental funds as of June 30, 2014, were as follows:

| | General Fund | Road Fund | Junior College Fund | Other Governmental Funds | Total |
|----------------------|---------------------|---------------------|------------------------|--------------------------------|----------------------|
| Fund Balances | | | | | |
| Nonspendable | | | | | |
| Inventories | \$ - | \$ 327,856 | \$ - | \$ - | \$ 327,856 |
| Prepaid | 8,418 | 2,407 | - | 3,598 | 14,423 |
| Total nonspendable | <u>8,418</u> | <u>330,263</u> | <u>-</u> | <u>3,598</u> | <u>342,279</u> |
| Restricted for | | | | | |
| Law enforcement | - | - | - | 428,165 | 428,165 |
| Highways and streets | - | 2,305,094 | - | 335,248 | 2,640,342 |
| Health | - | - | - | 290,868 | 290,868 |
| Education | - | - | - | 139,407 | 139,407 |
| Library | - | - | - | 563,404 | 563,404 |
| Judicial | - | - | - | 1,371,321 | 1,371,321 |
| Other | - | - | - | 2,129,124 | 2,129,124 |
| Total restricted | <u>-</u> | <u>2,305,094</u> | <u>-</u> | <u>5,257,537</u> | <u>7,562,631</u> |
| Unassigned | <u>9,096,770</u> | <u>-</u> | <u>(89,076)</u> | <u>-</u> | <u>9,007,694</u> |
| Total fund balance | <u>\$ 9,105,188</u> | <u>\$ 2,635,357</u> | <u>\$ (89,076)</u> | <u>\$ 5,261,135</u> | <u>\$ 16,912,604</u> |

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, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposits, and repurchase agreements in eligible depositories; and specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Credit Risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated “A” or better, at the time of purchase, by at least two nationally recognized rating agency.
3. Fixed income securities must carry one of the two highest ratings by Moody’s investor’s 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 and certificates of deposit 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. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign Currency Risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Deposits—At June 30, 2014, the carrying amount of the County’s deposits was \$14,466,119 and the bank balance was \$13,952,188. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2014, cash equivalents included \$1,579,096 in money market accounts. Balances in these accounts are insured up to SIPC limits of \$500,000. The remaining amounts are uninsured and uncollateralized.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Investments—The County’s investments at June 30, 2014, were as follows:

| Investment Type | Amount |
|------------------------|---------------|
| U.S. agency securities | \$ 53,546,197 |
| Corporate bonds | 3,418,369 |
| Municipal bonds | 1,275,542 |
| Total investments | \$ 58,240,108 |

Credit risk—The County does not have a formal investment policy with respect to credit risk. At June 30, 2014, credit risk for the County’s investments was as follows:

| Investment Type | Rating | Rating Agency | Amount |
|------------------------|-----------|---------------|---------------|
| U.S. agency securities | AA+ | S&P's | \$ 53,546,197 |
| Municipal bonds | AAA | S&P's | 102,164 |
| Municipal bonds | AA | S&P's | 137,328 |
| Municipal bonds | AA+ | S&P's | 510,340 |
| Municipal bonds | A+ | S&P's | 360,000 |
| Municipal bonds | No Rating | S&P's | 50,000 |
| Municipal bonds | AA- | S&P's | 115,710 |
| Corporate bonds | A- | S&P's | 688,253 |
| Corporate bonds | No Rating | S&P's | 1,158,716 |
| Corporate bonds | AA+ | S&P's | 1,571,400 |
| | | | \$ 58,240,108 |

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 an outside party’s possession. The County does not have a formal investment policy with respect to custodial credit risk. At June 30, 2014, the County had \$53,546,197 of U.S. agency securities, \$1,275,542 of municipal bonds and \$3,418,369 of corporate bonds that were uninsured, and held by the counterparty’s trust department or agent but 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, 2014, of 92 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 32%, 35%, and 23%, respectively, of the County’s total investments.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Interest rate risk—The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2014, the County had the following investments in debt securities:

| Investment Type | Investment Maturities (in Years) | | |
|------------------------|----------------------------------|---------------------|----------------------|
| | Fair Value | Less Than 1 | 1–5 |
| U.S. agency securities | \$ 53,546,197 | \$ - | \$ 53,546,197 |
| Corporate bonds | 3,418,369 | 1,714,987 | 1,703,382 |
| Municipal bonds | <u>1,275,542</u> | <u>410,000</u> | <u>865,542</u> |
| | <u>\$ 58,240,108</u> | <u>\$ 2,124,987</u> | <u>\$ 56,115,121</u> |

Foreign currency risk—State statutes do not allow foreign investments unless the investment is denominated in United States Dollars.

A reconciliation of cash, deposits, and investments to amounts shown on the statements of net position follows:

Cash and investments:

| | |
|-----------------------------|----------------------|
| Cash on hand | \$ - |
| Carrying amount of deposits | 14,466,119 |
| Amount of investments | <u>58,240,108</u> |
| Total | <u>\$ 72,706,227</u> |

| Statement of Net Position | Governmental Activities | Investment Trust Fund | Agency Funds | Total |
|---------------------------|-------------------------|-----------------------|-------------------|----------------------|
| Cash and cash equivalents | \$ 3,063,167 | \$ 11,351,605 | \$ 51,347 | \$ 14,466,119 |
| Investments | <u>12,332,210</u> | <u>45,701,178</u> | <u>206,720</u> | <u>58,240,108</u> |
| Total | <u>\$ 15,395,377</u> | <u>\$ 57,052,783</u> | <u>\$ 258,067</u> | <u>\$ 72,706,227</u> |

4) Due From Other Governments

Amounts due from other governments at June 30, 2014, in the general fund include \$586,454 in state shared revenue from sales tax and excise tax. Amounts due from other governments in the road fund include \$1,180,596 in highway user taxes and 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

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

governmental funds include \$344,807 in federal reimbursement grants. The remaining balances result from various grants and contracts with other government units.

5) Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|---------------------|----------------------|
| <i>Capital assets not being depreciated</i> | | | | |
| Land | \$ 1,981,157 | \$ - | \$ (43,200) | \$ 1,937,957 |
| Construction in progress | <u>212,672</u> | <u>392,069</u> | <u>(137,662)</u> | <u>467,079</u> |
| Total capital assets not being depreciated | <u>2,193,829</u> | <u>392,069</u> | <u>(180,862)</u> | <u>2,405,036</u> |
| <i>Capital assets being depreciated</i> | | | | |
| Buildings | 29,051,217 | 87,874 | (12,175) | 29,126,916 |
| Improvements other than buildings | 264,260 | - | - | 264,260 |
| Machinery and equipment | 28,451,138 | 1,381,978 | (968,109) | 28,865,007 |
| Infrastructure | <u>2,032,084</u> | <u>359,390</u> | <u>-</u> | <u>2,391,474</u> |
| Total capital assets being depreciated | <u>59,798,699</u> | <u>1,829,242</u> | <u>(980,284)</u> | <u>60,647,657</u> |
| Less accumulated depreciation | | | | |
| Buildings | 8,400,058 | 710,191 | (1,299) | 9,108,950 |
| Improvements other than buildings | 174,778 | 17,702 | - | 192,480 |
| Machinery and equipment | 24,108,922 | 1,556,008 | (967,750) | 24,697,180 |
| Infrastructure | <u>1,733,775</u> | <u>50,082</u> | <u>-</u> | <u>1,783,857</u> |
| Total accumulated depreciation | <u>34,417,533</u> | <u>2,333,983</u> | <u>(969,049)</u> | <u>35,782,467</u> |
| Total capital assets being depreciated, net | <u>25,381,166</u> | <u>(504,741)</u> | <u>(11,235)</u> | <u>24,865,190</u> |
| Governmental activities capital assets, net | <u>\$ 27,574,995</u> | <u>\$ (112,672)</u> | <u>\$ (192,097)</u> | <u>\$ 27,270,226</u> |

Depreciation expense was charged to functions as follows:

| | |
|--|---------------------|
| Governmental activities: | |
| Highways and streets | \$ 908,008 |
| Public safety | 578,442 |
| General government | 537,412 |
| Culture and recreation | 224,379 |
| Education | 47,158 |
| Health and welfare | 38,584 |
| Total depreciation expense – governmental activities | <u>\$ 2,333,983</u> |

Construction Commitments

One project was in process as of June 30, 2014, with an estimated cost to complete of \$392,069 for the construction of bridges within the County.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

6) Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2014:

| Governmental Activities | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|--|----------------------|---------------------|-----------------------|----------------------|-----------------------------------|
| <i>Bonds payable</i> | | | | | |
| General obligation bonds | \$ 4,740,000 | \$ - | \$ (495,000) | \$ 4,245,000 | \$ 520,000 |
| Revenue bonds | <u>3,785,000</u> | <u>-</u> | <u>(205,000)</u> | <u>3,580,000</u> | <u>210,000</u> |
| Total bonds payable | 8,525,000 | - | (700,000) | 7,825,000 | 730,000 |
| Capital leases payable | 1,026,607 | - | (215,247) | 811,360 | 217,580 |
| Compensated absences payable | <u>1,584,866</u> | <u>1,221,452</u> | <u>(1,104,788)</u> | <u>1,701,530</u> | <u>796,169</u> |
| Total governmental activities long-term liabilities | <u>\$ 11,136,473</u> | <u>\$ 1,221,452</u> | <u>\$ (2,020,035)</u> | <u>\$ 10,337,890</u> | <u>\$ 1,743,749</u> |

Bonds

The County's bonded debt consists of various issues of general obligation and revenue 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.

Bonds outstanding at June 30, 2014, were as follows:

| Description | Original Amount Issued | Maturity Ranges | Interest Rates | Outstanding Principal |
|---------------------------------|------------------------------|--------------------|-------------------|--------------------------|
| General obligation bonds | | | | |
| Series 2007 | \$ 7,190,000 | 7/1/10–21 | 4.5% | \$ 4,245,000 |
| Revenue bonds | | | | |
| Series 2007B | 3,980,000 | 8/1/13–27 | 4.0 – 5.0% | <u>3,580,000</u> |
| | | | | <u>\$ 7,825,000</u> |

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2014:

| Year Ending June 30, | General | | Revenue Bonds | |
|----------------------|---------------------|-------------------|---------------------|---------------------|
| | Obligation Bonds | | Revenue Bonds | |
| | Principal | Interest | Principal | Interest |
| 2015 | \$ 520,000 | \$ 191,025 | \$ 210,000 | \$ 160,513 |
| 2016 | 545,000 | 167,625 | 220,000 | 152,113 |
| 2017 | 575,000 | 143,100 | 230,000 | 143,313 |
| 2018 | 605,000 | 117,225 | 235,000 | 134,112 |
| 2019 | 635,000 | 90,000 | 250,000 | 122,363 |
| 2020-2024 | 1,365,000 | 92,925 | 1,415,000 | 438,250 |
| 2025-2028 | - | - | 1,020,000 | 96,844 |
| Total | <u>\$ 4,245,000</u> | <u>\$ 801,900</u> | <u>\$ 3,580,000</u> | <u>\$ 1,247,508</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 2014 required approximately, 3.5% of the state shared revenue pledged. Total principal and interest remaining to be paid on the revenue bonds is \$4,827,508 as of June 30, 2014, and are expected to require 7% of the state shared revenue pledged. For the current year, interest paid, principal paid and total state shared revenues were \$168,713, \$373,313 and \$4,782,584, respectively.

Capital Leases

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

The following assets were acquired through capital leases:

| | Governmental Activities |
|-------------------------------|----------------------------|
| Software | \$ 508,000 |
| Machinery and equipment | 804,788 |
| Less accumulated depreciation | <u>(353,660)</u> |
| Carrying value | <u>\$ 959,128</u> |

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2014:

| Year Ending June 30, | <u>Governmental Activities</u> |
|---|------------------------------------|
| 2015 | \$ 242,243 |
| 2016 | 240,903 |
| 2017 | 131,163 |
| 2018 | 128,072 |
| 2019 | <u>138,382</u> |
| Total minimum lease payments | 880,763 |
| Less amount representing interest | <u>(69,403)</u> |
| Present value of net minimum lease payments | <u><u>\$ 811,360</u></u> |

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 2014, the County paid for compensated absences as follows: 38 percent from the general fund, 22 percent from the road fund, and 40 percent from other funds.

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. For these risks of loss, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust.

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

limits apply to certain categories of losses. A county must participate in the pool at least three years after becoming a member; however it may withdraw after the initial three-year period.

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 law requires, 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 Local Government Employee Benefit Trust is a public entity risk pool currently composed of six member counties. The pool provides member counties with life, health, and disability benefits for the counties' employees and their dependents. The County is responsible for paying a premium based on enrolled employees and dependents and requires its employees to contribute a portion of that premium.

The Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust receive independent audits annually and an audit by the Arizona Department of Insurance every five years. All pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation. If a pool were to become insolvent, the County would be assessed an additional contribution.

8) Pensions and Other Postemployment Benefits

Plan Descriptions

The County contributes to four plans, three of which are described below. The *Elected Officials Retirement Plan* (EORP) is not described because of its relative insignificance to the County's financial statements. The plans are component units of the State of Arizona, state statute establishes benefits, and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor 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 benefit plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, that covers employees of the State of Arizona and

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

employees of participating political subdivisions and school districts. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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 benefit 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 seven-member board, known as the Board of Trustees, 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 benefit plan that covers state, county, and local corrections officers; dispatchers; and probation, surveillance, and juvenile detention officers. The CORP is governed by the PSPRS Board of Trustees and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

Beginning in fiscal year 2014, PSPRS and CORP established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report is available on their Web sites or may be obtained by writing or calling the applicable plan.

| ASRS | PSPRS and CORP |
|--|---|
| 3300 N. Central Ave. P.O. Box 33910 Phoenix, AZ 85067-3910 (602) 240-2000 or (800) 621-3778 www.azasrs.gov | 3010 E. Camelback Rd., Ste. 200 Phoenix, AZ 85016-4416 (602) 255-5575 www.psprs.com |

Funding Policy

The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates for ASRS, PSPRS, and CORP.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Cost-sharing plans—For the year ended June 30, 2014, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.54 percent (11.3 percent for retirement and 0.24 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 11.54 percent (10.7 percent for retirement, 0.6 percent for health insurance premium benefit, and 0.24 percent for long-term disability) of the members’ annual covered payroll.

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

| Year Ending June 30, | Retirement Fund | Health Benefit Supplement Fund | Long-Term Disability Fund |
|----------------------|--------------------|--------------------------------------|------------------------------|
| 2014 | \$ 1,010,414 | \$ 64,075 | \$ 23,658 |
| 2013 | 937,320 | 59,440 | 21,947 |
| 2012 | 894,082 | 57,069 | 21,741 |

Agent plans—For the year ended June 30, 2014, statute required active PSPRS members to contribute 10.35 percent of the members’ annual covered payroll, and the County was required to contribute 52.79 percent, the aggregate of which is the actuarially required amount. The health insurance premium benefit portion of the contribution rate was actuarially set at .48 percent of covered payroll. Statute required active CORP members to contribute 8.41 percent of the members’ annual covered payroll. In addition, statute required the County to contribute 9.78 percent. The aggregate of the members’ and the County’s contribution is the actuarially required amount. The health insurance premium benefit portion of the contribution was actuarially set at .96 percent of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012, 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 plans funded status 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.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Projections of benefits are based on 1) the plans as County and the plans' members understand them 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 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 following actuarial methods and assumptions were used to establish the fiscal year 2014 contribution requirements:

| | |
|--|--|
| Actuarial valuation date | June 30, 2012 |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level percent-of-pay closed |
| Remaining amortization period | 24 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value (80%/120% market) |
| Actuarial assumptions: | |
| Investment rate of return | 8% |
| Projected salary increases includes inflation at | 5%–9% for PSRS and 5%–8.25% for CORP 5% for PSRS and CORP |

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the two agent plans for the year ended June 30, 2014, and related information follows:

| | PSPRS | | CORP | |
|--------------------------|------------|------------------|-----------|------------------|
| | Pension | Health Insurance | Pension | Health Insurance |
| Annual pension/OPEB cost | \$ 619,403 | \$ 9,126 | \$ 56,502 | \$ 213 |
| Contributions made | 619,403 | 9,126 | 56,202 | 213 |

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Trend Information—Annual pension and OPEB cost information for the current and two preceding years follows for each of the agent plans:

| Plan | Year Ended June 30, | Annual Pension/OPEB Cost | Percentage of Annual Cost Contributed | Net Pension/OPEB Obligation |
|----------------------------------|------------------------|--------------------------------|---|-----------------------------------|
| PSPRS | | | | |
| Pension | 2014 | \$ 619,403 | 100 % | \$ - |
| Health Insurance Premium Benefit | 2014 | 9,126 | 100 % | - |
| Pension | 2013 | 481,339 | 100 % | - |
| Health Insurance Premium Benefit | 2013 | 19,240 | 49 % | (9,760) |
| Pension | 2012 | 478,223 | 102 % | 8,130 |
| Health Insurance Premium Benefit | 2012 | 17,680 | 54 % | (8,130) |
| CORP | | | | |
| Pension | 2014 | 56,502 | 100 % | - |
| Health Insurance Premium Benefit | 2014 | 213 | 100 % | (213) |
| Pension | 2013 | 44,103 | 111 % | 4,777 |
| Health Insurance Premium Benefit | 2013 | 4,969 | 15 % | (4,219) |
| Pension | 2012 | 38,716 | 106 % | 6,810 |
| Health Insurance Premium Benefit | 2012 | 3,977 | 45 % | 2,177 |

Funded Status—The plans' funded status as of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used in those valuations follow:

| | PSPRS | | CORP | |
|---|---------------|---------------------|--------------|---------------------|
| | Pension | Health Insurance | Pension | Health Insurance |
| Actuarial accrued liability (a) | \$ 13,071,475 | \$ 257,589 | \$ 1,941,693 | \$ 71,810 |
| Actuarial value of assets (b) | 3,527,553 | 256,880 | 1,282,337 | 152,995 |
| Unfunded actuarial accrued liability (funding excess) (a) – (b) | 9,543,922 | 709 | 659,356 | (81,185) |
| Funded ration (b) / (a) | 27.0% | 99.7% | 66.0% | 213.1% |
| Annual covered payroll (c) | 1,514,813 | 1,514,813 | 582,323 | 582,323 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of coverage payroll ((a) – (b)) / (c) | 630.0% | 0.05% | 113.23% | (13.94%) |

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

The actuarial methods and assumptions used are the same for both plans and related benefits (unless noted), and for the most recent valuation date are as follows:

| | |
|--|--|
| Actuarial valuation date | June 30, 2014 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial liability, open for excess |
| Remaining amortization period | 22 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value (80%/120% Market) |
| Actuarial assumptions: | |
| Investment rate of return | 7.25% |
| Projected salary increases includes inflation at | 4.0%–8.0% for PSRS and 4.0%-7.25% for CORP 4.0% for PSPRS and CORP |

9) Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2014, were as follows:

| Payable From | Payable To | | Total |
|-----------------------------|-------------------|-----------------------------|-------------------|
| | General Fund | Nonmajor Governmental Funds | |
| General fund | \$ - | \$ 620 | \$ 620 |
| Road fund | 52,886 | - | 52,886 |
| Junior College fund | 324,545 | - | 324,545 |
| Nonmajor governmental funds | <u>137,257</u> | <u>-</u> | <u>137,257</u> |
| Total | <u>\$ 514,688</u> | <u>\$ 620</u> | <u>\$ 515,308</u> |

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Interfund transfers—Interfund transfers for the year ended June 30, 2014, were as follows:

| Transfer From | Transfer to | | Total |
|-----------------------------|--------------|-----------------------------|--------------|
| | General Fund | Nonmajor Governmental Funds | |
| General fund | \$ - | \$ 1,110,653 | \$ 1,110,653 |
| Road fund | 927,682 | 64,000 | 991,682 |
| Nonmajor governmental funds | 1,491,879 | - | 1,491,879 |
| Total | \$ 2,419,561 | \$ 1,174,653 | \$ 3,594,214 |

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.

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 his or 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 deposits and investments the County holds are included in the County Treasurer’s investment pool, except for \$685,351 in pooled deposits accounts. 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.

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

Details of each major investment classification follow:

| Investment Type | Principal | Interest Rates | Maturities | Fair Value |
|------------------------|---------------|----------------|----------------|---------------|
| U.S. agency securities | \$ 53,780,000 | 0.338-1.5 | 2/2016-6/2018 | \$ 53,546,197 |
| Municipal bonds | 1,250,000 | 1.546-4.310 | 7/2014-8/2016 | 1,275,542 |
| Corporate bonds | 3,443,750 | .415-3.125 | 12/2014-3/2017 | 3,418,369 |

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

| | |
|--------------------------------------|-----------------------------|
| Statement of net position | |
| Assets | \$ 72,020,876 |
| Liabilities | <u>-</u> |
| Net position | <u><u>\$ 72,020,876</u></u> |
| Net position held in trust for | |
| Internal participants | \$ 14,710,026 |
| External participants | <u>57,310,850</u> |
| Total net assets held in trust | <u><u>\$ 72,020,876</u></u> |
| Statement of changes in net position | |
| Total additions | \$ 278,180,295 |
| Total deductions | <u>297,290,464</u> |
| Net decrease | (19,110,169) |
| Net assets held in trust | |
| July 1, 2013 | <u>91,131,045</u> |
| June 30, 2014 | <u><u>\$ 72,020,876</u></u> |

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2014

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 annual financial report, dated June 30, 2012, the County estimated the closure costs and postclosure care costs to be \$201,983 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 June 30, 2012. According to its audited financial information for the year ended June 30, 2014, the landfill had used approximately 12.5 percent of its estimated capacity, and the Association had accumulated \$105,471 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

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.

13) Subsequent Events

In June 2015, the County approved the closure of the juvenile detention center. The County estimates that the closure of the facility will save the County approximately \$150 thousand per year.

Required Supplementary Information

Apache County, Arizona
Schedule of Revenues, Expenditures, and Changes in
Fund Balance — Budget to Actual — General Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 3,276,647 | \$ 3,276,647 | \$ 2,635,269 | \$ (641,378) |
| County excise tax | 1,200,000 | 1,200,000 | 1,258,013 | 58,013 |
| Licenses and permits | 129,180 | 129,180 | 124,220 | (4,960) |
| Intergovernmental | 6,487,165 | 6,487,165 | 8,497,845 | 2,010,680 |
| Charges for services | 86,000 | 86,000 | 322,260 | 236,260 |
| Fines and forfeits | 457,000 | 457,000 | 461,332 | 4,332 |
| Investment income | 8,000 | 8,000 | 54,747 | 46,747 |
| Contributions | 895,193 | 895,193 | - | (895,193) |
| Miscellaneous | 17,075 | 17,075 | 38,636 | 21,561 |
| Total revenues | <u>12,556,260</u> | <u>12,556,260</u> | <u>13,392,322</u> | <u>836,062</u> |
| Expenditures | | | | |
| General government | | | | |
| Assessor | 583,345 | 583,345 | 544,385 | 38,960 |
| Attorney | 852,604 | 852,604 | 969,428 | (116,824) |
| Board of supervisors - General | 400,000 | 400,000 | 471,737 | (71,737) |
| Board of supervisors - County Manager | 296,605 | 296,605 | 285,114 | 11,491 |
| Human resources | 251,121 | 251,121 | 250,499 | 622 |
| Wellness | 35,000 | 35,000 | 11,057 | 23,943 |
| Records management | 21,573 | 21,573 | 12,596 | 8,977 |
| District #1 | 234,139 | 234,139 | 210,868 | 23,271 |
| District #2 | 234,139 | 234,139 | 216,373 | 17,766 |
| District #3 | 149,547 | 149,547 | 104,999 | 44,548 |
| Clerk of the superior court | 519,402 | 519,402 | 519,402 | - |
| Contingency | 2,563,700 | 2,563,700 | (110,380) | 2,674,080 |
| Information technology service | 477,526 | 477,526 | 431,475 | 46,051 |
| IT capital improvements & software maintenance | 946,000 | 946,000 | 180,143 | 765,857 |
| Elections | 229,039 | 229,039 | 228,913 | 126 |
| Finance | 458,241 | 458,241 | 456,077 | 2,164 |
| Grant management | 60,000 | 60,000 | 38,443 | 21,557 |
| Grounds/maintenance | 820,056 | 820,056 | 882,927 | (62,871) |
| JP – Chinle | 158,067 | 158,067 | 145,284 | 12,783 |
| JP – Puerco | 279,569 | 279,569 | 283,499 | (3,930) |
| JP – St. Johns | 164,860 | 164,860 | 158,357 | 6,503 |
| St. Johns magistrate | 38,918 | 38,918 | 38,349 | 569 |
| JP – Round Valley | 264,318 | 264,318 | 227,083 | 37,235 |
| Springerville magistrate | 38,000 | 38,000 | 43,724 | (5,724) |
| Eager magistrate | 38,000 | 38,000 | 28,316 | 9,684 |
| Communication specialist and project | 100,509 | 100,509 | 95,164 | 5,345 |
| Community development | 397,998 | 397,998 | 347,073 | 50,925 |
| County fair | 15,000 | 15,000 | 15,000 | - |
| Recorder | 492,230 | 492,230 | 494,424 | (2,194) |
| Superior court | 435,380 | 435,380 | 435,380 | - |
| Public defenders | 400,000 | 400,000 | 419,494 | (19,494) |

See accompanying notes to required supplementary information.

Apache County, Arizona
Schedule of Revenues, Expenditures, and Changes in
Fund Balance — Budget to Actual — General Fund — continued
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--|--------------------|--------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Expenditures – continued | | | | |
| Jury fees and related | \$ 107,708 | \$ 107,708 | \$ 95,436 | \$ 12,272 |
| Jury trial costs | 20,915 | 20,915 | - | 20,915 |
| Support and care of persons | 5,729 | 5,729 | - | 5,729 |
| Treasurer | 407,810 | 407,810 | 401,745 | 6,065 |
| Public fiduciary | 75,341 | 75,341 | 56,914 | 18,427 |
| Legal services/judgments | 25,098 | 25,098 | - | 25,098 |
| Insurance | 230,000 | 230,000 | 208,116 | 21,884 |
| Retirement reserve | 45,000 | 45,000 | 8,110 | 36,890 |
| Fleet management | 300,000 | 300,000 | 7,655 | 292,345 |
| Total general government | <u>13,172,487</u> | <u>13,172,487</u> | <u>9,213,179</u> | <u>3,959,308</u> |
| Public safety | | | | |
| Constables | 98,083 | 98,083 | 101,405 | (3,322) |
| Adult probation | 279,606 | 279,606 | 256,302 | 23,304 |
| Juvenile probation | 218,597 | 218,597 | 195,253 | 23,344 |
| Sheriff | <u>2,521,752</u> | <u>2,521,752</u> | <u>2,793,736</u> | <u>(271,984)</u> |
| Total public safety | <u>3,118,038</u> | <u>3,118,038</u> | <u>3,346,696</u> | <u>(228,658)</u> |
| Health | | | | |
| AHCCCS | <u>1,078,500</u> | <u>1,078,500</u> | <u>1,101,916</u> | <u>(23,416)</u> |
| Culture and recreation | | | | |
| Agricultural extension | <u>25,000</u> | <u>25,000</u> | <u>25,000</u> | <u>-</u> |
| Education | | | | |
| School superintendent | <u>329,925</u> | <u>329,925</u> | <u>323,056</u> | <u>6,869</u> |
| Total education | <u>329,925</u> | <u>329,925</u> | <u>323,056</u> | <u>6,869</u> |
| Capital outlay | | | | |
| Capital outlay | <u>619,907</u> | <u>619,907</u> | <u>619,907</u> | <u>-</u> |
| Total expenditures | <u>18,343,857</u> | <u>18,343,857</u> | <u>14,629,754</u> | <u>3,714,103</u> |
| Resources over (under) charges to appropriations | <u>(5,787,597)</u> | <u>(5,787,597)</u> | <u>(1,237,432)</u> | <u>4,550,165</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 2,756,829 | 2,756,829 | 2,419,561 | 337,268 |
| Transfers out | (969,233) | (969,233) | (1,110,653) | 141,420 |
| Sales of capital assets | - | - | 50,417 | (50,417) |
| Total other financing sources (uses) | <u>1,787,596</u> | <u>1,787,596</u> | <u>1,359,325</u> | <u>(428,271)</u> |
| Net change in fund balances | (4,000,001) | (4,000,001) | 121,893 | 4,121,894 |
| Fund balances, beginning of year | 4,000,001 | 4,000,001 | 8,983,295 | 4,983,294 |
| Fund balances, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 9,105,188</u> | <u>\$ 9,105,188</u> |

See accompanying notes to required supplementary information.

Apache County, Arizona
Schedule of Revenues, Expenditures, and Changes in
Fund Balance — Budget to Actual — Road Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|--|------------------|------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 7,716,000 | \$ 7,716,000 | \$ 8,434,208 | \$ 718,208 |
| Charges for services | - | - | 276,771 | 276,771 |
| Investment income | - | - | 15,511 | 15,511 |
| Miscellaneous | - | - | 50,151 | 50,151 |
| Total revenues | <u>7,716,000</u> | <u>7,716,000</u> | <u>8,776,641</u> | <u>1,060,641</u> |
| Expenditures | | | | |
| Highways and streets | | | | |
| Engineer | 520,000 | 520,000 | 558,844 | (38,844) |
| HURF Support | 127,164 | 127,164 | 38,992 | 88,172 |
| Safety | - | - | 9,152 | (9,152) |
| District #1 | 31,595 | 221,478 | 159,222 | 62,256 |
| District #2 | 440,930 | 272,243 | 270,970 | 1,273 |
| District #3 | 161,287 | 71,229 | 73,105 | (1,876) |
| Liability insurance | 285,000 | 285,000 | 256,694 | 28,306 |
| Contingency | 372,836 | 441,698 | 115,703 | 325,995 |
| RAC Grant | 57,000 | 57,000 | - | 57,000 |
| Limestone Pit | - | - | 54,452 | (54,452) |
| Roads - Puerco | 878,710 | 878,710 | 793,088 | 85,622 |
| Roads - Round Valley | 934,867 | 934,867 | 1,037,370 | (102,503) |
| Roads - St. Johns | 932,393 | 932,393 | 997,641 | (65,248) |
| Roads - Ganado | 1,820,000 | 1,820,000 | 1,873,581 | (53,581) |
| Roads - Chinle | 1,820,000 | 1,820,000 | 1,603,691 | 216,309 |
| Total highways and streets | <u>8,381,782</u> | <u>8,381,782</u> | <u>7,842,505</u> | <u>539,277</u> |
| Resources over (under) charges to appropriations | <u>(665,782)</u> | <u>(665,782)</u> | <u>934,136</u> | <u>1,599,918</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers out | (991,682) | (991,682) | (991,682) | - |
| Total other financing sources (uses) | <u>(991,682)</u> | <u>(991,682)</u> | <u>(991,682)</u> | <u>-</u> |
| Net change in fund balances | (1,657,464) | (1,657,464) | (57,546) | 1,599,918 |
| Fund balances, beginning of year | 1,657,464 | 1,657,464 | 2,696,699 | (1,039,235) |
| Changes in nonspendable resources | - | - | (3,796) | 3,796 |
| Fund balances, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,635,357</u> | <u>\$ 2,635,357</u> |

See accompanying notes to required supplementary information.

Apache County, Arizona
Schedule of Revenues, Expenditures, and Changes in
Fund Balance — Budget to Actual — Junior College Fund
For the Year Ended June 30, 2014

| | Budgeted Amounts | | Actual | Variance with Final Budget |
|-----------------------------------|------------------|------------------|--------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$ 1,615,345 | \$ 1,615,345 | \$ 1,567,234 | \$ (48,111) |
| State Tuition Assistance | 466,000 | 466,000 | 524,325 | 58,325 |
| Salt River Project | 531,635 | 531,635 | 580,118 | 48,483 |
| Investment income | - | - | 3,448 | 3,448 |
| Total revenues | <u>2,612,980</u> | <u>2,612,980</u> | <u>2,675,125</u> | <u>110,256</u> |
| Expenditures | | | | |
| Education | | | | |
| Junior College Tuition | <u>2,600,650</u> | <u>2,600,650</u> | <u>2,862,398</u> | <u>(261,748)</u> |
| Net change in fund balances | 12,330 | 12,330 | (187,273) | 199,603 |
| Fund balances, beginning of year | <u>(12,330)</u> | <u>(12,330)</u> | <u>98,197</u> | <u>(110,527)</u> |
| Fund balances, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (89,076)</u> | <u>\$ (89,076)</u> |

See accompanying notes to required supplementary information.

Apache County, Arizona
Notes to Required Supplementary Information
June 30, 2014

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.

2) Expenditures in Excess of Appropriations

For the year ended June 30, 2014, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

| Fund/Department | Excess |
|--------------------------------|------------|
| General fund | |
| Attorney | \$ 116,824 |
| Board of supervisors - General | 71,737 |
| Grounds/maintenance | 62,871 |
| JP – Puerco | 3,930 |
| Springerville magistrate | 5,724 |
| Recorder | 2,194 |
| Public defenders | 19,494 |
| Constables | 3,322 |
| AHCCCS | 23,416 |
| Road fund | |
| Engineer | 38,844 |
| Safety | 9,152 |
| District #3 | 1,876 |
| Limestone Pit | 54,452 |
| Roads - Round Valley | 102,503 |
| Roads - St. Johns | 65,248 |
| Roads - Ganado | 53,581 |

Apache County, Arizona
Notes to Required Supplementary Information
June 30, 2014

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, 2014

Public Safety Personnel Retirement System

| Actuarial Valuation Date | Actuarial value of assets (a) | Actuarial accrued liability (b) | Unfunded actuarial accrued liability (UAAL) (b)-(a) | Funded ratio (a)/(b) | Annual covered payroll (c) | UAAL as a percentage of covered payroll ((b)-(a))/(c) |
|--|--|--|--|----------------------------|-------------------------------------|--|
| Pension 06/30/14 | \$ 3,527,553 | \$ 13,071,475 | \$ 9,543,922 | 27.00 % | \$ 1,514,813 | 630 % |
| Health Insurance Premium Benefit 06/30/14 | 256,880 | 257,589 | 709 | 99.7 % | 1,514,813 | .05 % |
| Pension 06/30/13 | 3,838,506 | 10,848,188 | 7,009,682 | 35.4 % | 1,415,761 | 454.5 % |
| Health Insurance Premium Benefit 06/30/13 | - | 261,080 | 261,080 | 0.0 % | 1,415,761 | 16.5 % |
| Pension 06/30/12 | 3,874,146 | 10,732,008 | 6,857,862 | 36.1 % | 1,508,907 | 454.5 % |
| Health Insurance Premium Benefit 06/30/12 | - | 249,144 | 249,144 | 0.0 % | 1,508,907 | 16.5 % |

Corrections Officer Retirement Plan

| Actuarial Valuation Date | Actuarial value of assets (a) | Actuarial accrued liability (b) | Unfunded actuarial accrued liability (UAAL) (funding excess) (b)-(a) | Funded ratio (a)/(b) | Annual covered payroll (c) | UAAL (funding excess) as percentage of covered payroll ((b)-(a))/(c) |
|--|--|--|--|----------------------------|-------------------------------------|--|
| Pension 06/30/14 | \$ 1,282,337 | \$ 1,941,693 | \$ 659,356 | 66 % | \$ 582,323 | 113.2 % |
| Health Insurance Premium Benefit 06/30/14 | \$ 152,995 | \$ 71,810 | \$ (81,185) | 213.04 % | \$ 582,323 | (13.94) % |
| Pension 06/30/13 | \$ 1,405,800 | \$ 1,644,557 | \$ 238,757 | 85.5 % | \$ 551,621 | 43.3 % |
| Health Insurance Premium Benefit 06/30/13 | - | 53,231 | 53,231 | 0 % | 551,621 | 9.6 % |
| Pension 06/30/12 | 1,483,800 | 1,710,419 | 226,619 | 86.8 % | 726,536 | 31.2 % |
| Health Insurance Premium Benefit 06/30/12 | - | 67,289 | 67,289 | 0.0 % | 726,536 | 9.3 % |

Beginning in fiscal year 2014, PSPRS and CORP established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During the fiscal year 2014, the plans transferred prior year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.