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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Yavapai County, Arizona

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Yavapai County as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Yavapai County as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 11 through 19, the Budgetary Comparison Schedules on pages 63 through 68, and the Schedule of Agent Retirement Plans' Funding Progress on page 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Yavapai County
Statement of Net Assets
June 30, 2012

	Primary Government
	Governmental
	Activities
Assets	
Cash and cash equivalents	\$ 81,749,576
Receivables:	
Property taxes	2,438,433
Special assessments	1,815,410
Accounts	1,029,999
Due from other governments	10,005,021
Inventories	464,560
Prepaid items	431,913
Cash equivalents - restricted	2,047,766
Capital assets, not being depreciated	95,953,266
Capital assets, being depreciated, net	162,122,901
Total assets	358,058,845
Liabilities	
Accounts payable	8,294,122
Accrued payroll and employee benefits	1,814,329
Interest payable	133,442
Unearned revenue	1,820,876
Noncurrent liabilities:	
Due within one year	4,567,248
Due in more than one year	30,626,817
Total liabilities	47,256,834
Net Assets	
Invested in capital assets, net of related debt	233,664,415
Restricted for:	
General government	6,437,805
Public safety	8,970,305
Highways and streets	8,134,090
Sanitation	940,781
Health and welfare	3,687,297
Culture and recreation	47,339
Education	1,104,986
Debt service	922,361
Unrestricted	46,892,632
Total net assets	\$ 310,802,011

See accompanying notes to financial statements.

Yavapai County
Statement of Activities
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue & Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 62,345,662	\$ 5,459,831	\$ 4,317,251	\$ -	\$ (52,568,580)	\$ -	\$ (52,568,580)
Public safety	49,388,684	8,681,147	5,960,491	-	(34,747,046)	-	(34,747,046)
Highways and streets	25,247,610	357,546	10,247,110	654,668	(13,988,286)	-	(13,988,286)
Sanitation	1,465,542	357,344	407,032	-	(701,166)	-	(701,166)
Health	13,191,650	6,569,234	4,591,429	-	(2,030,987)	-	(2,030,987)
Welfare	11,834,457	-	-	-	(11,834,457)	-	(11,834,457)
Culture and recreation	238,532	-	16,641	-	(221,891)	-	(221,891)
Education	3,509,638	1,091,484	1,170,578	1,594,013	346,437	-	346,437
Interest on long-term debt	1,364,868	-	-	-	(1,364,868)	-	(1,364,868)
Total governmental activities	<u>168,586,643</u>	<u>22,516,586</u>	<u>26,710,532</u>	<u>2,248,681</u>	<u>(117,110,844)</u>	<u>-</u>	<u>(117,110,844)</u>
Business-type activities:							
Long Term Care	10,141,138	11,968,091	-	-	-	1,826,953	1,826,953
Total business-type activities	<u>10,141,138</u>	<u>11,968,091</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,826,953</u>	<u>1,826,953</u>
Total primary government	<u>\$ 178,727,781</u>	<u>\$ 34,484,677</u>	<u>\$ 26,710,532</u>	<u>\$ 2,248,681</u>	<u>(117,110,844)</u>	<u>1,826,953</u>	<u>(115,283,891)</u>
General revenues:							
Property taxes, levied for general purposes					45,626,497	-	45,626,497
Property taxes, levied for flood control					6,072,974	-	6,072,974
Sales tax—Jail construction and operation					6,199,337	-	6,199,337
Shared revenue—state sales tax					35,183,607	-	35,183,607
Shared revenue—state vehicle license tax					9,083,699	-	9,083,699
Grants and contributions not restricted to specific programs					2,985,878	-	2,985,878
Franchise taxes					271,003	-	271,003
Investment earnings					227,971	18,363	246,334
Gain (loss) on disposal of capital assets					376,709	(82,060)	294,649
Miscellaneous					4,104,472	-	4,104,472
Transfers					<u>7,656,630</u>	<u>(7,656,630)</u>	<u>-</u>
Total general revenues and transfers					<u>117,788,777</u>	<u>(7,720,327)</u>	<u>110,068,450</u>
Changes in net assets					677,933	(5,893,374)	(5,215,441)
Net assets, July 1, 2011					<u>310,124,078</u>	<u>5,893,374</u>	<u>316,017,452</u>
Net assets, June 30, 2012					<u>\$ 310,802,011</u>	<u>\$ -</u>	<u>\$ 310,802,011</u>

See accompanying notes to financial statements.

Yavapai County
Balance Sheet
Governmental Funds
June 30, 2012

Assets	<u>General</u>	<u>Jail District</u>	<u>Regional Road</u>	<u>HURF Road</u>
Cash and cash equivalents	\$ 7,561,500	\$ -	\$ 11,123,331	\$ 6,988,816
Receivables:				
Property taxes	1,934,855	-	-	-
Special assessments	-	-	-	-
Accounts	599,289	16,202	13,510	47,586
Due from:				
Other funds	275,729	36,677	-	28,186
Other governments	2,785,229	782,259	3,270,666	1,013,748
Inventories	160,627	-	-	303,933
Prepaid items	397,703	-	21,400	234
Cash equivalents - restricted	-	-	-	-
Total assets	<u>\$ 13,714,932</u>	<u>\$ 835,138</u>	<u>\$ 14,428,907</u>	<u>\$ 8,382,503</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 1,384,211	\$ 457,977	\$ 1,093,379	\$ 1,218,286
Accrued payroll and employee benefits	1,055,149	193,971	5,775	125,427
Due to other funds	99,911	168,190	-	22,107
Deferred revenue	1,418,346	-	1,400,000	-
Total liabilities	<u>3,957,617</u>	<u>820,138</u>	<u>2,499,154</u>	<u>1,365,820</u>
Fund balances:				
Nonspendable	558,330	-	21,400	304,167
Restricted	-	15,000	-	6,304,272
Committed	-	-	11,908,353	408,244
Unassigned	9,198,985	-	-	-
Total fund balances	<u>9,757,315</u>	<u>15,000</u>	<u>11,929,753</u>	<u>7,016,683</u>
Total liabilities and fund balances	<u>\$ 13,714,932</u>	<u>\$ 835,138</u>	<u>\$ 14,428,907</u>	<u>\$ 8,382,503</u>

See accompanying notes to financial statements.

Capital Projects	Capital Projects Debt Service	Other Governmental Funds	Total Governmental Funds
\$31,552,439	\$ 1,353	\$ 24,522,137	\$ 81,749,576
-	-	503,578	2,438,433
-	-	1,815,410	1,815,410
16,736	-	336,676	1,029,999
-	-	436,086	776,678
331,335	-	1,821,784	10,005,021
-	-	-	464,560
-	-	12,576	431,913
2,047,766	-	-	2,047,766
<u>\$33,948,276</u>	<u>\$ 1,353</u>	<u>\$ 29,448,247</u>	<u>\$ 100,759,356</u>

\$ 1,972,099	\$ -	\$ 2,168,170	\$ 8,294,122
5,455	-	428,552	1,814,329
610	-	485,860	776,678
-	-	2,181,862	5,000,208
<u>1,978,164</u>	<u>-</u>	<u>5,264,444</u>	<u>15,885,337</u>

-	-	12,576	896,473
1,240,585	1,353	22,283,877	29,845,087
30,729,527	-	1,887,350	44,933,474
-	-	-	9,198,985
<u>31,970,112</u>	<u>1,353</u>	<u>24,183,803</u>	<u>84,874,019</u>
<u>\$33,948,276</u>	<u>\$ 1,353</u>	<u>\$ 29,448,247</u>	<u>\$ 100,759,356</u>

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

Fund balances—total governmental funds	\$ 84,874,019
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	258,076,167
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	3,179,332
Long-term liabilities, including bonds and interest payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(35,327,507)</u>
Net assets of governmental activities	<u>\$ 310,802,011</u>

See accompanying notes to financial statements.

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Yavapai County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2012

	General	Jail District	Jail District Debt Service	Regional Road
Revenues:				
Taxes	\$ 44,856,653	\$ 6,199,337	\$ -	\$ 4,960,317
Special assessments	-	-	-	-
Licenses and permits	1,250,310	-	-	348,500
Intergovernmental	33,784,181	-	-	1,412,000
Charges for services	1,821,811	3,236,431	-	-
Fines and forfeits	2,524,281	-	-	-
Investment earnings	29,221	2,535	-	36,143
Miscellaneous	341,570	39,946	-	554
Total revenues	<u>84,608,027</u>	<u>9,478,249</u>	<u>-</u>	<u>6,757,514</u>
Expenditures:				
Current:				
General government	46,702,528	-	-	-
Public safety	20,819,822	14,478,655	-	-
Highways and streets	-	-	-	8,748,803
Sanitation	1,141,595	-	-	-
Health	-	-	-	-
Welfare	11,841,743	-	-	-
Culture and recreation	98,783	-	-	-
Education	626,294	-	-	-
Capital outlay	60,293	-	-	-
Debt service:				
Principal	-	-	1,790,000	-
Interest and other charges	-	-	77,803	-
Total expenditures	<u>81,291,058</u>	<u>14,478,655</u>	<u>1,867,803</u>	<u>8,748,803</u>
Excess (deficiency) of revenues over expenditures	3,316,969	(5,000,406)	(1,867,803)	(1,991,289)
Other financing sources (uses):				
Sale of capital assets	128,595	-	-	-
Transfers in	11,434,175	6,865,054	1,865,389	-
Transfers out	(17,253,415)	(1,865,389)	-	(2,450,714)
Total other financing sources (uses)	<u>(5,690,645)</u>	<u>4,999,665</u>	<u>1,865,389</u>	<u>(2,450,714)</u>
Net change in fund balances	(2,373,676)	(741)	(2,414)	(4,442,003)
Fund balances, July 1, 2011	12,456,386	15,741	2,414	16,486,256
Changes in nonspendable resources:				
Increase (decrease) in inventories	(13,282)	-	-	-
Increase (decrease) in prepaid items	(312,113)	-	-	(114,500)
Fund balances, June 30, 2012	<u>\$ 9,757,315</u>	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ 11,929,753</u>

See accompanying notes to financial statements.

Regional Road Debt Service	HURF Road	Capital Projects	Capital Projects Debt Service	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 3,547,068	\$ -	\$ 11,021,667	\$ 70,585,042
-	-	-	-	445,430	445,430
-	-	-	-	753,797	2,352,607
-	11,536,855	1,115,660	-	20,107,631	67,956,327
-	-	-	-	8,842,949	13,901,191
-	-	-	-	551,298	3,075,579
550	17,744	73,656	34	68,088	227,971
-	142,865	-	-	3,749,768	4,274,703
<u>550</u>	<u>11,697,464</u>	<u>4,736,384</u>	<u>34</u>	<u>45,540,628</u>	<u>162,818,850</u>
-	-	-	-	13,581,613	60,284,141
-	-	-	-	13,140,002	48,438,479
-	13,810,605	-	-	280,142	22,839,550
-	-	-	-	303,462	1,445,057
-	-	-	-	13,121,564	13,121,564
-	-	-	-	-	11,841,743
-	-	-	-	73,565	172,348
-	-	-	-	3,620,305	4,246,599
-	-	20,047,161	-	1,849,216	21,956,670
2,800,000	-	-	1,010,482	175,000	5,775,482
17,406	-	-	1,101,383	168,276	1,364,868
<u>2,817,406</u>	<u>13,810,605</u>	<u>20,047,161</u>	<u>2,111,865</u>	<u>46,313,145</u>	<u>191,486,501</u>
(2,816,856)	(2,113,141)	(15,310,777)	(2,111,831)	(772,517)	(28,667,651)
-	220,042	-	-	28,072	376,709
2,450,714	1,565,255	7,712,491	2,111,865	1,659,489	35,664,432
-	-	(2,836,865)	-	(3,601,419)	(28,007,802)
<u>2,450,714</u>	<u>1,785,297</u>	<u>4,875,626</u>	<u>2,111,865</u>	<u>(1,913,858)</u>	<u>8,033,339</u>
(336,142)	(327,844)	(10,435,151)	34	(2,686,375)	(20,634,312)
366,142	7,444,866	42,405,263	1,319	26,888,455	106,066,842
-	6,949	-	-	-	(6,333)
-	(107,288)	-	-	(18,277)	(552,178)
<u>\$ -</u>	<u>\$ 7,016,683</u>	<u>\$ 31,970,112</u>	<u>\$ 1,353</u>	<u>\$ 24,183,803</u>	<u>\$ 84,874,019</u>

Yavapai 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, 2012

Net change in fund balances—total governmental funds \$ (20,634,312)

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	33,593,043	
Depreciation expense	(15,872,542)	17,720,501

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal repaid on bonds and capital lease		5,775,482
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Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities.		(1,400,000)
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Deferred tax revenues are recognized in the governmental funds only when available, but are recognized in the Statement of Activities when earned.		(187,608)
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.

Increase in compensated absences	(103,384)	
Decrease in claims and judgments	140,666	
Increase in interest payable	(87,088)	
Decrease in landfill closure and postclosure care costs	12,187	(37,619)

Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.

Decrease in inventories	(6,333)	
Decrease in prepaid items	(552,178)	<u>(558,511)</u>

Change in net assets of governmental activities		<u>\$ 677,933</u>
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See accompanying notes to financial statements.

Yavapai County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2012

	Business-type Activities- Enterprise Fund
	Long Term Care
Operating revenues:	
AHCCCS revenues	\$ 11,952,904
Miscellaneous	15,187
Total operating revenues	11,968,091
Operating expenses:	
Medical costs	9,152,217
Administrative costs	977,420
Depreciation	11,501
Total operating expenses	10,141,138
Operating income	1,826,953
Nonoperating revenues (expenses):	
Investment earnings	18,363
Loss on disposal of capital assets	(82,060)
Total nonoperating expenses	(63,697)
Income before transfers	1,763,256
Transfers out	(7,656,630)
Decrease in net assets	(5,893,374)
Total net assets, July 1, 2011	5,893,374
Total net assets, June 30, 2012	\$ -

See accompanying notes to financial statements.

Yavapai County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2012

	Business-Type Activities— Enterprise Fund
	Long Term Care
Cash flows from operating activities:	
Cash received from AHCCCS	\$ 12,494,047
Cash payments for medical services	(12,959,980)
Cash payments for employee wages and benefits	(779,150)
Cash payments to other County funds for goods and services	(107,539)
Cash payments for operating activities	(575,977)
Net cash used for operating activities	(1,928,599)
Cash flows from noncapital financing activities:	
Cash transfers to general fund	(7,656,630)
Cash flows from capital and related financing activities:	
Proceeds from sale of capital assets	4,496
Cash flows from investing activities:	
Interest received on investments	18,363
Net decrease in cash and cash equivalents	(9,562,370)
Cash and cash equivalents, July 1, 2011	9,562,370
Cash and cash equivalents, June 30, 2012	\$ -
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 1,826,953
Adjustments to reconcile operating income to net cash used for operating activities:	
Depreciation	11,501
Changes in assets and liabilities:	
Decrease in:	
Due from other governments	825,067
Accounts payable	(56,761)
Accrued payroll and employee benefits	(320,946)
Medical claims payable	(3,871,995)
Due to other funds	(43,307)
Due to other governments	(299,111)
Net cash used for operating activities	\$ (1,928,599)
Schedule of non-cash capital and related financing activities:	
Donations and other disposals of capital assets	(86,556)

See accompanying notes to financial statements.

Yavapai County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	Investment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 103,775,557	\$ 2,857,582
Total assets	103,775,557	\$ 2,857,582
 Liabilities		
Deposits held for others	-	\$ 2,857,582
Total liabilities	-	\$ 2,857,582
 Net Assets		
Held in trust for investment trust participants	\$ 103,775,557	

See accompanying notes to financial statements.

Yavapai County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2012

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 379,816,879
Investment earnings	304,898
Total additions	380,121,777
Deductions:	
Distributions to participants	392,948,820
Total deductions	392,948,820
Change in net assets	(12,827,043)
Net assets, July 1, 2011	116,602,600
Net assets, June 30, 2012	\$ 103,775,557

See accompanying notes to financial statements.

Yavapai County
Notes to Financial Statements
June 30, 2012

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

The following table describes the County's component units:

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Yavapai County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Yavapai County Library District	Provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available

Yavapai County
Notes to Financial Statements
June 30, 2012

<u>Component Unit</u>	<u>Description; Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Yavapai County Special Assessment Districts	Constructs or improves sidewalks, curbs and gutters, irrigation systems, and street lighting within the County; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Yavapai County Jail District	A tax-levying district that acquires, constructs, operates, maintains, and finances county jails and jail systems; the County's Board of Supervisors serves as the governing board	Blended	Not available

Related Organizations – The United States Department of Agriculture deeded property to Yavapai County on February 6, 1957 to be used exclusively as a public airport facility. The property shall automatically revert to the United States in the event the property ceases to be used as a public airport facility. The Sedona-Oak Creek Airport Authority (Airport Authority) was created for the purpose of developing and promoting transportation and commerce by air in the State of Arizona, and in particular the development, promotion, and operation of air transportation facilities and air commerce in and around the Sedona area. In 1971, the Airport Authority entered into a 60-year lease with Yavapai County to manage and operate the Sedona Airport facility, which is owned by the County. The Airport Authority is governed by a 13 member Board of Directors approved by the County's Board of Supervisors. However, the Airport Authority's operations are completely separate from the County, and the County is not financially accountable for the Airport Authority. Therefore, based on the criterion of GASB Statement Nos. 14 and 39, the financial activities of the Airport Authority have not been included in the accompanying financial statements.

The Industrial Development Authority of Yavapai County (Authority) is a legally separate entity that was created to assist in the financing of commercial and industrial enterprises: safe, sanitary, and affordable housing; and healthcare facilities. 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, based on the criterion of GASB Statements Nos. 14 and 39, the financial activities of the Authority have not been included in the accompanying financial statements.

Yavapai County
Notes to Financial Statements
June 30, 2012

B. Basis of Presentation

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

Government-wide statements—Provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the overall government's financial activities, 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 segment 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 grants and contributions; and
- capital grants and contributions, including special assessments.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes levied or imposed by the County, are reported as general revenues.

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.

Proprietary fund revenues 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 AHCCCS revenues and user charges, in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as investment earnings, result from transactions in

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which the parties do not exchange equal values and are considered nonoperating revenues. 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 *Jail District Fund* accounts for County jail operations and is funded by a ¼ cent County sales tax.

The *Jail District Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on the revenue bonds issued for the construction and remodeling of the County jail.

The *Regional Road Fund* accounts for road construction and maintenance of major regional roads and is funded by a portion of the ½ cent County sales tax and impact fees.

The *Regional Road Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on the revenue bonds issued to advance monies to the Arizona Department of Transportation to accelerate construction on State Route 260.

The *HURF Road Fund* accounts for road maintenance and construction of nonmajor roads and is funded primarily by highway user revenue.

The *Capital Projects Fund* accounts for major capital projects and is funded by a portion of the ½ cent County sales tax, intergovernmental revenues and transfers from other funds.

The *Capital Projects Debt Service Fund* accounts for the resources accumulated and payments made on the capital lease agreement for the construction of court and juvenile detention buildings.

The County reports the following major enterprise fund:

The *Long Term Care Fund* accounts for the activities of the Yavapai County Long Term Care department. The Long Term Care department operates a prepaid health program for qualified persons of the County.

The County reports the following fund types:

The *investment trust funds* account for pooled assets the County Treasurer holds and invests on behalf of other governmental entities.

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The *agency funds* account for assets the County holds as an agent for the State, cities, towns, and other parties.

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

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year end. The County's major revenue sources that are susceptible to accrual are property taxes, special assessments, intergovernmental, charges for services, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, 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.

The County's business-type activities and enterprise funds follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The County has chosen the option not to follow those FASB Statements and Interpretations issued after November 30, 1989.

D. Cash and Investments

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

Money market investments with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

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E. Inventories

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

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

F. Prepaid Items

In the government-wide financial statements, prepaid purchases are recorded as assets when the goods or services are purchased and expensed over the period consumed.

Prepaid items are accounted for using the purchase method in the governmental fund financial statements. Using this method, expenditures are reported at the time of purchase and unexpended amounts at year-end are reported on the balance sheet as prepaid items for informational purposes and as nonspendable fund balance to indicate that they do not constitute "available spendable resources."

G. 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.

H. Capital Assets

Capital assets are reported at actual cost, or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

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

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	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land (including right of ways and easements)	\$10,000	N/A	N/A
Buildings	10,000	Straight-line	20-40 years
Equipment	5,000	Straight-line	5-10 years
Infrastructure	10,000	Straight-line	15-75 years
Software	10,000	Straight-line	3-5 years
Construction in progress	10,000	N/A	N/A

I. Fund Balance Classifications

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

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

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

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 not delegated authority to make assignments of resources for a specific purpose.

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

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

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J. Investment Earnings

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

K. Compensated Absences

Compensated absences payable consists of paid time off (PTO) leave earned by employees based on services already rendered.

Employees may accumulate up to 764 hours of PTO, depending on years of service, but any PTO hours in excess of the maximum amount are forfeited. Upon terminating employment, all unused and unforfeited PTO benefits are paid to employees. Accordingly, PTO benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Employees may accumulate up to 520 hours of catastrophic time (CAT) leave. CAT leave may be used in the case of illness or injury suffered by an employee or employee's immediate family, but only after using at least forty hours of consecutive PTO leave. CAT leave benefits are cumulative but are forfeited upon terminating employment. Because CAT leave benefits do not vest with employees, a liability for CAT leave benefits is not accrued in the financial statements.

Note 2 - Reporting Changes

On September 30, 2011, the Long Term Care Fund's (enterprise fund) contract with the Arizona Health Care Cost Containment System (AHCCCS) expired and was not renewed by AHCCCS. In accordance with contract requirements, initial claim submissions were accepted for a 6 month period, ending March 31, 2012. The residual equity of \$7.7 million was transferred to the County's governmental activities (General Fund) and the Long Term Care Fund was closed as of June 30, 2012.

Note 3 - Deposits and Investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds 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.

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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 deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

Concentration of credit risk

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

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk

Statutes do not allow foreign investments.

Deposits—At June 30, 2012, the carrying amount of the County's deposits was \$51,352,567, and the bank balance was \$54,731,113. The County does not have a formal policy with respect to custodial credit risk.

At June 30, 2012, \$50,342,346 of the County's bank balance was exposed to custodial credit risk as follows:

Uninsured with collateral held by the pledging financial institution's trust department or agent but not in the County's name	<u>\$ 50,342,346</u>
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Investments—The County's investments at June 30, 2012, were as follows:

Investment Type	Amount
State Treasurer's Investment Pool 7	\$ 19,589,404
U.S. Treasury securities	12,994,944
U.S. agency securities	45,079,602
Repurchase agreement	57,321,418
Money market funds	2,047,766
U.S. corporate bonds	1,997,538
	<u>\$ 139,030,672</u>

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The State Board of Investment provides oversight for the State Treasurer's pools. The fair value of a participant's position in the pool approximates the value of that participant's pool shares, and the participant's shares are not identified with specific investments.

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

Investment Type	Rating	Rating Agency	Amount
State Treasurer's Investment Pool 7	Unrated	Not applicable	\$ 19,589,404
Repurchase agreement (implicitly guaranteed)	Unrated	Not applicable	57,321,418
U.S. agency securities	Aaa	Moody's	45,079,602
Money market funds	Aaa-mf	Moody's	2,047,766
U.S. corporate bonds	A1	Moody's	1,997,538
			<u>\$126,035,728</u>

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in an outside party's possession. The County does not have a formal investment policy with respect to custodial credit risk. At June 30, 2012, the County had \$2.0 million of money market funds that were uninsured and held by the counterparty's trust department not in the County's name.

Concentration of credit risk— The County does not have a formal investment policy with respect to concentration of credit risk. The County had investments at June 30, 2012, of 5 percent or more in Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal Home Loan Bank. These investments were 60.7 percent, 5.4 percent and 6.9 percent, respectively, of the County's total investments.

Interest rate risk—The County does not have a formal policy regarding interest rate risk. At June 30, 2012, the County had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity (Years)
State Treasurer's Investment Pool 7	\$ 19,589,404	.08
U.S. Treasury securities	12,994,944	1.09
U.S. agency securities	45,079,602	2.49
Repurchase agreement	57,321,418	.01
Money market funds	2,047,766	.15
U.S. corporate bonds	1,997,538	1.79
	<u>\$139,030,672</u>	

Yavapai County
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A reconciliation of cash, deposits, and investments to amounts shown on the Statements of Net Assets follows:

Cash, deposits, and investments:

Cash on hand	\$ 47,242
Amount of deposits	51,352,567
Amount of investments	<u>139,030,672</u>
Total	<u>\$ 190,430,481</u>

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and cash equivalents	\$ 81,749,576	\$ 103,775,557	\$ 2,857,582	\$ 188,382,715
Cash equivalents - restricted	2,047,766	-	-	2,047,766
Total	<u>\$ 83,797,342</u>	<u>\$ 103,775,557</u>	<u>\$ 2,857,582</u>	<u>\$ 190,430,481</u>

The restricted cash balance of \$2,047,766 is for construction of capital projects.

Note 4 - Due From Other Governments

Amounts due from other governments for governmental activities at June 30, 2012, include \$1,994,629 in state-shared revenue from sales tax, \$331,335 in county excise tax distributions due from the State Treasurer, \$262,728 in state motor vehicle license taxes from the Arizona Department of Transportation, \$101,900 due from other counties for mental health services and \$94,637 in other fees from federal, state, and local governments recorded in the General Fund; \$552,215 in sales tax collections, \$219,889 in inmate housing fees and \$10,155 in other fees from the federal, state and local governments recorded in the Jail District Fund; \$2,800,000 in highway construction advances due from the Arizona Department of Transportation, \$441,781 in county excise tax distributions due from the State Treasurer and \$28,885 in other fees from the federal, state and local governments recorded in the Regional Road Fund; \$903,125 in state-shared revenue from highway user taxes, \$96,246 in state motor vehicle license tax and \$14,377 in other fees from federal, state, and local governments recorded in the HURF Road Fund; \$331,335 in county excise tax distributions due from the State Treasurer recorded in the Capital Projects Fund; and \$1,821,784 in grants and other fees from federal, state and local governments recorded in the Other Governmental Funds.

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Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 55,336,183	\$ 7,228,150	\$ (1,903,655)	\$ 60,660,678
Construction in progress	21,135,594	26,834,591	(12,677,597)	35,292,588
Total capital assets not being depreciated	<u>76,471,777</u>	<u>34,062,741</u>	<u>(14,581,252)</u>	<u>95,953,266</u>
Capital assets being depreciated:				
Buildings	71,613,302	1,957,422	-	73,570,724
Equipment	39,728,212	3,309,828	(1,755,588)	41,282,452
Infrastructure	296,844,296	16,656,406	(11,083,087)	302,417,615
Software	3,563,953	147,977	-	3,711,930
Total	<u>411,749,763</u>	<u>22,071,633</u>	<u>(12,838,675)</u>	<u>420,982,721</u>
Less accumulated depreciation for:				
Buildings	(19,739,283)	(1,845,294)	-	(21,584,577)
Equipment	(30,068,764)	(3,547,293)	1,748,272	(31,867,785)
Infrastructure	(196,544,967)	(9,789,560)	3,130,323	(203,204,204)
Software	(1,512,859)	(690,395)	-	(2,203,254)
Total	<u>(247,865,873)</u>	<u>(15,872,542)</u>	<u>4,878,595</u>	<u>(258,859,820)</u>
Total capital assets, being depreciated, net	<u>163,883,890</u>	<u>6,199,091</u>	<u>(7,960,080)</u>	<u>162,122,901</u>
Governmental activities capital assets, net	<u>\$240,355,667</u>	<u>\$ 40,261,832</u>	<u>\$(22,541,332)</u>	<u>\$258,076,167</u>
Business-type activities:				
Capital assets being depreciated:				
Equipment	\$ 830,697	\$ -	\$ (830,697)	\$ -
Less accumulated depreciation for:				
Equipment	(732,640)	(11,501)	744,141	-
Business-type activities capital assets, net	<u>\$ 98,057</u>	<u>\$ (11,501)</u>	<u>\$ (86,556)</u>	<u>\$ -</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 3,326,284
Public safety	1,573,256
Highway and streets	10,602,978
Sanitation	28,567
Health	199,174
Culture and recreation	115,440
Education	26,843
Total governmental activities depreciation expense	<u>\$ 15,872,542</u>
Business-type activities:	
Long Term Care	\$ 11,501
Total business-type activities depreciation expense	<u>\$ 11,501</u>

