

La Paz County, Arizona
Basic Financial Statements

Year ended June 30, 2013

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Independent Auditors' Report

The Auditor General of the State of Arizona
The Board of Supervisors of
La Paz County, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of La Paz County, Arizona (the "County") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of La Paz County as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 13, the Schedule of Agent Retirement Plans' Funding Progress on page 55, and the Budgetary Comparison Schedules on pages 56 through 62 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 the 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 inquires 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 to provide any assurance.

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

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes, Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, management, and other responsible parties within the County and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 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* in considering the County's internal control over financial reporting and compliance.

REDW LLC

Phoenix, Arizona
January 21, 2014

Management's Discussion and Analysis

La Paz County
Management's Discussion and Analysis
June 30, 2013

This discussion and analysis, prepared by La Paz County's (the "County") management, is intended to be an easily readable analysis of the County's financial activities based on currently known facts, decisions or conditions during the fiscal year ended June 30, 2013. This analysis focuses on current year activities and should be read in conjunction with the County's basic financial statements following this section.

Financial Highlights

- The County's total assets exceeded liabilities by \$50,892,739 (net position). Of this amount, \$19,624,415 is a deficit in unrestricted net position, \$7,733,243 is restricted for specific purposes (restricted net position), and \$62,783,911 is the County's net investment in capital assets.
- The County's total net position as reported in the Statement of Activities decreased by \$2,739,867 in comparison to the prior year's decrease in total net position of \$2,789,169.
- At June 30, 2013, the governmental funds reported combined fund balances of \$6,989,882, a decrease of \$333,767 in comparison with the prior year. The components of fund balances consist of \$38,064 that is nonspendable, \$9,417,027 that is restricted or committed for specific purposes, and \$2,465,209 that is an accumulated deficit.
- At June 30, 2013 the unassigned fund balance for the General Fund was \$2,729,106 or 20.9% of General Fund expenditures. In accordance with Arizona Revised Statutes §42-17151, this entire amount is budgeted to be expended in the next fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. Required supplementary information is included in addition to the basic financial statements.

Government-wide Financial Statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to private-sector businesses.

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

The *Statement of Activities* presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses 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).

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or part of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and education. The County has two business-type activities consisting of the Emerald Canyon Golf Course and the La Paz County Park.

Component units are included in our 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 County has one major component unit, the La Paz County Jail District and several street lighting districts that are also component units. Refer to Note 1 A, Reporting Entity, on page 26 of this report for more information on the County's component units.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund Financial Statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: *governmental funds, proprietary funds, and fiduciary 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 funds financial statements focus on near-term inflows and outflows of usable resources, as well as on balances of usable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

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 balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County reports five major governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Road, Jail District, Business 95 Road Improvement, and Debt Service funds. Data from the other governmental funds (non-major) are combined into a single, aggregated presentation.

Management's Discussion and Analysis - Continued

Overview of the Financial Statements - Continued

The governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary funds, or enterprise funds, are used to report the same functions presented as business-type activities in the government-wide financial statements. La Paz County uses enterprise funds to account for the Emerald Canyon Golf Course and the County Parks fund. Fund financial statements for the enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

The enterprise fund financial statements can be found on pages 20-23 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

The fiduciary funds financial statements can be found on pages 24-25 of this report.

Notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes can be found on pages 26-54 of this report.

Required supplementary information presents budgetary comparison schedules for the General, Road, Business 95 Road Improvement and Jail District funds of the County. It also includes a schedule of agent retirement plan's funding progress for the County's Public Safety Personnel Retirement System.

Required supplementary information can be found on pages 55-58 of this report.

Government-Wide Financial Analysis

Net Position

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

Restricted net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the government's ongoing obligations to the citizens and creditors.

Management's Discussion and Analysis - Continued

Government-Wide Financial Analysis - Continued

The following table summarizes the Statement of Net Position at June 30, 2013 and 2012:

| | 2013 Governmental Activities | 2012 Governmental Activities | 2013 Business- Type Activities | 2012 Business- Type Activities | 2013 Total | 2012 Total |
|----------------------------------|------------------------------------|------------------------------------|---|---|----------------------|----------------------|
| Current and other assets | \$ 9,894,665 | \$ 10,033,496 | \$ (700,645) | \$ (571,753) | \$ 9,194,020 | \$ 9,461,743 |
| Capital assets | 64,485,622 | 66,706,820 | 1,356,277 | 1,669,131 | 65,841,899 | 68,375,951 |
| Total assets | <u>74,380,287</u> | <u>76,740,316</u> | <u>655,632</u> | <u>1,097,378</u> | <u>75,035,919</u> | <u>77,837,694</u> |
| Other liabilities | 1,910,414 | 2,050,791 | 96,603 | 156,989 | 2,007,017 | 2,207,780 |
| Long-term liabilities | 21,984,998 | 21,880,623 | 151,165 | 116,685 | 22,136,163 | 21,997,308 |
| Total liabilities | <u>23,895,412</u> | <u>23,931,414</u> | <u>247,768</u> | <u>273,674</u> | <u>24,143,180</u> | <u>24,205,088</u> |
| Net assets: | | | | | | |
| Net investment in capital assets | 61,459,253 | 63,851,817 | 1,324,658 | 1,669,131 | 62,783,911 | 65,520,948 |
| Restricted | 7,733,243 | 6,406,829 | - | - | 7,733,243 | 6,406,829 |
| Unrestricted (deficit) | <u>(18,707,621)</u> | <u>(17,449,744)</u> | <u>(916,794)</u> | <u>(845,427)</u> | <u>(19,624,415)</u> | <u>(18,295,171)</u> |
| Total net position | <u>\$ 50,484,875</u> | <u>\$ 52,808,902</u> | <u>\$ 407,864</u> | <u>\$ 823,704</u> | <u>\$ 50,892,739</u> | <u>\$ 53,632,606</u> |

As noted earlier, net position may serve over time as a useful indicator of whether the financial position of the County is improving or deteriorating. In the case of the County, assets exceeded liabilities by \$50,892,739 at June 30, 2013, which is primarily the result of the County's investment in long-lived assets.

The decrease in the County's financial position is primarily related to removing capital assets resulting from a change to the County's capitalization threshold. Additionally, the change is attributed to a decrease in charges for services revenue fees, fines and forfeits. This decrease resulted in less revenues earned by the Jail District for inmate services and a decrease in court fines and fees collected. The decrease in net assets is also attributed to an increase of interest expense incurred for long-term debt repayments. Refer to Note 1 G, Capital Assets, on page 31 of this report for more information on the change in capitalization threshold.

Governmental activities capital assets decreased by \$2,221,198 and is attributable to depreciation expense that exceeded capital asset additions during 2013 and removing capital assets resulting from a change in the County's capitalization threshold. The capital assets that were removed had a net book value of \$980,386. Governmental activities long-term liabilities increased by \$104,375 and is primarily the result of proceeds received from the refinancing of long-term liabilities offset by a decrease in compensated absences of \$66,991. Additional information on the County's long term debt activity can be found in Note 7 of the notes to the financial statements on pages 42-46 of this report.

Management's Discussion and Analysis - Continued

Government-Wide Financial Analysis - Continued

Business-type activities incurred a decrease in total assets which is primarily related to the removal of capital assets due to a change in the County's capitalization threshold.

Changes in Net Position

The following table indicates the changes in net position for governmental and business-type activities:

| | 2013 Governmental Activities | 2012 Governmental Activities | 2013 Business-Type Activities | 2012 Business-Type Activities | 2013 Total | 2012 Total |
|---|------------------------------------|------------------------------------|-------------------------------------|-------------------------------------|----------------------|----------------------|
| <u>Revenues</u> | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 3,866,022 | \$ 4,394,435 | \$ 2,316,965 | \$ 2,428,260 | \$ 6,182,987 | \$ 6,822,695 |
| Operating grants & contributions | 5,055,096 | 4,680,173 | - | - | 5,055,096 | 4,680,173 |
| Capital grants & contributions | 3,371,082 | 3,360,549 | - | - | 3,371,082 | 3,360,549 |
| General revenues: | | | | | | |
| Property taxes | 4,536,028 | 4,694,932 | - | - | 4,536,028 | 4,694,932 |
| Share of state sales taxes | 2,062,553 | 1,940,327 | - | - | 2,062,553 | 1,940,327 |
| Excise tax | 3,375,692 | 2,834,936 | - | - | 3,375,692 | 2,834,936 |
| Payments in lieu of taxes | 1,800,102 | 1,842,363 | - | - | 1,800,102 | 1,842,363 |
| Vehicle license tax | 531,625 | 559,581 | - | - | 531,625 | 559,581 |
| Investment earnings | 13,730 | 2,115 | - | - | 13,730 | 2,115 |
| Miscellaneous | 784,401 | 676,932 | 16,992 | 24,115 | 801,393 | 701,047 |
| Total revenues | <u>25,396,331</u> | <u>24,986,343</u> | <u>2,333,957</u> | <u>2,452,375</u> | <u>27,730,288</u> | <u>27,438,718</u> |
| <u>Expenses</u> | | | | | | |
| General government | 9,056,666 | 8,024,848 | - | - | 9,056,666 | 8,024,848 |
| Public safety | 9,609,792 | 9,861,874 | - | - | 9,609,792 | 9,861,874 |
| Highways and streets | 4,504,629 | 5,318,906 | - | - | 4,504,629 | 5,318,906 |
| Sanitation | 159,430 | 173,667 | - | - | 159,430 | 173,667 |
| Health | 2,521,395 | 2,498,672 | - | - | 2,521,395 | 2,498,672 |
| Welfare | 447,339 | 526,723 | - | - | 447,339 | 526,723 |
| Culture and recreation | 116,355 | 100,484 | 2,749,797 | 2,671,328 | 2,866,152 | 2,771,812 |
| Education | 275,369 | 274,475 | - | - | 275,369 | 274,475 |
| Interest on long-term debt | 1,029,383 | 776,910 | - | - | 1,029,383 | 776,910 |
| Total expenses | <u>27,720,358</u> | <u>27,556,559</u> | <u>2,749,797</u> | <u>2,671,328</u> | <u>30,470,155</u> | <u>30,227,887</u> |
| Change in net position before transfers | (2,324,027) | (2,570,216) | (415,840) | (218,953) | (2,739,867) | (2,789,169) |
| Transfers | - | (618) | - | 618 | - | - |
| Change in net position | (2,324,027) | (2,570,834) | (415,840) | (218,335) | (2,739,867) | (2,789,169) |
| Beginning net position | 52,808,902 | 55,379,736 | 823,704 | 1,042,039 | 53,632,606 | 56,421,775 |
| Ending net position | <u>\$ 50,484,875</u> | <u>\$ 52,808,902</u> | <u>\$ 407,864</u> | <u>\$ 823,704</u> | <u>\$ 50,892,739</u> | <u>\$ 53,632,606</u> |

Management's Discussion and Analysis - Continued

Government-Wide Financial Analysis - Continued

Net position of the governmental activities decreased during the year by \$2,324,027. Total revenues increased by \$409,988 which is primarily related to an increase in excise tax of \$540,756. The increase in excise tax is from a levy authorized by the County's Board of Supervisors on September 12, 2011 for purposes of servicing debt on judgment bonds issued in 2012. In addition, governmental activities expenses increased from 2012 by a total of \$163,799. The expense increase was primarily from an increase in general government expenses of \$1,031,818 offset by a decrease in highway and streets expenses of \$814,277. The majority of the increase in general government expenses is related to a \$980,386 loss recorded during 2013 pertaining to the removal of depreciable assets. This resulted from an increase in the County's capitalization threshold. The decrease in highways and street expense was primarily the result of a decrease in depreciation expense.

Additionally, the change in net position is attributed to a decrease in charges for services revenue of \$528,412 and an increase of interest expense incurred for long-term debt repayments of \$252,477.

Business-type activities reported a decrease in net position of \$415,840. The decrease in net position was primarily from net operating losses and non-operating expenses related to the removal of capital assets with a net book value of \$184,057.

Financial Analysis of the County's Funds

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance 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 useable resources. Such information is useful in assessing the County's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At June 30, 2013, the County's governmental funds reported combined fund balances of \$6,989,882, a decrease of \$333,767 in comparison with the prior year.

The General Fund is the County's primary operating fund. At the end of the current fiscal year, fund balance of the General Fund was \$2,760,958. Total General Fund revenue decreased \$556,692 from 2012 and is primarily the result of decreases in County property tax revenue and fees, fines and forfeits revenue. General Fund expenditures decreased by \$14,528,466 resulting primarily from the settlement of a judgment liability during 2012 totaling \$13,727,621 and related cost of issuance pertaining to the judgment bonds totaling \$1,056,327.

The Road Fund, a major County Fund, is used for various road projects within the County. During 2013, the fund incurred an overall decrease of \$614,722 in expenditures due to fewer repair and rehabilitation projects for various County roads and streets.

The Jail District Fund, also a major County fund, is used to report the activity of the County's jail facility. During 2013, the Fund's overall revenues decreased by \$171,145 from 2012 due to a continued decrease in revenues related to inmate housing activity while expenditures increased by \$99,591.

Management's Discussion and Analysis - Continued

Financial Analysis of the County's Funds - Continued

The Business 95 Road Improvement Fund had a decrease in expenditures totaling \$78,473 from the prior year pertaining to a decrease in expenditures for repairs and maintenance on the Business Route 95 Highway.

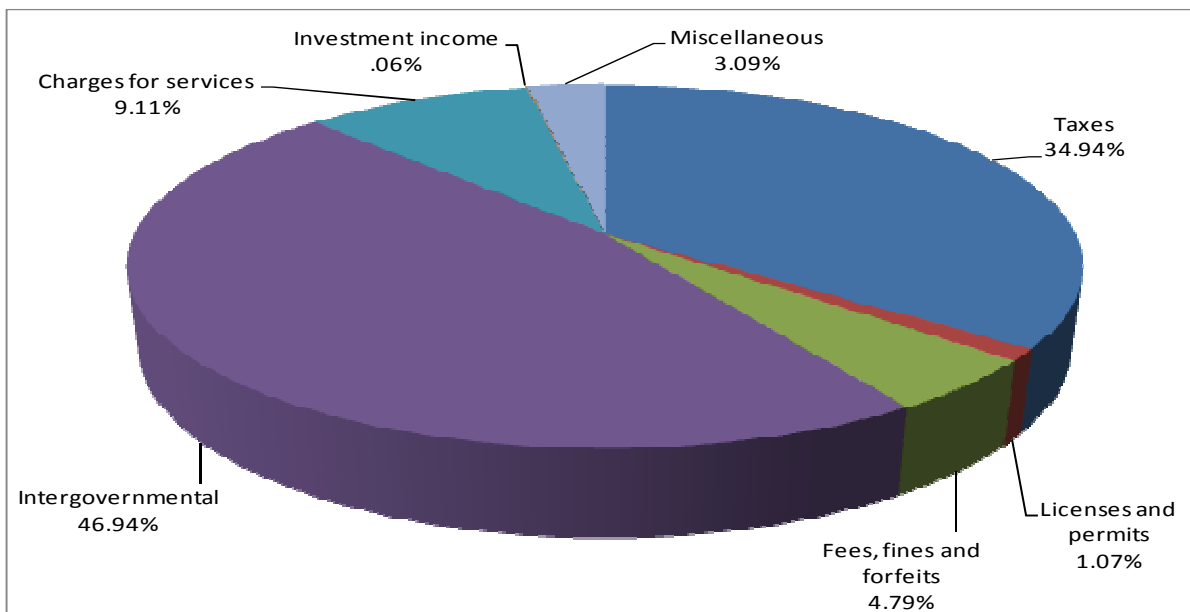
The Debt Service Fund was established during the 2012 fiscal year and accounts for unexpended bond proceeds and for a transaction privilege tax levy collected for the purpose of principal and interest repayment on County issued excise tax revenue judgment bonds. The fund had an increase in total excise taxes collected during 2013 of \$518,974 while total interest expense incurred was \$987,635.

The Other Governmental funds had an increase in revenues totaling \$514,955 which was primarily the result of grant monies received from the State of Arizona for boat patrol and from the Department of Homeland Security for a disaster grant.

The Golf Course Fund, a County enterprise fund had a decrease in revenues totaling \$101,533 due to a decrease in golf fees earned. This decrease resulted from a decline in players during 2013. Meanwhile, expenses decreased by \$31,989 due to a decrease in various operating costs during the year.

The Parks Fund, also a County enterprise fund, had a decrease in revenues totaling \$16,885 while expenses decreased by \$73,599. The decrease in expenses is primarily from a decrease in repairs and maintenance activities and a decrease in depreciation expense on capital assets.

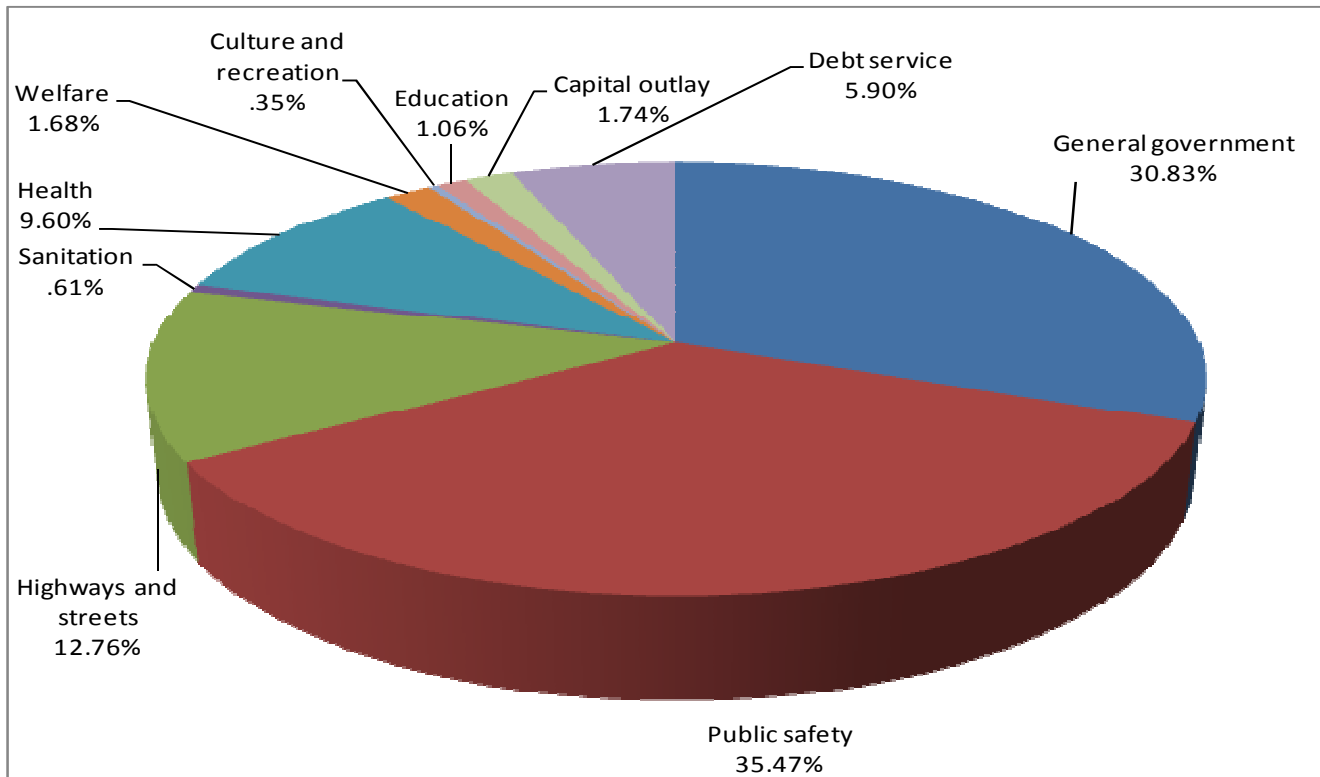
The following graphs present the amount of governmental revenues from various sources and expenditures by function:



The composition of revenues remained generally consistent with the prior year with a slight increase in intergovernmental, fees, fines, and forfeits, and in taxes.

Management's Discussion and Analysis - Continued

Financial Analysis of the County's Funds - Continued



As the result of expenditures made during 2012 to settle a judgment liability, the composition of 2013 County expenditures changed significantly. General government functions decreased to 30.83% of total expenditures. Public safety expenditures increased to 35.47% and the County's highways and streets expenditures increased to 12.76% of total expenditures, respectively.

General Fund Budgetary Highlights

General Fund actual expenditures were approximately \$80 thousand more than the adopted budget and actual revenues were less than estimated revenues by approximately \$1.45 million.

Tax revenues were less than the budgeted amount predominately due to less than anticipated property and sales tax. Miscellaneous revenues were less than budget primarily because the County budgeted for revenues of approximately \$1 million which was not realized.

Charges for services were less than budgeted primarily from less than anticipated revenues earned by the County Jail District for incarceration of inmates. Fees, fines, and forfeits for services decreased primarily from less than anticipated fines revenues received by the Justice to the Peace courts.

Management's Discussion and Analysis - Continued

General Fund Budgetary Highlights - Continued

The following General Fund departments had variances from their original (and final) budget by more than ten percent and \$20,000:

- The County Elections were \$21,636 below budget as costs to facilitate elections during 2013 were less than anticipated.
- Court Administration exceeded its budget by \$218,843 due to greater than anticipated costs pertaining to court appointed legal counsel.
- During 2013, the Justice of the Peace courts #4 and #6 incurred costs of operations of \$44,859 and \$39,621 less than anticipated, respectively.
- During 2013, the Treasurers office incurred greater than anticipated expenditures related to the purchase of an accounting software program which resulted in an unfavorable variance of \$115,462.
- The General Administration budget includes costs for professional fees and other general government expenses that were not incurred as anticipated during 2013 and resulted in a favorable variance of \$44,172.
- During 2013, the County incurred costs related to refinancing of existing debt agreements which resulted in an unfavorable budget variance of \$99,881.
- Sanitary Landfill exceeded the budget primarily due to cost of operations that exceeded the budget by \$34,422 during 2013.
- The Chronically Mentally Ill department had greater than anticipated expenditures of \$101,302 due to an increase in the use of outside health care providers.
- The cost of the County portion of long-term care was less than budget resulting in a favorable variance of \$204,884.

Capital Assets and Debt Administration

Capital Assets

The County's investment in capital assets as of June 30, 2013 totaled \$62.8 million (net of accumulated depreciation and related debt). This investment in capital assets includes land and land improvements, water rights, buildings, machinery and equipment, construction equipment and vehicles, and infrastructure purchased, constructed or donated after July 1, 1982 (the year of the County's inception). The County's net investment in capital assets decreased 4.2% from the prior period. Major capital asset events during the current fiscal year included a change to the County's capitalization threshold which resulted in the removal of assets with a net book \$1,164,443 for governmental and business-type activities.

Additional information on the County's capital assets activity and balances can be found in Note 6 of the notes to the financial statements on pages 40-41 of this report.

Management's Discussion and Analysis - Continued

Capital Assets and Debt Administration - Continued

Long-Term Liabilities

At June 30, 2013 the County had total long-term liabilities outstanding of \$22,136,163. This amount consists primarily of obligations under capital leases of \$1.7 million and \$18.1 million in bonds payable.

Additional information on the County's long-term debt can be found in Note 7 of the notes to the financial statements on pages 42-46 of this report.

Economic Factors

- Due to the improving economic environment, it is anticipated that future shared revenues received from the State of Arizona and property and sales tax revenues will increase.
- The County has taken into consideration the above economic factors in preparing future years' budgets.

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 La Paz County Finance Department, 1108 Joshua Avenue, Parker, Arizona 85344.

Basic Financial Statements

La Paz County
Statement of Net Position
June 30, 2013

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|----------------------|
| | Governmental Activities | Business-Type Activities | Total |
| Assets | | | |
| Cash and cash equivalents | \$ 4,535,518 | \$ 26,267 | \$ 4,561,785 |
| Property taxes receivable | 257,450 | - | 257,450 |
| Internal balances | 731,008 | (731,008) | - |
| Due from: | | | |
| Others | 7,494 | - | 7,494 |
| Other governments | 1,430,207 | - | 1,430,207 |
| Cash and investments held by trustee - restricted for debt service | 1,681,500 | - | 1,681,500 |
| Prepaid items | 38,718 | 4,096 | 42,814 |
| Deferred charges | 1,212,770 | - | 1,212,770 |
| Capital assets, not being depreciated | 45,109,552 | - | 45,109,552 |
| Capital assets, being depreciated, net | 19,376,070 | 1,356,277 | 20,732,347 |
| Total assets | <u>74,380,287</u> | <u>655,632</u> | <u>75,035,919</u> |
| Liabilities | | | |
| Accounts payable | 457,145 | 35,596 | 492,741 |
| Accrued liabilities | 549,831 | 48,522 | 598,353 |
| Interest payable | 441,326 | - | 441,326 |
| Due to: | | | |
| Others | 178,987 | 12,485 | 191,472 |
| Other governments | 283,125 | - | 283,125 |
| Noncurrent liabilities: | | | |
| Due within one year | 135,857 | 31,530 | 167,387 |
| Due in more than one year | 21,849,141 | 119,635 | 21,968,776 |
| Total liabilities | <u>23,895,412</u> | <u>247,768</u> | <u>24,143,180</u> |
| Net Position | | | |
| Net investment in capital assets | 61,459,253 | 1,324,658 | 62,783,911 |
| Restricted for: | | | |
| Highways and streets | 1,845,629 | - | 1,845,629 |
| Judicial | 1,690,201 | - | 1,690,201 |
| Public safety | 848,848 | - | 848,848 |
| Health and welfare | 1,297,613 | - | 1,297,613 |
| Debt service | 1,773,851 | - | 1,773,851 |
| Other purposes | 277,101 | - | 277,101 |
| Unrestricted (deficit) | (18,707,621) | (916,794) | (19,624,415) |
| Total net position | <u>\$ 50,484,875</u> | <u>\$ 407,864</u> | <u>\$ 50,892,739</u> |

See the accompanying notes to the financial statements.

La Paz County
Statement of Activities
Year Ended June 30, 2013

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|--------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 9,056,666 | \$ 2,077,622 | \$ 979,301 | \$ - | \$ (5,999,743) | \$ - | \$ (5,999,743) |
| Public safety | 9,609,792 | 1,241,034 | 1,952,014 | - | (6,416,744) | - | (6,416,744) |
| Highways and streets | 4,504,629 | - | 435,117 | 3,371,082 | (698,430) | - | (698,430) |
| Sanitation | 159,430 | 293,682 | 54,978 | - | 189,230 | - | 189,230 |
| Health | 2,521,395 | 157,012 | 1,266,740 | - | (1,097,643) | - | (1,097,643) |
| Welfare | 447,339 | 33,012 | 366,946 | - | (47,381) | - | (47,381) |
| Culture and recreation | 116,355 | - | - | - | (116,355) | - | (116,355) |
| Education | 275,369 | 63,660 | - | - | (211,709) | - | (211,709) |
| Interest on long-term debt | 1,029,383 | - | - | - | (1,029,383) | - | (1,029,383) |
| Total governmental activities | 27,720,358 | 3,866,022 | 5,055,096 | 3,371,082 | (15,428,158) | - | (15,428,158) |
| Business-type activities | | | | | | | |
| Golf course | 1,699,580 | 1,595,049 | - | - | - | (104,531) | (104,531) |
| Parks | 1,050,217 | 721,916 | - | - | - | (328,301) | (328,301) |
| Total business-type activities | 2,749,797 | 2,316,965 | - | - | - | (432,832) | (432,832) |
| Total primary government | <u>\$ 30,470,155</u> | <u>\$ 6,182,987</u> | <u>\$ 5,055,096</u> | <u>\$ 3,371,082</u> | (15,428,158) | (432,832) | (15,860,990) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| | | | | | 4,509,525 | - | 4,509,525 |
| | | | | | 26,503 | - | 26,503 |
| | | | | | 3,375,692 | - | 3,375,692 |
| | | | | | 1,800,102 | - | 1,800,102 |
| | | | | | 2,062,553 | - | 2,062,553 |
| | | | | | 531,625 | - | 531,625 |
| | | | | | 13,730 | - | 13,730 |
| | | | | | 784,401 | 16,992 | 801,393 |
| | | | | | 13,104,131 | 16,992 | 13,121,123 |
| | | | | | (2,324,027) | (415,840) | (2,739,867) |
| | | | | | 52,808,902 | 823,704 | 53,632,606 |
| | | | | | <u>\$ 50,484,875</u> | <u>\$ 407,864</u> | <u>\$ 50,892,739</u> |

See the accompanying notes to the financial statements.

**La Paz County
Balance Sheet
Governmental Funds
June 30, 2013**

| | Major Funds | | | | | | Total Governmental Funds |
|---|---------------------|---------------------|-----------------------|--|-------------------------|--------------------------------|--------------------------------|
| | General Fund | Road Fund | Jail District Fund | Business 95 Road Improvement Fund | Debt Service Fund | Other Governmental Funds | |
| Assets | | | | | | | |
| Cash and cash equivalents | \$ 535,614 | \$ 2,131,475 | \$ 42,116 | \$ 635,108 | \$ - | \$ 1,191,205 | \$ 4,535,518 |
| Cash and investments held by trustee | - | - | - | - | 1,681,500 | - | 1,681,500 |
| Property tax receivable | 254,703 | - | - | - | - | 2,747 | 257,450 |
| Due from: | | | | | | | |
| Others | 4,949 | - | 920 | - | - | 1,625 | 7,494 |
| Other governments | 239,996 | 356,039 | 244,754 | - | 92,351 | 497,067 | 1,430,207 |
| Other funds | 4,238,398 | - | - | 1,118,032 | - | 349,598 | 5,706,028 |
| Prepaid items | 31,852 | 654 | - | - | - | 6,212 | 38,718 |
| Total assets | <u>\$ 5,305,512</u> | <u>\$ 2,488,168</u> | <u>\$ 287,790</u> | <u>\$ 1,753,140</u> | <u>\$ 1,773,851</u> | <u>\$ 2,048,454</u> | <u>\$ 13,656,915</u> |
| Liabilities and Fund Balances | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | \$ 216,002 | \$ 107,999 | \$ 24,095 | \$ - | \$ - | \$ 109,049 | \$ 457,145 |
| Accrued liabilities | 286,154 | 51,211 | 65,679 | - | - | 146,842 | 549,886 |
| Due to: | | | | | | | |
| Others | 72,101 | 1,133 | 45,366 | - | - | 60,387 | 178,987 |
| Other governments | 283,125 | - | - | - | - | - | 283,125 |
| Other funds | 1,467,630 | 586,816 | 1,348,121 | 9,540 | - | 1,562,913 | 4,975,020 |
| Deferred revenue | 219,542 | - | - | - | - | 3,328 | 222,870 |
| Total liabilities | <u>2,544,554</u> | <u>747,159</u> | <u>1,483,261</u> | <u>9,540</u> | <u>-</u> | <u>1,882,519</u> | <u>6,667,033</u> |
| Fund balances: | | | | | | | |
| Nonspendable: | | | | | | | |
| Prepaid items | 31,852 | - | - | - | - | 6,212 | 38,064 |
| Restricted | - | 1,741,009 | - | - | 1,773,851 | 3,945,228 | 7,460,088 |
| Committed | - | - | - | 1,743,600 | - | 213,339 | 1,956,939 |
| Unassigned | 2,729,106 | - | (1,195,471) | - | - | (3,998,844) | (2,465,209) |
| Total fund balances | <u>2,760,958</u> | <u>1,741,009</u> | <u>(1,195,471)</u> | <u>1,743,600</u> | <u>1,773,851</u> | <u>165,935</u> | <u>6,989,882</u> |
| Total liabilities and fund balances | <u>\$ 5,305,512</u> | <u>\$ 2,488,168</u> | <u>\$ 287,790</u> | <u>\$ 1,753,140</u> | <u>\$ 1,773,851</u> | <u>\$ 2,048,454</u> | <u>\$ 13,656,915</u> |

See the accompanying notes to the financial statements.

La Paz County
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2013

| | | |
|---|----------------|---------------|
| Fund balances—total governmental funds | | \$ 6,989,882 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The cost of the assets is \$118,231,728 and the accumulated depreciation is \$53,746,106. | | 64,485,622 |
| Some of the County's receivables will be collected after year-end, but are not available soon enough to pay for the current-period expenditures, and therefore are deferred in the funds. | | 222,870 |
| Interest payable on long-term debt is not reported in the governmental funds because it is not due and payable until after year-end. | | (441,271) |
| Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds. | | |
| Notes payable | \$ (1,315,000) | |
| Obligations under capital leases | (1,711,369) | |
| Compensated absences payable | (843,629) | |
| Bonds payable | (18,115,000) | |
| Unamortized deferred issuance cost | 1,212,770 | (20,772,228) |
| | | |
| Net position of governmental activities | | \$ 50,484,875 |

See the accompanying notes to the financial statements.

La Paz County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2013

| | Major Funds | | | | | | Total Governmental Funds |
|--|-------------------------|----------------------|-------------------------------|--|----------------------------------|---|---|
| | General Fund | Road Fund | Jail District Fund | Business 95 Road Improvement Fund | Debt Service Fund | Other Governmental Funds | |
| Revenues: | | | | | | | |
| Taxes | \$ 6,172,897 | \$ 430,806 | \$ 1,131,743 | \$ - | \$ 1,112,202 | \$ 26,503 | \$ 8,874,151 |
| Licenses and permits | 272,056 | - | - | - | - | - | 272,056 |
| Fees, fines and forfeits | 1,207,711 | - | - | - | - | 9,047 | 1,216,758 |
| Intergovernmental | 3,946,293 | 3,371,082 | 705,509 | - | - | 3,898,802 | 11,921,686 |
| Charges for services | 580,760 | - | 1,100,954 | - | - | 631,835 | 2,313,549 |
| Investment (loss) income | (825) | 8,560 | (1,285) | - | - | 7,280 | 13,730 |
| Miscellaneous | 532,218 | 130,064 | (1,180) | - | - | 123,299 | 784,401 |
| Total revenues | <u>12,711,110</u> | <u>3,940,512</u> | <u>2,935,741</u> | <u>-</u> | <u>1,112,202</u> | <u>4,696,766</u> | <u>25,396,331</u> |
| Expenditures: | | | | | | | |
| Current: | | | | | | | |
| General government | 6,562,006 | - | - | - | - | 1,583,916 | 8,145,922 |
| Public safety | 4,238,946 | - | 3,241,802 | - | - | 1,825,961 | 9,306,709 |
| Highways and streets | - | 3,286,705 | - | 9,540 | - | 39,574 | 3,335,819 |
| Sanitation | 159,422 | - | - | - | - | 8 | 159,430 |
| Health | 1,330,085 | - | - | - | - | 1,179,953 | 2,510,038 |
| Welfare | 142,484 | - | - | - | - | 296,459 | 438,943 |
| Culture and recreation | - | - | - | - | - | 90,356 | 90,356 |
| Education | 215,225 | - | - | - | - | 61,798 | 277,023 |
| Capital outlay | 191,565 | - | 43,984 | - | - | 219,232 | 454,781 |
| Debt service: | | | | | | | |
| Principal | 104,857 | - | 138,221 | - | - | - | 243,078 |
| Interest | 110,450 | - | 84,358 | - | 987,635 | - | 1,182,443 |
| Total expenditures | <u>13,055,040</u> | <u>3,286,705</u> | <u>3,508,365</u> | <u>9,540</u> | <u>987,635</u> | <u>5,297,257</u> | <u>26,144,542</u> |
| Excess (deficiency) of revenues over expenditures | (343,930) | 653,807 | (572,624) | (9,540) | 124,567 | (600,491) | (748,211) |
| Other financing sources (uses): | | | | | | | |
| Transfers in | - | - | - | - | - | 498,799 | 498,799 |
| Transfers out | (498,799) | - | - | - | - | - | (498,799) |
| Debt proceeds | 1,471,000 | - | 1,585,000 | - | - | - | 3,056,000 |
| Payments to refund debt obligations | (1,172,715) | - | (1,468,841) | - | - | - | (2,641,556) |
| Total other financing sources (uses) | <u>(200,514)</u> | <u>-</u> | <u>116,159</u> | <u>-</u> | <u>-</u> | <u>498,799</u> | <u>414,444</u> |
| Net change in fund balances | (544,444) | 653,807 | (456,465) | (9,540) | 124,567 | (101,692) | (333,767) |
| Fund balances, July 1, 2012 | <u>3,305,402</u> | <u>1,087,202</u> | <u>(739,006)</u> | <u>1,753,140</u> | <u>1,649,284</u> | <u>267,627</u> | <u>7,323,649</u> |
| Fund balances (deficit), June 30, 2013 | <u>\$ 2,760,958</u> | <u>\$ 1,741,009</u> | <u>\$ (1,195,471)</u> | <u>\$ 1,743,600</u> | <u>\$ 1,773,851</u> | <u>\$ 165,935</u> | <u>\$ 6,989,882</u> |

See the accompanying notes to the financial statements.

La Paz County
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2013

| | | |
|---|--------------------|-----------------------|
| Net change in fund balances - total governmental funds | | \$ (333,767) |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | | |
| <p>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.</p> | | |
| Expenditures for general capital assets | \$ 471,130 | |
| Depreciation expense | <u>(1,711,940)</u> | (1,240,810) |
| <p>In the Statement of Activities, only the gain or loss on the disposal of assets is reported whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus the change in net position differs from the change in fund balance by the book value of the capital assets removed as a result of a change in the County's capitalization threshold for which a loss is reported.</p> | | |
| | | (980,386) |
| <p>Repayment and refunding of debt principal is reported as an expenditure and as an other financing use in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:</p> | | |
| Notes payable | 1,247,941 | |
| Obligations under capital leases | <u>1,636,693</u> | 2,884,634 |
| <p>The issuance of long-term debt obligations provides current financial resources to governmental funds, however, issuances do not affect net position balances.</p> | | |
| | | (3,056,000) |
| <p>Governmental funds report the cost of issuance on debt obligations as an expenditure. However, in the statement of activities, debt issuance costs are allocated over the life of the related obligation and reported as amortization expense.</p> | | |
| | | 182,251 |
| <p>Some expenses in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:</p> | | |
| Net decrease in compensated absences | 66,991 | |
| Net decrease in interest accrued on debt obligations | <u>153,060</u> | <u>220,051</u> |
| Change in net position of governmental activities | | <u>\$ (2,324,027)</u> |

See the accompanying notes to the financial statements.

La Paz County
Statement of Net Position
Proprietary Funds
June 30, 2013

| | Business-Type Activities - Enterprise Funds | | |
|---|--|-------------------|---------------------------------------|
| | Golf Course Fund | Parks Fund | Total Enterprise Funds |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 25,767 | \$ 500 | \$ 26,267 |
| Prepaid items | 1,806 | 2,290 | 4,096 |
| Noncurrent assets: | | | |
| Capital assets, net of accumulated depreciation | 741,271 | 615,006 | 1,356,277 |
| Total assets | 768,844 | 617,796 | 1,386,640 |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 18,975 | 16,621 | 35,596 |
| Accrued payroll and employee benefits | 29,828 | 18,694 | 48,522 |
| Due to others | 5,649 | 6,836 | 12,485 |
| Due to General Fund | 38,447 | 692,561 | 731,008 |
| Capital leases payable, current portion | 14,794 | - | 14,794 |
| Compensated absences payable, current portion | 16,736 | - | 16,736 |
| Total current liabilities | 124,429 | 734,712 | 859,141 |
| Noncurrent liabilities: | | | |
| Capital lease payable, net of current portion | 16,825 | - | 16,825 |
| Compensated absences payable, net of current portion | 65,925 | 36,885 | 102,810 |
| Total liabilities | 207,179 | 771,597 | 978,776 |
| Net Position | | | |
| Net investment in capital assets | 709,652 | 615,006 | 1,324,658 |
| Unrestricted (deficit) | (147,987) | (768,807) | (916,794) |
| Total net position | \$ 561,665 | \$ (153,801) | \$ 407,864 |

See the accompanying notes to the financial statements.

La Paz County
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2013

| | Business-Type Activities - Enterprise Funds | | |
|------------------------------------|--|-------------------|---------------------------------------|
| | Golf Course Fund | Parks Fund | Total Enterprise Funds |
| Operating revenues: | | | |
| Fees | \$ 1,595,049 | \$ 721,916 | \$ 2,316,965 |
| Miscellaneous | 2,004 | 14,988 | 16,992 |
| Total operating revenues | 1,597,053 | 736,904 | 2,333,957 |
| Operating expenses: | | | |
| Personnel services | 780,700 | 480,210 | 1,260,910 |
| Professional services | 179,129 | 9,618 | 188,747 |
| Supplies | 159,996 | 131,848 | 291,844 |
| Communications | 7,234 | 10,997 | 18,231 |
| Utilities | 77,636 | 159,010 | 236,646 |
| Repairs and maintenance | 278,932 | 45,348 | 324,280 |
| Depreciation | 126,760 | 56,905 | 183,665 |
| Other | 39,205 | 22,212 | 61,417 |
| Total operating expenses | 1,649,592 | 916,148 | 2,565,740 |
| Operating loss | (52,539) | (179,244) | (231,783) |
| Nonoperating expenses: | | | |
| Loss on disposal of capital assets | (49,988) | (134,069) | (184,057) |
| Total nonoperating expenses | (49,988) | (134,069) | (184,057) |
| Decrease in net position | (102,527) | (313,313) | (415,840) |
| Net position, July 1, 2012 | 664,192 | 159,512 | 823,704 |
| Net position, June 30, 2013 | \$ 561,665 | \$ (153,801) | \$ 407,864 |

See the accompanying notes to the financial statements.

La Paz County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

| | Business-Type Activities - Enterprise Funds | | |
|--|--|-------------------|---------------------------------------|
| | Golf Course Fund | Parks Fund | Total Enterprise Funds |
| Cash flows from operating activities: | | | |
| Receipts from customers | \$ 1,601,726 | \$ 739,524 | \$ 2,341,250 |
| Payments to suppliers and providers of goods and services | (584,332) | (402,333) | (986,665) |
| Payments for employee wages and benefits | (966,029) | (495,554) | (1,461,583) |
| Net cash provided by (used for) operating activities | 51,365 | (158,363) | (106,998) |
| Cash flows from noncapital financing activities: | | | |
| Negative cash balance implicitly financed | 38,447 | 692,561 | 731,008 |
| Negative cash balance implicitly repaid | (56,984) | (534,198) | (591,182) |
| Net cash (used for) provided by noncapital financing activities | (18,537) | 158,363 | 139,826 |
| Cash flows from capital and related financing activities: | | | |
| Purchases of capital assets | (10,281) | - | (10,281) |
| Payments on capital lease obligation | (12,967) | - | (12,967) |
| Net cash used for capital and related financing activities | (23,248) | - | (23,248) |
| Net increase in cash and cash equivalents | 9,580 | - | 9,580 |
| Cash and cash equivalents, July 1, 2012 | 16,187 | 500 | 16,687 |
| Cash and cash equivalents, June 30, 2013 | <u>\$ 25,767</u> | <u>\$ 500</u> | <u>\$ 26,267</u> |

(continued)

See the accompanying notes to the financial statements.

La Paz County
Statement of Cash Flows - Continued
Proprietary Fund
Year Ended June 30, 2013

| | Business-Type Activities - Enterprise Funds | | |
|---|--|---------------------|---------------------------------------|
| | Golf Course Fund | Parks Fund | Total Enterprise Funds |
| Reconciliation of operating loss to net cash provided by (used for) operating activities: | | | |
| Operating loss | \$ (102,527) | \$ (313,313) | \$ (415,840) |
| <i>Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:</i> | | | |
| Depreciation | 126,760 | 56,905 | 183,665 |
| Loss on disposal of capital assets | 49,988 | 134,069 | 184,057 |
| Changes in assets and liabilities: | | | |
| Increase in prepaid items | (206) | (1,149) | (1,355) |
| Decrease in accounts payable | (21,123) | (31,769) | (52,892) |
| Increase in due to others | 4,673 | 2,620 | 7,293 |
| Increase in accrued payroll and employee benefits | 2,213 | 1,995 | 4,208 |
| Decrease in compensated absences payable | (8,413) | (7,721) | (16,134) |
| Net cash provided by (used for) operating activities | <u>\$ 51,365</u> | <u>\$ (158,363)</u> | <u>\$ (106,998)</u> |
| Schedule of non-cash capital and related financing activities: | | | |
| Purchase of capital assets through proceeds from capital lease obligation | <u>\$ 44,586</u> | <u>\$ -</u> | <u>\$ 44,586</u> |

See the accompanying notes to the financial statements.

La Paz County
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

| | Investment Trust Fund | Agency Funds |
|---|----------------------------------|-------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 15,555,792 | \$ 686,203 |
| Total assets | 15,555,792 | \$ 686,203 |
| Liabilities | | |
| Due to other governments | - | \$ 686,203 |
| Total liabilities | - | \$ 686,203 |
| Net Position | | |
| Held in trust for investment trust participants | \$ 15,555,792 | |

See the accompanying notes to the financial statements.

La Paz County
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2013

| | Investment Trust Fund |
|---------------------------------|----------------------------------|
| Additions: | |
| Contributions from participants | \$ 37,347,596 |
| Interest and dividends | 284,411 |
| Total additions | 37,632,007 |
| Deductions: | |
| Distributions to participants | 36,135,311 |
| Total deductions | 36,135,311 |
| Change in net position | 1,496,696 |
| Net position, July 1, 2012 | 14,059,096 |
| Net position, June 30, 2013 | \$ 15,555,792 |

See the accompanying notes to the financial statements.

La Paz County
Notes to Financial Statements
June 30 2013,

Note 1 - Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies

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

For the year ended June 30, 2013, the County implemented the provisions of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 61 modifies existing requirements for determining which component units should be included in the financial reporting entity and the related display and disclosure requirements. GASB Statement No. 62 incorporates certain accounting and financial reporting guidance in FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins into GASB's authoritative literature. GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

A. Reporting Entity

The County is a general-purpose local government located in southwestern Arizona that was established in 1983. It 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.

Notes to Financial Statements - Continued

Note 1 - Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies -Continued

The following table describes the County’s component units:

| Component Unit | Description; Criteria for Inclusion | Reporting Method | Separate Financial Statements |
|-----------------------------------|--|-------------------------|--------------------------------------|
| Jail District | A tax-levying public improvement district that acquires, constructs, operates, maintains, and finances county jails and jail systems pursuant to Arizona Revised Statutes; All budgetary and operational activities are administered by the La Paz County Board of Supervisors and meet the criteria for a blended component unit. | Blended | Not available |
| Various Street Lighting Districts | Operates and maintains street lighting in areas outside local city jurisdictions; All budgetary and operational activities are administered by the La Paz County Board of Supervisors and meet the criteria for a blended component unit. | Blended | Not available |

Related Organization:

The Industrial Development Authority of La Paz County (Authority) is a legally separate entity that was created to assist in the financing of commercial and industrial enterprises. The Authority fulfills its function through the issuance of tax exempt or taxable revenue bonds. The County's Board of Supervisors appoints the Authority's Board of Directors. The Authority's operations are completely separate from the County and the County is not financially accountable for the Authority. Therefore, the financial activities of the Authority have not been included in the accompanying financial statements.

B. Basis of Presentation

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

Notes to Financial Statements - Continued

Note 1 - Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies -Continued

Government-wide statements — provide information about the primary government (the County) and its component units. The statements include a Statement of Net Position and a Statement of Activities. These statements report the financial activities of the overall government, except for fiduciary activities. They also distinguish between the governmental and business-type activities of the County. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties.

A statement of activities presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and segments of its business-type 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 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.

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

Fund financial statements — provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental, proprietary, and fiduciary fund categories. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

Notes to Financial Statements - Continued

Note 1 - Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies - Continued

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as golf course fees, in which each party receives and gives up essentially equal values, are operating revenues. Nonoperating revenues, such as investment income, result from transactions in which the parties do not exchange equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense, are considered to be nonoperating expenses.

The County reports the following major governmental funds:

The General Fund is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Fund, a special revenue fund, accounts for monies from Highway User Revenue Fund and Vehicle License Tax that are restricted for road maintenance and operations, pavement preservation, and fleet services.

The Jail District Fund was established by La Paz County resolution §89-5845 under the authority of Article 1, Chapter 25, and Title 48, of the Arizona Revised Statutes on November 20, 1989. On June 18, 1990, the Jail District Board of Directors adopted Resolution JD90-12, under the authority of Arizona Revised Statutes §48-4022, establishing a one-half cent excise sales tax effective January 1, 1991, through perpetuity. The Jail District Fund accounts for monies received from excise sales tax revenue that is restricted for debt service, maintenance of effort payments received from the County General Fund and charges for services for prisoner incarceration. The monies are expended for the operating expenditures of the County's jail.

The Business 95 Road Improvement Fund accounts for monies from the Arizona Department of Transportation that is committed for roadway realignment, shoulder improvements, and drainage improvements to state road Business 95. The State of Arizona transferred ownership jurisdiction and maintenance responsibilities to the County during fiscal year 2002. This fund was reclassified from a special revenue fund to a capital projects fund as part of implementing GASB Statement No. 54.

Notes to Financial Statements - Continued

Note 1 - Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies - Continued

The Debt Service Fund accounts for activity pertaining to the County's judgment bonds payable.

The County reports the following major enterprise funds:

The Golf Course Fund accounts for the activities and related operations and maintenance of an 18 hole golf course and pro-shop.

The Parks Fund accounts for the activities and related operations and maintenance of the County's 6 public parks.

The County reports the following fiduciary fund types:

The investment trust fund accounts for pooled assets held and invested by the County Treasurer on behalf of other governmental entities.

The agency funds account for assets held by the County as an agent for the State and various local governments, and for property taxes collected and distributed to the State, local school districts, community college districts, and special districts.

C. Basis of Accounting

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available.

Notes to Financial Statements - Continued

Note 1 - Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies - Continued

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, sales taxes, licenses and permits, intergovernmental, charges for services, and investment income. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

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

D. Cash and Investments

For purposes of its statement of cash flows, the County considers cash on hand, demand deposits, and only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

All investments are stated at fair value.

E. Inventories

Purchases of inventory items are recorded at the time of purchase as expenses or expenditures in the funds from which the purchases were made, and because the amounts on hand at June 30, 2013, were immaterial, they are not included in the Statements of Net Position or the Balance Sheet.

Notes to Financial Statements - Continued

Note 1 - Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies - Continued

F. Property Tax Calendar

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

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

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and enterprise funds are as follows:

| | Capitalization Threshold | Depreciation Method | Estimated Useful Life |
|-----------------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land | All | N/A | N/A |
| Gravel and dirt roads | All | N/A | N/A |
| Water rights | All | N/A | N/A |
| Land improvements | \$10,000 | Straight-line | 10-30 years |
| Infrastructure | 10,000 | Straight-line | 20-75 years |
| Buildings and improvements | 10,000 | Straight-line | 25-50 years |
| Improvements other than buildings | 5,000 | Straight-line | 7-30 years |
| Machinery and equipment | 5,000 | Straight-line | 5-20 years |
| Golf course and improvements | 5,000 | Straight-line | 30 years |

Unlike paved roads, gravel and dirt roads are not depreciated since once they are placed in operation, only annual maintenance is required to keep them operational for an indefinite period.

During 2013, the County changed its capital assets policy which increased the capitalization thresholds as reflected above. As a result of the change, during 2013, the County's *governmental activities* and *business-type activities* reduced capital assets with a net book value of \$980,386 and \$184,057, respectively.

Notes to Financial Statements - Continued

Note 1 - Reporting Entity, Basis of Presentation and Summary of Significant Accounting Policies - Continued

H. Investment Income

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

I. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered.

Employees may accumulate up to 160 hours of vacation depending on years of service, 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 and proprietary funds' 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 an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. However, employees who accumulate unused sick leave in excess of 384 hours are paid a percentage of the excess unused sick leave based on the number of years of consecutive service with the County; therefore, the excess sick leave is accrued in the government-wide and proprietary funds' financial statements. A liability for these amounts is reported in the governmental funds' financial statements only for employees who have resigned or retired by fiscal year-end.

Note 2 - Stewardship, Compliance, and Accountability

Thirteen General Fund departments had an excess of actual expenditures over appropriations. General Fund departments with expenditures in excess of appropriations are caused mainly by excess expenditures for which budget modifications were not made.

The County continues to work closely with these departments to minimize future similar overruns.

Notes to Financial Statements - Continued

Note 2 - Stewardship, Compliance, and Accountability – Continued

Deficit fund balances—At June 30, 2013, the following nonmajor governmental funds reported deficit fund balances exceeding \$50,000:

| Fund | Deficit |
|---|------------|
| Governmental funds: | |
| Emergency Services | \$ 212,942 |
| Health Department | 775,846 |
| La Paz Extension Fund | 141,490 |
| Education & Employment Fund LPCC | 239,555 |
| ACJC Drug Enforcement | 318,912 |
| Task Force Prosecutor | 270,709 |
| Child Support Program | 436,637 |
| Jail Commissary | 98,803 |
| Cops in School | 284,941 |
| HIDTA Grant | 84,895 |
| Highway Safety Grant | 85,690 |
| Bio Terrorism | 134,133 |
| Racketeer Influenced and Corrupt Organizations Act | 112,195 |
| Anti-Meth Initiative | 55,096 |

The above fund deficits resulted from operations during the year or carryovers from prior years and are expected to be corrected through normal operations in the future or will be settled by future transfers between funds.

In addition, the Jail District fund and the Parks Fund, both of which are major funds, reported deficit fund balances as follows:

- Jail District Fund's deficit amount was \$1,195,471 in which the County expects Jail District revenue to increase with additional Federal trustee bed nights and an increase in the related rates implemented during the 2014 fiscal year. This increase is expected to continue in future years.
- Park Enterprise Fund's deficit amount was \$153,801 in which the Park's deficit spending has ceased from a budgetary standpoint. The Park is expected to raise adequate revenue to support its own activities. Over a five to ten year span, it is intended and budgeted that the Park will eliminate this deficit fund balance.

The General Fund is not expected to compensate for the deficit of these Funds.

Notes to Financial Statements - Continued

Note 3 - Fund Balance Classifications of the Governmental Funds

Fund balances of the governmental funds are reported separately within classifications based on a hierarchy of the constraints placed on 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 prepaid items, 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 comprised of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations approved in a public meeting 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 only be removed or changed by the Board in a public meeting.

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, Elected Officials and the Finance Director to make the assignments of resources for specific purposes pursuant to resolution by the Board in a public meeting.

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's the County's policy to use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

Notes to Financial Statements - Continued

Note 3 - Fund Balance Classifications of the Governmental Funds – Continued

The fund balance categories and classifications for governmental funds as of June 30, 2013, were as follows:

| | Major Funds | | | | | | Total |
|-----------------------|--------------|-------------|--------------------|-----------------------------------|-------------------|--------------------------|-------------|
| | General Fund | Road Fund | Jail District Fund | Business 95 Road Improvement Fund | Debt Service Fund | Other Governmental Funds | |
| Fund balances: | | | | | | | |
| Nonspendable | \$ 31,852 | \$ - | \$ - | \$ - | \$ - | \$ 6,212 | \$ 38,064 |
| Restricted for: | | | | | | | |
| Education | - | - | - | - | - | 25,076 | 25,076 |
| Health | - | - | - | - | - | 509,153 | 509,153 |
| Highways and streets | - | 1,741,009 | - | - | - | 104,620 | 1,845,629 |
| Judicial | - | - | - | - | - | 1,690,201 | 1,690,201 |
| Public safety | - | - | - | - | - | 848,848 | 848,848 |
| Transit | - | - | - | - | - | 132,494 | 132,494 |
| Water and sanitation | - | - | - | - | - | 173,687 | 173,687 |
| Welfare | - | - | - | - | - | 246,106 | 246,106 |
| Debt service | - | - | - | - | 1,773,851 | - | 1,773,851 |
| Other purposes | - | - | - | - | - | 215,043 | 215,043 |
| Total restricted | \$ - | \$1,741,009 | \$ - | \$ - | \$1,773,851 | \$3,945,228 | \$7,460,088 |
| Committed to: | | | | | | | |
| Highways and streets | \$ - | \$ - | \$ - | \$ 1,743,600 | \$ - | \$ - | \$1,743,600 |
| Judicial | - | - | - | - | - | 151,281 | 151,281 |
| Other | - | - | - | - | - | 62,058 | 62,058 |
| Total committed | - | - | - | 1,743,600 | - | 213,339 | 1,956,939 |
| Unassigned | 2,729,106 | - | (1,195,471) | - | - | (3,998,844) | (2,465,209) |
| Total fund balances | \$2,760,958 | \$1,741,009 | \$ (1,195,471) | \$ 1,743,600 | \$1,773,851 | \$ 165,935 | \$6,989,882 |

Note 4 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer’s investment pool; U.S. Treasury or agency obligations; specified state and local government bonds and notes; interest-earning investments such as savings accounts, certificates of deposit, 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.

Notes to Financial Statements - Continued

Note 4 - Deposits and Investments - Continued

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 investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk - Statutes require collateral for demand deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk - Statutes do not include any requirements for concentration of credit risk.

Interest rate risk - Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk - Statutes do not allow foreign investments.

Deposits - Custodial credit risk is the risk that in the event of bank failure the County's deposits may not be returned to the County. The County does not have a deposit policy for custodial credit risk.

At June 30, 2013, the carrying amount of the County's total cash in the bank was \$11,302,310 and the bank balance was \$11,393,763. All County's deposits are collateralized by the amount not covered by depository insurance.

Investments - The County's investments at June 30, 2013, were as follows:

| <u>Investment Type</u> | <u>Rating</u> | <u>Rating Agency</u> | <u>Amount</u> |
|------------------------------------|---------------|----------------------|----------------------|
| U.S. Agency securities | Aaa | Moodys | \$ 9,493,865 |
| U.S. Government money market funds | Aaa | Moodys | 1,681,500 |
| | | | <u>\$ 11,175,365</u> |

Notes to Financial Statements - Continued

Note 4 - Deposits and Investments - Continued

Credit risk - The County does not have a formal investment policy with respect to credit risk. However, the credit risk for the County's investments is indicated in the preceding table.

Interest rate risk - The County does not have a formal policy regarding interest rate risk. At June 30, 2013, the County had the following investments in debt securities:

| <u>Investment Type</u> | <u>Amount</u> | <u>Investment Maturities</u> | |
|------------------------------|----------------------|------------------------------|---------------------|
| | | <u>Less than 1 Year</u> | <u>1-5 Years</u> |
| U.S. Agency securities | \$ 9,493,865 | \$ - | \$ 9,493,865 |
| U.S. Government money market | 1,681,500 | 1,681,500 | - |
| | <u>\$ 11,175,365</u> | <u>\$ 1,681,500</u> | <u>\$ 9,493,865</u> |

A reconciliation of cash and investments to amounts shown on the Statements of Net Position follows:

| | <u>County Treasurer's Investment Pool</u> | <u>Other</u> | <u>Total</u> |
|--------------------------------|---|---------------------|----------------------|
| Cash on hand | \$ - | \$ 7,605 | \$ 7,605 |
| Carrying amount of deposits | 10,695,625 | 606,685 | 11,302,310 |
| Reported amount of investments | 9,493,865 | 1,681,500 | 11,175,365 |
| Total | <u>\$ 20,189,490</u> | <u>\$ 2,295,790</u> | <u>\$ 22,485,280</u> |

Statements of Net Position:

| | <u>Govern- mental Activities</u> | <u>Business- Type Activities</u> | <u>Investment Trust Fund</u> | <u>Agency Funds</u> | <u>Total</u> |
|---------------------------|--|--|--------------------------------------|-------------------------|---------------------|
| Cash and cash equivalents | <u>\$ 6,217,018</u> | <u>\$ 26,267</u> | <u>\$15,555,792</u> | <u>\$686,203</u> | <u>\$22,485,280</u> |

Notes to Financial Statements - Continued

Note 5 - Condensed Financial Statements of County Treasurer’s Investment Pool

A.R.S. requires 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’s monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

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

Deposits and investments of the County’s primary government are included in the County Treasurer’s investment pool, except for \$7,605 of cash on hand, \$606,685 of deposits held in bank, and \$1,681,500 held in U.S. Government money market funds. Therefore, deposit and investment risks of the Treasurer’s investment pool are substantially the same as the County’s deposit and investment risks. See Note 4 for disclosure of the County’s deposit and investment risks.

Details of each major asset classification follow:

| <u>Investment Type</u> | <u>Interest Rate(s)</u> | <u>Maturities</u> | <u>Fair Value</u> |
|------------------------|-------------------------|-------------------|----------------------------|
| U.S. Agency securities | .35% to .80% | 1 - 5 yrs | \$ 9,493,865 |
| Deposits | N/A | N/A | <u>10,695,625</u> |
| | | | <u><u>\$20,189,490</u></u> |

Notes to Financial Statements - Continued

Note 5 - Condensed Financial Statements of County Treasurer's Investment Pool - Continued

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

| | |
|---|----------------------|
| Statement of Net Position | |
| Assets | \$ 20,189,490 |
| Net position | <u>\$ 20,189,490</u> |
| Net position held in trust for: | |
| Internal participants | \$ 3,947,495 |
| External participants | <u>16,241,995</u> |
| Total net position held in trust | <u>\$ 20,189,490</u> |
| Statement of Changes in Net Position | |
| Total additions | \$ 65,913,489 |
| Total deductions | <u>(64,734,701)</u> |
| Net increase | <u>1,178,788</u> |
| Net position held in trust: | |
| July 1, 2012 | <u>19,010,702</u> |
| June 30, 2013 | <u>\$ 20,189,490</u> |

Notes to Financial Statements - Continued

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

| | Primary Government | | | Balance June 30, 2013 |
|--|--------------------------|----------------|------------|--------------------------|
| | Balance June 30, 2012 | Increases | Decreases | |
| Governmental activities: | | | | |
| <i>Capital assets</i> | | | | |
| <i>not being depreciated</i> | | | | |
| Land | \$ 671,596 | \$ - | \$ - | \$ 671,596 |
| Water rights | 1,096,646 | - | - | 1,096,646 |
| Gravel and dirt roads | 41,460,031 | - | - | 41,460,031 |
| Construction in progress | 1,831,131 | 50,148 | - | 1,881,279 |
| Total capital assets, not being depreciated | 45,059,404 | 50,148 | - | 45,109,552 |
| <i>Capital assets being depreciated:</i> | | | | |
| Land improvements | 32,676 | - | 7,405 | 25,271 |
| Building and improvements | 16,620,502 | - | 477,409 | 16,143,093 |
| Machinery and equipment | 14,124,222 | 420,982 | 1,919,741 | 12,625,463 |
| Improvements other than buildings | 236,459 | - | 71,521 | 164,938 |
| Infrastructure | 45,634,626 | - | 1,471,215 | 44,163,411 |
| Total capital assets being depreciated | 76,648,485 | 420,982 | 3,947,291 | 73,122,176 |
| Total | 121,707,889 | 471,130 | 3,947,291 | 118,231,728 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Land improvements | 18,170 | 575 | - | 18,745 |
| Buildings and improvements | 5,026,648 | 459,034 | 122,647 | 5,363,035 |
| Improvements other than buildings | 188,269 | 5,949 | 48,410 | 145,808 |
| Machinery and equipment | 12,799,043 | 479,234 | 1,682,964 | 11,595,313 |
| Infrastructure | 36,968,941 | 767,148 | 1,112,884 | 36,623,205 |
| Total | 55,001,071 | 1,711,940 | 2,966,905 | 53,746,106 |
| Total capital assets being depreciated, net | 21,647,414 | (1,290,958) | 980,386 | 19,376,070 |
| Governmental activities capital assets, net | \$ 66,706,818 | \$ (1,240,810) | \$ 980,386 | \$ 64,485,622 |

Notes to Financial Statements - Continued

Note 6 - Capital Assets - Continued

| | Primary Government | | | |
|---|----------------------------------|------------------|------------------|----------------------------------|
| | Balance June 30, 2012 | Increases | Decreases | Balance June 30, 2013 |
| Business-type activities: | | | | |
| <i>Capital assets being depreciated:</i> | | | | |
| Golf course and improvements | \$ 2,870,775 | \$ - | \$ 22,265 | \$ 2,848,510 |
| Land improvements | 24,031 | - | 4,900 | 19,131 |
| Building and improvements | 828,568 | 10,281 | 73,185 | 765,664 |
| Improvements | | | | |
| other than buildings | 622,397 | - | 212,085 | 410,312 |
| Machinery and equipment | 1,734,210 | 44,586 | 576,337 | 1,202,459 |
| Total | 6,079,981 | 54,867 | 888,772 | 5,246,076 |
| <i>Less accumulated depreciation for:</i> | | | | |
| Golf course and improvements | 2,147,706 | 95,636 | 19,283 | 2,224,059 |
| Land improvements | 14,628 | 638 | 2,994 | 12,272 |
| Buildings and improvements | 332,621 | 22,245 | 35,502 | 319,364 |
| Improvements | | | | |
| other than buildings | 358,090 | 22,106 | 123,249 | 256,947 |
| Machinery and equipment | 1,557,805 | 43,040 | 523,688 | 1,077,157 |
| Total | 4,410,850 | 183,665 | 704,716 | 3,889,799 |
| Business-type activities | | | | |
| capital assets, net | \$ 1,669,131 | \$ (128,798) | \$ 184,056 | \$ 1,356,277 |

Depreciation expense was charged to functions as follows:

| | |
|---|--------------|
| Governmental activities: | |
| General government | \$ 177,601 |
| Public safety | 301,243 |
| Highways and streets | 1,177,208 |
| Welfare | 3,222 |
| Health | 23,995 |
| Culture and recreation | 25,999 |
| Education | 2,672 |
| Total governmental activities depreciation expense | \$ 1,711,940 |
| Business-type activities: | |
| Culture and recreation – Golf Course | \$ 126,760 |
| Culture and recreation – Parks | 56,905 |
| Total business-type activities depreciation expense | \$ 183,665 |

Notes to Financial Statements - Continued

Note 7 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2013:

| | Balance June 30, 2012 | Additions | Reductions | Balance June 30, 2013 | Due within 1 year |
|--|----------------------------------|---------------------|---------------------|----------------------------------|------------------------------|
| Governmental activities | | | | | |
| Notes payable | \$ 1,247,941 | \$ 1,315,000 | \$ 1,247,941 | \$ 1,315,000 | \$ - |
| Bonds payable | 18,115,000 | - | - | 18,115,000 | - |
| Obligations under capital leases | 1,607,062 | 1,741,000 | 1,636,693 | 1,711,369 | 51,495 |
| Compensated absences payable | 910,620 | 843,629 | 910,620 | 843,629 | 84,362 |
| Governmental activities long-term liabilities | <u>\$ 21,880,623</u> | <u>\$ 3,899,629</u> | <u>\$ 3,795,254</u> | <u>\$ 21,984,998</u> | <u>\$ 135,857</u> |
| Business-type activities | | | | | |
| Obligations under capital leases | \$ - | \$ 44,586 | \$ 12,967 | \$ 31,619 | \$ 14,794 |
| Compensated absences payable | 135,680 | 119,546 | 135,680 | 119,546 | 16,736 |
| Business-type activities long-term liabilities | <u>\$ 135,680</u> | <u>\$ 164,132</u> | <u>\$ 148,647</u> | <u>\$ 151,165</u> | <u>\$ 31,530</u> |

Capital leases

The County has acquired jail facilities 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.

During 2013, the County refinanced a capital lease obligation originally entered into in 2007 to expand the County's jail facility. The obligation was refinanced under a lease purchase agreement on August 23, 2012 at \$1,585,000. The interest rate decreased from 4.60% per annum to 2.62% per annum and the maturity date was extended from July 2019 to July 2022 with principal and interest payments due biannually. Initial principal payments under the agreement are scheduled to begin on July 1, 2014. The refinancing of this obligation resulted in an economic loss of \$82,376 and an increase in debt service payments of \$133,309. This obligation is secured by Jail District transaction privilege tax and County maintenance of effort payments.

On July 3, 2012, the County Golf Course entered into a lease purchase agreement to finance golf course equipment in the amount of \$44,586. The lease term extends through 2015 with principal and interest paid monthly. Interest on the obligation accrues at 5.0%.

Notes to Financial Statements - Continued

Note 7 - Long-Term Liabilities- Continued

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2013:

| <u>Year Ending June 30,</u> | <u>Governmental Activities</u> | <u>Business- type Activities</u> |
|--|------------------------------------|--|
| 2014 | \$ 95,089 | \$ 15,957 |
| 2015 | 129,630 | 15,957 |
| 2016 | 106,867 | 1,330 |
| 2017 | 222,139 | - |
| 2018 | 227,160 | - |
| 2019-2023 | 1,206,242 | - |
| Total minimum lease payments | 1,987,127 | 33,244 |
| Less amount representing interest | 275,758 | 1,625 |
| Present value of net minimum lease payments | <u>\$ 1,711,369</u> | <u>\$ 31,619</u> |

The assets acquired through capital leases are as follows:

| | <u>Governmental Activities</u> | <u>Business- type Activities</u> |
|--------------------------------|------------------------------------|--|
| Jail facility | \$ 2,051,038 | \$ - |
| Machinery and equipment | 121,489 | 44,586 |
| Less: accumulated depreciation | 313,353 | 5,839 |
| Carrying value | <u>\$ 1,859,174</u> | <u>\$ 38,747</u> |

The Jail District has pledged the maintenance of effort payments from the County's general fund to the Jail District and voter approved excise tax for the payment of the debt service on the lease through 2020. Principal payments and interest expense incurred on this debt during 2013 totaled \$14,765 while voter approved excise taxes and maintenance of effort revenues were \$1,131,743 and \$705,509, respectively. Annual principal and interest payments on the lease are expected to require 11% of total pledged revenue.

Notes to Financial Statements - Continued

Note 7 - Long-Term Liabilities – Continued

Notes Payable

In August 2008, the County entered into a financing agreement for the purchase of Colorado River water rights. In August 2012, the obligation was refinanced at \$1,015,000 in which the original interest rate of 7.75% per annum decreased to 4.00% per annum and the maturity date extended from July 2018 to July 2021. The refinancing of this obligation resulted in an economic loss of \$61,576 and an increase in debt service payments of \$87,643. This obligation is pledged by future County excise tax that has not already been encumbered.

Also, in January 2009 the County entered into an agreement to finance the construction of the Salome Community Center. The obligation was refinanced in August 2012 for \$300,000 in which the original interest rate of 5.75% per annum was reduced to 2.60% per annum and the maturity date extended from January 2019 to July 2020. The refinancing of this obligation resulted in an economic loss of \$34,618 and an increase in debt service payments of \$42,509. This obligation is also pledged by future County excise tax that has not already been encumbered.

Pursuant to these agreements, the County has pledged General Fund transaction privilege taxes. For the current year, principal and interest paid on the notes was \$17,209 and the total pledged transaction privilege tax revenues was \$1,131,747. Annual principal and interest payments on the notes are expected to require 21% of total pledged transaction privilege tax revenue.

The annual debt service to maturity for the notes payable is as follows:

| Year Ending June 30 | Governmental Activities | |
|--------------------------------|--------------------------------|-----------------|
| | Principal | Interest |
| 2014 | \$ - | \$ 48,400 |
| 2015 | 60,000 | 47,270 |
| 2016 | 60,000 | 45,010 |
| 2017 | 195,000 | 40,365 |
| 2018 | 200,000 | 33,235 |
| 2019-2022 | 800,000 | 58,160 |
| Total | \$ 1,315,000 | \$272,440 |

Bonds payable – On September 12, 2011, the County issued excise tax revenue judgment bonds to finance the cost of settling obligations of a judgment, and related to cost incurred by the County. The bonds issued by the County are described as follows:

Notes to Financial Statements - Continued

Note 7 - Long-Term Liabilities – Continued

| Description | Original Amount | Maturity Range | Interest Rates | Outstanding Principle |
|---|------------------------|-----------------------|-----------------------|------------------------------|
| Excise Tax Revenue Judgment Bonds, Series 2011 A (Tax Exempt) | \$ 16,240,000 | 2013- 2036 | 3.72% to 4.75% | \$ 16,240,000 |
| Excise Tax Revenue Judgment Bonds, Series 2011 B (Taxable) | \$ 1,875,000 | 2013- 2021 | 5.25% | 1,875,000 |
| | | | | <u>\$ 18,115,000</u> |

The bond proceeds of \$18,115,000 were used to settle the estimated judgment liability of \$13,727,621, as of June 30, 2011. In addition, \$2,155,000 was paid to the County as reimbursement for attorney fees and additional costs incurred in connection with the settlement. The remaining \$2,232,379 pertains to the cost of issuance and future interest payments.

On September 12, 2011, the County Board of Supervisors authorized a levy of excise tax to be collected until all debt service costs have been paid relating to the County's judgment bonds. For the current year, the County incurred \$987,635 in interest expense. Annual principal and interest payments are expected to require 100% of total pledged transaction privilege tax revenues specifically assessed for this debt. During 2013, \$1,112,202 was levied and \$1,112,202 was collected.

The following schedule details debt service requirements to maturity for the County's bonds payable at June 30, 2013:

| Year Ending June 30 | Governmental Activities | |
|--------------------------------|--------------------------------|----------------------|
| | Principal | Interest |
| 2014 | \$ - | \$ 786,613 |
| 2015 | 650,000 | 774,669 |
| 2016 | 675,000 | 747,944 |
| 2017 | 705,000 | 717,719 |
| 2018 | 730,000 | 688,794 |
| 2019-2023 | 3,820,000 | 3,004,622 |
| 2024-2028 | 3,320,000 | 2,325,678 |
| 2029-2033 | 4,140,000 | 1,477,250 |
| 2033-2036 | 4,075,000 | 398,169 |
| Total | <u>\$ 18,115,000</u> | <u>\$ 10,921,458</u> |

Notes to Financial Statements - Continued

Note 7 - Long-Term Liabilities – Continued

Line of credit – The County entered into a revolving line of credit agreement on August 4, 2010 that was amended on July 18, 2011. The revolving line of credit is renewed annually and the total commitment amount during 2013 was \$1,585,000. During 2013, the County Treasurer had draws and repayments of \$658,490 and there were no outstanding balances at June 30, 2013.

Insurance claims - The County provides life, health, and disability benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust which is 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 does not require 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.

Landfill closure and postclosure care costs - The County has contracted with an outside agency to provide operations for its solid waste facilities. The contract requires the outside agency to reserve funds in accordance with the closure plan for closure and postclosure care costs. In the event of termination of the contract, the required reserve funds are to be remitted to the County. Consequently, no liability for landfill closure and postclosure care costs has been recorded on the Statement of Net Position.

Compensated absences - Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2013, the County paid for compensated absences as follows: 47 percent from the General Fund, 10 percent from the Road Fund, 12 percent from the Jail District Fund, 21 percent from the Enterprise Fund, and 10 percent from the other funds.

Note 8 - 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 Benefit Trust, which is described above.

Notes to Financial Statements - Continued

Note 8 - Risk Management – Continued

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$5,000 per occurrence for property claims and \$5,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$300 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

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

Note 9 – Pensions and Other Postemployment Benefits

Plan Descriptions - The County contributes to four plans, three of which are described below. The Corrections Officer Retirement Plan is not described due to its relative insignificance to the County's financial statements. The plans are component units of the State of Arizona and benefits are established by state statute and the plans generally provide retirement, long-term disability and health insurance premium benefits including death and survivor benefits.

The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

Notes to Financial Statements - Continued

Note 9 - Pensions and Other Postemployment Benefits – Continued

The *Arizona State Retirement System* (ASRS) administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit plan 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 employees of 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 *Elected Officials Retirement Plan* (EORP) administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing, multiple employer defined benefit health insurance premium plan that covers State of Arizona and County elected officials and judges, and elected officials of participating cities. The EORP is governed by Board of Trustees of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. EORP's health insurance premium benefit portion is not administered as its own formal trust. Therefore, in accordance with GASB Statement No. 43, the County is required to disclose certain actuarial information related to the health insurance premium benefit portion that is similar to that of an agent multiple-employer defined benefit plan. However, the Board of Trustees obtains an actuarial valuation for both EORP portions on their statutory basis as cost-sharing plans, and therefore, actuarial information for the County, as a participating government employer, is not available.

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

ASRS

3300 North Central Avenue
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or 1-800-621-3778
www.azasrs.gov

PSPRS, and EORP

3010 E. Camelback Road, Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575
www.psprs.com

Notes to Financial Statements - Continued

Note 9 - Pensions and Other Postemployment Benefits – Continued

Funding Policy—The Arizona State Legislature establishes and may amend active plan members’ and the County’s contribution rates for the ASRS, PSPRS and EORP.

Cost-sharing plans - For the year ended June 30, 2013, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.14 percent (10.9 percent for retirement and 0.24 percent for long-term disability) of the members’ annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium and 0.24 percent for long-term disability) of the members’ annual covered payroll. Active EORP members were required by statute to contribute 11.5 percent of the members’ annual covered payroll, and the County was required to remit a designated portion of certain court fees plus additional contributions at the actuarially determined rate of 20.87 percent of the members’ annual covered payroll that includes the actuarially set rate of 1.8 percent for the plan’s health insurance premium benefit.

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

| Year ended June 30 | Retirement Fund | Health Benefit Supplement Fund | Long-Term Disability Fund |
|-------------------------------|----------------------------|---|--------------------------------------|
| ASRS: | | | |
| 2013 | \$ 836,643 | \$ 53,055 | \$ 19,590 |
| 2012 | \$ 746,588 | \$ 47,655 | \$ 18,154 |
| 2011 | \$ 762,488 | \$ 49,931 | \$ 21,159 |

| Year ended June 30 | Retirement Fund | Health Insurance Premium Benefit |
|-------------------------------|----------------------------|---|
| EORP: | | |
| 2013 | \$ 187,356 | \$ 17,684 |
| 2012 | \$ 184,792 | \$ 11,794 |
| 2011 | \$ 160,057 | \$ 18,102 |

Agent plan - For the year ended June 30, 2013, active PSPRS members were required by statute to contribute 9.55 percent of the members’ annual covered payroll, and the County was required to contribute 29.35 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.68 percent of the members’ annual covered payroll.

Actuarial methods and assumptions - The contribution requirements for the year ended June 30, 2013, were established using the June 30, 2011 actuarial valuations and those actuarial valuations were based on the following actuarial methods and assumptions.

Notes to Financial Statements - Continued

Note 9 - Pensions and Other Postemployment Benefits – Continued

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of future events. 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' structure as understood by the County and plans' members including 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 to established the fiscal year 2013 PSPRS contribution requirements, are as follows:

| | |
|-------------------------------|--|
| Actuarial valuation date | June 30, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 25 years for unfunded actuarial accrued liability, 20 years for excess |
| Asset valuation method | 7 - year smoothed market value |
| Actuarial assumptions: | |
| Investment rate of return | 8.25% |
| Projected salary increases | 5.00% - 8.00% |
| Includes inflation at | 5.00% |

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2013, and related information follows:

| | <u>PSPRS</u> | |
|--------------------------|----------------|-------------------------|
| | <u>Pension</u> | <u>Health Insurance</u> |
| Annual pension/OPEB cost | \$ 352,115 | \$ 20,155 |
| Contributions made | \$ 352,115 | \$ 20,155 |

Notes to Financial Statements - Continued

Note 9 - Pensions and Other Postemployment Benefits – Continued

Trend Information—Annual pension and OPEB cost information for the current and 2 preceding years follows for the PSPRS agent plan.

| <u>Plan</u> | <u>Year Ended June 30</u> | <u>Annual Pension/ OPEB Cost</u> | <u>Percentage of Annual Cost Contributed</u> | <u>Net Pension/ OPEB Obligation</u> |
|------------------|-------------------------------|--|--|---|
| <u>PSPRS</u> | | | | |
| Pension | 2013 | \$ 352,115 | 100% | \$ -0- |
| Health insurance | 2013 | \$ 20,155 | 100% | \$ -0- |
| Pension | 2012 | \$ 288,069 | 100% | \$ -0- |
| Health insurance | 2012 | \$ 18,387 | 100% | \$ -0- |
| Pension | 2011 | \$ 307,663 | 100% | \$ -0- |
| Health insurance | 2011 | \$ 22,108 | 100% | \$ -0- |

Funded Status—The funded status of the PSPRS as of the most recent valuation date, June 30, 2013, along with the actuarial assumptions and methods used in those valuations follow.

| | <u>PSPRS</u> | |
|---|----------------|-----------------------------|
| | <u>Pension</u> | <u>Health Insurance</u> |
| Actuarial accrued liability (a) | \$11,958,926 | \$ 211,154 |
| Actuarial value of assets (b) | 5,989,778 | - |
| Unfunded actuarial accrued liability (funding excess) (a) – (b) | 5,969,148 | 211,154 |
| Funded ratio (b)/(a) | 50.1% | 0.00% |
| Covered payroll (c) | 1,380,267 | 1,380,267 |
| Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) – (b)) / (c) | 432.5% | 15.3% |

Notes to Financial Statements - Continued

Note 9 - Pensions and Other Postemployment Benefits – Continued

The actuarial methods and assumptions for the PSPRS agent plan for the most recent valuation date, are as follows:

| | |
|-------------------------------|--|
| Actuarial valuation date | June 30, 2013 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent closed for unfunded actuarial accrued liability, open for excess |
| Remaining amortization period | 23 years for unfunded actuarial accrued liability, 20 years for overfunded |
| Asset valuation method | 7-year smoothed market value (80%/120% market) |
| Actuarial assumptions: | |
| Investment rate of return | 7.85% |
| Projected salary increases | 4.50% - 8.50% |
| Includes inflation at | 4.50% |

Note 10 - Interfund Balances and Activity

Interfund receivables and payables—Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The balances between the General Fund and the Business 95 Road Improvement and Golf Course Funds are expected to be repaid within 1 year from the date of the financial statements. The interfund balances between the General Fund and all other funds are not expected to be repaid within that timeframe.

Notes to Financial Statements - Continued

Note 10 - Interfund Balances and Activity – Continued

Interfund balances at June 30, 2013, were as follows:

| | Payable To | | | |
|--------------------------------------|--|--|-------------------|---------------------|
| General Fund | Business 95 Road Improvement Fund | Nonmajor Governmental Funds | Total | |
| Payable From: | | | | |
| General Fund | \$ - | \$ 1,118,032 | \$ 349,598 | \$ 1,467,630 |
| Road Fund | 586,816 | - | - | 586,816 |
| Jail District Fund | 1,348,121 | - | - | 1,348,121 |
| Nonmajor- Governmental Funds | 1,562,913 | - | - | 1,562,913 |
| Business 95 Road Improvement Fund | 9,540 | - | - | 9,540 |
| Golf Course Fund | 38,447 | - | - | 38,447 |
| Parks Fund | 692,561 | - | - | 692,561 |
| | \$ 4,238,398 | \$ 1,118,032 | \$ 349,598 | \$ 5,706,028 |

Interfund transfers—Interfund transfers for the year ended June 30, 2013 consisted of transfers from the General Fund to Nonmajor Governmental Funds totaling \$498,799. Such transfers were to cover over-expenditures in certain special revenue funds.

Note 11 - Subsequent Event

On November 4, 2013 the County’s Board of Supervisors reached a settlement agreement regarding a tax assessment matter pertaining to the 2012 tax year. The settlement resulted in the County agreeing to refund the plaintiff an amount estimated by the County Assessor of \$128,000.

Required Supplementary Information

La Paz County
Required Supplementary Information
Schedule of Agent Retirement Plan's Funding Progress
June 30, 2013

Public Safety Personnel Retirement System

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|---|---|--|---|-----------------------------------|---|--|
| 06/30/13 | | | | | | |
| Pension | \$ 5,989,778 | \$ 11,958,926 | \$(5,969,148) | 50.1% | \$1,380,267 | 432.5% |
| Health Insurance | \$ - | \$ 211,154 | \$ (211,154) | 0.0% | \$1,380,267 | 15.3% |
| 06/30/12 | | | | | | |
| Pension | \$ 6,564,204 | \$ 11,914,451 | \$(5,350,247) | 55.1% | \$1,167,036 | 458.4% |
| Health Insurance | \$ - | \$ 243,678 | \$ (243,678) | 0.0% | \$1,167,036 | 20.9% |
| 06/30/11 | | | | | | |
| Pension | \$ 6,723,112 | \$ 11,183,460 | \$(4,460,348) | 60.1% | \$1,377,862 | 323.7% |
| Health Insurance | \$ - | \$ 287,027 | \$ (287,027) | 0.0% | \$1,377,862 | 20.8% |

La Paz County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2013

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|---------------------------------|--|---------------------------------------|---------------------------|---------------------------------------|
| Revenues: | | | | |
| Taxes | \$ 5,995,508 | \$ 6,541,708 | \$ 6,172,897 | \$ (368,811) |
| Licenses and permits | 202,214 | 202,214 | 272,056 | 69,842 |
| Fees, fines, and forfeits | 1,315,000 | 1,315,000 | 1,207,711 | (107,289) |
| Intergovernmental | 4,413,363 | 3,913,363 | 3,946,293 | 32,930 |
| Charges for services | 665,881 | 665,881 | 580,760 | (85,121) |
| Investment income (loss) | 1,200 | 1,200 | (825) | (2,025) |
| Miscellaneous | 517,200 | 1,517,200 | 532,218 | (984,982) |
| Total revenues | 13,110,366 | 14,156,566 | 12,711,110 | (1,445,456) |
| Expenditures: | | | | |
| Current: | | | | |
| General government: | | | | |
| Assessor | 444,500 | 466,900 | 434,695 | 32,205 |
| County attorney | 682,046 | 682,046 | 675,942 | 6,104 |
| Board of supervisors | 664,647 | 664,647 | 643,576 | 21,071 |
| Clerk of the superior court | 454,330 | 454,330 | 434,720 | 19,610 |
| Constable | 666 | 666 | - | 666 |
| Elections | 131,521 | 145,501 | 123,865 | 21,636 |
| Justice of the Peace #4 | 445,080 | 445,080 | 400,221 | 44,859 |
| Justice of the Peace #5 | 273,658 | 283,658 | 272,820 | 10,838 |
| Justice of the Peace #6 | 344,215 | 344,215 | 304,594 | 39,621 |
| Planning and zoning | 297,400 | 297,400 | 288,246 | 9,154 |
| Recorder | 263,831 | 268,831 | 262,296 | 6,535 |
| Superior court | 158,235 | 158,235 | 158,727 | (492) |
| Court administration | 335,016 | 335,016 | 553,859 | (218,843) |
| Treasurer | 358,205 | 368,092 | 483,554 | (115,462) |
| Contingency | 500,000 | - | 5,448 | (5,448) |
| Management information services | 142,666 | 142,666 | 133,930 | 8,736 |
| Public defender | 450,050 | 450,050 | 421,206 | 28,844 |
| General administration | 365,000 | 365,000 | 320,828 | 44,172 |
| Community resources | 93,126 | 98,126 | 98,999 | (873) |
| Finance personnel | 281,601 | 281,601 | 292,859 | (11,258) |
| GIS/Master planning | 27,021 | 27,021 | 25,231 | 1,790 |
| Facilities management | 475,982 | 476,982 | 494,229 | (17,247) |
| Debt issuance cost | - | - | 99,881 | (99,881) |
| Total general government | 7,188,796 | 6,756,063 | 6,929,726 | (173,663) |

See accompanying notes to budgetary comparison schedule.

La Paz County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund - Continued
Year Ended June 30, 2013

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|--|--|---------------------------------------|---------------------------|---------------------------------------|
| Public safety: | | | | |
| Regional dispatch | \$ 797,706 | \$ 797,706 | \$ 759,912 | \$ 37,794 |
| Sheriff | 2,525,404 | 2,525,404 | 2,577,357 | (51,953) |
| Probation | 130,764 | 130,764 | 130,200 | 564 |
| Maintenance of effort | 705,509 | 705,509 | 705,509 | - |
| Juvenile probation | 107,237 | 107,237 | 102,563 | 4,674 |
| Total public safety | <u>4,266,620</u> | <u>4,266,620</u> | <u>4,275,541</u> | <u>(8,921)</u> |
| Sanitation: | | | | |
| Sanitary landfill | <u>125,000</u> | <u>125,000</u> | <u>159,422</u> | <u>(34,422)</u> |
| Total sanitation | 125,000 | 125,000 | 159,422 | (34,422) |
| Health: | | | | |
| Indigent health | 448,246 | 448,246 | 408,629 | 39,617 |
| County long term care ALTCS | 833,550 | 833,550 | 628,666 | 204,884 |
| C.M.I (chronically mentally ill) | 96,000 | 96,000 | 197,302 | (101,302) |
| Health department transit | <u>186,767</u> | <u>92,881</u> | <u>98,045</u> | <u>(5,164)</u> |
| Total health | 1,564,563 | 1,470,677 | 1,332,642 | 138,035 |
| Welfare: | | | | |
| Public fiduciary | <u>139,346</u> | <u>139,346</u> | <u>142,484</u> | <u>(3,138)</u> |
| Total welfare | 139,346 | 139,346 | 142,484 | (3,138) |
| Education: | | | | |
| School superintendent | <u>216,958</u> | <u>216,958</u> | <u>215,225</u> | <u>1,733</u> |
| Total education | 216,958 | 216,958 | 215,225 | 1,733 |
| Total expenditures | <u>13,501,283</u> | <u>12,974,664</u> | <u>13,055,040</u> | <u>(80,376)</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ (390,917)</u> | <u>\$ 1,181,902</u> | <u>\$ (343,930)</u> | <u>\$ (1,525,832)</u> |

See accompanying notes to budgetary comparison schedule.

La Paz County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund - Continued
Year Ended June 30, 2013

| | Original Budgeted Amounts | Final Budgeted Amounts | Actual Amounts | Variance with Final Budget |
|---------------------------------|--|---------------------------------------|---------------------------|---------------------------------------|
| Other financing sources (uses): | | | | |
| Debt proceeds | \$ - | \$ - | \$ 1,471,000 | \$ 1,471,000 |
| Refunding debt | - | - | (1,172,715) | (1,172,715) |
| Transfers in | 200,000 | 200,000 | - | (200,000) |
| Transfers out | (500,000) | (500,000) | (498,799) | 1,201 |
| Total other financing uses | <u>(300,000)</u> | <u>(300,000)</u> | <u>(200,514)</u> | <u>99,486</u> |
| Net change in fund balances | (690,917) | 881,902 | (544,444) | (1,426,346) |
| Fund balances, July 1, 2012 | <u>700,917</u> | <u>-</u> | <u>3,305,402</u> | <u>3,305,402</u> |
| Fund balances, June 30, 2013 | <u>\$ 10,000</u> | <u>\$ 881,902</u> | <u>\$ 2,760,958</u> | <u>\$ 1,879,056</u> |

See accompanying notes to budgetary comparison schedule.

La Paz County
Required Supplementary Information
Budgetary Comparison Schedule
Road Fund
Year Ended June 30, 2013

| | <u>Original and Final Budgeted Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|--|---------------------------|---------------------------------------|
| Revenues: | | | |
| Taxes | \$ 475,000 | \$ 430,806 | \$ (44,194) |
| Intergovernmental | 3,884,864 | 3,371,082 | (513,782) |
| Investment income | 1,500 | 8,560 | 7,060 |
| Miscellaneous | 17,500 | 130,064 | 112,564 |
| Total revenues | <u>4,378,864</u> | <u>3,940,512</u> | <u>(438,352)</u> |
| Expenditures: | | | |
| Current: | | | |
| Highways and streets | <u>4,876,305</u> | <u>3,286,705</u> | <u>1,589,600</u> |
| Total expenditures | <u>4,876,305</u> | <u>3,286,705</u> | <u>1,589,600</u> |
| Excess (deficiency) of revenues over expenditures | (497,441) | 653,807 | 1,151,248 |
| Other financing sources (uses): | | | |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (497,441) | 653,807 | 1,151,248 |
| Fund balances, July 1, 2012 | <u>497,441</u> | <u>1,087,202</u> | <u>589,761</u> |
| Fund balances, June 30, 2013 | <u>\$ -</u> | <u>\$ 1,741,009</u> | <u>\$ 1,741,009</u> |

See accompanying notes to budgetary comparison schedule.

La Paz County
Required Supplementary Information
Budgetary Comparison Schedule
Jail District Fund
Year Ended June 30, 2013

| | <u>Original and Final Budgeted Amounts</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|--|---------------------------|---------------------------------------|
| Revenues: | | | |
| Taxes | \$ 1,030,000 | \$ 1,131,743 | \$ 101,743 |
| Intergovernmental | 705,509 | 705,509 | - |
| Charges for services | 1,500,000 | 1,100,954 | (399,046) |
| Investment (loss) income | - | (1,285) | (1,285) |
| Miscellaneous | 20,000 | (1,180) | (21,180) |
| Total revenues | <u>3,255,509</u> | <u>2,935,741</u> | <u>(319,768)</u> |
| Expenditures: | | | |
| Current: | | | |
| Public safety | 3,354,600 | 3,241,802 | 112,798 |
| Capital outlay | - | 43,984 | (43,984) |
| Debt Service: | | | |
| Principal retirement | 36,000 | 138,221 | (102,221) |
| Interest and fiscal charges | - | 84,358 | (84,358) |
| Total expenditures | <u>3,390,600</u> | <u>3,508,365</u> | <u>(117,765)</u> |
| Excess (deficiency) of revenues over expenditures | <u>(135,091)</u> | <u>(572,624)</u> | <u>(437,533)</u> |
| Other financing sources (uses): | | | |
| Bond proceeds | - | 1,585,000 | 1,585,000 |
| Payments to refund debt obligation | - | (1,468,841) | (1,468,841) |
| | <u>-</u> | <u>116,159</u> | <u>116,159</u> |
| Net change in fund balances | (135,091) | (456,465) | (321,374) |
| Fund balances, July 1, 2012 | <u>135,091</u> | <u>(739,006)</u> | <u>(874,097)</u> |
| Fund balances, June 30, 2013 | <u>\$ -</u> | <u>\$ (1,195,471)</u> | <u>\$ (1,195,471)</u> |

See accompanying notes to budgetary comparison schedule.

La Paz County
Required Supplementary Information - Continued
Notes to Budgetary Comparison Schedule
June 30, 2013

Note 1 - Budgeting and Budgetary Control

A.R.S. requires 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. prohibits 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. With the exception of the General Fund, each fund includes only one department.

For the General Fund, capital outlay expenditures are budgeted by department and accumulated by function on the Budgetary Comparison Schedule.

Note 2 - Budgetary Basis of Accounting

The County's budget is prepared on a basis consistent with generally accepted accounting principles.

Note 3 - Expenditures in Excess of Appropriations

For the year ended June 30, 2013, expenditures that exceeded final budget amounts at the department level (the legal level of budgetary control) were as follows:

| <u>Fund/Department</u> | <u>Excess</u> |
|----------------------------------|---------------|
| General Fund: | |
| Superior Court | \$ 492 |
| Court Administration | 218,843 |
| Treasurer | 115,462 |
| Contingency | 5,448 |
| Community Resources | 873 |
| Finance Personnel | 11,258 |
| Facilities Management | 17,247 |
| Debt Issuance Cost | 99,881 |
| Sheriff | 51,953 |
| Sanitary Landfill | 34,422 |
| C.M.I (Chronically Mentally Ill) | 101,302 |
| Health Department Transit | 5,164 |
| Public Fiduciary | 3,138 |
| Jail District: | |
| Public safety expenditures | \$ 117,765 |

La Paz County
Required Supplementary Information - Continued
Notes to Budgetary Comparison Schedule
June 30, 2013

Note 3 - Expenditures in Excess of Appropriations - Continued

The excesses were primarily the result of unexpected expenditures and expenditures made as a result of unanticipated revenues, or both.