
Apache County, Arizona



Annual Financial Report

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

June 30, 2012

REDW^{LLC}

CPAs | Business & Financial Advisors

Apache County, Arizona

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Apache County, Arizona

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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, 2012, 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3 through 9, the Budgetary Comparison Schedules on pages 41 through 44, and the Schedule of Agent Retirement Plans' Funding Progress on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of

preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 is the responsibility of the County's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements 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 March 17, 2014, 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.

A handwritten signature in black ink that reads "REDW LLC". The letters are stylized and slanted to the right.

Phoenix, Arizona
March 17, 2014

Apache County, Arizona

Management's Discussion and Analysis

For the Year Ended June 30, 2012

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, 2012. 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 \$38,402,718 (net assets). Of this amount, \$7,862,792 (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 \$1,265,857. This is a change from the prior year when net assets had increased by \$768,192.
- ♦ At the end of the fiscal year, unassigned fund balance for the general fund was \$8,663,279 or 44% of the total governmental funds' fund balances.
- ♦ Apache County's total long-term liabilities, excluding compensated absences payable, decreased by \$468,028 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).

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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.

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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 18–40 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 41–45 of this report.

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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, 2012, assets exceeded liabilities by \$38,402,718.

Condensed Statement of Net Assets
As of June 30,

	Governmental Activities	
	2012	2011
Assets		
Current and other assets	\$ 22,687,330	\$ 20,805,444
Capital assets	<u>29,750,239</u>	<u>30,089,056</u>
Total assets	<u>52,437,569</u>	<u>50,894,500</u>
Liabilities		
Current and other liabilities	2,465,702	2,112,207
Long-term liabilities outstanding	<u>11,569,149</u>	<u>11,645,432</u>
Total liabilities	<u>14,034,851</u>	<u>13,757,639</u>
Net Assets		
Invested in capital assets, net of related debt	19,909,606	19,780,395
Restricted	10,630,320	7,668,146
Unrestricted	<u>7,862,792</u>	<u>9,688,320</u>
Total net assets	<u>\$ 38,402,718</u>	<u>\$ 37,136,861</u>

The largest portion (\$19,909,606, or 52%) of the County's net assets reflects the investment in capital assets (e.g., land, improvements other than buildings, buildings, machinery and equipment, infrastructure, and construction in progress) less accumulated depreciation and 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 (\$10,630,320, or 28%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets (\$7,862,792 or 20%) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. Total net assets increased in the current year due to conservative budgeting. Restricted net assets increased due to additional reserves for debt service.

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2012

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	
	2012	2011
Revenues		
<i>Program revenues</i>		
Charges for services	\$ 2,954,902	\$ 2,978,150
Operating grants and contributions	13,694,638	14,899,335
Capital grants	13,879	14,201
<i>General revenues</i>		
Property taxes	12,251,763	12,220,741
Share of state sales taxes	5,338,625	5,187,861
Payments in lieu of taxes	5,952,070	4,250,525
Grants and contributions not restricted to specific programs	4,700	5,994
Investment income	(207,133)	(571,295)
Miscellaneous	316,553	361,391
Total revenues	<u>40,319,997</u>	<u>39,346,903</u>
Expenses		
General government	10,708,146	10,334,854
Public safety	9,777,869	9,856,346
Highways and streets	9,142,099	9,218,358
Sanitation	80,331	101,697
Health	3,015,549	2,806,569
Culture and recreation	1,675,381	1,526,054
Education	4,091,107	4,227,423
Welfare	4,158	231,308
Interest on long-term debt	559,500	276,250
Total expenses	<u>39,054,140</u>	<u>38,578,859</u>
Change in net assets	1,265,857	768,044
Net assets, beginning	<u>37,136,861</u>	<u>36,368,817</u>
Net assets, end of year	<u><u>\$ 38,402,718</u></u>	<u><u>\$ 37,136,861</u></u>

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Net assets increased by \$1,265,857, primarily as a result of an increase in payments in lieu of taxes and a decrease in investment losses. Payments in lieu of taxes increased as they were fully funded by the federal government in the current year where they had not been in previous years.

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—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, 2012, the County's general fund reported a decrease in fund balance of \$1,012,581. This was primarily due to an increase in transfers to other funds.

The road fund balance increased by \$312,959 due to a decrease in expenditures.

General Fund Budgetary Highlights

Total general fund expenditures were under budget by \$3,913,441. 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, 2012, amounted to \$29,750,239 net of accumulated depreciation. This investment in capital assets includes land, improvements other than buildings, construction in progress, buildings, infrastructure, and machinery and equipment.

Apache County, Arizona
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Capital Assets/Net of Depreciation
June 30,

	Governmental Activities		
	2012	2011	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	469,728	20,877	(36%)
Buildings	21,180,685	21,781,863	(2%)
Infrastructure	1,684,856	1,734,938	(3%)
Machinery and equipment	4,375,888	4,512,296	(14%)
Totals	<u>\$ 29,750,239</u>	<u>\$ 30,089,056</u>	(4%)

Long-term debt—On June 30, 2012, the County had a total of \$11,569,149 in long-term liabilities. Of this amount, \$9,190,000 was principal outstanding on general obligation and revenue bonds and \$650,633 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 29–31 of this report.

Economic Factors and Next Year's Budgets

In FY 2012, the County experienced small increases in sales tax and a significant increase to the PILT program which offset the decreased felt in the County's distributions. For FY 2013, the override voted in by the citizens for the past 7 years will come to an end. This will require the County to eliminate \$3.5 million from the General Fund Budget and as such will maintain its conservative budget manner.

With the completed of Tucson Electric Power's 4th unit, Apache County has seen additional revenues generated by increased assessed valuation as well as new permanent employment. This should help offset some of the decreases discussed above.

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, 2012

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,862,350
Investments	15,840,504
Receivables (net of allowance for uncollectibles)	
Property taxes	847,457
Accounts	191,977
Due from other governments	2,534,569
Inventories	375,622
Prepaid items	34,851
Capital assets not being depreciated	2,508,810
Capital assets, being depreciated, net	<u>27,241,429</u>
Total assets	<u>52,437,569</u>
Liabilities	
Accounts payable	1,648,477
Accrued payroll and employee benefits	817,225
Noncurrent liabilities	
Due within one year	1,352,821
Due in more than one year	<u>10,216,328</u>
Total liabilities	<u>14,034,851</u>
Net Assets	
Investment in capital assets, net of related debt	19,909,606
Restricted for	
Highways and streets	1,631,648
Debt service	3,794,982
Other purposes	5,203,690
Unrestricted	<u>7,862,792</u>
Total net assets	<u><u>\$ 38,402,718</u></u>

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, 2012

	Expenses	Charges for Services
Functions/Programs		
Governmental activities		
General government	\$ 10,708,146	\$ 2,645,047
Public safety	9,777,869	175,276
Highways and streets	9,142,099	1,519
Sanitation	80,331	-
Health	3,015,549	133,060
Culture and recreation	1,675,381	-
Education	4,091,107	-
Welfare	4,158	-
Interest on long-term debt	559,500	-
Total governmental activities	<u>\$ 39,054,140</u>	<u>\$ 2,954,902</u>
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		
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
\$ 975,102	\$ -	\$ (7,087,997)
2,159,182	13,879	(7,429,532)
7,927,524	-	(1,213,056)
83,039	-	2,708
1,128,800	-	(1,753,689)
-	-	(1,675,381)
1,420,991	-	(2,670,116)
-	-	(4,158)
-	-	(559,500)
<u>\$ 13,694,638</u>	<u>\$ 13,879</u>	<u>(22,390,721)</u>

7,581,466
 1,094,726
 461,440
 1,577,590
 495,402
 762,976
 278,163
 5,338,625
 5,952,070
 4,700
 (207,133)
 3,913
312,640
23,656,578
 1,265,857
37,136,861
\$ 38,402,718

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

Fund Financial Statements

Apache County, Arizona
Balance Sheet — Governmental Funds
June 30, 2012

	General Fund	Road Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,225,388	\$ 351,878	\$ 1,285,084	\$ 2,862,350
Investments	6,781,409	1,947,327	7,111,768	15,840,504
Receivables (net of allowance for uncollectibles)				
Property taxes	333,606	-	513,851	847,457
Accounts	115,050	9,272	67,655	191,977
Due from				
Other funds	285,635	-	232,200	517,835
Other governments	885,536	1,220,209	428,824	2,534,569
Inventories	-	375,622	-	375,622
Prepaid items	21,762	6,994	6,095	34,851
Total assets	<u>\$ 9,648,386</u>	<u>\$ 3,911,302</u>	<u>\$ 9,645,477</u>	<u>\$ 23,205,165</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 279,583	\$ 296,083	\$ 1,072,811	\$ 1,648,477
Accrued payroll and employee benefits	375,017	149,086	293,122	817,225
Due to				
Other funds	97,223	52,886	367,726	517,835
Deferred revenue	211,522	-	403,956	615,478
Total liabilities	<u>963,345</u>	<u>498,055</u>	<u>2,137,615</u>	<u>3,599,015</u>
Fund balances				
Nonspendable	21,762	382,616	6,095	410,473
Restricted	-	3,030,631	7,501,767	10,532,398
Unassigned	8,663,279	-	-	8,663,279
Total fund balances	<u>8,685,041</u>	<u>3,413,247</u>	<u>7,507,862</u>	<u>19,606,150</u>
Total liabilities and fund balances	<u>\$ 9,648,386</u>	<u>\$ 3,911,302</u>	<u>\$ 9,645,477</u>	<u>\$ 23,205,165</u>

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

Apache County, Arizona
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
June 30, 2012

Total governmental funds — fund balances		\$ 19,606,150
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 \$62,124,143 and the accumulated depreciation is \$32,373,904.		29,750,239
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		615,478
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	\$ (1,728,516)	
General obligation bonds payable	(5,210,000)	
Revenue bonds payable	(3,980,000)	
Capital leases payable	<u>(650,633)</u>	<u>(11,569,149)</u>
Net assets of governmental activities		<u>\$ 38,402,718</u>

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

Apache County, Arizona
Statement of Revenues, Expenditures and Changes in
Fund Balances — Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Road Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 5,332,114	\$ -	\$ 6,979,304	\$ 12,311,418
Special assessments	-	-	13,879	13,879
Licenses and permits	139,525	-	-	139,525
Intergovernmental	9,221,107	7,927,524	7,826,309	24,974,940
Charges for services	342,256	1,519	1,522,556	1,866,331
Fines and forfeits	532,013	-	417,033	949,046
Investment income (loss)	11,838	(8,498)	(210,473)	(207,133)
Miscellaneous	106,450	72	206,130	312,652
Total revenues	<u>15,685,303</u>	<u>7,920,617</u>	<u>16,754,738</u>	<u>40,360,658</u>
Expenditures				
Current				
General government	7,736,902	-	2,247,256	9,984,158
Public safety	3,225,835	-	5,873,493	9,099,328
Highways and streets	-	7,427,611	493,631	7,921,242
Sanitation	-	-	80,331	80,331
Health	1,092,090	-	1,900,834	2,992,924
Culture and recreation	25,000	-	1,650,381	1,675,381
Education	321,797	-	3,753,345	4,075,142
Capital outlay	706,241	379,491	885,688	1,971,420
Debt service				
Principal	-	24,415	1,087,123	1,111,538
Interest and other charges	-	-	559,500	559,500
Total expenditures	<u>13,107,865</u>	<u>7,831,517</u>	<u>18,531,582</u>	<u>39,470,964</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,577,438</u>	<u>89,100</u>	<u>(1,776,844)</u>	<u>889,694</u>
Other Financing Sources (Uses)				
Transfers in	300,000	-	4,114,432	4,414,432
Transfers out	(3,893,832)	(64,000)	(456,600)	(4,414,432)
Capital lease agreements	-	236,830	406,680	643,510
Sale of capital assets	3,813	100	-	3,913
Total other financing sources (uses)	<u>(3,590,019)</u>	<u>172,930</u>	<u>4,064,512</u>	<u>647,423</u>
Net change in fund balances	(1,012,581)	262,030	2,287,668	1,537,117
Fund balances, beginning	9,697,622	3,100,288	5,220,194	18,018,104
Changes in nonspendable resources				
Increase in reserve for inventories	-	50,929	-	50,929
Fund balances, ending	<u>\$ 8,685,041</u>	<u>\$ 3,413,247</u>	<u>\$ 7,507,862</u>	<u>\$ 19,606,150</u>

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

Apache County, Arizona
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012

Net change in fund balances — total governmental funds \$ 1,537,117

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	\$ 1,971,420	
Depreciation expense	<u>(2,310,237)</u>	(338,817)

Revenues in governmental funds that provided current financial resources in the current year were reported as revenues in the statement of activities when earned in a prior year.		(59,655)
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Increase in compensated absences payable decreases net assets of governmental activities but does not have any effect on fund balances of the governmental funds.		(391,745)
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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	(643,510)	
General obligation bonds repaid	450,000	
Installment purchase contract repaid	427,089	
Capital leases repaid	<u>234,449</u>	468,028

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	<u>50,929</u>	<u>50,929</u>
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Change in net assets of governmental activities		<u><u>\$ 1,265,857</u></u>
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The accompanying notes are an integral part of these financial statements.

Fiduciary Funds

Apache County, Arizona
Statement of Net Assets
Fiduciary Funds
June 30, 2012

	Investment Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 10,548,882	\$ 260,723
Investments, at fair value	<u>64,354,997</u>	<u>1,590,580</u>
Total assets	<u>74,903,879</u>	<u>1,851,303</u>
Liabilities		
Due to other governments	<u>-</u>	<u>1,851,303</u>
Total liabilities	<u>-</u>	<u>1,851,303</u>
Net Assets		
Held in trust for investment trust participants	<u>74,903,879</u>	<u>-</u>
Total net assets	<u><u>\$ 74,903,879</u></u>	<u><u>\$ -</u></u>

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, 2012

	<u>Investment Trust Fund</u>
Additions	
Contributions from participants	\$ 266,330,220
Net decrease in the fair value of investments	<u>(1,787,940)</u>
Total additions	<u>264,542,280</u>
Deductions	
Distributions to participants	<u>284,492,394</u>
Total deductions	<u>284,492,394</u>
Change in net assets	(19,950,114)
Net assets, beginning	<u>94,853,993</u>
Net assets, ending	<u><u>\$ 74,903,879</u></u>

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

1) Summary of Significant Accounting Policies

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

Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are so intertwined with the County that they are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. Each blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

The following table describes the County's component units:

Component Unit	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, Arizona
Notes to Financial Statements
June 30, 2012

Component Unit	Primary Activity	Reporting Method
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.

Basis of Presentation

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

Government-wide statements—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 overall government's financial activities, 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 levied or imposed by the County, are reported as general revenues.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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

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.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The County's major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, charges for services, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Cash and Investments

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

Inventories

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

The County accounts for its inventories in the governmental funds using the purchase method. Inventories of the governmental funds consist of expendable supplies held for consumption and are recorded as expenditures at the time of purchase. Amounts on hand at year-end are shown on the balance sheet as an asset for informational purposes only and as nonspendable fund balance to indicate that they do not constitute "available spendable resources." These inventories are stated at cost using the first-in, first-out method.

Property Tax Calendar

The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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		
Land	All		
Improvements other than buildings	\$ 5,000		
Construction in progress	\$ 5,000		
		Depreciation Method	Estimated Useful Life
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

Fund Balance Classifications

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

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

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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

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

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

Investment Earnings

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

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.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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

Deficit fund balances—At June 30, 2012, the following nonmajor funds reported significant deficits in fund balances:

Fund	Deficit
Emergency Services	\$ 333,703
Sheriff Grants	208,257
Accent Sheriff	104,930
GADA Loan	95,247
Bioterrorism	91,270
Library Construction Bond	80,006
Post Secondary Education	44,918
GIS Loan	35,693
Accent Attorney	25,281

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 2014.

The fund balance classifications for the governmental funds as of June 30, 2012, were as follows:

	General Fund	Road Fund	Other Governmental Funds	Total
Fund Balances				
Nonspendable				
Inventories	\$ -	\$ 375,622	\$ -	\$ 375,622
Prepaid	21,762	6,994	6,095	34,851
Total nonspendable	<u>21,762</u>	<u>382,616</u>	<u>6,095</u>	<u>410,473</u>
Restricted for				
Law enforcement	-	-	2,310,458	2,310,458
Highways and streets	-	3,030,631	78,951	3,109,582
Health	-	-	660,104	660,104
Welfare	-	-	2,623,579	2,623,579
Education	-	-	91,881	91,881
Library	-	-	1,179,588	1,179,588
Judicial	-	-	169,663	169,663
Other	-	-	387,543	387,543
Total restricted	<u>-</u>	<u>3,030,631</u>	<u>7,501,767</u>	<u>10,532,398</u>
Unassigned	<u>8,663,279</u>	<u>-</u>	<u>-</u>	<u>8,663,279</u>
Total fund balance	<u>\$ 8,685,041</u>	<u>\$ 3,413,247</u>	<u>\$ 7,507,862</u>	<u>\$ 19,606,150</u>

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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 and notes; 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; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

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 have a maximum maturity of 180 days.

Foreign Currency Risk

Statutes do not allow foreign investments.

Deposits—At June 30, 2012, the carrying amount of the County's deposits was \$13,663,317 and the bank balance was \$14,519,342. The County does not have a formal policy with respect to custodial credit risk.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

At June 30, 2012, cash equivalents included \$1,090,547 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, 2012, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 72,865,964
Municipal Bonds	443,368
Corporate bonds	8,476,749
Total investments	<u>\$ 81,786,081</u>

Credit risk—The County does not have a formal investment policy with respect to credit risk. At June 30, 2012, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Moody's	\$ 71,889,444
U.S. agency securities	No Rating		976,520
Municipal Bonds	No Rating		443,368
Corporate bonds	AA3	Moody's	1,150,983
Corporate bonds	AA2	Moody's	698,745
Corporate bonds	A3	Moody's	1,014,094
Corporate bonds	A2	Moody's	683,347
Corporate bonds	A1	Moody's	2,324,533
Corporate bonds	BAA2	Moody's	1,450,137
Corporate bonds	BAA1	Moody's	468,660
Corporate bonds	Withdrawn Rate	Moody's	686,250
			<u>\$ 81,786,081</u>

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in an outside party's possession. The County does not have a formal investment policy with respect to custodial credit risk. At June 30, 2012, the County had \$72,865,964 of U.S. agency securities, \$443,368 of municipal bonds and \$8,476,479 of corporate bonds that were uninsured and held by the counterparty's trust department not in the County's name.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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, 2012, 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 6.95%, 66.66%, and 10.23%, 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, 2012, the County had the following investments in debt securities:

Investment Type	Investment Maturities (in Years)		
	Fair Value	Less Than 1	1–5
U.S. agency securities	\$ 72,865,964	\$ 8,549,541	\$ 64,316,423
Municipal bonds	443,368	-	443,368
Corporate bonds	8,476,749	2,105,132	6,371,617
	<u>\$ 81,786,081</u>	<u>\$ 10,654,673</u>	<u>\$ 71,131,408</u>

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	\$ 8,638
Carrying amount of deposits	13,663,317
Amount of investments	<u>81,786,081</u>
Total	<u>\$ 95,458,036</u>

Statement of Net Assets	Governmental Activities	Investment Trust Fund	Agency Funds	Total
Cash and cash equivalents	\$ 2,862,350	\$ 10,548,882	\$ 260,723	\$ 13,671,955
Investments	<u>15,840,504</u>	<u>64,354,997</u>	<u>1,590,580</u>	<u>81,786,081</u>
Total	<u>\$ 18,702,854</u>	<u>\$ 74,903,879</u>	<u>\$ 1,851,303</u>	<u>\$ 95,458,036</u>

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

4) Due From Other Governments

Amounts due from other governments at June 30, 2012, in the general fund include \$885,536 in state shared revenue from sales tax and excise tax. Amounts due from other governments in the road fund include \$1,163,209 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 \$278,363 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, 2012, was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated</i>				
Land	\$ 1,975,672	\$ -	\$ -	\$ 1,975,672
Improvements other than buildings	63,410	-	-	63,410
Construction in progress	20,877	510,251	(61,400)	469,728
Total capital assets not being depreciated	2,059,959	510,251	(61,400)	2,508,810
<i>Capital assets being depreciated</i>				
Buildings	29,059,835	111,400	-	29,171,235
Machinery and equipment	27,198,433	1,411,169	(197,588)	28,412,014
Infrastructure	2,032,084	-	-	2,032,084
Total capital assets being depreciated	58,290,352	1,522,569	(197,588)	59,615,333
Less accumulated depreciation				
Buildings	7,277,972	712,578	-	7,990,550
Machinery and equipment	22,686,137	1,547,577	(197,588)	24,036,126
Infrastructure	297,146	50,082	-	347,228
Total accumulated depreciation	30,261,255	2,310,237	(197,588)	32,373,904
Total capital assets being depreciated, net	28,029,097	(787,668)	-	27,241,429
Governmental activities capital assets, net	\$ 30,089,056	\$ (277,417)	\$ (61,400)	\$ 29,750,239

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

Depreciation expense was charged to functions as follows:

Governmental activities	
General government	\$ 338,450
Public safety	654,721
Highways and streets	1,271,786
Health	22,640
Welfare	4,158
Education	18,482
Total depreciation expense—governmental activities	<u>\$ 2,310,237</u>

Construction Commitments

The County completed one major capital project by June 30, 2012. Two capital projects were in process at June 30, 2012. One project related to the County's new accounting software which was implemented July 1, 2013, with no additional costs. The second project had an estimated cost to complete of \$37,623 for the construction of bridges within the County.

6) Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2012:

Governmental Activities	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<i>Bonds payable</i>					
General obligation bonds	\$ 5,660,000	\$ -	\$ (450,000)	\$ 5,210,000	\$ 470,000
Revenue bonds	3,980,000	-	-	3,980,000	-
Total bonds payable	9,640,000	-	(450,000)	9,190,000	470,000
Installment purchase contract payable	427,089	-	(427,089)	-	-
Capital leases payable	241,572	643,510	(234,449)	650,633	133,125
Compensated absences payable	1,336,771	1,151,470	(759,725)	1,728,516	749,696
Total governmental activities long-term liabilities	<u>\$ 11,645,432</u>	<u>\$ 1,794,980</u>	<u>\$ (1,871,263)</u>	<u>\$ 11,569,149</u>	<u>\$ 1,352,821</u>

Bonds

The County's bonded debt consists of various issues of general obligation and revenue bonds that are noncallable with interest payable semiannually. Bond proceeds primarily pay for acquiring or constructing capital facilities. The County repays general obligation bonds from voter-approved property taxes.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

Bonds outstanding at June 30, 2012, were as follows:

Description	Original Amount Issued	Maturity Ranges	Interest Rates	Outstanding Principal
General obligation bonds				
Series 2007	\$ 7,190,000	7/1/10–21	4.5 – 5.0%	\$ 5,210,000
Revenue bonds				
Series 2007B	3,980,000	8/1/13–27	4.0 – 5.0%	3,980,000
				<u>\$ 9,190,000</u>

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2012:

Year Ending June 30,	General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
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	545,000	167,625	210,000	156,313
2017	575,000	143,100	220,000	147,713
2018-2022	2,605,000	255,150	1,245,000	581,619
2023-2027	-	-	1,550,000	273,841
2028	-	-	355,000	7,766
Total	<u>\$ 5,210,000</u>	<u>\$ 1,204,650</u>	<u>\$ 3,980,000</u>	<u>\$ 1,680,989</u>

The County has pledged state shared revenues to repay the revenue bonds issued by the Greater Arizona Development Authority (the "Authority"). The bonds, issued by the Authority in November 2007 in the amount of \$3.98 million are to provide financing for construction of two administrative facilities and acquisition of two buildings and remodeling thereof to provide office space, and are payable through 2028. Annual interest payments on the bonds for 2012 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 \$5,660,989 as of June 30, 2012, and are expected to require 7% of the state shared revenue pledged. For the current year, interest paid and total state shared revenues were \$264,769 and \$5,338,625, respectively.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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	\$ 841,760
Less accumulated depreciation	(111,247)
Carrying value	<u>\$ 730,513</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2012:

Year Ending June 30,	Governmental Activities
2013	\$ 154,875
2014	130,006
2015	130,006
2016	130,006
2017	<u>185,147</u>
Total minimum lease payments	730,040
Less amount representing interest	<u>(79,407)</u>
Present value of net minimum lease payments	<u>\$ 650,633</u>

Insurance Claims

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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 2012, the County paid for compensated absences as follows: 52 percent from the general fund, 24 percent from the road fund, and 24 percent from other funds.

7) Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For these risks of loss, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool, which are described below and the Arizona Local Government Employee Trust, which is described above.

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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 the plans 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.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

ASRS	PSPRS and CORP
3300 N. Central Ave. P.O. Box 33910 Phoenix, AZ 85067-3910 (602) 240-2000 or (800) 621-3778	3010 E. Camelback Rd., Suite 200 Phoenix, AZ 85016-4416 (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, 2012, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

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

Year Ending June 30,	Health Benefit		
	Retirement Fund	Supplement Fund	Long-Term Disability Fund
2012	\$ 894,082	\$ 57,069	\$ 21,741
2011	988,585	64,735	27,430
2010	871,228	104,501	43,483

Agent plans—For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members' annual covered payroll, and the County was required to contribute 37.49 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.41 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 8.82 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution was actuarially set at 0.96 percent of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2012, were established by the June 30, 2010, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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 2012 contribution requirements, 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%

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the two agent plans for the year ended June 30, 2012, and related information follows:

	PSPRS		CORP	
	Pension	Health Insurance	Pension	Health Insurance
Annual pension/OPEB cost	\$ 478,223	\$ 17,680	\$ 38,716	\$ 3,977
Contributions made	486,353	9,550	40,893	1,800

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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	2012	\$ 478,223	102 %	\$ 8,130
Health Insurance	2012	17,680	54 %	(8,130)
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)
CORP				
Pension	2012	38,716	106 %	2,177
Health Insurance	2012	3,977	45 %	(2,177)
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)

Funded Status—The funded status of the plans as of the most recent valuation date, June 30, 2012, along with the actuarial assumptions and methods used in those valuations follow:

	PSPRS		CORP	
	Pension	Health Insurance	Pension	Health Insurance
Actuarial accrued liability (a)	\$ 10,732,008	\$ 249,144	\$ 1,710,419	\$ 67,289
Actuarial value of assets (b)	3,874,146	-	1,483,800	-
Unfunded actuarial accrued liability (funding excess) (a) – (b)	6,857,862	239,594	226,619	65,489
Funded ration (b) / (a)	36.1%	0.0%	86.8%	0.0%
Annual covered payroll (c)	1,508,907	1,508,907	726,536	726,536
Unfunded actuarial accrued liability (funding excess) as a percentage of coverage payroll [(a) – (b)] / (c)	454.5%	16.5%	31.2%	9.3%

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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

9) Interfund Balances and Activity

Interfund receivables and payables—Interfund balances at June 30, 2012, were as follows:

Payable From	Payable To		
	General Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 97,223	\$ 97,223
Road Fund	-	52,886	52,886
Nonmajor governmental funds	285,635	82,091	367,726
Total	<u>\$ 285,635</u>	<u>\$ 232,200</u>	<u>\$ 517,835</u>

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

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

Interfund transfers—Interfund transfers for the year ended June 30, 2012, were as follows:

Transfer From	Transfer to		Total
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 3,893,832	\$ 3,893,832
Road Fund	-	64,000	64,000
Nonmajor governmental funds	300,000	156,600	456,600
Total	<u>\$ 300,000</u>	<u>\$ 4,114,432</u>	<u>\$ 4,414,432</u>

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

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.

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
U.S. agency securities	\$ 72,525,000	0.2% – 5.4%	2/13 – 6/17	\$ 72,865,964
Municipal bonds	440,000	3.9% – 4.6%	4/14 – 7/14	443,368
Corporate bonds	10,935,000	1.0% – 5.9%	12/12 – 3/17	8,476,749
Money Market Funds	1,090,547	None stated	N/A	1,090,547

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

Statement of net assets

Assets	\$ 94,658,209
Liabilities	-
Net assets	<u>\$ 94,658,209</u>

Net assets held in trust for

Internal participants	\$ 19,754,330
External participants	<u>74,903,879</u>
Total net assets held in trust	<u>\$ 94,658,209</u>

Statement of changes in net assets

Total additions	\$ 373,883,938
Total deductions	<u>398,145,852</u>
Net decrease	(24,261,914)

Net assets held in trust

July 1, 2011	<u>118,920,123</u>
June 30, 2012	<u>\$ 94,658,209</u>

11) Joint Ventures

The County is a member of the Blue Hills Environmental Association (Association), a nonprofit corporation created in 1991 by the County, City of St. Johns, Town of Springerville, and Town of Eagar. The members then entered into a solid waste operation agreement with the Association to operate the Blue Hills Regional Municipal Landfill

Apache County, Arizona
Notes to Financial Statements
June 30, 2012

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, 2012, 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.

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Property taxes	\$ 5,822,119	\$ 5,822,119	\$ 5,332,114	\$ (490,005)
Licenses and permits	119,900	119,900	139,525	19,625
Intergovernmental	6,882,039	6,882,039	9,221,107	2,339,068
Charges for services	71,801	71,801	342,256	270,455
Fines and forfeits	376,000	376,000	532,013	156,013
Investment income	90,000	90,000	11,838	(78,162)
Contributions	1,581,794	1,581,794	-	(1,581,794)
Miscellaneous	20,543	20,543	106,450	85,907
Total revenues	14,964,196	14,964,196	15,685,303	721,107
Expenditures				
General government				
Assessor	622,845	694,670	567,395	127,275
Attorney	910,407	910,407	740,445	169,962
Board of Supervisors	723,494	818,037	403,918	414,119
Clerk of the Court	508,277	515,681	668,538	(152,857)
Contingency	1,544,229	1,096,765	128,776	967,989
Data processing	443,741	443,741	374,448	69,293
Elections	402,321	402,321	181,687	220,634
Finance	496,965	496,965	406,127	90,838
Human resources	300,237	300,237	186,865	113,372
Records management	23,385	23,385	19,238	4,147
District #1	255,702	255,702	158,565	97,137
District #2	255,702	255,702	202,230	53,472
District #3	150,990	150,990	104,286	46,704
Grounds/maintenance	817,513	862,923	704,263	158,660
JP – Chinle	167,541	174,624	143,242	31,382
JP – Puerco	281,818	281,873	229,569	52,304
JP – St. Johns	170,060	173,815	142,432	31,383
JP – Round Valley	238,532	238,532	186,680	51,852
St. Johns magistrate	34,096	37,262	30,288	6,974
Springerville magistrate	41,824	45,504	36,788	8,716
Eager magistrate	41,824	43,674	34,956	8,718
Communication specialist and project	106,711	106,711	75,177	31,534
Community development	437,219	437,219	357,312	79,907
Recorder	450,136	450,136	365,014	85,122
Superior Court	466,952	472,437	385,262	87,175
Public defenders	449,438	449,438	359,649	89,789
Jury fees and related	135,808	135,808	56,109	79,699
Support and care of persons	6,437	6,437	4,693	1,744
Treasurer	307,492	310,750	253,216	57,534

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Expenditures – continued				
Legal services/judgments	\$ 28,200	\$ 28,200	\$ -	\$ 28,200
Insurance	220,000	221,161	181,060	40,101
Public fiduciary	85,165	85,165	45,601	39,564
Retirement reserve	45,000	45,000	-	45,000
County fair	15,000	15,000	-	15,000
Wellness	35,000	35,000	2,856	32,144
Fleet management	-	-	217	(217)
Total general government	11,220,061	11,021,272	7,736,902	3,284,370
Public safety				
Constables	90,475	91,395	83,886	7,509
Adult probation	308,029	308,029	301,965	6,064
Juvenile probation	240,819	250,978	204,739	46,239
Search and rescue	9,400	9,400	-	9,400
Sheriff	2,407,161	2,592,071	2,635,245	(43,174)
Total public safety	3,055,884	3,251,873	3,225,835	26,038
Health				
AHCCCS	1,100,000	1,100,000	1,092,090	7,910
Culture and recreation				
Agricultural extension	22,200	25,000	25,000	-
Education				
School superintendent	328,242	328,242	321,797	6,445
Professional development	-	-	-	-
Total education	328,242	328,242	321,797	6,445
Capital outlay	1,294,919	1,294,919	706,241	588,678
Total expenditures	17,021,306	17,021,306	13,107,865	3,913,441
Resources over (under) charges to appropriations	(2,057,110)	(2,057,110)	2,577,438	4,634,548
Other Financing Sources (Uses)				
Transfers in	2,031,563	2,031,563	300,000	(1,731,563)
Transfers out	(3,974,453)	(3,974,453)	(3,893,832)	80,621
Sales of capital assets	-	-	3,813	3,813
Total other financing sources (uses)	(1,942,890)	(1,942,890)	(3,590,019)	(1,647,129)
Net change in fund balances	(4,000,000)	(4,000,000)	(1,012,581)	2,987,419
Fund balances, beginning of year	4,000,000	4,000,000	9,697,622	5,697,622
Fund balances, end of year	\$ -	\$ -	\$ 8,685,041	\$ 8,685,041

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, 2012

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	\$ 7,300,000	\$ 7,300,000	\$ 7,927,524	\$ 627,524
Charges for services	1,500	1,500	1,519	19
Investment income (loss)	6,000	6,000	(8,498)	(14,498)
Miscellaneous	469,000	469,000	72	(468,928)
Total revenues	<u>7,776,500</u>	<u>7,776,500</u>	<u>7,920,617</u>	<u>144,117</u>
Expenditures				
Highways and streets				
Engineer	492,849	492,849	492,585	264
Safety	6,000	6,000	-	6,000
District #1	1,973,166	1,973,166	2,522,565	(549,399)
District #2	1,860,277	1,860,277	2,030,299	(170,022)
District #3	2,940,960	2,940,960	2,030,898	910,062
Liability insurance	270,309	270,309	270,309	-
Contingency	100,000	100,000	80,955	19,045
RAC Grant	280,000	280,000	-	280,000
Deferred	608,333	608,333	-	608,333
Total highways and streets	<u>8,531,894</u>	<u>8,531,894</u>	<u>7,427,611</u>	<u>1,104,283</u>
Debt service	-	-	24,415	(24,415)
Capital outlay	-	-	379,491	(379,491)
Total expenditures	<u>8,531,894</u>	<u>8,531,894</u>	<u>7,831,517</u>	<u>700,377</u>
Resources over (under) charges to appropriations	<u>(755,394)</u>	<u>(755,394)</u>	<u>89,100</u>	<u>844,494</u>
Other Financing Sources (Uses)				
Transfers in	819,394	819,394	-	(819,394)
Transfers out	(64,000)	(64,000)	(64,000)	-
Capital lease agreements	-	-	236,830	236,830
Sale of capital assets	-	-	100	100
Total other financing sources (uses)	<u>755,394</u>	<u>755,394</u>	<u>172,930</u>	<u>(582,464)</u>
Net change in fund balances	-	-	262,030	262,030
Fund balances, beginning of year	3,100,288	3,100,288	3,100,288	-
Changes in nonspendable resources	-	-	50,929	50,929
Fund balances, end of year	<u>\$ 3,100,288</u>	<u>\$ 3,100,288</u>	<u>\$ 3,413,247</u>	<u>\$ 312,959</u>

See accompanying notes to required supplementary information.

Apache County, Arizona
Notes to Required Supplementary Information
June 30, 2012

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, 2012, 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	\$ 152,857
Sheriff	43,174
Fleet management	217
Road Fund	
District #1	549,399
District #2	170,022
Debt service	24,415
Capital outlay	379,491

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, 2012

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (b-a) (b)-(a)	Funded ratio (a)/(b)	Annual covered payroll (c)	UAAL as a percentage of covered payroll ([(b)-(a)]/(c))
Pension						
06/30/12	\$ 3,874,146	\$ 10,732,008	\$ 6,857,862	36.1 %	\$ 1,508,907	454.5 %
Health Insurance						
06/30/12	-	249,144	249,144	0.0 %	1,508,907	16.5 %
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 %	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 %

Corrections Officer Retirement Plan

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b)-(a)	Funded ratio (a)/(b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([(b)-(a)]/(c))
Pension						
06/30/12	\$ 1,483,800	\$ 1,710,419	\$ 226,619	86.8 %	\$ 726,536	31.2 %
Health Insurance						
06/30/12	-	67,289	67,289	0.0 %	726,536	9.3 %
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 %

Supplementary Information

Schedule of Expenditures of Federal Awards

Apache County, Arizona
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

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	\$ 101,118
State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10.561	HG150047	54,705
Passed through Arizona State Forestry Cooperative Forestry Assistance	10.664	WFHF 09-006	70,934
Passed through the United States Forest Service Schools and Roads - Grants to States	10.665	10-DG-1030121-035	57,000
Passed through the Arizona State Treasurer Schools and Roads - Grants to States	10.665	None	902,505
Total Schools and Roads - Grants to States			<u>959,505</u>
Total U.S. Department of Agriculture			<u>1,186,262</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Housing Sustainable Communities Regional Planning Grant Program	14.703	AZRIP0003-10	<u>234,372</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		<u>1,635,348</u>
U.S. Department of Justice			
Passed through the Arizona Criminal Justice Commission Meth Grant	16.2006CKWX0430	2006CKWX0430	10,960
State Criminal Alien Assistance Program	16.606	None	11,619
ARRA Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	DC-10-017	195,596
ARRA Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	DC-10-040	42,486
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2JC90381	<u>2,525</u>
Total JAG Program Cluster			<u>240,607</u>
Total U.S. Department of Justice			<u>263,186</u>
U.S. Department of Transportation			
Passed through the Arizona State Department of Transportation			
Highway Planning and Construction	20.205	P001-0211-002780	2,670
State and Community Highway Safety	20.600	2012-OP-001	<u>608</u>
Total U.S. Department of Transportation			<u>3,278</u>
U.S. Department of Energy			
Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		<u>54,874</u>
Total U.S. Department of Energy			<u>54,874</u>

(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, 2012

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	\$ 14,520
Special Education_Grants to States	84.027	34-194	<u>5,545</u>
Total Special Education_Grants to States			20,065
Passed through the Arizona Supreme Court			
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013	34-51	44,605
Passed through the Arizona Department of Education			
Eisenhower Professional Development State Grants	84.281	KR12-0084	<u>5,903</u>
Total U.S. Department of Education			<u>70,573</u>
U.S. Department of Health and Human Services			
Passed through the Arizona Department of Health Services			
Family Planning_Services	93.217	361314-5	5,810
Immunization Cooperative Agreements	93.268	HG854296	38,993
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	20H06588	82,339
Healthy Start Initiative	93.926	HG852280	91,925
HIV Prevention Activities_Health Department Based	93.940	HG852280	8,307
Preventive Health and Health Services Block Grant	93.991	HG854369	37,328
Maternal and Child Health Services Block Grant to the States	93.994	HG561262	106,445
Preventive Health Services_Sexually Transmitted Diseases Control	93.977	HG952253	2,202
Passed through the National Association of County and City Health Officials			
Medical Reserve Corps Small Grant Program	93.008	MRC 10 2107	5,000
Passed through the Arizona Department of Health Services			
Public Health Emergency Preparedness	93.069	HG754192	198,602
Public Health Emergency Preparedness	93.069	20HO7598	<u>4,069</u>
Total Public Health Emergency Preparedness			<u>202,671</u>
Total U.S. Department of Health and Human Services			<u>581,020</u>
U.S. Department of Homeland Security			
Passed through the Arizona Department of Homeland Security			
Homeland Security Grant Program	97.067	888100-001	155,751
Passed through the Arizona Department of Emergency and Military Affairs			
Emergency Management Performance Grants	97.042	2ES01077	<u>97,276</u>
Total U.S. Department of Homeland Security			<u>253,027</u>
Total expenditures of federal awards			<u>\$ 4,281,940</u>

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

Apache County, Arizona
Notes to Schedule of Expenditures of Federal Awards
June 30, 2012

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 2012 Catalog of Federal Domestic Assistance.

3) Subrecipients

From the federal expenditures presented in the schedule, the County awarded the following to subrecipients.

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Paid to Subrecipient</u>
Sustainable Communities Regional Planning Grant Program	14.703	\$234,372

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, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 17, 2014. 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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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.

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 County'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 2012-001 and 2012-002 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 2012-003 and 2012-004 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.

A handwritten signature in black ink that reads "REDW LLC". The letters are stylized and cursive.

Phoenix, Arizona
March 17, 2014

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, 2012. 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, 2012. 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 2012-007, 2012-009 and 2012-010.

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 another deficiency that we consider to be a significant deficiency.

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 2012-005 and 2012-006 to be material weaknesses.

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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-008 to be a significant deficiency.

Apache County's responses to the findings identified in our audit are presented on pages 56 through 65. 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
March 17, 2014

Apache County, Arizona
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

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

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section I — Summary of Auditors' Results — continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads – Grants to States
15.226	Payments in Lieu of Taxes

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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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
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Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section II — Financial Statement Findings

2012-001 — Account Reconciliations (Material Weakness; Repeat Finding)

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.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section II — Financial Statement Findings

2012-002 — Cash, Cash Equivalents and Investments Held by the Treasurer (Material Weakness; Repeat Finding)

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. This was corrected in 2012 as a result of a Special Audit performed by the Auditor General.

Cause and Effect: Procedures were not 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. Sufficient controls were not in place to detect and correct misstatement of investments balances in a timely manner.

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 Apache County Treasurer's Office has recently replaced their entire staff and has hired a Chief Deputy to help enact necessary procedures and segregate duties to comply with audit findings. They have also hired a new employee to perform all reconciliations. Along with additional staff, they are in the process of implementing new general ledger software in order to facilitate these corrections.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section II — Financial Statement Findings — continued

2012-003 — Single Audit Report Submission (Significant Deficiency; Repeat Finding)

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 2012 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 to be able to dedicate more time to financial reporting.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section II — Financial Statement Findings — continued

2012-004 — Segregation of Duties (Significant Deficiency; Repeat Finding)

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 Apache County Treasurer's Office has recently replaced their entire staff and has hired a Chief Deputy to help enact necessary procedures and segregate duties to comply with audit findings. They have also hired a new employee to perform all reconciliations. Along with additional staff, they are in the process of implementing new general ledger software in order to facilitate these corrections.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section III — Federal Award Findings and Questioned Costs

2012-005 — Cash, Cash Equivalents and Investments Held by the Treasurer (Material Weakness; Repeat Finding)

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. Balances were corrected in 2012 based on a Special Audit issued by the Auditor General. See Section II – Financial Statement Findings, 2012-002.

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 Apache County Treasurer's Office has recently replaced their entire staff and have hired a Chief Deputy to help enact necessary procedures and segregate duties to comply with audit findings. They have also hired a new employee to perform all reconciliations. Along with additional staff, they are in the process of implementing a new general ledger software in order to facilitate these corrections.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section III — Federal Award Findings and Questioned Costs — continued

2012-006 — Account Reconciliations (Material Weakness; Repeat Finding)

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, 2012-001.

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.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section III — Federal Award Findings and Questioned Costs — continued

2012-007 — Single Audit Report Submission (Significant Deficiency; Repeat Finding)

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 2012 single audit reporting package was not submitted within nine months after the end of the audit period. See Section II – Financial Statement Findings, 2012-003.

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 to be able to dedicate more time to financial reporting.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section III — Federal Award Findings and Questioned Costs — continued

2012-008 — Segregation of Duties (Significant Deficiency; Repeat Finding)

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, 2012-004.

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 Apache County Treasurer's Office has recently replaced their entire staff and has hired a Chief Deputy to help enact necessary procedures and segregate duties to comply with audit findings. They have also hired a new employee to perform all reconciliations. Along with additional staff, they are in the process of implementing new general ledger software in order to facilitate these corrections.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section III — Federal Award Findings and Questioned Costs — continued

2012-009 — Allocation of Forest Reserve Funds (Repeat Finding)

Federal program information:

Funding agency:	U.S. Department of Agriculture
Title:	Schools and Roads – Grants to States
CFDA number:	10.665
Award year and number:	2012 (10-DG-1030121-035)
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 \$959,505 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 continues to feel there is a greater need in public schools.

Apache County, Arizona
Schedule of Findings and Questioned Costs — continued
For the Year Ended June 30, 2012

Section III — Federal Award Findings and Questioned Costs — continued

2012-010 — Capital Asset Inventory

Federal program information:

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

Criteria: According to the Uniform Accounting Manual for Arizona Counties (UAMAC), section VI-E, to satisfy the standard required for recipients of federal monies, a physical inventory of furniture, equipment, and vehicles purchased with federal monies costing \$5,000 or more, and having useful lives over 1 year should be conducted and reconciled to the capital assets list at least once every two years to be in compliance with A-102 Common Rule §__.32, as codified by each federal funding agency in its title of the Code of Federal Regulations.

Condition: The County has not performed an inventory count in the past two years.

Questioned Costs: None.

Context: None.

Cause and Effect: The County did not complete an inventory count, planning, and/or observation for the past two fiscal years. As a result, the County is not in compliance with the UAMAC or the inventory count requirements included in A-102.

Auditors' Recommendations: Apache County should complete a capital asset inventory to become current with compliance requirements.

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 and capital assets have been reassigned and the County has performed a full inventory for fiscal year 2013.

Apache County, Arizona
Corrective Action Plan
For the Year Ended June 30, 2012

Audit Finding	Corrective Action Plan	Person Responsible	Estimated Completion Date
2012-001	See management's response at the finding.	Finance Director	Fiscal year 2013
2012-002	See management's response at the finding.	Treasurer	Fiscal year 2014
2012-003	See management's response at the finding.	Finance Director	Fiscal year 2014
2012-004	See management's response at the finding.	Treasurer; Finance Director	Fiscal year 2014
2012-005	See management's response at the finding.	Treasurer	Fiscal year 2014
2012-006	See management's response at the finding.	Finance Director	Fiscal year 2013
2012-007	See management's response at the finding.	Finance Director	Fiscal year 2014
2012-008	See management's response at the finding.	Treasurer; Finance Director	Fiscal year 2014
2012-009	See management's response at the finding.	Finance Director	Fiscal year 2014
2012-010	See management's response at the finding.	Finance Director	Fiscal year 2013

Apache County, Arizona
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2012

Prior Audit Findings	Current Status
Federal Award Findings and Questioned Costs	
FA 11-1 — Single Audit Reporting. See current year finding 2012-007 .	Unresolved
FA 11-2 — Schedule of Expenditures of Federal Awards	Resolved
FA 11-3 — Allocation of Forest Reserve Funds. See current year finding 2012-009 .	Unresolved
FA 11-4 — Reporting	Resolved
FA 11-5 — Cash, Cash Equivalents and Investments Held by the Treasurer. See current year finding 2012-005 .	Partially Resolved
FA 11-6 — Account Reconciliations. See current year finding 2012-006 .	Unresolved
FA 11-7 — Segregation of Duties. See current year finding 2012-008 .	Partially Resolved
10-04 — Single Audit Reporting. See current year finding 2012-007 .	Unresolved
10-06 — Presentation of the Schedule of Expenditures of Federal Awards (SEFA)	Resolved