# Apache County, Arizona

# Annual Financial Report

*Basic Financial Statements,*
*Independent Auditors' Report, and*
*Single Audit Reporting Package*

*June 30, 2011*

REDW LLC
CPAs | Business & Financial Advisors

# Apache County, Arizona

## Table of Contents

# Apache County, Arizona

## Table of Contents — continued

# Independent Auditors' Report

The Auditor General of the State of Arizona and
The Board of Supervisors of
Apache County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Apache County, Arizona (the "County") as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Apache County, Arizona as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

The management's discussion and analysis, the budgetary comparison schedules, and the schedule of agent retirement plans' funding progress, as listed in the table of contents, are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures,



ALBUQUERQUE
7425 Jefferson St NE, Albuquerque, NM 87109
P: 505.998.3200 F: 505.998.3333

redw.com

PHOENIX
5353 N 16th St, Suite 200, Phoenix, AZ 85016
P: 602.730.3600 F: 602.730.3699

which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County, pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 16, 2013, 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* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, and others within the County, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

REDW LLC

Phoenix, Arizona
August 16, 2013

# Apache County, Arizona
**Management's Discussion and Analysis**
**For the Year Ended June 30, 2011**

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, 2011. 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 $37,136,861 (net assets). Of this amount, $9,688,320 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The County's total net assets as reported in the statement of activities increased by $768,192. This is a change from the prior year when net assets had increased by $1,987,336.
- At the end of the fiscal year, unassigned fund balance for the general fund was $9,655,460 or 54% of the total governmental funds' fund balances.
- Apache County's total long-term liabilities, excluding compensated absences payable, decreased by $458,312 during the fiscal year.

## *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 assets presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Component units are included in the County's basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The blended component units included in the County's basic financial statements are the Apache County Library District, Apache County Flood Control District, Apache County Jail District, Apache County Juvenile Jail District, Apache County Health Services 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 two 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 and Road Funds. 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.

### *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 43–47 of this report.

### *Government-Wide Financial Analysis*

### *Net Assets*

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, at June 30, 2011, assets exceeded liabilities by $37,136,861.

**Condensed Statement of Net Assets**
**As of June 30,**

| | Governmental Activities | |
|---|---|---|
| | **2011** | 2010 |
| **Assets** | | |
| Current and other assets | **$ 20,805,444** | $ 18,739,095 |
| Capital assets | **30,089,056** | 31,443,924 |
| Total assets | **50,894,500** | 50,183,019 |
| **Liabilities** | | |
| Current and other liabilities | **2,112,207** | 1,579,508 |
| Long-term liabilities outstanding | **11,645,432** | 12,234,694 |
| Total liabilities | **13,757,639** | 13,814,202 |
| **Net Assets** | | |
| Invested in capital assets, net of related debt | **19,780,395** | 20,676,951 |
| Restricted | **7,668,146** | 7,562,601 |
| Unrestricted | **9,688,320** | 8,129,265 |
| Total net assets | **$ 37,136,861** | $ 36,368,817 |

The largest portion ($19,780,395 or 53%) of the County's net assets reflects the investment in capital assets (e.g., land, buildings, machinery and equipment, and construction in progress) less accumulated depreciation and related debt outstanding used to acquire those assets. The County uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets ($7,668,146 or 21%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets ($9,688,320 or 26%) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

### *Statement of Activities*

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

**Condensed Statement of Activities**
**For the Years Ended June 30,**

| | Governmental Activities | |
|---|---|---|
| | **2011** | 2010 |
| **Revenues** | | |
| *Program revenues* | | |
| Charges for services | **$ 2,978,150** | $ 3,204,731 |
| Operating grants and contributions | **14,899,335** | 15,677,044 |
| Capital grants | **14,201** | 17,557 |
| *General revenues* | | |
| Property taxes | **12,220,741** | 11,670,181 |
| Share of state sales taxes | **5,187,861** | 5,020,347 |
| Payments in lieu of taxes | **4,250,525** | 4,104,064 |
| Grants and contributions not restricted to specific programs | **5,994** | 317,987 |
| Investment income | **(571,295)** | 545,080 |
| Miscellaneous | **361,391** | 408,364 |
| Total revenues | **39,346,903** | 40,965,355 |
| **Expenses** | | |
| General government | **10,334,854** | 10,167,073 |
| Public safety | **9,856,346** | 10,311,652 |
| Highways and streets | **9,218,358** | 9,463,835 |
| Sanitation | **101,697** | 93,342 |
| Health | **2,806,569** | 2,905,438 |
| Culture and recreation | **1,526,054** | 1,279,324 |
| Education | **4,227,423** | 4,459,373 |
| Welfare | **231,308** | - |
| Interest on long-term debt | **276,250** | 297,982 |
| Total expenses | **38,578,859** | 38,978,019 |
| Change in net assets | **768,044** | 1,987,336 |
| Net assets, beginning, as restated (Note 13) | **36,368,817** | 34,381,481 |
| **Net assets,** end of year | **$ 37,136,861** | $ 36,368,817 |

Net assets increased by $768,044, primarily as a result of increased tax revenues and a decrease in expenditures.

## Governmental Activities

*Financial analysis of the Government's funds*—As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with financial related legal requirements.

*Governmental funds*—During 2011, the County implemented the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type* Definitions. This statement requires the County to classify and report amounts in fund balance into five categories: nonspendable, restricted, committed, assigned, and unassigned. Governmental activities are contained in the general, special revenue, debt service and capital project 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, 2011, the County's general fund reported an increase in fund balance of $1,133,217. This was primarily due to a decrease in expenditures as a result of the County's efforts to decrease expenditures in the fiscal year.

The Road Fund balance increased by $520,390 due to a conservative budget approach.

## General Fund Budgetary Highlights

Total general fund expenditures were under budget by $6,498,876. 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, 2011, amounted to $30,089,056 net of accumulated depreciation. This investment in capital assets includes land, improvements other than buildings, construction in progress, buildings, infrastructure, and machinery and equipment.

**Capital Assets/Net of Depreciation**
**June 30,**

| | Governmental Activities | | |
|---|---|---|---|
| | **2011** | 2010 | Increase (Decrease) Percent of Change |
| Land | **$ 1,975,672** | $ 1,975,672 | 0% |
| Improvements other than buildings | **63,410** | 63,410 | 0% |
| Construction in progress | **20,877** | 32,582 | (36%) |
| Buildings | **21,781,863** | 22,315,662 | (2%) |
| Infrastructure | **1,734,938** | 1,785,020 | (3%) |
| Machinery and equipment | **4,512,296** | 5,271,578 | (14%) |
| Totals | **$ 30,089,056** | $ 31,443,924 | (4%) |

*Long-term debt*—On June 30, 2011, the County had a total of $11,645,432 in long-term liabilities. Of this amount, $9,640,000 was principal outstanding on general obligation and revenue bonds, $427,089 was a contract payable, and $241,572 was capital lease obligations. The remainder represents compensated absences payable.

Additional information on the County's long-term liabilities can be found in Note 6 of the notes to the financial statements on pages 30–33 of this report.

### *Economic Factors and Next Year's Budgets*

In FY2011, Apache County experienced the same economic slowdown that was felt throughout the State of Arizona. As such, the County expected severe drops in revenue and has budgeted FY2012 in a conservative manner.

Going forward, Tucson Electric Power has completed their 4th unit construction. As such the County expects additional revenues generated by increased assessed valuation as well as new permanent employment. This should help offset some of the downturn in the economy.

### *Requests for Information*

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Apache County Finance Department, Post Office Box 428, St. Johns, AZ 85936.

Government-Wide Financial Statements

# Apache County, Arizona
## Statement of Net Assets
### June 30, 2011

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 3,145,615 |
| Investments | 12,497,229 |
| Receivables (net of allowance for uncollectibles) | |
| Property taxes | 809,688 |
| Accounts | 342,109 |
| Due from other governments | 3,504,719 |
| Inventories | 324,693 |
| Prepaid items | 181,391 |
| Capital assets not being depreciated | 2,059,959 |
| Capital assets, being depreciated, net | 28,029,097 |
| Total assets | 50,894,500 |
| **Liabilities** | |
| Accounts payable | 1,377,090 |
| Accrued payroll and employee benefits | 735,117 |
| Noncurrent liabilities | |
| Due within one year | 1,634,814 |
| Due in more than one year | 10,010,618 |
| Total liabilities | 13,757,639 |
| **Net Assets** | |
| Investment in capital assets, net of related debt | 19,780,395 |
| Restricted for | |
| Public safety | 768,447 |
| Highways and streets | 2,409,733 |
| Debt service | 444,615 |
| Other purposes | 4,045,351 |
| Unrestricted | 9,688,320 |
| Total net assets | $ 37,136,861 |

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

Statement of Activities

# Apache County, Arizona
## Statement of Activities
## For the Year Ended June 30, 2011

| | Expenses | Charges for Services |
|---|---|---|
| **Functions/Programs** | | |
| Governmental activities | | |
| General government | $ 10,334,854 | $ 2,734,661 |
| Public safety | 9,856,346 | 134,368 |
| Highways and streets | 9,218,358 | 1,846 |
| Sanitation | 101,697 | - |
| Health | 2,806,569 | 107,275 |
| Culture and recreation | 1,526,054 | - |
| Education | 4,227,423 | - |
| Welfare | 231,308 | - |
| Interest on long-term debt | 276,250 | - |
| Total governmental activities | $ 38,578,859 | $ 2,978,150 |
| 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 debt service | | |
| Shared revenue – state sales taxes | | |
| Payments in lieu of taxes | | |
| Grants and contributions not restricted to specific programs | | |
| Investment income (loss) | | |
| Gain on disposal of capital assets | | |
| Miscellaneous | | |
| Total general revenues | | |
| Change in net assets | | |
| Net assets, beginning, as restated (Note 13) | | |
| **Net assets,** end of year | | |

| Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|---|---|---|
| Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| $ 1,123,247 | $ - | $ (6,476,946) |
| 2,022,457 | 14,201 | (7,685,320) |
| 8,672,148 | - | (544,364) |
| 103,880 | - | 2,183 |
| 1,345,011 | - | (1,354,283) |
| - | - | (1,526,054) |
| 1,632,592 | - | (2,594,831) |
| - | - | (231,308) |
| - | - | (276,250) |
| $ 14,899,335 | $ 14,201 | (20,687,173) |
| | | 7,601,843 |
| | | 1,062,150 |
| | | 531,040 |
| | | 1,629,221 |
| | | 507,488 |
| | | 839,271 |
| | | 49,728 |
| | | 5,187,861 |
| | | 4,250,525 |
| | | 5,994 |
| | | (571,295) |
| | | 17,625 |
| | | 343,766 |
| | | 21,455,217 |
| | | 768,044 |
| | | 36,368,817 |
| | | $ 37,136,861 |

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

# Fund Financial Statements

# Apache County, Arizona
## Balance Sheet — Governmental Funds
## June 30, 2011

| | General Fund | Road Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 1,887,391 | $ 336,610 | $ 921,614 | $ 3,145,615 |
| Investments | 6,942,099 | 1,411,710 | 4,143,420 | 12,497,229 |
| Receivables (net of allowance for uncollectibles) | | | | |
| Property taxes | 317,757 | - | 491,931 | 809,688 |
| Accounts | 180,076 | 43,995 | 118,038 | 342,109 |
| Due from | | | | |
| Other funds | 363,439 | 404,783 | 393,029 | 1,161,251 |
| Other governments | 892,168 | 1,257,482 | 1,355,069 | 3,504,719 |
| Inventories | - | 324,693 | - | 324,693 |
| Prepaid items | 42,162 | 6,994 | 132,235 | 181,391 |
| Total assets | $ 10,625,092 | $ 3,786,267 | $ 7,555,336 | $ 21,966,695 |
| **Liabilities and Fund Balances** | | | | |
| Liabilities | | | | |
| Accounts payable | $ 248,120 | $ 200,094 | $ 928,876 | $ 1,377,090 |
| Accrued payroll and employee benefits | 345,425 | 136,186 | 253,506 | 735,117 |
| Due to | | | | |
| Other funds | 99,874 | 349,699 | 711,678 | 1,161,251 |
| Deferred revenue | 234,051 | - | 441,082 | 675,133 |
| Total liabilities | 927,470 | 685,979 | 2,335,142 | 3,948,591 |
| Fund balances | | | | |
| Nonspendable | 42,162 | 331,687 | 132,235 | 506,084 |
| Restricted | - | 2,768,601 | 5,087,959 | 7,856,560 |
| Unassigned | 9,655,460 | - | - | 9,655,460 |
| Total fund balances | 9,697,622 | 3,100,288 | 5,220,194 | 18,018,104 |
| Total liabilities and fund balances | $ 10,625,092 | $ 3,786,267 | $ 7,555,336 | $ 21,966,695 |

**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 Assets
## June 30, 2011

| | | |
|---|---|---|
| **Total governmental funds — fund balances** | | $ 18,018,104 |
| Amounts reported for governmental activities in the statement of net assets 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 $60,350,311 and the accumulated depreciation is $30,261,255. | | 30,089,056 |
| Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | 675,133 |
| 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 | $ (1,336,771) | |
| General obligation bonds payable | (5,660,000) | |
| Revenue bonds payable | (3,980,000) | |
| Installment purchase contract payable | (427,089) | |
| Capital leases payable | (241,572) | (11,645,432) |
| **Net assets of governmental activities** | | $ 37,136,861 |

# Apache County, Arizona
## Statement of Revenues, Expenditures and Changes in Fund Balances — Governmental Funds
## For the Year Ended June 30, 2011

| | General Fund | Road Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Revenues** | | | | |
| Property taxes | $ 5,170,851 | $ - | $ 6,898,747 | $ 12,069,598 |
| Special assessments | - | - | 14,201 | 14,201 |
| Licenses and permits | 140,959 | - | - | 140,959 |
| Intergovernmental | 8,531,277 | 8,619,617 | 649,183 | 17,800,077 |
| Charges for services | 359,187 | 1,846 | 7,192,821 | 7,553,854 |
| Fines and forfeits | 565,849 | - | 1,261,126 | 1,826,975 |
| Investment income | (311,814) | (63,088) | (196,393) | (571,295) |
| Miscellaneous | 139,617 | 31 | 203,970 | 343,618 |
| Total revenues | 14,595,926 | 8,558,406 | 16,023,655 | 39,177,987 |
| **Expenditures** | | | | |
| Current | | | | |
| General government | 7,710,340 | - | 2,173,990 | 9,884,330 |
| Public safety | 3,305,240 | - | 6,133,240 | 9,438,480 |
| Highways and streets | - | 7,944,561 | 267,823 | 8,212,384 |
| Sanitation | - | - | 101,697 | 101,697 |
| Health | 943,932 | - | 1,811,522 | 2,755,454 |
| Culture and recreation | 22,200 | - | 1,503,854 | 1,526,054 |
| Education | 327,914 | - | 3,871,320 | 4,199,234 |
| Capital outlay | 176,537 | 162,394 | 692,577 | 1,031,508 |
| Debt service | | | | |
| Principal | - | - | 591,251 | 591,251 |
| Interest and other charges | - | - | 276,250 | 276,250 |
| Total expenditures | 12,486,163 | 8,106,955 | 17,423,524 | 38,016,642 |
| Excess (deficiency) of revenues over expenditures | 2,109,763 | 451,451 | (1,399,869) | 1,161,345 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | 240,000 | - | 1,298,171 | 1,538,171 |
| Transfers out | (1,234,171) | (64,000) | (240,000) | (1,538,171) |
| Capital lease agreement | | 132,939 | | 132,939 |
| Sale of capital assets | 17,625 | - | - | 17,625 |
| Total other financing sources (uses) | (976,546) | 68,939 | 1,058,171 | 150,564 |
| Net change in fund balances | 1,133,217 | 520,390 | (341,698) | 1,311,909 |
| Fund balances, beginning, as restated (Note 13) | 8,564,405 | 2,509,300 | 5,561,892 | 16,635,597 |
| Changes in nonspendable resources | | | | |
| Decrease in reserve for inventories | - | 70,598 | - | 70,598 |
| **Fund balances,** ending | $ 9,697,622 | $ 3,100,288 | $ 5,220,194 | $ 18,018,104 |

**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, 2011

| | | |
|---|---|---|
| **Net change in fund balances — total governmental funds** | | $ 1,311,909 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | | |
| Capital outlay | $ 1,031,508 | |
| Depreciation expense | (2,386,376) | (1,354,868) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | 151,143 |
| Decrease in compensated absences payable increases net assets of governmental activities but does not have any effect on fund balances of the governmental funds. | | 130,950 |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | | |
| Debt issued – capital lease agreement | (132,939) | |
| General obligation bonds payable | 430,000 | |
| Installment purchase contract payable | 93,069 | |
| Capital leases payable | 68,182 | 458,312 |
| Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the statement of activities, however, they are reported as expenses when consumed. | | |
| Increase in inventories | 70,598 | 70,598 |
| **Change in net assets of governmental activities** | | $ 768,044 |

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

# Fiduciary Funds

# Apache County, Arizona
## Statement of Net Assets
## Fiduciary Funds
## June 30, 2011

| | Investment Trust Fund | Agency Funds |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 23,334,678 | $ 2,232,466 |
| Investments, at fair value | 71,519,315 | 6,842,361 |
| Total assets | 94,853,993 | 9,074,827 |
| **Liabilities** | | |
| Due to other governments | - | 9,074,827 |
| Total liabilities | - | 9,074,827 |
| **Net Assets** | | |
| Held in trust for investment trust participants | 94,853,993 | - |
| Total net assets | $ 94,853,993 | $ - |

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

# Apache County, Arizona
## Statement of Changes in Fiduciary Net Assets
## Fiduciary Funds
## For the Year Ended June 30, 2011

| | Investment Trust Fund |
|---|---|
| **Additions** | |
| Contributions from participants | $ 220,523,752 |
| Net decrease in the fair value of investments | (4,487,883) |
| Total additions | 216,035,869 |
| **Deductions** | |
| Distributions to participants | 242,275,412 |
| Total deductions | 242,275,412 |
| Change in net assets | (26,239,543) |
| Net assets, beginning, as restated (Note 13) | 121,093,536 |
| **Net assets,** ending | $ 94,853,993 |

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

## 1) Summary of Significant Accounting Policies

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

For the year ended June 30, 2011, the County implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosures requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

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 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 | Primary Activity | 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. | 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. | Blended |
| Apache County Jail District | A tax-levying district that acquires, constructs, operates, maintains, and finances county jails and jail systems; the County's Board of Supervisors serves as the governing board. | Blended |
| Apache County Juvenile Jail District | A tax-levying district that acquires, constructs, operates, maintains, and finances county juvenile jails and jail systems; the County's Board of Supervisors serves as the board of directors. | Blended |
| Apache County Library District | Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors. | Blended |
| Greer Acres – Little Colorado Special Improvement District | A tax-levying district that develops and constructs sewer systems; the County's Board of Supervisors serves as the board of directors. | Blended |

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

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

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

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

- Charges to customers or applicants for goods, services, or privileges provided,
- Operating grants and contributions, and
- Capital grants and contributions, including special assessments.

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

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

*Fund financial statements*—The 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.

The County reports the following fund types:

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

Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of agency funds, and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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

Fund Balance Classifications

During 2011, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement requires fund balance classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement provides the following classifications:

- *Nonspendable* fund balance includes amounts that are not in a spendable form (for example, inventory) or are required to be maintained intact.
- *Restricted* fund balance included amounts that can be spent only for the specific purposes stipulated by external resource providers (e.g., grant providers), constitutionally, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.

- *Committed* fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Supervisors. Formal action represents an approved resolution by the Board of Supervisors. Commitments may be changed or lifted only by the Board of Supervisors taking the same formal action that imposed the constraint originally.
- *Assigned* fund balance comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the Board of Supervisors by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- *Unassigned* fund balance is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

When committed, assigned, and unassigned resources are available for use, it is the County's policy to use committed and then assigned resources first, then unassigned resources as they are needed.

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

Inventories
The County accounts for its inventories in the governmental funds using the purchase method. Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and 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.

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.

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:

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

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

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

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

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

*Deficit fund balances*—At June 30, 2011, the following nonmajor funds reported significant deficits in fund balances:

| Fund | Deficit |
|---|---|
| Emergency Services | $ 452,434 |
| Sheriff Grants | 228,222 |
| Jail District | 169,297 |
| Bioterrorism | 90,075 |
| RV Complex, Debt | 43,428 |
| Post Secondary Education | 41,742 |
| GADA Loan | 35,892 |
| ACCENT/Attorney | 26,232 |
| EECBG | 22,178 |

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 2013.

The fund balance categories and classifications for governmental funds as of June 30, 2011, were as follows:

| | General Fund | Road Fund | Other Governmental Funds | Total |
|---|---|---|---|---|
| **Fund Balances** | | | | |
| Nonspendable | | | | |
| Inventories | $ - | $ 324,693 | $ - | $ 324,693 |
| Prepaid | 42,162 | 6,994 | 132,235 | 181,391 |
| Total nonspendable | 42,162 | 331,687 | 132,235 | 506,084 |
| Restricted for | | | | |
| Law enforcement | - | - | 1,893,652 | 1,893,652 |
| Highways and streets | - | 2,768,601 | 532,927 | 3,301,528 |
| Health | - | - | 776,290 | 776,290 |
| Welfare | - | - | 455,464 | 455,464 |
| Education | - | - | 86,836 | 86,836 |
| Library | - | - | 1,065,809 | 1,065,809 |
| Judicial | - | - | 270,288 | 270,288 |
| Other | - | - | 6,693 | 6,693 |
| Total restricted | - | 2,768,601 | 5,087,959 | 7,856,560 |
| Unassigned | 9,655,460 | - | - | 9,655,460 |
| Total fund balance | $ 9,697,622 | $ 3,100,288 | $ 5,220,194 | $ 18,018,104 |

## 3) Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest-earning investments such as savings accounts, certificates of deposits, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

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. Corporate bonds, debentures, and notes must be rated within the top three ratings by a 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. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign Currency Risk
Statutes do not allow foreign investments.

*Deposits*—At June 30, 2011, the carrying amount of the County's deposits was $28,694,311 and the bank balance was $27,138,955. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2011, cash equivalents included $2,845,778 in money market accounts. Balances in these accounts are insured up to SIPC limits of $250,000. The remaining amounts are uninsured and uncollateralized.

*Investments*—The County's investments at June 30, 2011, were as follows:

| Investment Type | Amount |
|---|---|
| U.S. agency securities | $ 81,436,156 |
| Corporate bonds | 9,422,749 |
| Total investments | $ 90,858,905 |

# Apache County, Arizona
## Notes to Financial Statements
## June 30, 2011

*Credit risk*—The County does not have a formal investment policy with respect to credit risk. At June 30, 2011, credit risk for the County's investments was as follows:

| Investment Type | Rating | Rating Agency | Amount |
|---|---|---|---|
| U.S. agency securities | AAA | Moody's | $ 81,436,156 |
| Corporate bonds | AA3 | Moody's | 2,521,567 |
| Corporate bonds | AA2 | Moody's | 1,659,128 |
| Corporate bonds | A3 | Moody's | 744,683 |
| Corporate bonds | A2 | Moody's | 2,204,476 |
| Corporate bonds | A1 | Moody's | 495,135 |
| Corporate bonds | Withdrawn Rate | Moody's | 1,797,760 |
| | | | $ 90,858,905 |

*Custodial credit risk*—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a formal investment policy with respect to custodial credit risk. At June 30, 2011, the County had $81,436,156 of U.S. agency securities and $9,422,749 of corporate bonds that were uninsured and held by the counterparty's trust department not in the County's name.

*Concentration of credit risk*—The County does not have a formal investment policy with respect to concentration of credit risk. The County had investments at June 30, 2011, of 5 percent or more in Freddie Mac (Federal Home Loan Mortgage Corporation), Fannie Mae (Federal National Mortgage Association), and Federal Home Loan Bank. These investments were 14.85%, 39.46%, and 35.32%, respectively, of the County's total investments.

*Interest rate risk*—The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2011, the County had the following investments in debt securities:

| | Investment Maturities (in Years) | | |
|---|---|---|---|
| Investment Type | Fair Value | Less Than 1 | 1–5 |
| U.S. agency securities | $ 81,436,156 | $ 5,060,664 | $ 76,375,492 |
| Corporate bonds | 9,422,749 | 300,910 | 9,121,839 |
| | $ 90,858,905 | $ 5,361,574 | $ 85,497,331 |

*Foreign currency risk*—State statutes do not allow foreign investments.

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

*Cash and investments*:

| | |
|---|---|
| Cash on hand | $ 18,448 |
| Carrying amount of deposits | 28,694,311 |
| Amount of investments | 90,858,905 |
| Total | $ 119,571,664 |

| Statement of Net Assets | Governmental Activities | Investment Trust Fund | Agency Funds | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 3,145,615 | $ 23,334,678 | $ 2,232,466 | $ 28,712,759 |
| Investments | 12,497,229 | 71,519,315 | 6,842,361 | 90,858,905 |
| Total | $ 15,642,844 | $ 94,853,993 | $ 9,074,827 | $ 119,571,664 |

## 4) Due From Other Governments

Amounts due from other governments at June 30, 2011, in the general fund include $879,976 in state shared revenue from sales tax and excise tax. Amounts due from other governments in the road fund include $1,172,083 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 governmental funds include $698,394 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, 2011, was as follows:

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| *Capital assets not being depreciated* | | | | |
| Land | $ 1,975,672 | $ - | $ - | $ 1,975,672 |
| Improvements other than buildings | 63,410 | - | - | 63,410 |
| Construction in progress | 32,582 | 139,602 | (151,307) | 20,877 |
| Total capital assets not being depreciated | 2,071,664 | 139,602 | (151,307) | 2,059,959 |
| *Capital assets being depreciated* | | | | |
| Buildings | 28,883,901 | 175,934 | - | 29,059,835 |
| Machinery and equipment | 26,570,624 | 867,279 | (239,470) | 27,198,433 |
| Infrastructure | 2,032,084 | - | - | 2,032,084 |
| Total capital assets being depreciated | 57,486,609 | 1,043,213 | (239,470) | 58,290,352 |
| Less accumulated depreciation | | | | |
| Buildings | 6,568,239 | 709,733 | - | 7,277,972 |
| Machinery and equipment | 21,299,046 | 1,626,561 | (239,470) | 22,686,137 |
| Infrastructure | 247,064 | 50,082 | - | 297,146 |
| Total accumulated depreciation | 28,114,349 | 2,386,376 | (239,470) | 30,261,255 |
| Total capital assets being depreciated, net | 29,372,260 | (1,343,163) | - | 28,029,097 |
| Governmental activities capital assets, net | $ 31,443,924 | $ (1,203,561) | $ (151,307) | $ 30,089,056 |

Depreciation expense was charged to functions as follows:

| | |
|---|---|
| Governmental activities | |
| General government | $ 569,126 |
| Public safety | 409,097 |
| Highways and streets | 1,104,060 |
| Health | 50,042 |
| Welfare | 226,454 |
| Education | 27,597 |
| Total depreciation expense–governmental activities | $ 2,386,376 |

Construction Commitments

The County completed various major capital projects by June 30, 2011. Only one capital project is remaining at June 30, 2011, with estimated costs to complete of $40,500 for the remodel of the courthouse.

## 6) Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2011:

| Governmental Activities | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|---|---|---|---|---|---|
| *Bonds payable* | | | | | |
| General obligation bonds | $ 6,090,000 | $ - | $ (430,000) | $ 5,660,000 | $ 450,000 |
| Revenue bonds | 3,980,000 | - | - | 3,980,000 | - |
| Total bonds payable | 10,070,000 | - | (430,000) | 9,640,000 | 450,000 |
| Installment purchase contract payable | 520,158 | - | (93,069) | 427,089 | 427,089 |
| Capital leases payable | 176,815 | 132,939 | (68,182) | 241,572 | 95,930 |
| Compensated absences payable | 1,467,721 | 718,457 | (849,407) | 1,336,771 | 661,795 |
| Total governmental activities long-term liabilities | $ 12,234,694 | $ 851,396 | $ (1,440,658) | $ 11,645,432 | $ 1,634,814 |

<u>Bonds</u>
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, 2011, were as follows:

| Description | Original Amount | Maturity Ranges | Interest Rates | Outstanding Principal |
|---|---|---|---|---|
| General obligation bonds | | | | |
| Series 2007 | $ 7,190,000 | 7/1/10–21 | 4.5 – 5.0% | $ 5,660,000 |
| Revenue bonds | | | | |
| Series 2007B | 3,980,000 | 8/1/13–27 | 4.0 – 5.0% | 3,980,000 |
| | | | | $ 9,640,000 |

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2011:

| | General Obligation Bonds | | Revenue Bonds | |
|---|---|---|---|---|
| Year Ending June 30, | Principal | Interest | Principal | Interest |
| 2012 | $ 450,000 | $ 255,825 | $ - | $ 176,512 |
| 2013 | 470,000 | 234,450 | - | 176,512 |
| 2014 | 495,000 | 213,300 | 195,000 | 172,613 |
| 2015 | 520,000 | 191,025 | 205,000 | 164,612 |
| 2016 | - | - | - | - |
| 2017-2021 | 3,025,000 | 579,375 | 1,145,000 | 687,087 |
| 2022-2026 | 700,000 | 31,500 | 1,415,000 | 407,709 |
| 2027-2028 | - | - | 1,020,000 | 76,355 |
| Total | $ 5,660,000 | $ 1,505,475 | $ 3,980,000 | $ 1,861,400 |

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 2011 required approximately 3.5% of the state shared revenue pledged. Principal payments are deferred until August 2013. Total principal and interest remaining to be paid on the revenue bonds is $5,841,400 as of June 30, 2011 and are expected to require 7% of the state shared revenue pledged. For the current year, interest paid and total state shared revenues were $176,500 and $5,187,861, respectively.

Installment Purchase Contracts

In August 2007, the County acquired land and an attached building under contract agreements at a total purchase price of $625,000. In July 2008, the County acquired land and an attached building under contract agreements at a total purchase price of $165,000. The following schedule details debt service requirements to maturity for the County's installment purchase contracts payable at June 30, 2011:

| | Governmental Activities | |
|---|---|---|
| Year Ending June 30, | Principal | Interest |
| 2012 | $ 427,089 | $ 34,155 |
| Total | $ 427,089 | $ 34,155 |

Capital Leases

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

The assets acquired through capital leases are as follows:

| | Governmental Activities |
|---|---|
| Machinery and equipment | $ 434,439 |
| Less accumulated depreciation | (224,343) |
| Carrying value | $ 210,096 |

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2011:

| Year Ending June 30, | Governmental Activities |
|---|---|
| 2012 | $ 105,858 |
| 2013 | 67,974 |
| 2014 | 30,091 |
| 2015 | 30,091 |
| 2016 | 30,091 |
| Total minimum lease payments | 264,105 |
| Less amount representing interest | (22,533) |
| Present value of net minimum lease payments | $ 241,572 |

Insurance Claims

The County provides life, health, and disability benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust, currently composed of six member counties. The Trust provides the benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and requires its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.

Compensated Absences

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. During fiscal year 2011, the County paid for compensated absences as follows: 63 percent from the general fund, 25 percent from the road fund, and 12 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; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool, which are described below and the Arizona Local Government Employee Trust, which is described on the previous page.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of $5,000 per occurrence for property claims and $5,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of $300 million per occurrence for property claims and $15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least three years after becoming a member; however it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona

Department of Insurance every five years. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

## 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, due to its relative insignificance to the County's financial statements. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The *Arizona State Retirement System* (ASRS) administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan, that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona and participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a 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 plan that covers state, county, and local corrections officers; dispatchers; and probation, surveillance, and juvenile detention officers. The CORP is governed by The Board of Trustees of PSPRS and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

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

| ASRS | PSPRS and CORP |
|---|---|
| 3300 North Central Ave.<br>P.O. Box 33910<br>Phoenix, AZ 85067-3910<br>(602) 240-2000 or (800) 621-3778 | 3010 East Camelback Road,<br>Suite 200<br>Phoenix, AZ 85016-4416<br>(602) 255-5575 |

Funding Policy

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

*Cost-sharing plans*—For the year ended June 30, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent for retirement and 0.25 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 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 |
|---|---|---|---|
| 2011 | $ 988,585 | $ 64,735 | $ 27,430 |
| 2010 | 871,228 | 104,501 | 43,483 |
| 2009 | 880,772 | 105,826 | 54,735 |

*Agent plans*—For the year ended June 30, 2011, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute 27.50 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.93 percent of covered payroll. Active CORP members were required by statute to contribute 8.41 percent of the members' annual covered payroll and the County was required to contribute 8.47 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution was actuarially set at 0.68 percent of covered payroll.

*Actuarial methods and assumptions*—The contribution requirements for the year ended June 30, 2011, were established by the June 30, 2009, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on 1) the plans as understood by the County and the plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2011 contribution requirements, are as follows:

| | |
|---|---|
| Actuarial valuation date | June 30, 2009 |
| Actuarial cost method | Projected unit credit |
| Amortization method | Level percent closed for unfunded actuarial liability, open for excess |
| Remaining amortization period | 27 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value |
| Actuarial assumptions: | |
| Investment rate of return | 8.50% |
| Projected salary increases | 5.50%–8.50% |
| includes inflation at | 5.50% |

*Annual Pension/OPEB Cost*—The County's pension/OPEB cost for the two agent plans for the year ended June 30, 2011, and related information follows:

| | PSPRS | | CORP | |
|---|---|---|---|---|
| | Pension | Health Insurance | Pension | Health Insurance |
| Annual pension/OPEB cost | $ 414,721 | $ 23,040 | $ 37,110 | $ 8,588 |
| Contributions made | 427,947 | 9,814 | 45,248 | 450 |

*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 | 2011 | $ 414,721 | 103 % | $ 13,226 |
| Health Insurance | 2011 | 23,040 | 43 % | (13,226) |
| Pension | 2010 | 423,152 | 104 % | 15,051 |
| Health Insurance | 2010 | 22,888 | 34 % | (15,051) |
| Pension | 2009 | 386,486 | 103 % | 13,492 |
| Health Insurance | 2009 | 13,545 | 50 % | (13,492) |
| CORP | | | | |
| Pension | 2011 | 37,110 | 122 % | 8,138 |
| Health Insurance | 2011 | 8,588 | 5 % | (8,138) |
| Pension | 2010 | 41,352 | 119 % | 7,906 |
| Health Insurance | 2010 | 7,906 | 0 % | (7,906) |
| Pension | 2009 | 79,963 | 112 % | 8,544 |
| Health Insurance | 2009 | 8,544 | 0 % | (8,544) |

*Funded Status*—The funded status of the plans as of the most recent valuation date, June 30, 2011, along with the actuarial assumptions and methods used in those valuations follow:

| | PSPRS | | CORP | |
|---|---|---|---|---|
| | Pension | Health Insurance | Pension | Health Insurance |
| Actuarial accrued liability (a) | $ 9,876,476 | $ 268,683 | $ 1,615,996 | $ 86,798 |
| Actuarial value of assets (b) | 3,929,595 | - | 1,508,708 | - |
| Unfunded actuarial accrued liability (funding excess) (a) – (b) | 5,946,881 | 268,683 | 107,288 | 86,798 |
| Funded ration (b) / (a) | 39.8% | 0.0% | 93.4% | 0.0% |
| Covered payroll (c) | 1,596,632 | 1,596,632 | 672,259 | 672,259 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of coverage payroll ([(a) – (b)] / (c)) | 372.5% | 16.8% | 16.0% | 12.9% |

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

| | |
|---|---|
| Actuarial valuation date | June 30, 2010 |
| Actuarial cost method | Projected unit credit |
| Amortization method | Level percent closed for unfunded actuarial liability, open for excess |
| Remaining amortization period | 26 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7-year smoothed market value |
| Actuarial assumptions: | |
| Investment rate of return | 8.50% |
| Projected salary increases | 5.50%–8.50% |
| includes inflation at | 5.50% |

## 9) Interfund Balances and Activity

*Interfund receivables and payables*—Interfund balances at June 30, 2011, were as follows:

| | Payable from | | | |
|---|---|---|---|---|
| Payable To | General Fund | Road Fund | Nonmajor Governmental Funds | Total |
| General Fund | $ - | $ - | $ 363,439 | $ 363,439 |
| Road Fund | 56,544 | - | 348,239 | 404,783 |
| Nonmajor governmental funds | 43,330 | 349,699 | - | 393,029 |
| Total | $ 99,874 | $ 349,699 | $ 711,678 | $ 1,161,251 |

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

*Interfund transfers*—Interfund transfers for the year ended June 30, 2011, were as follows:

| | Transfer to | | |
|---|---|---|---|
| Transfer From | General Fund | Nonmajor Governmental Funds | Total |
| General Fund | $ - | $ 1,234,171 | $ 1,234,171 |
| Road Fund | - | 64,000 | 64,000 |
| Nonmajor governmental funds | 240,000 | - | 240,000 |
| Total | $ 240,000 | $ 1,298,171 | $ 1,538,171 |

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

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 3 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

| Investment Type | Principal | Interest Rates | Maturities | Fair Value |
|---|---|---|---|---|
| U.S. agency securities | $ 81,199,000 | 0.8% – 4.0% | 12/11 – 6/16 | $ 81,436,156 |
| Corporate bonds | 11,535,000 | 0.9% – 5.4% | 7/11 – 12/15 | 9,422,749 |
| Money Market Funds | 2,845,778 | None stated | N/A | 2,845,778 |

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

| | |
|---|---|
| Statement of net assets | |
| Assets | $ 118,920,123 |
| Liabilities | - |
| Net assets | $ 118,920,123 |
| Net assets held in trust for | |
| Internal participants | $ 24,066,130 |
| External participants | 94,853,993 |
| Total net assets held in trust | $ 118,920,123 |
| Statement of changes in net assets | |
| Total additions | $ 307,177,688 |
| Total deductions | 322,241,685 |
| Net decrease | (15,063,997) |
| Net assets held in trust | |
| July 1, 2010 | 133,984,120 |
| June 30, 2011 | $ 118,920,123 |

## 11) Joint Ventures

The County is a member of the Blue Hills Environmental Association (Association), a nonprofit corporation created in 1991 by the County, City of St. Johns, Town of Springerville, and Town of Eagar. The members then entered into a solid waste operation agreement with the Association to operate the Blue Hills Regional Municipal Landfill and to provide solid waste services to the members and public. The Association is accumulating financial reserves to pay for closure and postclosure care costs when it anticipates closing the landfill in 2040.

However, the County will assume the financial responsibility for these costs if the Association is unable to pay when they are due. Annually, the County files the required financial assurance report with the Arizona Department of Environmental Quality to demonstrate financial responsibility for closure and postclosure care costs as required by state and federal laws and regulations. In the most recent financial assurance report, dated October 1, 2008, the County estimated the closure costs to be $179,700 and postclosure care costs to be $178,370 assuming the landfill was completely filled to capacity. This amount is based on what it would cost to perform all closure and postclosure care as of December 2006. According to its non-audited financial information for the year ended June 30, 2011, the landfill had used approximately 5 percent of its estimated capacity, and the Association had accumulated $97,605 of financial reserves to pay for these costs.

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

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

## 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) Restatement

During 2012, the County discovered that the Treasurer's office was not properly allocating investment losses. This resulted in significant adjustments to cash accounts. During 2011, it was noted these losses were double recorded in previous years. Beginning net assets have been restated from amounts previously reported as follows:

| | Net Assets of Governmental Activities | Net Assets of Governmental Funds | Net Assets of Fiduciary Funds |
|---|---|---|---|
| Net assets, June 30, 2010, as previously reported | $ 36,137,064 | $ 16,403,844 | $ 119,168,865 |
| Adjustment to increase investment income | 231,753 | 231,753 | 1,924,671 |
| Net assets, June 30, 2010 as restated | $ 36,368,817 | $ 16,635,597 | $ 121,093,536 |

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, 2011

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | **Actual** | Variance with Final Budget |
| **Revenues** | | | | |
| Property taxes | $ 5,724,342 | $ 5,724,342 | **$ 5,170,851** | $ (553,491) |
| Licenses and permits | 119,900 | 119,900 | **140,959** | 21,059 |
| Intergovernmental | 7,197,039 | 7,197,039 | **8,531,277** | 1,334,238 |
| Charges for services | 67,000 | 67,000 | **359,187** | 292,187 |
| Fines and forfeits | 390,000 | 390,000 | **565,849** | 175,849 |
| Investment income | 4,801 | 4,801 | **(311,814)** | (316,615) |
| Contributions | 869,878 | 869,878 | **-** | (869,878) |
| Miscellaneous | 16,688 | 16,688 | **139,617** | 122,929 |
| Total revenues | 14,389,648 | 14,389,648 | **14,595,926** | 206,278 |
| **Expenditures** | | | | |
| General government | | | | |
| Assessor | 662,601 | 662,601 | **487,891** | 174,710 |
| Attorney | 936,603 | 936,603 | **746,495** | 190,108 |
| Board of Supervisors | 2,128,096 | 2,128,096 | **1,008,558** | 1,119,538 |
| Clerk of the Court | 529,100 | 529,100 | **733,640** | (204,540) |
| Contingency | 2,734,240 | 2,734,240 | **115,448** | 2,618,792 |
| Data processing | 472,065 | 472,065 | **334,165** | 137,900 |
| Elections | 428,001 | 428,001 | **271,210** | 156,791 |
| Finance | 523,048 | 523,048 | **424,638** | 98,410 |
| Grounds/maintenance | 869,695 | 869,695 | **744,426** | 125,269 |
| JP – Chinle | 166,601 | 166,601 | **139,165** | 27,436 |
| JP – Puerco | 281,080 | 281,080 | **224,131** | 56,949 |
| JP – St. Johns | 208,002 | 208,002 | **141,459** | 66,543 |
| JP – Round Valley | 340,341 | 340,341 | **179,920** | 160,421 |
| Communication specialist and project | 110,331 | 110,331 | **94,219** | 16,112 |
| Community development | 465,127 | 465,127 | **359,614** | 105,513 |
| Recorder | 478,868 | 478,868 | **385,458** | 93,410 |
| Superior Court | 494,121 | 494,121 | **374,313** | 119,808 |
| Public defenders | 478,125 | 478,125 | **381,356** | 96,769 |
| Jury fees and related | 144,477 | 144,477 | **51,469** | 93,008 |
| Support and care of persons | 6,848 | 6,848 | **22,590** | (15,742) |
| Treasurer | 324,473 | 324,473 | **259,344** | 65,129 |
| Legal services/judgments | 30,000 | 30,000 | **21,526** | 8,474 |
| Insurance | 220,000 | 220,000 | **166,199** | 53,801 |
| Public fiduciary | 90,601 | 90,601 | **43,106** | 47,495 |
| Retirement reserve | 45,000 | 45,000 | **-** | 45,000 |
| Total general government | $ 13,167,444 | $ 13,167,444 | **$ 7,710,340** | $ 5,457,104 |

**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, 2011

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | **Actual** | Variance with Final Budget |
| Expenditures – continued | | | | |
| Public safety | | | | |
| Constables | 90,475 | 90,475 | **79,908** | 10,567 |
| Adult probation | 327,690 | 327,690 | **327,690** | - |
| Juvenile probation | 256,190 | 256,190 | **256,190** | - |
| Sheriff | 2,621,539 | 2,621,539 | **2,641,452** | (19,913) |
| Total public safety | 3,295,894 | 3,295,894 | **3,305,240** | (9,346) |
| Health | | | | |
| AHCCCS | 1,021,900 | 1,021,900 | **943,932** | 77,968 |
| Culture and recreation | | | | |
| Agricultural extension | 22,200 | 22,200 | **22,200** | - |
| Education | | | | |
| School superintendent | 339,764 | 339,764 | **327,914** | 11,850 |
| Professional development | 146,210 | 146,210 | **-** | 146,210 |
| Total education | 485,974 | 485,974 | **327,914** | 158,060 |
| Capital outlay | 991,627 | 991,627 | **176,537** | 815,090 |
| Total expenditures | 18,985,039 | 18,985,039 | **12,486,163** | 6,498,876 |
| Resources over (under) charges to appropriations | (4,595,391) | (4,595,391) | **2,109,763** | 6,705,154 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | 4,463,613 | 4,463,613 | **240,000** | (4,223,613) |
| Transfers out | (973,978) | (973,978) | **(1,234,171)** | (260,193) |
| Sales of capital assets | - | - | **17,625** | 17,625 |
| Total other financing sources (uses) | 3,489,635 | 3,489,635 | **(976,546)** | (4,466,181) |
| Net change in fund balances | (1,105,756) | (1,105,756) | **1,133,217** | 2,238,973 |
| Fund balances, beginning of year | 1,105,756 | 1,105,756 | **8,564,405** | (7,458,649) |
| **Fund balances,** end of year | $ - | $ - | **$ 9,697,622** | $ 9,697,622 |

**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, 2011

| | Budgeted Amounts | | | |
|---|---|---|---|---|
| | Original | Final | **Actual** | Variance with Final Budget |
| **Revenues** | | | | |
| Intergovernmental | $ 7,920,000 | $ 7,920,000 | **$ 8,619,617** | $ 699,617 |
| Charges for services | 1,500 | 1,500 | **1,846** | 346 |
| Investment income | 6,000 | 6,000 | **(63,088)** | (69,088) |
| Miscellaneous | 188,000 | 188,000 | **31** | (187,969) |
| Total revenues | 8,115,500 | 8,115,500 | **8,558,406** | 442,906 |
| **Expenditures** | | | | |
| Highways and streets | | | | |
| Engineer | 478,956 | 478,956 | **503,876** | (24,920) |
| Safety | 6,000 | 6,000 | **793** | 5,207 |
| District #1 | 1,869,360 | 1,869,360 | **2,808,340** | (938,980) |
| District #2 | 1,691,860 | 1,691,860 | **2,307,057** | (615,197) |
| District #3 | 2,822,250 | 2,822,250 | **1,989,720** | 832,530 |
| Liability insurance | 248,279 | 248,279 | **249,774** | (1,495) |
| Contingency | 74,587 | 74,587 | **28,001** | 46,586 |
| RAC Grant | 120,000 | 120,000 | **57,000** | 63,000 |
| Deferred | 650,000 | 650,000 | **-** | 650,000 |
| Total highways and streets | 7,961,292 | 7,961,292 | **7,944,561** | 16,731 |
| Capital outlay | - | - | **162,394** | (162,394) |
| Total expenditures | 7,961,292 | 7,961,292 | **8,106,955** | (145,663) |
| Resources over (under) charges to appropriations | 154,208 | 154,208 | **451,451** | 297,243 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers out | (991,682) | (991,682) | **(64,000)** | 927,682 |
| Capital lease agreement | - | - | **132,939** | 132,939 |
| Total other financing sources (uses) | (991,682) | (991,682) | **68,939** | 1,060,621 |
| Net change in fund balances | (837,474) | (837,474) | **520,390** | 1,357,864 |
| Fund balances, beginning of year | 837,474 | 837,474 | **2,509,300** | 1,671,826 |
| Changes in nonspendable resources | | | | |
| Decrease in reserve for inventories | - | - | **70,598** | 70,598 |
| **Fund balances,** end of year | $ - | $ - | **$ 3,100,288** | $ 3,100,288 |

**See accompanying notes to required supplementary information.**

# Apache County, Arizona
## Notes to Required Supplementary Information
## June 30, 2011

## 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, 2011, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

| Fund/Department | Excess |
|---|---|
| General Fund | |
| Clerk of the Court | $ (204,540) |
| Support and care of persons | (15,742) |
| Sheriff | (19,913) |
| Road Fund | |
| Engineer | (24,920) |
| District #1 | (938,980) |
| District #2 | (615,197) |
| Liability insurance | (1,495) |
| Capital outlay | (162,394) |

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, 2011

### Public Safety Personnel Retirement System

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|---|---|---|---|---|---|---|
| Pension | | | | | | |
| 06/30/11 | $ 3,929,595 | $ 9,876,476 | $ (5,946,881) | 39.8 % | $ 1,596,632 | 372.5 % |
| Health Insurance | | | | | | |
| 06/30/11 | - | 268,683 | (268,683) | 0.0 % | 1,596,632 | 16.8 % |
| Pension | | | | | | |
| 06/30/10 | 3,726,840 | 8,947,515 | (5,220,675) | 41.7 % | 1,403,221 | 372.0 % |
| Health Insurance | | | | | | |
| 06/30/10 | - | 220,347 | (220,347) | 0.0 % | 1,403,221 | 15.7 % |
| Pension | | | | | | |
| 06/30/09 | 3,577,284 | 8,352,034 | (4,774,750) | 42.8 % | 1,556,734 | 306.7 % |
| Health Insurance | | | | | | |
| 06/30/09 | - | 228,725 | (228,725) | 0.0 % | 1,556,734 | 14.7 % |

### Corrections Officer Retirement Plan

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|---|---|---|---|---|---|---|
| Pension | | | | | | |
| 06/30/11 | $ 1,508,708 | $ 1,615,996 | $ 107,288 | 93.4 % | $ 672,259 | 16.0 % |
| Health Insurance | | | | | | |
| 06/30/11 | - | 86,798 | (86,798) | 0.0 % | 672,259 | 12.9 % |
| Pension | | | | | | |
| 06/30/10 | 1,375,193 | 1,374,358 | 835 | 100.1 % | 690,673 | 0.0 % |
| Health Insurance | | | | | | |
| 06/30/10 | - | 60,465 | (60,465) | 0.0 % | 690,673 | 8.8 % |
| Pension | | | | | | |
| 06/30/09 | 1,307,226 | 1,340,391 | (33,165) | 97.5 % | 692,519 | 4.8 % |
| Health Insurance | | | | | | |
| 06/30/09 | - | 76,840 | (76,840) | 0.0 % | 692,519 | 11.1 % |

Supplementary Information

# Schedule of Expenditures of Federal Awards

# Apache County, Arizona
## Schedule of Expenditures of Federal Awards
## For the Year Ended June 30, 2011

| Federal Grantor/Program Title/Pass-Through Grantor | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Agriculture** | | | |
| Passed through the Arizona Department of Health Services | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children | 10.557 | HG861142 | $ 160,389 |
| State Administrative Matching Grants for Supplemental Nutrition Assistance Program | 10.561 | None | 39,429 |
| Passed through Arizona State Forestry | | | |
| Cooperative Forestry Assistance | 10.664 | WFHF 09-006 | 112,201 |
| Passed through the Arizona State Treasurer | | | |
| Secure Payments for States and Counties Containing Federal Lands | 10.665 | None | 1,093,277 |
| Total U.S. Department of Agriculture | | | **1,405,296** |
| **U.S. Department of Housing and Urban Development** | | | |
| Passed through the Arizona Department of Housing | | | |
| Sustainable Communities Regional Planning Grant | 14.703 | AZRIP0003-10 | **139,000** |
| **U.S. Department of the Interior** | | | |
| Payments in Lieu of Taxes | 15.226 | N/A | **1,602,166** |
| **U.S. Department of Justice** | | | |
| Passed through the Arizona Criminal Justice Commission | | | |
| ARRA Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories | 16.803 | DC-10-017 | 96,152 |
| ARRA Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories | 16.803 | DC-10-040 | 101,313 |
| Edward Byrne Memorial Justice Assistance Grant Program, passed through the Arizona Criminal Justice Commission | 16.738 | 2JC90381 | 139,280 |
| Total JAG Program Cluster | | | 336,745 |
| Total U.S. Department of Justice | | | **336,745** |
| **U.S. Department of Energy** | | | |
| Energy Efficiency and Conservation Block Grant Program (EECBG) | 81.128 | N/A | 29,263 |
| Total U.S. Department of Energy | | | **29,263** |

(continued)

**See accompanying notes to the schedule of expenditures of federal awards.**

# Apache County, Arizona
## Schedule of Expenditures of Federal Awards — continued
## For the Year Ended June 30, 2011

| Federal Grantor/Program Title/Pass-Through Grantor | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|---|---|---|---|
| **U.S. Department of Education** | | | |
| Passed through the Arizona Supreme Court | | | |
| Special Education Grants to States | 84.027 | 34-141 | $ 8,142 |
| Special Education Grants to States | 84.027 | 34-194 | 5,590 |
| Total Special Education Grants to States | | | 13,732 |
| Passed through the Arizona Supreme Court | | | |
| Title I State Agency Program for Neglected and Delinquent Children and Youth | 84.013 | 34-51 | 18,993 |
| Total U.S. Department of Education | | | **32,725** |
| **U.S. Department of Health and Human Services** | | | |
| Passed through the Arizona Department of Health Services | | | |
| Family Planning Services | 93.217 | 361314-5 | 33,742 |
| Immunization Cooperative Agreements | 93.268 | HG854296 | 71,880 |
| Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs | 93.919 | 20H06588 | 65,872 |
| Healthy Start Initiative | 93.926 | HG852280 | 75,866 |
| HIV Prevention Activities – Health Department Based | 93.940 | HG852280 | 7,942 |
| Preventive Health and Health Services Block Grant | 93.991 | HG854369 | 37,706 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | HG561262 | 88,793 |
| Passed through the National Association of County and City Health Officials | | | |
| Medical Reserve Corps Small Grant Program | 93.008 | MRC 10 2107 | 1,392 |
| Passed through the Arizona Department of Health Services | | | |
| Public Health Emergency Preparedness | 93.069 | HG754192 | 304,852 |
| Public Health Emergency Preparedness | 93.069 | 20HO7598 | 34,232 |
| Public Health Emergency Preparedness | 93.069 | HG754192 | 13,698 |
| Total CFDA 93.069 | | | 352,782 |
| Total U.S. Department of Health and Human Services | | | **735,975** |
| **U.S. Department of Homeland Security** | | | |
| Passed through the Arizona Department of Homeland Security | | | |
| Homeland Security Grant Program | 97.067 | 888100-001 | 38,295 |
| Passed through the Arizona Department of Emergency and Military Affairs | | | |
| Emergency Management Performance Grants | 97.042 | 2ES01077 | 179,609 |
| Total U.S. Department of Homeland Security | | | **217,904** |
| Total expenditures of federal awards | | | **$ 4,499,074** |

**See accompanying notes to the schedule of expenditures of federal awards.**

# Apache County, Arizona
## Notes to Schedule of Expenditures of Federal Awards
## June 30, 2011

### 1) Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Apache County (the "County") and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

### 2) Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2011 Catalog of Federal Domestic Assistance.

### 3) Subrecipients

The County did not provide any federal awards to subrecipients during the year ended June 30, 2011.

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

The Auditor General of the State of Arizona and
The Board of Supervisors of
Apache County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Apache County, Arizona (the "County") as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 16, 2013. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**
The County's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.



ALBUQUERQUE
7425 Jefferson St NE, Albuquerque, NM 87109
P: 505.998.3200 F: 505.998.3333

redw.com

PHOENIX
5353 N 16th St, Suite 200, Phoenix, AZ 85016
P: 602.730.3600 F: 602.730.3699

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in accompanying schedule of findings and questioned costs as items FS 11-1 and FS 11-2 to be material weaknesses.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items FS 11-3 through FS 11-5 to be significant deficiencies.

**Compliance and Other Matters**

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

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

REDW LLC

Phoenix, Arizona
August 16, 2013

# Independent Auditors' Report on Compliance With Requirements That Could Have A Direct and Material Effect on Each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

The Auditor General of the State of Arizona and
The Board of Supervisors of
Apache County, Arizona

**Compliance**

We have audited Apache County's (the "County") compliance with the types of compliance requirements described in the U S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Apache County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying schedule of findings and questioned costs as items FA 11-1, FA 11-3, and FA 11-4.



ALBUQUERQUE
7425 Jefferson St NE, Albuquerque, NM 87109
P: 505.998.3200 F: 505.998.3333

redw.com

PHOENIX
5353 N 16th St, Suite 200, Phoenix, AZ 85016
P: 602.730.3600 F: 602.730.3699

**Internal Control Over Compliance**
The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FA 11-5 and FA 11-6.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items FA 11-2 and FA 11-7 to be significant deficiencies.

The County's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

REDW LLC

Phoenix, Arizona
August 16, 2013

# Apache County, Arizona
## Schedule of Findings and Questioned Costs
## For the Year Ended June 30, 2011

## Section I — Summary of Auditors' Results

### *Financial Statements*

| | |
|---|---|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | Yes |
| Significant deficiencies identified? | Yes |
| Noncompliance material to financial statements noted? | No |

### *Federal Awards*

| | |
|---|---|
| Internal control over major programs: | |
| Material weaknesses identified? | Yes |
| Significant deficiencies identified? | Yes |
| Type of auditors' report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | Yes |

Section I — Summary of Auditors' Results — continued

Identification of major programs:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 10.665 | Secure Payments for States and Counties Containing Federal Lands |
| 15.226 | Payments in Lieu of Taxes |
| | JAG Program Cluster |
| 16.738 | Edward Byrne Memorial Justice Assistance Grant Program |
| 16.803 | ARRA–Recovery Act–Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories |
| 93.069 | Public Health Emergency Preparedness |

| | |
|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $300,000 |
| Auditee qualified as low-risk auditee? | No |

***Other Matters***

| | |
|---|---|
| Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with section 315(b) of OMB Circular A-133? | Yes |

## Section II — Financial Statement Findings

### FS 11-1 — Cash, Cash Equivalents and Investments Held by the Treasurer (Material Weakness)

---

*Criteria or Specific Requirement:* Accounting standards require investment balances to be reported at fair market value. Additionally, the Uniform Accounting Manual for Arizona Counties published by the Auditor General's office requires counties to develop written policies and procedures to reconcile cash balances by fund to the county treasurer's records at least monthly and at fiscal year-end.

*Condition:* The Treasurer's office holds cash and investment balances for the County. These amounts are tracked and recorded by the Treasurer's office and are recorded into the accounting records of the County each year. The Treasurer's office reconciles the balances of these accounts to the banking records. The County will then reconcile general ledger balances to the Treasurer's cash report. In fiscal years 2010 and 2011, the Treasurer's office did not properly record losses in investment value in the general ledger. Reconciling items were added to cash reconciliations subsequent to year-end as a result of a Special Audit performed by the Auditor General.

Additionally, in fiscal year 2010, the amounts of the losses were not properly recorded in the general ledger of the County resulting in an overstatement of net assets. In fiscal year 2011, the losses were not recorded in the general ledger of the County resulting in material adjusting entries.

*Cause and Effect:* Procedures were not in place at the Treasurer's office to ensure proper recording of investment balances. Procedures were not in place at the County to ensure proper recording of funds held by the Treasurer.

Lack of procedures over Treasurer's cash balances resulted in material adjustments to the fiscal year 2011 financial statements. Inaccurate recording of balances resulted in restatement of fiscal year 2010 balances. Due to lack of procedures over Treasurer's cash, the County is not in compliance with the Uniform Accounting Manual for Arizona Counties.

*Auditors' Recommendations:* Establish internal control procedures to ensure accurate, timely accounting and financial reporting. This should include recording of all investment losses in both the Treasurer's and the County's accounting records. The County should also become familiar with the requirements of the Uniform Accounting Manual and should ensure procedures are in place to meet compliance with the Manual.

*Management's Response:* The Apache County Treasurer's Office has recently replaced their entire staff and have hired an outside consultant to help enact necessary procedures and segregate duties to comply with audit findings. They have also hired a new employee to perform all reconciliations.

Section II — Financial Statement Findings — continued

**FS 11-2 — Account Reconciliations (Material Weakness)**

---

*Criteria or Specific Requirement:* The Uniform Accounting Manual for Arizona Counties published by the Auditor General requires subsidiary ledgers to be reconciled to general ledger activity monthly. The Manual also requires counties to establish procedures to ensure inventory transactions are recorded in the proper year. Specifically, the Manual requires a physical inventory and adjustments to the general ledger to properly reflect the ending inventory balance. The Manual also requires counties to reconcile capitalized acquisitions to total capital expenditures at the end of each fiscal year.

*Condition:* Balance sheet accounts, specifically inventory and capital assets, were not properly reconciled to general ledger balances resulting in material adjustments to accounts. Long-term debt related to lease purchases was also not properly included in the general ledger at year-end.

*Cause and Effect:* Procedures were not in place to ensure proper reconciliation of balance sheet accounts and to ensure compliance with the Uniform Accounting Manual for Arizona Counties.

Lack of proper reconciliation procedures over inventory, capital assets and long-term debt resulted in material adjustments to the County's accounting records. Additionally, the County is not in compliance with the Uniform Accounting Manual for Arizona Counties.

*Auditors' Recommendations:* Establish internal control procedures to ensure accurate, timely accounting and financial reporting. This should include reconciliation of all balance sheet accounts to the appropriate sub-ledger. The County should also become familiar with the requirements of the Uniform Accounting Manual and should ensure procedures are in place to meet compliance with the Manual.

*Management's Response:* The finance office has gone through several changes due to the down turn in the economy. The office has currently taken over several other duties and lost a position. The inventory, capital assets and long-term debt have been reassigned and the County has implemented procedures whereby material transactions are tracked properly and recorded in a timely manner.

## Section II — Financial Statement Findings — continued

### FS 11-3 — Internal Controls over Cash Receipts (Significant Deficiency)

---

*Criteria or Specific Requirement:* The Uniform Accounting Manual for Arizona and Arizona Revised Statutes state that all monies collected for the County are public monies and must be deposited with the Treasurer.

*Condition:* The cash receipts system used by the Treasurer's office did not have sufficient security in place to prevent alteration of transactions within the system. This, along with lack of segregation of duties over cash receipts, allowed a clerk in the Treasurer's office to misappropriate cash receipts. The clerk would accept cash payments, void the payments in the system, and would keep the funds. While the amount of funds misappropriated was not material to the financial statements (approximately $50,000), the ability for the clerk to complete the scheme is a significant deficiency in internal controls over financial reporting.

*Cause and Effect:* Controls were not in place to properly safeguard public monies. Lack of internal controls resulted in the misappropriation of public monies. Investigation of the misappropriation is ongoing and a final fraud loss has not been calculated.

*Auditors' Recommendations:* Strengthen the internal controls surrounding the cash receipts process to prevent further misappropriations.

*Management's Response:* The Apache County Treasurer's Office has recently replaced their entire staff and have hired an outside consultant to help enact necessary procedures and segregate duties to comply with audit findings. They have also hired a new employee to perform all reconciliations and have purchased new financial software to facilitate all changes.

Section II — Financial Statement Findings — continued

**FS 11-4 — Single Audit Report Submission (Significant Deficiency)**

---

*Criteria or Specific Requirement:* The Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* §320, requires that the single audit reporting package be submitted within nine months after the end of the audit period, unless a longer period is agreed upon by the oversight agency.

*Condition:* The County's fiscal year 2011 single audit reporting package was not submitted within nine months after the end of the audit period.

*Cause and Effect:* The County was unable to prepare the accounting records and financial statements in a timely manner.

Due to the late submission of the County's single audit reporting package, the County has an instance of noncompliance with OMB Circular A-133 report submission requirements, which impacts all federal programs administered by the County.

*Auditors' Recommendations:* To help ensure compliance with the OMB Circular A-133, the County should prepare accurate and complete financial statements in a timely manner to facilitate the submission of the single audit reporting package by the required deadline.

*Management's Response:* The County has added an additional position in order to manage work flow in order to be able to dedicate more time to financial reporting.

## Section II — Financial Statement Findings — continued

**FS 11-5 — Segregation of Duties (Significant Deficiency)**

---

*Criteria or Specific Requirement:* Sound internal control practices require segregation of duties to help protect assets and prevent errors.

*Condition:* During our procedures, we noted several areas including cash disbursements, receiving, payroll and cash receipts where one person had access to the entire transaction flow without additional review or approval.

*Cause and Effect:* The County does not have appropriate policies and procedures to segregate incompatible duties.

The lack of segregation of incompatible duties increases the possibility that errors and improper activities would occur and not be detected.

*Auditors' Recommendations:* Develop and implement policies and procedures that ensure access, initiation and approval functions are properly segregated for cash disbursements, receiving, payroll and cash receipts.

*Management's Response:* The County has implemented procedures to ensure proper segregation of duties over financial reporting.

## Section III — Federal Award Findings and Questioned Costs

### FA 11-1 — Single Audit Reporting

---

*Federal program information:*

| | |
|---|---|
| Funding agency: | All |
| Title: | All |
| CFDA number: | All |
| Award year and number: | All |
| Pass-through entity: (if applicable) | All |

*Condition:* The County's fiscal year 2011 single audit reporting package was not submitted within nine months after the end of the audit period. See Section II – Financial Statement Findings, FS 11-4.

*Auditors' Recommendations:* To help ensure compliance with the OMB Circular A-133, the County should prepare accurate and complete financial statements in a timely manner to facilitate the submission of the single audit reporting package by the required deadline.

*Management's Response:* The County has added an additional position in order to manage work flow in order to be able to dedicate more time to financial reporting.

## Section III — Federal Award Findings and Questioned Costs — continued

### FA 11-2 — Schedule of Expenditures of Federal Awards – (Significant Deficiency)

---

*Federal program information:*

| | |
|---|---|
| Funding agency: | All |
| Title: | All |
| CFDA number: | All |
| Award year and number: | All |
| Pass-through entity: (if applicable) | All |

*Criteria:* OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires that the County identify in its accounts all federal awards expended. This Circular also requires award identification to include, as applicable, the CFDA title and number, the award number and years, the name of the federal granting agency, and the name of the pass-through entity.

*Condition:* The SEFA was not complete as it did not identify all federal grants, identify all ARRA funds, or include necessary funding information such as the federal granting department or any pass-through agencies. The SEFA excluded the Sustainable Communities Regional Planning Grant.

*Questioned Costs:* None.

*Context:* None.

*Cause and Effect:* The County does not have a functioning grants management department in place.

The County's initial SEFA was not prepared in accordance with OMB Circular A-133.

*Auditors' Recommendations:* The County should establish a grants management department to identify all federal awards received and expended, as well as the federal programs under which they were received. Also, a thorough review of the general ledger should be performed to ensure that all federal awards are identified and reported on the SEFA.

*Management's Response:* In the past, the County's Finance Department has had an outside accounting firm review the SEFA and due to the downturn in the economy this is no longer feasible. The County has noted the deficiency and has begun training current employees to complete the SEFA in accordance with OMB Circular A-133.

## Section III — Federal Award Findings and Questioned Costs — continued

### FA 11-3 — Allocation of Forest Reserve Funds

---

*Federal program information:*

| | |
|---|---|
| Funding agency: | U.S. Department of Agriculture |
| Title: | Secure Payments for States and Counties Containing Federal Lands |
| CFDA number: | 10.665 |
| Award year and number: | 2011 |
| Pass-through entity: (if applicable) | Arizona State Treasurer |

*Criteria:* Arizona Revised Statutes (A.R.S.) 11-497 requires counties' share of pass-through forest reserve monies from the United States to be disbursed for the benefit of public schools and public roads as the board of supervisors directs. Further, a county may allocate a disproportionate amount of forest reserve monies between public schools and public roads as long as both categories receive a real benefit.

*Condition:* Forest reserve monies for Apache County were not properly disbursed for the benefit of public schools and public roads in accordance with A.R.S. 11-497. The County disbursed the entire amount of funds received of $1,093,277 to public school districts.

*Questioned Costs:* None.

*Context:* None.

*Cause and Effect:* The Apache County Board of Supervisors decided that there was greater need for public schools.

The County was not in compliance with A.R.S. 11-497.

*Auditors' Recommendations:* To help ensure compliance with A.R.S. 11-497, Apache County should distribute forest reserve monies to benefit both public schools and public roads.

*Management's Response:* The County's Board of Supervisors continued to accept Title I funds and request the 15% be allocated for Title II and Title II be sent back and used at the discretion of the Federal Government.

## Section III — Federal Award Findings and Questioned Costs — continued

### FA 11-4 — Reporting

---

*Federal program information:*

| | |
|---|---|
| Funding agency: | U.S. Department of Justice |
| Title: | JAG Program Cluster |
| CFDA number: | 16.803 & 16.738 |
| Award year and number: | 2011 – DC-10-017; DC-10-040 and 2JC90381 |
| Pass-through entity: | Arizona Criminal Justice Commission |

*Criteria:* Financial and programmatic reports for federal award programs are required to be submitted to the funding agency using standard forms. These reports are to be submitted by the required due date and be accurately completed and supporting by the underlying accounting and informational records.

*Condition:* The following financial reports were submitted after the applicable due dates:

Monthly Expenditures Report – Fund 256 – April 2011 – 9 days late

The following financial reports were submitted with inaccurate or incomplete information:

Monthly Expenditures Report – Fund 256 – February 2011 – incorrect submission date

Monthly Expenditures Report – Fund 256 – April 2011 – incorrect submission date

Monthly Expenditures Report – Fund 256 – May 2011 – no submission date

*Questioned Costs:* None.

*Context:* One of 15 reports examined was not submitted timely. Three of 15 reports examined were submitted with inaccurate of incomplete information.

*Cause and Effect:* Internal controls to identify and ensure compliance with reporting requirements were not in place.

The JAG Program Cluster was not in compliance with the reporting submission due date requirements.

*Auditors' Recommendations:* Grant agreements and program regulations should be reviewed to identify reporting requirements for each grant. The due date of each report should be documented and responsibility for filing timely reports should be assigned to the appropriate employee of the County.

*Management's Response:* The County has added an additional position in order to manage work flow in order to be able to dedicate more time to financial reporting.

## Section III — Federal Award Findings and Questioned Costs — continued

### FA 11-5 — Cash, Cash Equivalents and Investments Held by the Treasurer (Material Weakness)

---

*Federal program information:*

| | |
|---|---|
| Funding agency: | All |
| Title: | All |
| CFDA number: | All |
| Award year and number: | All |
| Pass-through entity (if applicable): | All |

*Condition:* The Treasurer's office holds cash and investment balances for the County. These amounts are tracked and recorded by the Treasurer's office and are recorded into the accounting records of the County each year. The Treasurer's office reconciles the balances of these accounts to the banking records. The County will then reconcile general ledger balances to the Treasurer's cash report. In fiscal years 2010 and 2011, the Treasurer's office did not properly record losses in investment value in the general ledger. Reconciling items were added to cash reconciliations subsequent to year-end as a result of a Special Audit performed by the Auditor General. See Section II – Financial Statement Findings, FS 11-1.

*Auditors' Recommendations:* Establish internal control procedures to ensure accurate, timely accounting and financial reporting. This should include recording of all investment losses in both the Treasurer's and the County's accounting records. The County should also become familiar with the requirements of the Uniform Accounting Manual and should ensure procedures are in place to meet compliance with the Manual.

*Management's Response:* The Apache County Treasurer's Office has recently replaced their entire staff and have hired an outside consultant to help enact necessary procedures and segregate duties to comply with audit findings. They have also hired a new employee to perform all reconciliations.

## Section III — Federal Award Findings and Questioned Costs — continued

### FA 11-6 — Account Reconciliations (Material Weakness)

---

*Federal program information:*

| | |
|---|---|
| Funding agency: | All |
| Title: | All |
| CFDA number: | All |
| Award year and number: | All |
| Pass-through entity: (if applicable) | All |

*Condition:* Balance sheet accounts, specifically inventory and capital assets, were not properly reconciled to general ledger balances resulting in material adjustments to accounts. Long-term debt related to lease purchases was also not properly included in the general ledger at year-end. See Section II – Financial Statement Findings, FS 11-2.

*Auditors' Recommendations:* Establish internal control procedures to ensure accurate, timely accounting and financial reporting. This should include reconciliation of all balance sheet accounts to the appropriate sub-ledger. The County should also become familiar with the requirements of the Uniform Accounting Manual and should ensure procedures are in place to meet compliance with the Manual.

*Management's Response:* The finance office has gone through several changes due to the down turn in the economy. The office has currently taken over several other duties and lost a position. The inventory, capital assets and long-term debt have been reassigned and the County has implemented procedures whereby material transaction are tracked properly and recorded in a timely manner.

## Section III — Federal Award Findings and Questioned Costs — continued

### FA 11-7 — Segregation of Duties (Significant Deficiency)

---

*Federal program information:*

| | |
|---|---|
| Funding agency: | All |
| Title: | All |
| CFDA number: | All |
| Award year and number: | All |
| Pass-through entity: (if applicable) | All |

*Condition:* During our procedures, we noted several areas including cash disbursements, receiving, payroll and cash receipts where one person had access to the entire transaction flow without additional review or approval. See Section II – Financial Statement Findings, FS 11-5.

*Auditors' Recommendations:* Develop and implement policies and procedures that ensure access, initiation and approval functions are properly segregated for cash disbursements, receiving, payroll and cash receipts.

*Management's Response:* The County has implemented procedures to ensure proper segregation of duties over financial reporting.

# Apache County, Arizona
## Summary Schedule of Prior Audit Findings
## For the Year Ended June 30, 2011

**Finding Number: 10-04**

*CFDA Numbers*: All

*Programs*: All

*Status*: Not Corrected

*Corrective Action*: Apache County, in coordination with the Auditor General's office and REDW, has set a timeline in order to be current for the 2013 audit.

**Finding Number: 10-05**

*CFDA Numbers*: 10.664, 10.665, 15.226, 16.803, 20.205, 93.069

*Programs*: Cooperative Forestry Assistance, Secure Payments for States and Counties Containing Federal Lands, Payments in Lieu of Taxes, ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, Highway Planning and Construction, Public Health Emergency Preparedness

*Status*: Corrected

*Corrective Action*: Apache County implemented a new payroll system in January 2013 that requires all employees to electronically sign payroll.

**Finding Number: 10-06**

*CFDA Numbers*: All

*Programs*: All

*Status*: Not Corrected

*Corrective Action*: In January 2013, Apache County has added an additional position as grants manager, whose job duties will consist in part to track and reconcile all federal grants.

# Apache County, Arizona
## Corrective Action Plan
## For the Year Ended June 30, 2011

| Audit Finding | Corrective Action Plan | Persons Responsible | Estimated Completion Date |
|---|---|---|---|
| **FA 11-1** | See management's response at the finding. | Finance Director | Fiscal year 2013 |
| **FA 11-2** | See management's response at the finding. | Finance Director | Fiscal year 2014 |
| **FA 11-3** | See management's response at the finding. | Finance Director | Fiscal year 2014 |
| **FA 11-4** | See management's response at the finding. | Finance Director | Fiscal year 2014 |
| **FA 11-5** | See management's response at the finding. | Treasurer | Fiscal year 2014 |
| **FA 11-6** | See management's response at the finding. | Finance Director | Fiscal year 2014 |
| **FA 11-7** | See management's response at the finding. | Finance Director | Fiscal year 2014 |