Graham County

Annual Financial Report and Single Audit Report

Year Ended June 30, 2018

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
Making a Positive Difference

ARIZONA
AuditorGeneral
Making a Positive Difference

The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Rick Gray**, Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Representative **Anthony T. Kern**, Vice Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Audit Staff

Donna Miller, Director
Stephanie Gerber, Manager and Contact Person

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St.
Ste. 410
Phoenix, AZ 85018

(602) 553-0333

www.azauditor.gov

TABLE OF CONTENTS

Annual Financial Report

Single Audit Report

Auditors section

ANNUAL FINANCIAL REPORT

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2018, 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.

2910 N 44th ST • STE 410 • PHOENIX, AZ 85018 • (602) 553-0333 • WWW.AZAUDITOR.GOV

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-10, budgetary comparison schedules on pages 46 through 50, schedule of the County's proportionate share of the net pension liability—cost-sharing plans on page 52, schedule of changes in the County's net pension liability (asset) and related ratios—agent plans on pages 53 through 55, schedule of County pension contributions on pages 56 through 57, 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.

Supplementary information—schedule of expenditures of federal awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 comply with the authorized transportation purposes, insofar as they relate to accounting matters, for highway user revenue fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues it received. 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 authorized transportation purposes referred to above, 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 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 March 7, 2019, 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 solely 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 the effectiveness of the County's 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.

Lindsey Perry, CPA, CFE
Auditor General

March 7, 2019

ARIZONA
Auditor General
Making a Positive Difference

Graham County
Management's discussion and analysis
June 30, 2018

As management of Graham County, we offer readers of Graham County's financial statements this narrative overview and analysis of the financial activities of Graham County for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial highlights for fiscal year 2018

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the current fiscal year by $14,641,580 (net position). Of this amount, $29,747,192 is the net investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure, and construction in progress); $11,731,698 is restricted for specific purposes (restricted net position); and $(26,837,310) is the unrestricted net position deficit balance that is primarily a result of $32,670,623 in net pension liability.
- The decrease in the County's net position was $4,216,009 in fiscal year 2018.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of $16,319,353, a decrease of $4,316,936 in comparison with the prior year. The decrease was primarily due to a decrease in investments held by trustee as bond proceeds were used to complete the adult detention facility.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $1,949,264, or 12.8 percent, of total General Fund expenditures.
- Graham County's capital assets increased by $4,771,166 during the current fiscal year. The key factor in this increase was the completion of construction on the adult detention facility. The largest capital asset purchases were road projects including the Reay Lane-Safford Bryce Road Intersection and the Reay Lane Ditch Realignment along with right-of-way purchases for both. Other large capital assets were a motor grader, a parks community pavilion, and a cellular repeater system. A truck for deputies, a restroom for the parks walking trail, and miscellaneous computer items round out the majority of capital asset additions.

Overview of the financial statements

This discussion and analysis is intended to serve as an introduction to Graham County's basic financial statements. The County's basic financial statements are composed of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements are designed to provide readers with a broad overview of Graham County's finances in a manner similar to a private-sector business.

The *statement of net position* presents information on all of Graham County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether Graham County's financial position 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 only future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of these government-wide financial statements distinguish County functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Graham County did not have any business-type activities during the fiscal year.

Graham County's governmental activities include general government, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and education.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund financial statements are groupings of related accounts 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 compliance with finance-related legal requirements. The County's funds can be divided into two categories: *governmental and fiduciary*.

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, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financial requirements.

Because the governmental funds' focus 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 fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, the Highway Road Fund, Jail District Operations Fund, Jail District Debt Service Fund, and the Jail District Construction Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The basic governmental fund financial statements can be found on pages 4 through 10 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 Graham County's own programs.

The fiduciary funds financial statements can be found on pages 11 and 12 of this report.

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

The notes to the financial statements can be found on pages 13 through 43 of this report.

Required supplementary information presents budgetary comparison schedules for the general and major special revenue funds. This section also includes certain information concerning Graham County's progress in funding its obligation to provide pension benefits to its employees.

Required supplementary information can be found on pages 46 through 59 of this report.

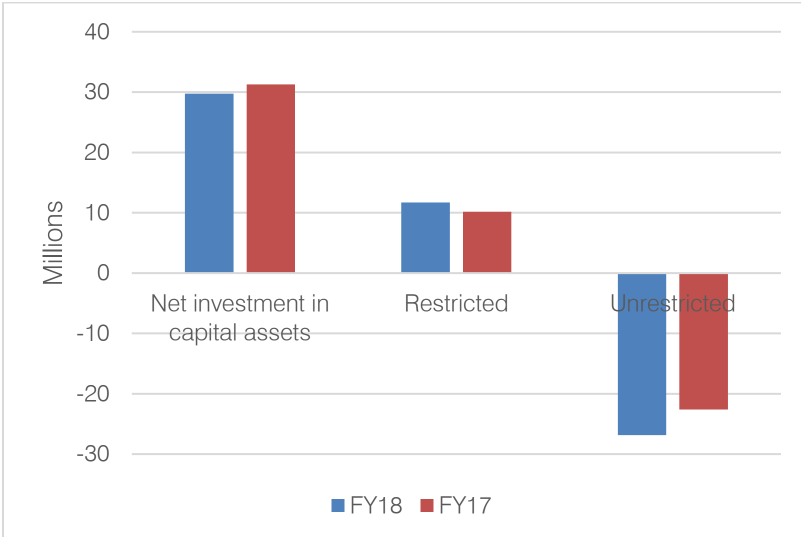
Government-wide financial analysis

Statement of net position—As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Graham County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $14,641,580.

Condensed Statement of Net Position
As of June 30, 2018 and 2017

	Governmental Activities	
	2018	2017
Current and other assets	$ 16,914,668	$ 22,448,725
Capital assets	57,459,538	52,688,372
Total assets	74,374,206	75,137,097
Deferred outflows of resources		
Total deferred outflows of resources	4,288,514	7,099,638
Long-term liabilities outstanding	61,604,658	59,251,975
Other liabilities	371,301	1,536,934
Total liabilities	61,975,959	60,788,909
Deferred inflows of resources		
Total deferred inflows of resources	2,045,181	2,590,237
Net position:		
Net investment in capital assets	29,747,192	31,293,337
Restricted	11,731,698	10,152,226
Unrestricted	(26,837,310)	(22,587,974)
Total net position	$ 14,641,580	$ 18,857,589

Net Position
June 30, 2018 and 2017



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

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from $(22,587,974) at June 30, 2017, to $(26,837,310) at June 30, 2018. Again, this is primarily a result of net pension liability.

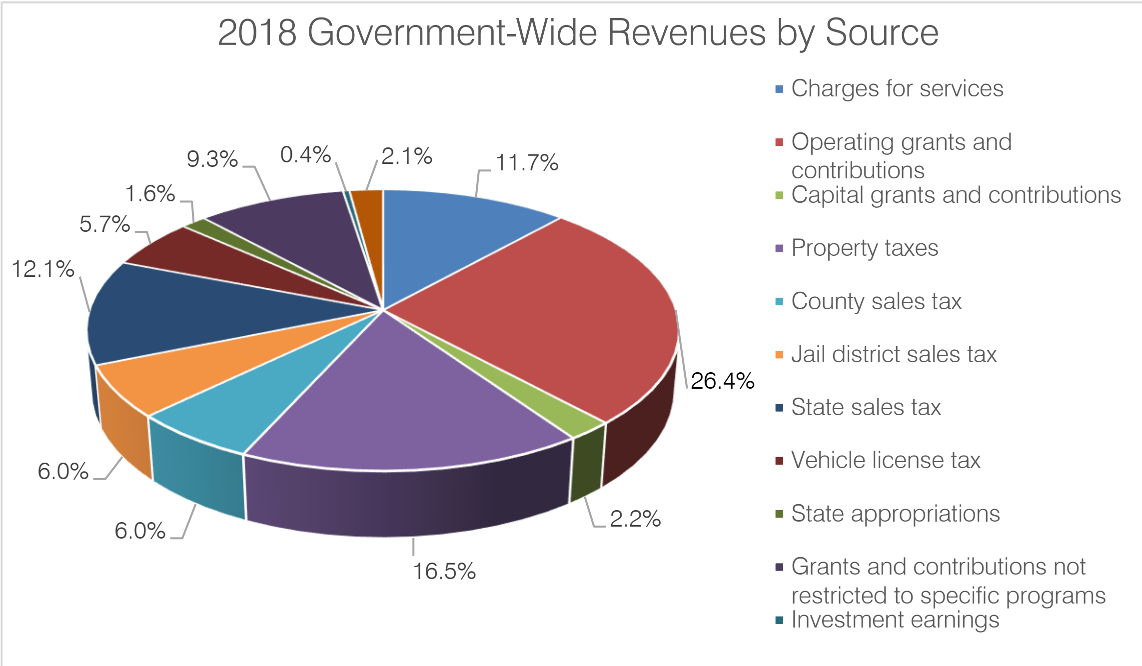
Current and other assets, related to governmental activities, decreased $5,534,057 as compared to the previous fiscal year, primarily because in 2018 amounts previously held in investments from the issuance of the Jail District bonds were used for construction of the new adult detention facility. Capital assets increased by $4,771,166 this fiscal year as assets placed in service, including the new adult detention facility, exceeded the write-off of obsolete assets and depreciation of all assets.

Long-term liabilities increased $2,352,683 with an increase of $3,362,447 in net pension liability to $32,670,623 for its employees at year-end. Compensated absences decreased $222,494, reflecting employees' decreased carryover of vacation and sick leave hours. Capital leases payable decreased $77,132 as the $323,789 increase for one new lease was incurred for a motor grader that was less than the $400,921 decrease for lease payments made. Claims and judgments payable decreased $440,547 to $0. Other liabilities decreased $1,165,633, or 75.8 percent, mainly because of a decrease in accounts payable.

Statement of activities—Already noted was the statement of activities' purpose in presenting information in how the County's net position changed during the most recent fiscal year. Most sources of revenue on the statement of activities increased with the exception of miscellaneous, which decreased $353,569, or 33.6 percent; charges for services, which decreased $133,327, or 3.3 percent; and grants and contributions, which decreased $148,749, or 1.7 percent. The net result was an increase in revenue of $897,881 for the fiscal year. The basis of accounting used in the government-wide statement of activities excludes capital expenditures, while its revenues include taxes whose primary purpose is for the County's operation.

Condensed Statement of Activities
Years Ended June 30, 2018 and 2017

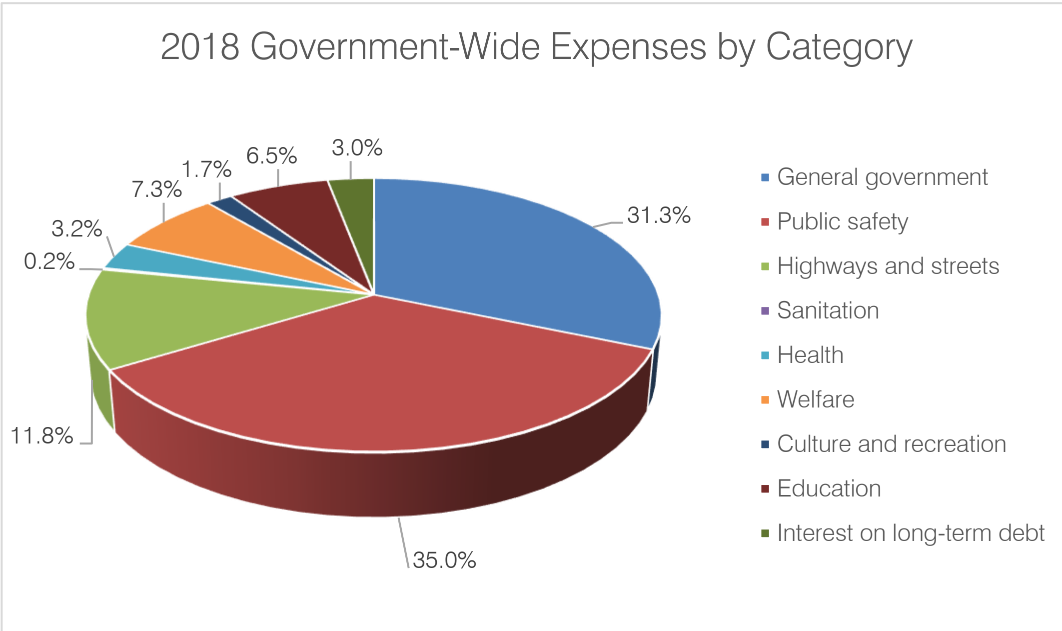
	Governmental Activities	
	2018	2017
Revenues		
Program revenues:		
Charges for services	$ 3,865,596	$ 3,998,923
Operating grants and contributions	8,709,606	8,858,355
Capital grants and contributions	719,294	435,195
General revenues:		
Property taxes, levied for general purposes	5,446,569	4,840,874
County sales taxes, levied for general purposes	1,985,866	1,872,506
Jail District sales taxes, levied for debt service	1,973,059	1,857,169
Shared revenue—State sales taxes	3,986,447	3,857,823
Shared revenue—State vehicle license taxes	1,870,419	1,764,752
State appropriations	550,050	550,050
Grants and contributions not restricted to specific programs	3,062,913	2,980,227
Investment earnings	147,598	50,093
Miscellaneous	697,230	1,050,799
Total revenues	33,014,647	32,116,766
Expenses		
General government	$11,646,665	$10,872,778
Public safety	13,046,190	10,961,441
Highways and streets	4,377,402	3,818,992
Sanitation	84,640	92,401
Health	1,187,351	1,258,329
Welfare	2,716,280	2,456,260
Culture and recreation	634,462	628,323
Education	2,411,007	2,264,726
Interest on long-term debt	1,126,659	1,419,147
Total expenses	37,230,656	33,772,397
Change in net position	(4,216,009)	(1,655,631)
Net position—beginning	18,857,589	20,513,220
Net position—ending	$14,641,580	$18,857,589



Governmental activities

Governmental activities revenues totaled $33,014,647 for fiscal year 2018. The following are highlights of County revenues:

- Capital grants and contributions increased $284,099, or 65.3 percent. The main source of the increase was contributions from the Arizona Department of Transportation (ADOT) toward road projects.
- Property taxes collections increased $605,695, or 12.5 percent. The County primary tax rate was increased for fiscal year 2018 by $0.1842, or 7.5 percent over the previous year.
- Graham County continued to see a recovery in the economy, years behind the State's recovery as a whole, which was evidenced by an increase in County sales taxes of $113,360 or 6.1 percent; an increase in Jail District sales tax of $115,890, or 6.2 percent; and an increase in vehicle license tax of $105,667, or 6.0 percent.
- Investment earnings increased by $97,505, or 194.7 percent, as interest rates continued to rise.
- Miscellaneous revenues decreased by $353,569, or 33.6 percent, as the County received insurance proceeds to reimburse costs related to hail storm repairs in the previous fiscal year that were non-recurring in fiscal year 2018.



Expenses:

Overall expenses in governmental activities increased $3,458,259, or 10.2 percent. Spending for several of the functions increased during the fiscal year. The majority of the increase was within the public safety and highways and streets functions. Sanitation, health, and interest on long-term debt showed large decreases in expenses.

- General government expenses increased $773,887, or 7.1 percent; public safety expenses increased $2,084,749, or 19.0 percent; and education expenses increased $146,281, or 6.5 percent. All three functions saw large increases in pension expenses. Public safety also had a large increase in depreciation expense as the adult detention facility was placed in service in the current fiscal year.
- Highways and streets expenses also had a large increase of $558,410, or 14.6 percent. The increase was mainly due to an increase in inter-fund reimbursements for indirect cost allocation.
- Sanitation expenses decreased $7,761, or 8.4 percent; and health expenses decreased $70,978, or 5.6 percent. Both these decreases were due to reduced operating costs for the year.
- Welfare expenses increased $260,020, or 10.6 percent, due to an increase in ALTCS premium costs to the County.
- The interest on long-term debt decreased $292,488, or 20.6 percent. The first debt principal payment on bonds was made and, correspondingly, required interest payments on bonds were lower.

Financial analysis of the County's funds

As noted earlier, Graham County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds—The focus of Graham County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unrestricted fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Graham County. At June 30, 2018, the General Fund's unassigned fund balance was $1,949,264, which was an increase of $616,678 from the prior fiscal year. Revenues were more than expenses by $3,324,875 in the General Fund (prior to any other financing sources or uses). Revenues were $130,935 more than the previous fiscal year with increases in County property taxes, sales taxes, licenses and permits, and intergovernmental revenues and decreases in charges for services, fines and forfeits, investment earnings, rents, miscellaneous, and donation revenues.

The Highway Road Fund receives the County's share of the highway users revenue funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the County's care. The fund balance for the Highway Road Fund increased $798,770 this fiscal year. Intergovernmental revenues saw a healthy increase, as did investment earnings and miscellaneous revenues which more than compensated for increased expenditures. The County highway department works diligently to keep a close eye on expenditures and to keep costs down whenever possible.

The Jail District Operations Fund is composed of two main functions—adult detention and detention health services. The Jail District Operations Fund's main source of revenues is the maintenance of effort transfer from the General Fund. For fiscal year 2018 this transfer totaled $2,910,271, a $37,594 increase over the previous year. The transfers will vary each year based on calculations tied to changes in the U.S. gross domestic product. The Jail District Operations Fund balance decreased $206,051 this fiscal year to end with a balance of ($1,218). Expenses, in particular personnel costs and utilities, increased with the move to the new adult detention facility.

The Jail District Debt Service Fund receives the jail district sales tax that went into effect on July 1, 2015. The district uses these taxes to service the principal and interest payments on the bonds issued to build the new adult detention facility. The debt service is scheduled to be paid off in 25 years, by the year 2040. The County sales tax for the Jail District Debt Service Fund totaled $1,973,059. The first principal payments of $230,000 were made toward the outstanding bonds.

With the completion of the new adult detention facility, the Jail District Construction Fund was completed in the current fiscal year and had a fund balance of $0 as of June 30, 2018. The facility was substantially completed and placed into service in November 2017.

The other governmental funds are a combination of many nonmajor funds of the County, most funded by various grants. Funding for many programs have faced multiple years of cuts and intergovernmental revenues decreased in fiscal year 2018 by $897,921. Grants are typically only awarded for one fiscal year at a time. Expenditures also decreased and the net change in the other governmental fund balance was a slight increase of $40,390.

General fund budgetary highlights

There were no amendments to the original revenue budget for the General Fund. General Fund revenues received were under the adopted budget by $1,379,014, or 6.9 percent. The largest variances from budgeted amounts were in investment income, which was $1,000, or 100 percent below budget; miscellaneous income, which was $129,307, or 106.8 percent, above budget; donations, which were

$46,326, or 61.8 percent below budget; charges for services, which were $597,445, or 28.4 percent below budget; intergovernmental revenues, which were $841,839, or 8.3 percent below budget; and fines and forfeits which were $19,433, or 7.9 percent below budget. The General Fund expenditure budget of $17,437,207 was also not amended this fiscal year. General Fund expenditures were less than the final budget by $2,169,368, or 12.4 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of $1,593,607. These savings were a result of conservative budgeting practices and reduced spending due to tight economic conditions that resulted in spending less than anticipated mainly by the elections, attorney, clerk of the court, superior court, victim witness, electrical maintenance, general services, miscellaneous, information technology, and contingency funds.

Capital asset and debt administration

Capital assets—The County's capital assets for its governmental activities as of June 30, 2018, amount to $57,459,538 (net of accumulated depreciation). The increase of $4,771,166 is due primarily to final construction on the adult detention facility.

Graham County's Capital Assets
(Net of depreciation)

	Governmental Activities	
	2018	2017
Land	$ 3,281,224	$ 3,170,807
Buildings	30,988,565	7,388,548
Machinery and equipment	2,220,657	2,483,639
Infrastructure	20,566,014	20,623,595
Construction in progress	403,078	19,021,783
Total	$57,459,538	$52,688,372

Additional information on Graham County's capital assets can be found in Note 5 on page 22 of this report.

Long-term debt—At the end of the current fiscal year, the County had total long-term liabilities outstanding of $61,604,658. The largest portion of the long-term liabilities includes $26,110,000 in revenue bonds payable and $32,670,623 for net pension liability. Also included in long-term liabilities is $1,146,922 for the future payment of compensated absences for unused employee vacation and sick leave, capital leases of $745,783, unamortized bond premium of $856,563, and post-closure care costs of $74,767.

Additional information on the County's long-term debt can be found in Note 7 to the financial statements on pages 23 through 25.

Economic factors and next year's budget and rates

- The unemployment rate as of June 2018 for Graham County was 5.3 percent (exclusive of the San Carlos Apache Reservation). This is a decrease from 6.2 percent a year ago. Comparatively, the State rate is 4.8 percent. This rate is reflective of our reliance on the local copper mining industry. As copper prices have continued to increase, our local employment has increased along with prices.
- Inflationary trends in the region compare favorably to national indices.

- State shared revenues have increased for the past few years, but Graham County is only beginning to see higher County sales taxes as rural areas traditionally lag behind urban areas of the State in financial recoveries.
- Graham County, as all rural counties, continues to feel the negative effects of unfunded mandates being passed down by the Legislature.
- Due to a requirement for federal year-by-year authorization, there is uncertainty in federal PILT (payment in lieu of taxes) funding, which has a significant impact on Graham County.

These factors were considered in preparing Graham County's budget for the 2019 fiscal year. The unassigned ending fund balance in the General Fund of $1,949,264 was appropriated for spending in the 2018/19 fiscal year budget. Graham County balances the use of available fund balances with realistic revenue projections while implementing a conservative plan for the expenditure of limited resources to meet its citizens' current and future needs. A fourth straight year of decreases in assessed valuations lead to the County raising the General Fund property tax rate from 2.6439 to 2.9920, which was above the Truth in Taxation Rate of 2.8029 for the fiscal year 2019.

Requests for information

This financial report is designed to provide a greater overview of Graham County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Board of Supervisors, 921 W. Thatcher Blvd., Safford, AZ 85546.

Graham County
Statement of net position
June 30, 2018

	Governmental activities
Assets	
Cash, cash equivalents, and investments	$ 9,589,346
Property taxes receivable	262,512
Due from other governments	1,989,890
Investments held by trustee—restricted	4,766,715
Inventories	306,205
Capital assets, not being depreciated	3,684,302
Capital assets, being depreciated, net	53,775,236
Total assets	74,374,206
Deferred outflows of resources	
Deferred outflows related to pensions	4,288,514
Total deferred outflows of resources	4,288,514
Liabilities	
Accounts payable	5,148
Accrued payroll and employee benefits	312,408
Due to other governments	53,745
Noncurrent liabilities	
Due within 1 year	1,337,264
Due in more than 1 year	60,267,394
Total liabilities	61,975,959
Deferred inflows of resources	
Deferred inflows related to pensions	2,045,181
Total deferred inflows of resources	2,045,181
Net position	
Net investment in capital assets	29,747,192
Restricted for:	
Highways and streets	5,289,709
Debt service	5,110,182
Other purposes	1,331,807
Unrestricted (deficit)	(26,837,310)
Total net position	$ 14,641,580

See accompanying notes to financial statements.

Graham County
Statement of activities
Year ended June 30, 2018

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Grants and contributions	Program revenues: Capital grants and contributions	Net (expense) revenue and changes in net position: Governmental activities
Governmental activities:					
General government	$ 11,646,665	$ 2,124,601	$ 2,196,444		$ (7,325,620)
Public safety	13,046,190	282,686	1,987,378		(10,776,126)
Highways and streets	4,377,402		3,114,962	$ 719,294	(543,146)
Sanitation	84,640		50,478		(34,162)
Health	1,187,351	68,171	1,031,334		(87,846)
Welfare	2,716,280				(2,716,280)
Culture and recreation	634,462	82,912			(551,550)
Education	2,411,007	1,307,226	329,010		(774,771)
Interest on long-term debt	1,126,659				(1,126,659)
Total governmental activities	$ 37,230,656	$ 3,865,596	$ 8,709,606	$ 719,294	(23,936,160)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	5,446,569
County sales taxes, levied for general purposes	1,985,866
Jail District sales tax, levied for debt service	1,973,059
Shared revenue—State sales tax	3,986,447
Shared revenue—State vehicle license tax	1,870,419
State appropriation	550,050
Grants and contributions not restricted to specific programs	3,062,913
Investment earnings	147,598
Miscellaneous	697,230
Total general revenues	19,720,151
Change in net position	(4,216,009)
Net position, July 1, 2017	18,857,589
Net position, June 30, 2018	$ 14,641,580

See accompanying notes to financial statements.

This page is intentionally left blank.

Graham County
Balance sheet
Governmental funds
June 30, 2018

	General Fund	Highway Road Fund	Jail District Operations Fund
Assets			
Cash, cash equivalents, and investments	$ 1,128,883	$ 4,725,495	$ 42,705
Investments held by trustee			
Property taxes receivables	253,992		
Due from other governments	1,019,511	279,123	
Inventories		306,205	
Total assets	$ 2,402,386	$ 5,310,823	$ 42,705
Liabilities			
Accounts payable	$ 5,148		
Accrued payroll and employee benefits	193,872	$ 21,114	$ 43,923
Due to other governments	36,680		
Total liabilities	235,700	21,114	43,923
Deferred inflows of resources			
Unavailable revenue—property taxes	217,422		
Total deferred inflows of resources	217,422		
Fund balances			
Nonspendable		306,205	
Restricted		4,983,504	
Committed			
Assigned			
Unassigned	1,949,264		(1,218)
Total fund balances	1,949,264	5,289,709	(1,218)
Total liabilities, deferred inflows of resources, and fund balances	$ 2,402,386	$ 5,310,823	$ 42,705

See accompanying notes to financial statements.

Jail District Debt Service Fund	Jail District Construction Fund	Other governmental funds	Total governmental funds
		$ 3,692,263	$ 9,589,346
$ 4,766,715			4,766,715
		8,520	262,512
343,467		347,789	1,989,890
			306,205
$ 5,110,182		$ 4,048,572	$ 16,914,668
			$ 5,148
		$ 53,499	312,408
		17,065	53,745
		70,564	371,301
		6,592	224,014
		6,592	224,014
			306,205
5,110,182		1,331,807	11,425,493
		493,850	493,850
		2,145,759	2,145,759
			1,948,046
5,110,182		3,971,416	16,319,353
$ 5,110,182		$ 4,048,572	$ 16,914,668

Graham County
Reconciliation of the governmental funds balance sheet to the government-wide statement of net position
June 30, 2018

Fund balances—total governmental funds		$ 16,319,353
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.		
Capital assets	$ 92,379,511	
Accumulated depreciation	(34,919,973)	57,459,538
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		224,014
Long-term liabilities, such as net pension liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Bonds payable	(26,110,000)	
Bond premium	(856,563)	
Net pension liability	(32,670,623)	
Compensated absences payable	(1,146,922)	
Leases payable	(745,783)	
Landfill liability	(74,767)	(61,604,658)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		2,243,333
Net position of governmental activities		$ 14,641,580

See accompanying notes to financial statements.

This page is intentionally left blank.

Graham County
Statement of revenues, expenditures, and changes in fund balances
Governmental funds
Year ended June 30, 2018

	General Fund	Highway Road Fund	Jail District Operations Fund
Revenues:			
Property taxes	$ 5,253,882		
County sales taxes	1,985,866		
Licenses and permits	60,565		
Intergovernmental	9,256,874	$ 3,984,114	$ 5,333
Charges for services	1,509,692		46,330
Fines and forfeits	225,567		
Investment earnings		54,243	2,526
Rents	21,287		
Miscellaneous	250,307	29,187	4,998
Donations	28,674		
Total revenues	18,592,714	4,067,544	59,187
Expenditures:			
Current:			
General government	7,065,985		
Public safety	4,649,785		3,175,129
Highways and streets		3,366,375	
Sanitation	34,674		
Health	213,384		
Welfare	2,716,280		
Culture and recreation	309,083		
Education	234,542		
Debt service:			
Principal			
Interest and other charges			
Capital outlay	44,106	346,635	
Total expenditures	15,267,839	3,713,010	3,175,129
Excess (deficiency) of revenues over expenditures	3,324,875	354,534	(3,115,942)
Other financing sources (uses):			
Capital lease agreements		320,658	
Sale of capital assets	180	990	
Transfers in	287,729	124,843	2,910,271
Transfers out	(2,996,106)	(29,628)	(380)
Total other financing sources (uses)	(2,708,197)	416,863	2,909,891
Net change in fund balances	616,678	771,397	(206,051)
Fund balances as restated, July 1, 2017	1,332,586	4,490,939	204,833
Increase in inventories		27,373	
Fund balances, June 30, 2018	$ 1,949,264	$ 5,289,709	$ (1,218)

See accompanying notes to financial statements.

	Jail District Debt Service Fund	Jail District Construction Fund	Other governmental funds	Total governmental funds
			$ 190,887	$ 5,444,769
	$ 1,973,059			3,958,925
				60,565
			4,028,892	17,275,213
			1,814,839	3,370,861
			64,899	290,466
	28,816	$ 14,290	50,785	150,660
			122,417	143,704
		864	270,111	555,467
			110,027	138,701
	2,001,875	15,154	6,652,857	31,389,331
			797,444	7,863,429
			2,317,658	10,142,572
			120,742	3,487,117
			50,622	85,296
			890,721	1,104,105
				2,716,280
			203,523	512,606
			1,766,372	2,000,914
	230,000			230,000
	1,165,593			1,165,593
		6,059,932	304,564	6,755,237
	1,395,593	6,059,932	6,451,646	36,063,149
	606,282	(6,044,778)	201,211	(4,673,818)
			3,131	323,789
			4,550	5,720
	490,373		46,251	3,859,467
		(618,600)	(214,753)	(3,859,467)
	490,373	(618,600)	(160,821)	329,509
	1,096,655	(6,663,378)	40,390	(4,344,309)
	4,013,527	6,663,378	3,931,026	20,636,289
				27,373
	$ 5,110,182	$ -	$ 3,971,416	$ 16,319,353

Graham County

Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities
Year ended June 30, 2018

Net change in fund balances—total governmental funds		$ (4,344,309)
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	$ 6,589,562	
Less current year depreciation	(2,537,690)	4,051,872
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Property taxes	1,800	
Capital contributions	719,294	721,094
County pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension liability is measured a year before the County's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.		
County pension contributions	1,559,502	
Pension expense	(8,145,527)	
State's nonemployer pension contributions	904,222	(5,681,803)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are amortized in the statement of activities.		
Amortization of bond premium	38,935	
Capital lease incurred	(323,789)	
Principal payments on long-term debt	630,921	346,067
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 are reported regardless of when the financial resources are available.		
Decrease in claims and judgments	440,547	
Decrease in compensated absences	222,494	
Decrease in landfill and postclosure care costs	656	663,697
Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the statement of activities, however, they are reported as expenses when consumed.		
Increase in inventories		27,373
Change in net position of governmental activities		$ (4,216,009)

See accompanying notes to financial statements.

Graham County
Statement of fiduciary net position
Fiduciary funds
June 30, 2018

	Investment trust funds	Agency funds
Assets		
Cash, cash equivalents, and investments	$ 22,388,822	$ 650,894
Accrued interest receivable	66,602	
Total assets	$ 22,455,424	$ 650,894
Liabilities		
Deposits held for others		$ 650,894
Total liabilities		$ 650,894
Net position		
Held in trust for investment trust participants	$ 22,455,424	

See accompanying notes to financial statements.

Graham County
Statement of changes in fiduciary net position
Fiduciary funds
Year ended June 30, 2018

	Investment trust funds
Additions:	
Contributions from participants	$ 69,656,777
Investment earnings	181,231
Total additions	69,838,008
Deductions:	
Distributions to participants	69,545,312
Total deductions	69,545,312
Change in net position	292,696
Net position, July 1, 2017	22,162,728
Net position, June 30, 2018	$ 22,455,424

See accompanying notes to financial statements.

Note 1 – Summary of significant accounting policies

Graham 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 3 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. The blended component units discussed below have a June 30 year-end. The County has no discretely presented component units.

The Graham County Flood Control District is a legally separate tax-levying entity pursuant to Arizona Revised Statutes (A.R.S.) §48-3602 that provides flood control facilities and regulates floodplains and drainage to prevent flooding of property within Graham County. The Graham County Jail District is a legally separate tax-levying entity pursuant to A.R.S. §48-4001 that acquires, constructs, operates, maintains, and finances the County adult detention facility. As the Graham County Board of Supervisors serves as the Board of Directors of the Flood Control and Jail Districts, it is able to significantly influence the programs, projects, activities, and level of services provided by the districts; the Board also establishes policy, appoints management, exercises budgetary control and determines the Flood Control District's tax rate. Further, the districts provide services almost entirely for the benefit of the County; therefore, the Flood Control and the Jail Districts are considered blended component units of the County. Separate financial statements for the districts are not available.

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 information's usefulness.

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 overall government's financial activities, except for fiduciary activities. Governmental activities generally are financed through taxes and intergovernmental revenues.

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

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

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

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

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

The County reports the following major governmental funds:

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 *Highway Road Fund* accounts for road construction and maintenance of major regional roads, and is funded by highway user revenue fund (HURF) and vehicle license taxes.

The *Jail District Operations Fund* accounts for all financial resources of the Jail District and is funded mainly by maintenance-of-effort payments from the County's General Fund.

The *Jail District Debt Service Fund* accounts for the accumulation of resources for, and the payment of, principal and interest on bonds issued to finance the construction of a new adult detention facility. Revenues are from the voter-approved Jail District sales tax.

The *Jail District Construction Fund* accounts for the financial resources to be used for the acquisition and construction of the new adult detention facility.

The County also reports the following fund types:

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

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

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The County's major revenue sources that are susceptible to accrual are property taxes, 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, 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.

D. Cash and investments

All investments are stated at fair value.

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 valuation 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 valuation method.

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 2 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 acquisition value at the time received.

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

	Capitalization threshold	Depreciation method	Estimated useful life
Land (including right of ways)	$10,000		
Land improvements	10,000		
Construction in progress	10,000		
Buildings	10,000	Straight-line	40 years
Machinery and equipment	2,500	Straight-line	5-10 years
Vehicles	5,000	Straight-line	5 years
Infrastructure	10,000	Straight-line	40 years

H. Deferred outflows and inflows of resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

I. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan’s fiduciary net position and additions to/deductions from the plan’s fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

J. Fund balance classifications

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

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

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

Assigned fund balances are resources constrained by the County's intent to be used for specific purposes but that are neither restricted nor committed. The Board of Supervisors has authorized the county manager to assign 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 will use restricted fund balance first. The County will use committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

K. Investment earnings

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

L. Compensated absences

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

Employees may accumulate up to 320 hours of vacation depending on years of service, but they forfeit any unused vacation hours in excess of the maximum amount at calendar year-end. Upon terminating employment, the County pays all unused and unforfeited vacation benefits to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Employees may accumulate an unlimited amount of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but employees forfeit them upon terminating employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 500 hours of sick leave receive some benefit payments. Benefit payments vary based on the number of hours accumulated but cannot exceed 1,500 hours or $30,000. A liability is calculated for all employees whose accumulated sick leave exceeds 500 hours at the end of the fiscal year and accrued as a liability in the government-wide financial statements. Vested sick leave is accrued in the government-wide financial statements at the lesser of $30,000 or the number of accrued hours multiplied by the employee's current hourly rate at the rate of reimbursement presented below. Vested sick leave hours are accrued in the government funds' financial statements only if they have matured, for example, as a result of employee retirements by fiscal year-end.

Sick leave balance	Rate of reimbursement
500–749 hours	25% of accrued leave hours
750–999 hours	33% of accrued leave hours
1,000–1,500 hours	50% of accrued leave hours

Note 2 – Correction of a misstatement—prior period adjustment

Fund balances of both the General Fund and the other governmental funds as of July 1, 2017, on the statement of revenues, expenditures, and changes in fund balance have been restated for correction of the following accounting error.

Governmental fund financial statements

	General Fund
Fund balance as of June 30, 2017, as previously reported	$1,424,361
Correction of cash	(91,775)
Fund balance as of July 1, 2017, as restated	$1,332,586

	Other governmental funds
Fund balance as of June 30, 2017, as previously reported	$3,839,251
Correction of cash	91,775
Fund balance as of July 1, 2017, as restated	$3,931,026

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

Credit risk
Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top 2 ratings by a nationally recognized rating agency.
2. Specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated “A” or better at the time of purchase by at least 2 nationally recognized rating agencies.
3. Fixed income securities must carry one of the 2 highest ratings by Moody’s investors service and Standard and Poor’s rating service. If only 1 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 at 102 percent of all deposits federal depository insurance does not cover.

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

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

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

Deposits—At June 30, 2018, the carrying amount of the County’s deposits was $2,060,183, and the bank balance was $3,498,534. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County’s investments at June 30, 2018, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

		Fair value measurement using		
	Amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level				
U.S. agency securities	$13,731,853		$13,731,853	
Negotiable certificates of deposit	10,773,658	$10,773,658		
Money market funds with trustee	4,766,715	4,766,715		
School district warrants	1,557,382			$1,557,382
Total investments by fair value level	30,829,608	$15,540,373	$13,731,853	$1,557,382

	Amount
External investment pools measured at fair value	
State Treasurer's investment pools	$ 4,465,516
Total investments	$35,295,124

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. Investments categorized as Level 2 are valued using an automated-IDC institutional bond pricing model. School district warrants categorized as level 3 are valued using a net asset value (NAV) of $1.00 per share. Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the County held. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

The money market fund investments are attributable solely to the Jail District Debt Service Fund. Monies from the Jail District's tax levy and remaining unspent revenue bond proceeds reported in the Jail District Debt Service Fund were invested in these money market funds through a trustee.

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal policy with respect to credit risk. At June 30, 2018, credit risk for the County's investments was as follows:

Investment type	Rating	Rating agency	Amount
U.S. agency securities	Aaa	Moody's	$13,731,853
Negotiable certificates of deposit	Unrated	Not applicable	10,773,658
Money market funds with trustee	AAAm	Standard & Poor's	4,766,715
School district warrants	Unrated	Not applicable	1,557,382
State Treasurer's investment pool 7	Unrated	Not applicable	2,061,765
State Treasurer's investment pool 5	AAAf/S1+	Standard & Poor's	2,403,751
Total			$35,295,124

Concentration of credit risk—Concentration of credit risk is the risk of loss associated with the significance of investments in a single issuer. The County does not have a formal policy with respect to concentration of credit risk. The County had investments at June 30, 2018, of 5 percent or more in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Federal Agricultural Mortgage Corporation. These investments were 13.91 percent, 8.44 percent, 8.17 percent, and 5.60 percent, respectively, of the County's total investments.

Interest rate risk—Interest rate risk is the risk that changes in interest rates will adversely affect an investment's fair value. The County does not have a formal policy with respect to interest rate risk.

At June 30, 2018, the County had the following investments in debt securities:

Investment type	Amount	Weighted average maturity (in years)
U.S. agency securities	$13,731,853	1.62
Negotiable certificates of deposit	10,773,658	1.63
Money market funds with trustee	4,766,715	0.003
School district warrants	1,557,382	indefinite
State Treasurer's investment pool 7	2,061,765	0.10
State Treasurer's investment pool 5	2,403,751	0.09
Total	$35,295,124	

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

Cash, deposits, and investments:

Cash on hand	$ 40,470
Amount of deposits	2,060,183
Amount of investments	35,295,124
Total	$37,395,777

	Governmental activities	Investment trust funds	Agency funds	Total
Statement of net position:				
Cash, cash equivalents, and investments	$ 9,589,346	$22,388,822	$650,894	$32,629,062
Investments held by trustee—restricted	4,766,715			4,766,715
Total	$14,356,061	$22,388,822	$650,894	$37,395,777

Note 4 – Due from other governments

Amounts due from other governments at June 30, 2018, totaled $1,989,890 and include $611,705 in State-shared revenue from sales tax, $344,601 in County sales tax distributions from the State Treasurer, $48,458 in State motor vehicle license taxes from the Arizona Department of Transportation, $9,435 in justice of the peace salary reimbursements from the State Treasurer, and $5,312 in criminal justice enhancement fees from the Arizona Office of the Attorney General recorded in the General Fund; $245,274 in State-shared revenue from highway user taxes and $33,849 in State motor vehicle license taxes from the Arizona Department of Transportation recorded in the Highway Road Fund; $343,467 in jail district sales tax distributions from the State Treasurer recorded in the Jail District Debt Service Fund; $266,520 in health grants from the Arizona Department of Health Services; $15,957 in parents' commission grant monies from the Governor's Office; $15,293 in jail enhancement monies from the State Treasurer; $13,213 in homeland security grants from the Arizona Department of Homeland Security; $11,768 in waste tire monies from the State Treasurer; $7,445 in federal education monies from the Department of Education; $7,182 in emergency management grant monies from the Arizona Department of Emergency and Military Affairs; $5,229 in community development block grant project monies from the Arizona Department of Housing; $5,182 in victim assistance grant monies from the Arizona Department of Public Safety recorded in other governmental funds.

Note 5 – Capital assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 3,170,807	$ 110,417		$ 3,281,224
Construction in progress	19,021,783	6,295,636	$24,914,341	403,078
Total capital assets not being depreciated	22,192,590	6,406,053	24,914,341	3,684,302
Capital assets being depreciated:				
Buildings	15,090,079	24,315,660		39,405,739
Machinery and equipment	14,457,840	713,778	294,877	14,876,741
Infrastructure	33,625,023	787,706		34,412,729
Total of assets being depreciated	63,172,942	25,817,144	294,877	88,695,209
Less accumulated depreciation for:				
Buildings	7,701,531	715,643		8,417,174
Machinery and equipment	11,974,201	976,760	294,877	12,656,084
Infrastructure	13,001,428	845,287		13,846,715
Total	32,677,160	2,537,690	294,877	34,919,973
Total capital assets being depreciated, net	30,495,782	23,279,454		53,775,236
Governmental activities capital assets, net	$52,688,372	$29,685,507	$24,914,341	$57,459,538

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 405,581
Public safety	747,356
Highways and streets	1,103,554
Health	54,286
Culture and recreation	115,037
Education	111,876
Total governmental activities depreciation expense	$2,537,690

On November 27, 2017, Graham County placed the new adult detention facility into service. The facility cost of $24.17 million accounts for the majority of this year's decrease in construction-in-progress as well as the increase in building capital assets.

Note 6 – Short-term loans

The County Treasurer invests in the County's registered warrants to cover timing differences in the receipt of revenue and the payment of obligations during the year. At June 30, 2018, the County had an outstanding balance of $0. The activity for the year ended June 30, 2018, was as follows:

	Fiscal year 2018
Beginning balance	$ 0
Total borrowings	9,349,768
Total payments	9,349,768
Ending balance	$ 0

Note 7 – Long-term liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due within 1 year
Governmental activities					
Bonds payable:					
Revenue bonds	$26,340,000		$ 230,000	$26,110,000	$ 235,000
Premium on bonds	895,498		38,935	856,563	38,934
Total bonds payable	27,235,498		268,935	26,966,563	273,934
Compensated absences payable	1,369,416	$ 758,810	981,304	1,146,922	802,845
Capital leases payable	822,915	323,789	400,921	745,783	258,295
Net pension liability	29,308,176	3,362,447		32,670,623	
Claims and judgements payable	440,547		440,547		
Landfill closure and post-closure care costs payable	75,423	1,474	2,130	74,767	2,190
Total governmental activities long-term liabilities	$59,251,975	$4,446,520	$2,093,837	$61,604,658	$1,337,264

Bonds—The County's bonded debt consists of 1 issuance of $26,340,000 of revenue bonds that are generally noncallable with interest payable semiannually. Bond proceeds paid for the construction of an adult detention facility as part of the newly formed County Jail District. The County has pledged, as security for bonds issued, the proceeds from a half-cent sales tax to be used for debt repayment of the bonds. The projected amount of the revenue pledged was estimated to be $2 million for fiscal year 2018 and each year thereafter. The sales tax, which was voter approved for the purpose of building the adult detention facility, began on July 1, 2015, and continues for 25 years. One hundred percent of this special sales tax collected is pledged to be used for required debt repayment of the bonds. The revenue bonds were issued on September 23, 2015. For fiscal year 2018, $1,973,059 of pledged revenues were recognized. Interest payments of $1,165,593 and principal payments of $230,000 were due in fiscal year 2018. The final bond principal and interest payments will be made on July 1, 2040.

The following bond was outstanding at June 30, 2018:

Description	Amount issued	Maturity ranges	Interest rates	Outstanding principal
Revenue bonds	$26,340,000	7/1/2018-7/1/2040	3.000%-5.000%	$26,110,000

The following schedule details debt service requirements to maturity for the County's bond payable at June 30, 2018:

	Governmental activities Revenue bonds	
Year ending June 30	Principal	Interest
2019	$ 235,000	$ 1,158,619
2020	240,000	1,150,294
2021	250,000	1,140,494
2022	790,000	1,115,744
2023	830,000	1,075,244
2024-2028	4,815,000	4,694,344
2029-2033	6,080,000	3,402,856
2034-2038	7,540,000	1,916,878
2039-2041	5,330,000	335,774
Total	$26,110,000	$15,990,247

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

The following assets were acquired through capital leases:

	Governmental activities
Assets:	
Equipment	$637,045
Building	417,288
Less: accumulated depreciation	315,476
Carrying value	$738,857

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2018:

	Governmental activities
Year ending June 30	
2019	$275,846
2020	70,717
2021	70,717
2022	70,021
2023	69,789
2024-25	270,699
Total minimum lease payments	827,789
Less amount representing interest	82,006
Present value of net minimum lease payments	$745,783

Landfill closure and postclosure care costs—State and federal laws and regulations required the County to place a final cover on its Central landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

The County closed the landfill in 2003. The $74,767 reported as landfill postclosure care costs payable at June 30, 2018, is based on what it would cost to perform all remaining postclosure care in fiscal year 2018. These costs will be paid from the General Fund. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

According to State and federal laws and regulations, the County must comply with the local government financial test requirements to ensure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

Compensated Absences—Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2018, the County paid for compensated absences as follows: 58 percent from General Fund, 8 percent from the Highway Road Fund, 15 percent from the Jail District Operations Fund and 19 percent from other governmental funds.

Note 8 – Fund balance classifications of the governmental funds

The fund balance classifications of the governmental funds as of June 30, 2018, were as follows:

	General Fund	Highway Road Fund	Jail District Operations Fund	Jail District Debt Service Fund	Jail District Construction Fund	Other governmental funds	Total governmental funds
Fund balances:							
Nonspendable:							
Inventories		$ 306,205					$ 306,205
Total nonspendable		306,205					306,205
Restricted for:							
General government						$ 374,828	374,828
Law enforcement						188,114	188,114
Highways and streets		4,983,504					4,983,504
Sanitation						(85)	(85)
Health						461,068	461,068
Education						282,382	282,382
Debt service				$5,110,182			5,110,182
Capital outlay						25,500	25,500
Total restricted		4,983,504		5,110,182		1,331,807	11,425,493
Committed to:							
General government						215,509	215,509
Highways and streets						276,213	276,213
Education						2,128	2,128
Total committed						493,850	493,850
Assigned to:							
General government						636,892	636,892
Law enforcement						132,786	132,786
Health						169,274	169,274
Culture and recreation						243,664	243,664
Education						934,353	934,353
Capital outlay						28,790	28,790
Total assigned						2,145,759	2,145,759
Unassigned:	$1,949,264		$(1,218)				1,948,046
Total fund balances	$1,949,264	$5,289,709	$(1,218)	$5,110,182		$3,971,416	$16,319,353

Note 9 – 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 3 public entity risk pools: the Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust that are described below.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 12 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.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 12 member counties. The pool provides member counties with workers' compensation coverage, as law requires, and risk-management services. The County is responsible for paying a premium, based on an experience-rating formula that allocates pool expenditures and liabilities among the members.

The Arizona Local Government Employee Benefit Trust (Trust) is a public entity risk pool currently composed of 9 member entities. The pool provides member entities with health, prescription, dental, vision, life, short-term disability, and accidental death benefits for the entities' employees and their dependents. The Trust provides the benefits through a self-funding agreement with its participants and administers the program, and the County is responsible for paying a premium based on enrolled employees and dependents and requires its employees to contribute a portion of that premium. 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.

The Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. All pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation. If a pool were to become insolvent, the County would be assessed an additional contribution.

Note 10 – Pensions

The County contributes to the plans described below. The plans are component units of the State of Arizona.

At June 30, 2018, the County reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of net position and statement of activities	Governmental activities
Net pension liabilities	$32,670,623
Deferred outflows of resources	4,288,514
Deferred inflows of resources	2,045,181
Pension expense	8,149,975

The County's accrued payroll and employee benefits includes $41,734 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2018. Also, the County reported $1,563,950 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan description—County employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided—The ASRS provides retirement and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

ASRS	Retirement Initial membership date: Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earning. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member's death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member's account balance that includes the member's contributions and employer's contributions, plus interest earned.

Contributions—In accordance with State statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2018, statute required active ASRS members to contribute at the actuarially determined rate of 11.34 percent of the members' annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 10.9 percent of the active members' annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.26 percent of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the ASRS would typically fill. The County's contributions to the pension plan for the year ended June 30, 2018, were $728,371.

During fiscal year 2018, the County paid for ASRS pension contributions as follows: 58.5 percent from the General Fund, 14.0 percent from the Highway Road Fund, 1.3 percent from the Jail District Operations Fund, and 26.2 percent from other funds.

Pension liability—At June 30, 2018, the County reported a liability of $10,873,479 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2016, to the measurement date of June 30, 2017. The total pension liability as of June 30, 2017, reflects a change in actuarial assumption related to changes in loads for future potential permanent benefit increases.

The County's proportion of the net pension liability was based on the County's actual contributions to the plan relative to the total of all participating employer's contributions for the year ended June 30, 2017. The County's proportion measured as of June 30, 2017, was 0.06980 percent, which was a decrease of 0.00342 from its proportion measured as of June 30, 2016.

The net pension liability measured as of June 30, 2018, will reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016. The change in the County's net pension liability as a result of these changes is not known.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2018, the County recognized pension expense for ASRS of $303,817. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$ 326,047
Changes of assumptions or other inputs	$ 472,260	325,136
Net difference between projected and actual earnings on pension plan investments	78,064	
Changes in proportion and differences between County contributions and proportionate share of contributions	24,853	436,811
County contributions subsequent to the measurement date	728,371	
Total	$1,303,548	$1,087,994

The $728,371 reported as deferred outflows of resources related to ASRS pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2019	$(630,502)
2020	269,389
2021	98,419
2022	(250,123)

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

ASRS	
Actuarial valuation date	June 30, 2016
Actuarial roll forward date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.7 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

ASRS Asset class	**Target allocation**	**Long-term expected arithmetic real rate of return**
Equity	58%	6.73%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	2%	3.84%
Total	100%	

Discount rate—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.7 percent. The projection of cash flows used to determine the discount rate assumed that contributors from participating employers will be made based on the actuarially determined rates based on the ASRS Board's funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County's proportionate share of the ASRS net pension liability to changes in the discount rate—The following table presents the County's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

ASRS	1% decrease (7%)	Current discount rate (8%)	1% increase (9%)
County's proportionate share of the net pension liability	$13,956,300	$10,873,479	$8,297,519

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued ASRS financial report.

B. Public Safety Personnel Retirement System and Corrections Officer Retirement Plan

Plan descriptions—County sheriff employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans. A 9-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plan, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plan (PSPRS Tier 3 Risk Pool).

County detention officers; county dispatchers; and Administrative Office of the Courts (AOC) probation, surveillance, and juvenile detention officers participate in the Corrections Officer Retirement Plan (CORP). The CORP administers an agent multiple-employer defined benefit pension plan for County detention officers and dispatchers (agent plans), and a cost-sharing multiple-employer defined benefit pension plan for AOC officers (cost-sharing plan). The PSPRS Board of Trustees and the participating local boards govern CORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS and CORP plans. The report is available on the PSPRS website at www.psprs.com.

Benefits provided—The PSPRS and CORP provide retirement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS	**Initial membership date:**	
Retirement and disability	**Before January 1, 2012**	**On or after January 1, 2012 and before July 1, 2017**
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5% to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit		
Retired members	80% to 100% of retired member's pension benefit	
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

CORP	**Initial membership date:**	
Retirement and disability	**Before January 1, 2012**	**On or after January 1, 2012**
Years of service and age required to receive benefit	Sum of years and age equals 80 25 years, any age (dispatchers) 20 years, any age (all others) 10 years, age 62	25 years, age 52.5 10 years, age 62
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal retirement	2.0% to 2.5% per year of credited service, not to exceed 80%	
Accidental disability retirement	50% or normal retirement if more than 20 years of credited service	50% or normal retirement if more than 25 years of credited service
Total and permanent disability retirement	50% or normal retirement if more than 25 years of credited service	
Ordinary disability retirement	2.5% per year of credited service	
Survivor benefit		
Retired members	80% of retired member's pension benefit	
Active members	40% of average monthly compensation or 100% of average monthly compensation if death was the result of injuries received on the job. If there is no surviving spouse or eligible children, the beneficiary is entitled to 2 times the member's contributions.	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments. The adjustments are based on inflation for PSPRS and excess investment earnings for CORP. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees covered by benefit terms—At June 30, 2018, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers
Inactive employees or beneficiaries currently receiving benefits	7	5	0
Inactive employees entitled to but not yet receiving benefits	6	17	4
Active employees	18	33	4
Total	31	55	8

Contributions—State statutes establish the pension contribution requirements for active PSPRS and CORP employees. In accordance with State statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and CORP pension benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2018, are indicated below. Rates are a percentage of active members' annual covered payroll.

	Active member—pension	County—pension
PSPSRS Sheriff	7.65%-11.65%	35.34%
CORP Detention	8.41	8.74
CORP Dispatchers	7.96	6.71
CORP AOC	8.41	23.34

In addition, statute required the County to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the PSPRS or CORP would typically fill.

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Pension	20.05%	2.16%	0.00%	15.81%

The County's contributions to the plans for the year ended June 30, 2018, were:

	Pension
PSPRS Sheriff	$384,786
CORP Detention	111,044
CORP Dispatchers	10,176
CORP AOC	283,788

During fiscal year 2018, the County paid for PSPRS and CORP pension contributions as follows: 58.6 percent from the General Fund, 14.0 percent from the Jail District Operations Fund, and 27.4 percent from other funds.

Pension liability—At June 30, 2018, the County reported the following net pension liabilities:

	Net pension liability
PSPRS Sheriff	$3,628,971
CORP Detention	787,301
CORP Dispatchers	1,184
CORP AOC (County's proportionate share)	4,707,005

The net pension liabilities were measured as of June 30, 2017, and the total liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2017, reflect changes of actuarial assumptions based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liabilities for CORP and CORP AOC also reflect changes of benefit terms for a court decision that increased cost-of-living adjustments for retirees who became members before July 20, 2011. The total pension liabilities for PSPRS also reflect changes of benefit terms for legislation that changed benefit eligibility and multipliers for employees who became members on or after January 1, 2012, and before July 1, 2017, and a court decision that decreased the contribution rates for employees who became members before July 20, 2011.

Pension actuarial assumptions—The following significant actuarial assumptions were used to measure the total pension liability:

PSPRS and CORP—Pension	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5
Price inflation	2.5%
Permanent benefit increase	Included
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS and CORP plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS and CORP

Asset class	Target allocation	Long-term expected geometric real rate of return
Short term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Pension discount rates—At June 30, 2017, the discount rate used to measure the PSPRS and CORP total pension liabilities was 7.4 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the net pension liability
PSPRS

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2017	$7,430,261	$3,866,736	$3,563,525
Changes for the year:			
Service cost	224,725		224,725
Interest on the total pension liability	554,223		554,223
Changes of benefit terms	110,368		110,368
Differences between expected and actual experience in the measurement of the pension liability	(6,699)		(6,699)
Changes of assumptions or other inputs	196,027		196,027
Contributions—employer		387,287	(387,287)
Contributions—employee		114,060	(114,060)
Net investment income		471,427	(471,427)
Benefit payments, including refunds of employee contributions	(305,962)	(305,962)	
Administrative expense		(4,571)	4,571
Other changes		49	(49)
Net transfers		44,946	(44,946)
Net changes	772,682	707,236	65,446
Balances at June 30, 2018	$8,202,943	$4,573,972	$3,628,971

CORP—Detention	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2017	$2,462,381	$1,909,656	$ 552,725
Changes for the year:			
Service cost	185,996		185,996
Interest on the total pension liability	183,953		183,953
Changes of benefit terms	283,832		283,832
Differences between expected and actual experience in the measurement of the pension liability	(62,978)		(62,978)
Changes of assumptions or other inputs	76,221		76,221
Contributions—employer		103,251	(103,251)
Contributions—employee		104,932	(104,932)
Net investment income		226,659	(226,659)
Benefit payments, including refunds of employee contributions	(205,339)	(205,339)	
Administrative expense		(2,383)	2,383
Other changes		(12)	12
Net transfers		1	(1)
Net changes	461,685	227,109	234,576
Balances at June 30, 2018	$2,924,066	$2,136,765	$ 787,301

CORP—Dispatchers	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2017	$466,619	$519,907	$(53,288)
Changes for the year:			
Service cost	23,154		23,154
Interest on the total pension liability	35,865		35,865
Changes of benefit terms	98,268		98,268
Differences between expected and actual experience in the measurement of the pension liability	(11,358)		(11,358)
Changes of assumptions or other inputs	(7,195)		(7,195)
Contributions—employer		9,753	(9,753)
Contributions—employee		12,436	(12,436)
Net investment income		63,027	(63,027)
Administrative expense		(951)	951
Other changes		(3)	3
Net changes	138,734	84,262	54,472
Balances at June 30, 2018	$605,353	$604,169	$ 1,184

The County's proportion of the CORP AOC net pension liability was based on the County's actual contributions to the plan relative to the total of all participating counties' actual contributions for the year ended June 30, 2017. The County's proportion measured as of June 30, 2017, was 1.173175 percent, which was a decrease of 0.030445 from its proportion measured as of June 30, 2016.

Sensitivity of the County's net pension liability (asset) to changes in the discount rate—The following table presents the County's net pension liabilities (assets) calculated using the discount rate of 7.4 percent, as well as what the County's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.4 percent) or 1 percentage point higher (8.4 percent) than the current rate:

	1% decrease (6.4%)	**Current discount rate** (7.4%)	**1% increase** (8.4%)
PSPRS Sheriff			
Net pension liability	$4,808,106	$3,628,971	$2,682,756
CORP Detention			
Net pension liability	$1,250,941	$ 787,301	$ 417,723
CORP Dispatchers			
Net pension liability (asset)	$ 135,252	$ 1,184	$ (103,036)
CORP AOC			
County's proportionate share of the net pension liability	$6,084,366	$4,707,005	$3,593,126

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS and CORP financial reports.

Pension expense—For the year ended June 30, 2018, the County recognized the following pension expense:

	Pension expense
PSPRS Sheriff	$ 645,005
CORP Detention	404,433
CORP Dispatchers	96,454
CORP AOC (County's proportionate share)	1,849,877

Pension deferred outflows/inflows of resources—At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS	**Deferred outflows of resources**	**Deferred inflows of resources**
Differences between expected and actual experience	$ 118,912	$110,966
Changes of assumptions or other inputs	459,484	
Net difference between projected and actual earnings on pension plan investments	45,728	
County contributions subsequent to the measurement date	384,786	
Total	$1,008,910	$110,966

CORP—Detention	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$241,847
Changes of assumptions or other inputs	$197,133	
Net difference between projected and actual earnings on pension plan investments	27,803	
County contributions subsequent to the measurement date	111,044	
Total	$335,980	$241,847

CORP—Dispatchers	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$46,268
Changes of assumptions or other inputs	$ 3,560	5,883
Net difference between projected and actual earnings on pension plan investments	7,422	
County contributions subsequent to the measurement date	10,176	
Total	$21,158	$52,151

CORP—AOC	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 43,101	$161,661
Changes of assumptions or other inputs	457,020	
Net difference between projected and actual earnings on pension plan investments	55,427	
Changes in proportion and differences between County contributions and proportionate share of contributions	76,271	207,534
County contributions subsequent to the measurement date	283,788	
Total	$915,607	$369,195

The amounts reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Year ending June 30				
2019	$196,522	$ (8,105)	$ (9,936)	$141,472
2020	201,769	10,988	(5,235)	130,932
2021	116,362	(4,469)	(9,331)	16,998
2022	(1,495)	(16,243)	(14,783)	(26,777)
2023		918	(1,884)	

C. Elected Officials Retirement Plan

Plan description—Elected officials and judges participate in the Elected Officials Retirement Plan (EORP) or the Elected Officials Defined Contribution Retirement System (EODCRS). EORP administers a cost-sharing multiple-employer defined benefit pension plan for elected officials and judges who were members of the plan on December 31, 2013. This plan was closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on the PSPRS's website at www.psprs.com.

Benefits provided—The EORP provides retirement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

EORP	**Initial membership date:**	
	Before January 1, 2012	**On or after January 1, 2012**
Retirement and disability		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability Retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor benefit		
Retired members	75% of retired member's benefit	50% of retired member's benefit
Active members and other inactive members	75% of disability retirement benefit	50% of disability retirement benefit

* With reduced benefits of 0.25% for each month of early retirement precedes the member's normal retirement age, with a maximum reduction of 30%.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

Contributions—State statutes establish active member and employer contribution requirements. Statute also appropriates $5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2018, statute required active EORP members to contribute 7 or 13 percent of the members' annual covered payroll and the County to contribute 23.5 percent of all active EORP members' annual covered payroll. Also, statute required the County to contribute 17.50 percent to EORP of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the County's required contributions to EODCRS for these elected officials and judges. The County's contribution to the pension plan for the year ended June 30, 2018, were $41,337.

During fiscal year 2018, the County paid for EORP pension contributions as follows: 100 percent from the General Fund.

Pension liability—At June 30, 2018, the County reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the County's proportionate share of the State's appropriation for EORP. The amount the County recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the County were as follows:

County's proportionate share of the EORP net pension liability	$12,672,683
State's proportionate share of the EORP net pension liability associated with the County	2,630,160
Total	$15,302,843

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total liability as of June 30, 2017, reflects changes of actuarial assumption based on the results of an actuarial experience study for the 5-year period ended June 30, 2016, including decreasing the investment rate of return from 7.5 percent to 7.4 percent, decreasing the wage inflation from 4 percent to 3.5 percent, and updating mortality, withdrawal, disability, and retirement assumptions. The total pension liability also reflects changes-of-benefit terms for a court decision that increased cost-of-living adjustments for retirees and decreased the contribution rates for employees who became members before July 20, 2011. The court decision will also affect the net pension liability measured as of June 30, 2018, because of refunds of excess member contributions. The change in the County's net pension liability as a result of the refunds in not known.

The County's proportion of the net pension liability was based on the County's actual contributions to the plan relative to the total of all participating employers' actual contributions for the year ended June 30, 2017. The County's proportion measured as of June 30, 2017, was 1.039972311 percent, which was a decrease of 0.016116489 from its proportion measured as of June 30, 2016.

Pension expense—For the year ended June 30, 2018, the County recognized pension expense for EORP of $4,845,941 and revenue of $904,222 for the County's proportionate share of the State's appropriation to EORP and the designated court fees.

Deferred outflows/inflows of resources—At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		$109,844
Changes of assumptions or other inputs	$494,640	
Net difference between projected and actual earnings on pension plan investments	77,673	
Changes in proportion and differences between County contributions and proportionate share of contributions	89,661	73,184
County contributions subsequent to the measurement date	41,337	
Total	$703,311	$183,028

The $41,337 reported as deferred outflows of resources related to EORP pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ending June 30	
2019	$408,049
2020	75,443
2021	20,523
2022	(25,069)

Actuarial assumptions—The significant actuarial assumptions used to measure the total pension liability are as follows:

EORP pension	
Actuarial valuation date	June 30, 2017
Actuarial cost method	Entry age normal
Investment rate of return	7.4%
Wage inflation	3.5%
Price inflation	2.5%
Permanent benefit increase	Included
Mortality rates	RP-2014 tables using MP-2016 improvement scale with adjustments to match current experience.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.4 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP **Asset class**	**Target allocation**	**Long-term expected geometric real rate of return**
Short term investments	2%	0.25%
Absolute return	2%	3.75%
Risk parity	4%	5.00%
Fixed income	5%	1.25%
Real assets	9%	4.52%
GTAA	10%	3.96%
Private credit	12%	6.75%
Real estate	10%	3.75%
Credit opportunities	16%	5.83%
Non-U.S. equity	14%	8.70%
U.S. equity	16%	7.60%
Total	100%	

Discount rate—At June 30, 2017, the discount rate used to measure the EORP total pension liability was 3.91 percent, which was an increase of 0.23 from the discount rate used as of June 30, 2016. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the statutorily set rates, and State contributions will be made as currently required by statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.4 percent was applied to periods of projected benefit payments through the year ended June 30, 2026. A municipal bond rate of 3.56 percent obtained from the Fidelity 20-year Municipal GO AA Index as of June 30, 2017, was applied to periods of projected benefit payments after June 30, 2026.

Sensitivity of the County's proportionate share of the EORP net pension liability to changes in the discount rate—The following table presents the County's proportionate share of the net pension liability calculated using the discount rate of 3.91 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.91 percent) or 1 percentage point higher (4.91 percent) than the current rate:

EORP	**1% decrease (2.91%)**	**Current discount rate (3.91%)**	**1% increase (4.91%)**
County's proportionate share of the net pension liability	$14,969,785	$12,672,683	$10,799,243

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued EORP financial report.

EODCRS plan—Elected officials and judges who are not members of EORP or ASRS participate in the EODCRS. The EODCRS is a defined contribution pension plan. The PSPRS Board of Trustees governs the EODCRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.1. Benefit terms, including contribution requirements, are established by State statute.

For the year ended June 30, 2018, active EODCRS members were required by statute to contribute 8 percent of the members' annual covered payroll, and the County was required by statute to contribute 6 percent of active members' annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the County's contributions to the individual employee account and the earnings on those contributions. For the year ended June 30, 2018, the County recognized pension expense of $4,448.

Note 11 – Interfund activity

Interfund transfers—Interfund transfers for the year ended June 30, 2018, were as follows:

	Transfer to					
Transfer from	General Fund	Highway Road Fund	Jail District Operations Fund	Jail District Debt Service Fund	Other governmental funds	Total
General Fund		$ 71,659	$2,910,271		$14,176	$2,996,106
Highway Fund					29,628	29,628
Jail District Operations Fund		380				380
Jail District Construction Fund	$125,000	3,227		$490,373		618,600
Other governmental funds	162,729	49,577			2,447	214,753
Total	$287,729	$124,843	$2,910,271	$490,373	$46,251	$3,859,467

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them. $2,910,271, which represents the majority of the $2,996,106 transfers from the General Fund, was to fund statutorily required maintenance of effort payments to the Jail District Operations Fund.

Note 12 – County Treasurer's investment pool

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County'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. However, for the County's monies in the pool, $5,208 of interest earned in certain other funds was transferred to the General Fund.

The deposits and investments the County holds are included in the County Treasurer's investment pool, except for $529,411 of deposits and $63,054 of investments in the State Treasurer's investment pools, and $4,766,715 of investments held by trustee. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 3 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow.

Investment type	Principal	Interest rates	Maturities	Amount
State Treasurer's investment pool 5	$ 2,340,697	None stated	None stated	$ 2,340,697
State Treasurer's investment pool 7	2,061,765	None stated	None stated	2,061,765
Negotiable certificates of deposit	10,924,000	1.10-2.90%	07/18 – 05/21	10,773,658
U.S. agency securities	13,932,680	1.030-2.125%	08/18 – 05/21	13,731,853
School district warrants	1,557,382	None stated	Indefinite	1,557,382

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

Statement of net position	
Assets	$ 32,103,199
Net position	$ 32,103,199
Net position held in trust for:	
Internal participants	$ 9,682,681
External participants	22,420,518
Total net position held in trust	$ 32,103,199
Statement of changes in net position	
Total additions	$126,659,875
Total deductions	124,901,844
Net increase	1,758,031
Net position held in trust:	
July 1, 2017	30,345,168
June 30, 2018	$ 32,103,199

This page is intentionally left blank.

Other required supplementary information

Graham County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2018

	Budgeted amounts Original	Budgeted amounts Final	Actual amounts	Variance with final budget
Revenues:				
Property taxes	$ 5,241,878	$ 5,241,878	$ 5,253,882	$ 12,004
County sales taxes	2,000,000	2,000,000	1,985,866	(14,134)
Licenses and permits	60,000	60,000	60,565	565
Intergovernmental	10,098,713	10,098,713	9,256,874	(841,839)
Charges for services	2,107,137	2,107,137	1,509,692	(597,445)
Fines and forfeits	245,000	245,000	225,567	(19,433)
Investment earnings	1,000	1,000		(1,000)
Rents	22,000	22,000	21,287	(713)
Miscellaneous	121,000	121,000	250,307	129,307
Donations	75,000	75,000	28,674	(46,326)
Total revenues	19,971,728	19,971,728	18,592,714	(1,379,014)
Expenditures:				
Current				
General government				
Board of supervisors	900,136	900,136	376,178	523,958
Treasurer	368,830	368,830	354,474	14,356
Assessor	669,351	669,351	666,929	2,422
Recorder	269,384	269,384	257,634	11,750
Elections	198,956	198,956	99,376	99,580
Attorney	1,012,231	1,012,231	893,335	118,896
Employment and training	84,653	84,653	81,179	3,474
Clerk of the court	554,322	554,322	525,765	28,557
Superior court	993,960	993,960	880,635	113,325
Justice of the peace No.1	393,675	393,675	403,763	(10,088)
Justice of the peace No.2	248,190	248,190	252,361	(4,171)
Victim witness	12,900	12,900	11,156	1,744
Public fiduciary	86,315	86,315	85,186	1,129
Planning and zoning	261,851	261,851	258,852	2,999
Building maintenance	218,555	218,555	219,754	(1,199)
Electrical maintenance	9,094	9,094	4,657	4,437
General services	239,000	239,000	186,189	52,811
Contingency	365,336	365,336		365,336
Miscellaneous	339,569	339,569	295,236	44,333
Medical examiner	61,100	61,100	60,605	495
Information technology	1,372,184	1,372,184	1,152,721	219,463
Total general government	8,659,592	8,659,592	7,065,985	1,593,607

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2018
(Continued)

	Budgeted amounts		Actual	Variance with
	Original	Final	amounts	final budget
Public safety				
Probation	$ 161,594	$ 161,594	$ 158,111	$ 3,483
Sheriff	3,507,760	3,507,760	3,449,910	57,850
Search and rescue	15,866	15,866	12,371	3,495
Juvenile detention center	921,037	921,037	880,549	40,488
Animal shelter	258,297	258,297	148,844	109,453
Total public safety	4,864,554	4,864,554	4,649,785	214,769
Sanitation				
Sanitary landfill	49,500	49,500	34,674	14,826
Health				
Health services	214,519	214,519	213,384	1,135
Welfare				
Attorney for the indigent	513,000	513,000	497,259	15,741
Indigent medical	2,223,535	2,223,535	2,219,021	4,514
Total welfare	2,736,535	2,736,535	2,716,280	20,255
Cultural and recreation				
Parks and recreation	392,522	392,522	309,083	83,439
Education				
School superintendent	219,985	219,985	234,542	(14,557)
Capital outlay	300,000	300,000	44,106	255,894
Total expenditures	17,437,207	17,437,207	15,267,839	2,169,368
Excess of revenues over expenditures	2,534,521	2,534,521	3,324,875	790,354

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2018
(Continued)

	Budgeted amounts		Actual	Variance with
	Original	Final	amounts	final budget
Other financing sources (uses):				
Proceeds from sale of capital assets			$ 180	$ 180
Transfers in	$ 145,730	$ 145,730	287,729	141,999
Transfers out	(3,087,522)	(3,087,522)	(2,996,106)	91,416
Total other financing uses	(2,941,792)	(2,941,792)	(2,708,197)	233,595
Net change in fund balances	(407,271)	(407,271)	616,678	1,023,949
Fund balances as restated, July 1, 2017	407,271	407,271	1,332,586	925,315
Fund balances, June 30, 2018	$ -	$ -	$ 1,949,264	$ 1,949,264

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Budgetary comparison schedule
Highway Road Fund
Year ended June 30, 2018

	Budgeted amounts		Actual	Variance with
	Original	Final	amounts	final budget
Revenues:				
Intergovernmental	$ 3,701,521	$ 3,701,521	$ 3,984,114	$ 282,593
Charges for services	20,000	20,000		(20,000)
Investment earnings	15,000	15,000	54,243	39,243
Rents	1,500	1,500		(1,500)
Miscellaneous	48,000	48,000	29,187	(18,813)
Total revenues	3,786,021	3,786,021	4,067,544	281,523
Expenditures:				
Current:				
Highways and streets				
General road	6,563,605	6,563,605	3,134,109	3,429,496
Engineering	463,819	463,819	210,502	253,317
Safety department	23,970	23,970	21,764	2,206
Total highways and streets	7,051,394	7,051,394	3,366,375	3,685,019
Capital outlay	902,000	902,000	346,635	555,365
Total expenditures	7,953,394	7,953,394	3,713,010	4,240,384
Excess (deficiency) of revenues over expenditures	(4,167,373)	(4,167,373)	354,534	4,521,907
Other financing sources (uses):				
Capital lease agreement			320,658	320,658
Proceeds from sale of capital assets			990	990
Transfers in	201,385	201,385	124,843	(76,542)
Transfers out			(29,628)	(29,628)
Total other financing sources	201,385	201,385	416,863	215,478
Net change in fund balances	(3,965,988)	(3,965,988)	771,397	4,737,385
Fund balances, July 1, 2017	3,965,988	3,965,988	4,490,939	524,951
Changes in nonspendable resources:				
Increase in inventories			27,373	27,373
Fund balances, June 30, 2018	$ -	$ -	$ 5,289,709	$ 5,289,709

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Budgetary comparison schedule
Jail District Operations Fund
Year ended June 30, 2018

	Budgeted amounts		Actual	Variance with
	Original	Final	amounts	final budget
Revenues:				
Intergovernmental	$ 8,000	$ 8,000	$ 5,333	$ (2,667)
Charges for services	41,000	41,000	46,330	5,330
Investment earnings	50	50	2,526	2,476
Miscellaneous			4,998	4,998
Total revenues	49,050	49,050	59,187	10,137
Expenditures:				
Current:				
Public safety	3,193,796	3,193,796	3,175,129	18,667
Capital outlay	10,000	10,000		10,000
Total expenditures	3,203,796	3,203,796	3,175,129	28,667
Deficiency of revenues over expenditures	(3,154,746)	(3,154,746)	(3,115,942)	38,804
Other financing sources (uses):				
Transfers in	2,910,271	2,910,271	2,910,271	
Transfers out	(2,000)	(2,000)	(380)	1,620
Total other financing sources	2,908,271	2,908,271	2,909,891	1,620
Net change in fund balances	(246,475)	(246,475)	(206,051)	40,424
Fund balances, July 1, 2017	246,475	246,475	204,833	(41,642)
Fund balances, June 30, 2018	$ -	$ -	$ (1,218)	$ (1,218)

See accompanying notes to budgetary comparison schedules.

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.

Note 2 – Expenditures in excess of appropriations

For the year ended June 30, 2018, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Department/fund	Excess
Justice of the peace no. 1—General Fund	$10,088
Justice of the peace no. 2—General Fund	4,171
Building maintenance—General Fund	1,199
School superintendent—General Fund	14,557

The excesses in the justice of the peace no. 1 and no. 2 and school superintendent departments were a direct result of required EORP judgment and interest payments due to elected officials as part of the Hall lawsuit.

Graham County
Required supplementary information
Schedule of the County's proportionate share of the net pension liability
Cost-sharing pension plans
June 30, 2018

Arizona State Retirement System

	Reporting fiscal year (Measurement date)				
	2018 (2017)	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2009**
County's proportion of the net pension liability	0.069800%	0.073220%	0.074090%	0.071692%	Information
County's proportionate share of the net pension liability	$ 10,873,479	$ 11,818,443	$ 11,540,653	$ 10,607,990	not available
County's covered payroll	$ 7,074,003	$ 6,869,957	$ 6,847,161	$ 6,476,618	
County's proportionate share of the net pension liability as a percentage of its covered payroll	153.71%	172.03%	168.55%	163.79%	
Plan fiduciary net position as a percentage of the total pension liability	69.92%	67.06%	68.35%	69.49%	

Corrections Officer Retirement Plan—
Administrative Office of the Courts

	Reporting fiscal year (Measurement date)				
	2018 (2017)	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2009**
County's proportion of the net pension liability	1.173175%	1.203620%	1.321665%	1.232231%	Information
County's proportionate share of the net pension liability	$ 4,707,005	$ 3,396,055	$ 3,213,105	$ 2,765,040	not available
County's covered payroll	$ 1,376,650	$ 1,391,108	$ 1,394,172	$ 1,372,002	
County's proportionate share of the net pension liability as a percentage of its covered payroll	341.92%	244.13%	230.47%	201.53%	
Plan fiduciary net position as a percentage of the total pension liability	49.21%	54.81%	57.89%	58.59%	

Elected Officials Retirement Plan

	Reporting fiscal year (Measurement date)				
	2018 (2017)	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2009**
County's proportion of the net pension liability	1.03997%	1.0560888%	0.9676842%	0.9420437%	Information
County's proportionate share of the net pension liability	$ 12,672,683	$ 9,977,428	$ 7,561,981	$ 6,317,081	not available
State's proportionate share of the net pension liability associated with the County	$ 2,630,160	$ 2,060,080	$ 2,357,511	$ 1,935,486	
Total	$ 15,302,843	$ 12,037,508	$ 9,919,492	$ 8,252,567	
County's covered payroll	$ 871,498	$ 861,210	$ 866,869	$ 865,822	
County's proportionate share of the net pension liability as a percentage of its covered payroll	1454.13%	1158.54%	872.33%	729.61%	
Plan fiduciary net position as a percentage of the total pension liability	19.66%	23.42%	28.32%	31.91%	

Graham County
Required supplementary information
Schedule of changes in the County's net pension liability (asset) and related ratios
Agent pension plans
June 30, 2018

PSPRS

	Reporting fiscal year (Measurement date)				
	2018 (2017)	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2009**
Total pension liability					Information not available
Service cost	$ 224,725	$ 161,447	$ 160,546	$ 192,299	
Interest on the total pension liability	554,223	486,999	459,771	407,274	
Changes of benefit terms	110,368	262,914		108,018	
Differences between expected and actual experience in the measurement of pension liability	(6,699)	212,998	(29,096)	(396,687)	
Changes of assumptions or other inputs	196,027	285,576		606,963	
Benefit payments, including refunds of employee contributions	(305,962)	(205,520)	(284,120)	(182,340)	
Net changes in total pension liability	772,682	1,202,414	307,101	735,527	
Total pension liability—beginning	7,430,261	6,225,847	5,918,746	5,183,219	
Total pension liability—ending (a)	$ 8,202,943	$ 7,430,261	$ 6,225,847	$ 5,918,746	
Plan fiduciary net position					
Contributions—employer	$ 387,287	$ 350,828	$ 193,270	$ 195,845	
Contributions—employee	114,060	120,677	101,878	98,297	
Net investment income	471,427	21,393	125,056	414,968	
Benefit payments, including refunds of employee contributions	(305,962)	(205,520)	(284,120)	(182,340)	
Administrative expense	(4,571)	(3,478)	(3,429)	(3,342)	
Other changes	44,995	43,422	(15,746)	(89,584)	
Net changes in plan fiduciary net position	707,236	327,322	116,909	433,844	
Plan fiduciary net position—beginning	3,866,736	3,539,414	3,422,505	2,988,661	
Plan fiduciary net position—ending (b)	$ 4,573,972	$ 3,866,736	$ 3,539,414	$ 3,422,505	
County's net pension liability—ending (a) – (b)	$ 3,628,971	$ 3,563,525	$ 2,686,433	$ 2,496,241	
Plan fiduciary net position as a percentage of the total pension liability	55.76%	52.04%	56.85%	57.82%	
Covered payroll	$ 1,075,201	$ 1,034,588	$ 935,210	$ 1,006,178	
County's net pension liability as a percentage of covered payroll	337.52%	344.44%	287.25%	248.09%	

Graham County

Required supplementary information
Schedule of changes in the County's net pension liability (asset) and related ratios
Agent pension plans
June 30, 2018

CORP-Detention

	Reporting fiscal year (Measurement date)				
	2018 (2017)	**2017 (2016)**	**2016 (2015)**	**2015 (2014)**	**2014 through 2009**
Total pension liability					Information not available
Service cost	$ 185,996	$ 167,701	$ 179,080	$ 159,853	
Interest on the total pension liability	183,953	186,579	181,379	169,277	
Changes of benefit terms	283,832	(39,923)		37,587	
Differences between expected and actual experience in the measurement of pension liability	(62,978)	(131,219)	(86,107)	(171,643)	
Changes of assumptions or other inputs	76,221	94,493		196,121	
Benefit payments, including refunds of employee contributions	(205,339)	(216,397)	(188,456)	(304,826)	
Net changes in total pension liability	461,685	61,234	85,896	86,369	
Total pension liability—beginning	2,462,381	2,401,147	2,315,251	2,228,882	
Total pension liability—ending (a)	$ 2,924,066	$ 2,462,381	$ 2,401,147	$ 2,315,251	
Plan fiduciary net position					
Contributions—employer	$ 103,251	$ 107,149	$ 74,587	$ 104,148	
Contributions—employee	104,932	104,762	122,500	93,360	
Net investment income	226,659	11,695	67,673	230,025	
Benefit payments, including refunds of employee contributions	(205,339)	(216,397)	(188,456)	(304,826)	
Administrative expense	(2,383)	(2,054)	(2,059)	(1,809)	
Other changes	(11)	(1,373)	(33,057)		
Net changes in plan fiduciary net position	227,109	3,782	41,188	120,898	
Plan fiduciary net position—beginning	1,909,656	1,905,874	1,864,686	1,743,788	
Plan fiduciary net position—ending (b)	$ 2,136,765	$ 1,909,656	$ 1,905,874	$ 1,864,686	
County’s net pension liability—ending (a) – (b)	$ 787,301	$ 552,725	$ 495,273	$ 450,565	
Plan fiduciary net position as a percentage of the total pension liability	73.08%	77.55%	79.37%	80.54%	
Covered payroll	$ 1,347,959	$ 1,244,657	$ 1,202,220	$ 1,107,018	
County’s net pension liability as a percentage of covered payroll	58.41%	44.41%	41.20%	40.70%	

Graham County

Required supplementary information
Schedule of changes in the County's net pension liability (asset) and related ratios
Agent pension plans
June 30, 2018

CORP-Dispatchers

	Reporting fiscal year (Measurement date)				
	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	2014 through 2009
Total pension liability					Information not available
Service cost	$ 23,154	$ 22,530	$ 29,562	$ 34,365	
Interest on the total pension liability	35,865	34,979	33,166	31,045	
Changes of benefit terms	98,268	1,892			
Differences between expected and actual experience in the measurement of pension liability	(11,358)	(16,635)	(21,537)	(29,030)	
Changes of assumptions or other inputs	(7,195)	4,101		1,695	
Benefit payments, including refunds of employee contributions		(29,158)		(17,295)	
Net changes in total pension liability	138,734	17,709	41,191	20,780	
Total pension liability—beginning	466,619	448,910	407,719	386,939	
Total pension liability—ending (a)	$ 605,353	$ 466,619	$ 448,910	$ 407,719	
Plan fiduciary net position					
Contributions—employer	$ 9,753	$ 10,904	$ 10,664	$ 14,898	
Contributions—employee	12,436	14,206	14,585	16,679	
Net investment income	63,027	3,221	18,096	56,641	
Benefit payments, including refunds of employee contributions		(29,158)		(17,295)	
Administrative expense	(951)	(856)	(835)	(444)	
Other changes	(3)	(3)	(380)		
Net changes in plan fiduciary net position	84,262	(1,686)	42,130	70,479	
Plan fiduciary net position—beginning	519,907	521,593	479,463	408,984	
Plan fiduciary net position—ending (b)	$ 604,169	$ 519,907	$ 521,593	$ 479,463	
County’s net pension liability (asset)—ending (a) – (b)	$ 1,184	$ (53,288)	$ (72,683)	$ (71,744)	
Plan fiduciary net position as a percentage of the total pension liability	99.80%	111.42%	116.19%	117.60%	
Covered payroll	$ 162,159	$ 179,580	$ 183,226	$ 209,895	
County’s net pension liability (asset) as a percentage of covered payroll	0.73%	(29.67)%	(39.67)%	(34.18)%	

Graham County
Required supplementary information
Schedule of County pension contributions
June 30, 2018

Arizona State Retirement System

	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Statutorily required contribution	$ 728,371	$ 760,067	$ 743,113	$ 743,150	$ 691,491	Information
County's contributions in relation to statutorily required contribution	728,371	760,067	743,113	743,150	691,491	not available
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
County's covered payroll	$ 6,707,529	$ 7,074,003	$ 6,869,957	$ 6,847,161	$ 6,476,618	
County's contributions as a percentage of covered payroll	10.86%	10.74%	10.82%	10.85%	10.68%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Statutorily required contribution	$ 283,788	$ 273,560	$ 256,909	$ 218,876	$ 191,632	Information
County's contributions in relation to statutorily required contribution	283,788	273,560	256,909	218,876	191,632	not available
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
County's covered payroll	$ 1,272,621	$ 1,376,650	$ 1,391,108	$ 1,394,172	$ 1,372,002	
County's contributions as a percentage of covered payroll	22.30%	19.87%	18.47%	15.70%	13.97%	

Elected Officials Retirement Plan

	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Statutorily required contribution	$ 202,056	$ 200,420	$ 199,399	$ 203,451	$ 200,725	Information
County's contributions in relation to statutorily required contribution	41,337	200,420	199,399	203,451	200,725	not available
County's contribution deficiency (excess)	$ 160,679	$ -	$ -	$ -	$ -	
County's covered payroll	$ 878,739	$ 871,498	$ 861,210	$ 866,869	$ 865,822	
County's contributions as a percentage of covered payroll	4.70%	23.00%	23.15%	23.47%	23.18%	

Graham County
Required supplementary information
Schedule of County pension contributions
June 30, 2018

PSPRS

	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 384,786	$ 344,554	$ 302,705	$ 193,270	$ 195,845	Information
County's contributions in relation to actuarially determined contribution	384,786	399,787	348,370	193,270	195,845	not available
County's contribution deficiency (excess)	$ -	$ (55,233)	$ (45,665)	$ -	$ -	
County's covered payroll	$ 1,127,941	$ 1,075,201	$ 1,034,588	$ 935,210	$ 1,006,178	
County's contributions as a percentage of covered payroll	34.11%	37.18%	33.67%	20.67%	19.46%	

CORP—Detention

	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 111,044	$ 107,785	$ 101,224	$ 74,587	$ 104,148	Information
County's contributions in relation to actuarially determined contribution	111,044	107,785	101,224	74,587	104,148	not available
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
County's covered payroll	$ 1,312,576	$ 1,347,959	$ 1,244,657	$ 1,202,220	$ 1,107,018	
County's contributions as a percentage of covered payroll	8.46%	8.00%	8.13%	6.20%	9.41%	

CORP—Dispatchers

	Reporting fiscal year					
	2018	2017	2016	2015	2014	2013 through 2009
Actuarially determined contribution	$ 10,176	$ 10,127	$ 10,952	$ 10,664	$ 14,898	Information
County's contributions in relation to actuarially determined contribution	10,176	10,127	10,952	10,664	14,898	not available
County's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	
County's covered payroll	$ 157,771	$ 162,159	$ 179,580	$ 183,226	$ 209,895	
County's contributions as a percentage of covered payroll	6.45%	6.25%	6.10%	5.82%	7.10%	

Graham County
Required supplementary information
Notes to pension plan schedules
June 30, 2018

Note 1 – Actuarially determined contribution rates

Actuarial determined contribution rates for PSPRS and CORP are calculated as of June 30 2 years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows

Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2016 actuarial valuation	20 years
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0% for PSPRS and from 4.5%-7.75% to 4.0%-7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5% for PSPRS and from 5.0%-8.25% to 4.5%-7.75% for CORP.
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006–June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)

Note 2 – Factors that affect trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS, CORP, CORP–AOC, and EORP changed benefit terms to reflect the prior mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS and EORP also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes also increased the PSPRS-, CORP-, and CORP–AOC-required pension contributions beginning in fiscal year

2016 for members who were retired as of the law's effective date. These changes will increase the PSPRS-, CORP, and CORP–AOC-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. EORP-required contributions are not based on actuarial valuations, and therefore, these changes did not affect them. Also, the County refunded excess employee contributions to PSPRS and EORP members. EORP allowed the County to reduce its actual employer contributions for the refund amounts. As a result, the County's pension contributions were less than the statutorily required contributions for 2018.

This page is intentionally left blank.

SINGLE AUDIT REPORT

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited, 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, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 7, 2019.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-04 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-01 and 2018-03 to be significant deficiencies.

Compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and that are described in the accompanying schedule of findings and questioned costs as item 2018-02.

Graham County response to findings

Graham County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey Perry, CPA, CFE
Auditor General

March 7, 2019

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

ARIZONA AUDITOR GENERAL
LINDSEY A. PERRY

JOSEPH D. MOORE
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program and report on internal control over compliance

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Report on compliance for each major federal program

We have audited Graham County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the County's compliance.

Basis for qualified opinion on Public Health Emergency Preparedness program

As described in items 2018-101 and 2018-102 of the accompanying schedule of findings and questioned costs, the County did not comply with requirements regarding the Public Health Emergency Preparedness program for matching, cash management, and reporting. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Qualified opinion on Public Health Emergency Preparedness program

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, Graham County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Public Health Emergency Preparedness program for the year ended June 30, 2018.

Unmodified opinion on Schools and Roads-Grants to States program

In our opinion, Graham County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Schools and Roads-Grants to States program for the year ended June 30, 2018.

Report on internal control over compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-101 and 2018-102, that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Graham County response to findings

Graham County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Lindsey Perry, CPA, CFE
Auditor General

March 7, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	**Yes**
Significant deficiencies identified?	**Yes**
Noncompliance material to the financial statements noted?	**No**

Federal awards

Internal control over major programs	
Material weaknesses identified?	**Yes**
Significant deficiencies identified?	**None**

Type of auditors' report issued on compliance for major programs

Unmodified for the Schools and Roads-Grants to States program and qualified for the Public Health Emergency Preparedness program.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)?	**Yes**

Identification of major programs

CFDA number	Name of federal program or cluster
10.665	Schools and Roads-Grants to States
93.069	Public Health Emergency Preparedness

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	No

Other matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with 2 CFR §200.511(b)?	Yes

Financial statement findings

2018-01

Financial statement preparation

Condition and context—The County did not accurately compile and thoroughly review its Annual Financial Report. As a result, the County's Annual Financial Report contained misstatements and errors that required correction. For example, in a prior year the County incorrectly reported $91,775 of cash and cash equivalents in the General Fund instead of other governmental funds, requiring a restatement of beginning fund balance. Further, the County did not report $1.5 million of school district warrants registered and held by the County Treasurer in the County's investment pool, which resulted in inaccurate presentation of its investments and required disclosures in the financial statements.

Criteria—The County should have detailed policies and procedures to help ensure that its Annual Financial Report, which includes its financial statements, note disclosures, and required supplementary information, is accurately compiled and prepared in accordance with U.S. generally accepted accounting principles (GAAP).

Effect—Without detailed policies and procedures and a thorough review, there is an increased risk that the County's Annual Financial Report could contain misstatements and omit required information.

Cause—The County had limited staff and resources and, therefore, had not developed detailed policies and procedures to accurately prepare and perform a thorough review of its Annual Financial Report.

Recommendation—To help ensure that the County's Annual Financial Report is accurate, complete, and prepared in accordance with GAAP, the County should:

- Develop and implement detailed policies and procedures for compiling and presenting financial data within its Annual Financial Report. These policies and procedures should include instructions for compiling data from the County's accounting system and for obtaining information not readily available from the accounting system but necessary for financial statement preparation.
- Require an employee who is knowledgeable of GAAP and independent of the Annual Financial Report's preparation to perform a detailed review to help ensure the Annual Financial Report is accurate, complete, and presented in accordance with GAAP.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2017-01.

2018-02

Complying with guidelines and State law for diversion/deferred prosecution program fees

Condition and context—The Graham County Attorney's Office was unable to demonstrate that it complied with Arizona Prosecuting Attorneys' Advisory Council Deferred Prosecution Guidelines (APAAC Guidelines) and State law when it established its diversion/deferred prosecution program fees.

Criteria—As prescribed by the APAAC Guidelines, program fees may be established pursuant to Arizona Revised Statutes (A.R.S.) §11-251.08 or similar authority. A.R.S. §11-251.08 gives the County board of supervisors the authority to adopt fee schedules for any specific services the County provides to the public. Fees established according to A.R.S. §11-251.08 should be attributable to and defray or cover the expense of the service for which the fee is assessed. Further, a fee shall not exceed the actual cost of the service. Also, before adopting a fee for service, the board of supervisors must hold a public hearing on the fee with at least 15 days' published notice. If a similar authority is used to establish program fees, the County Attorney's Office should follow those requirements.

Effect—The County Attorney's Office may have established inappropriate fees for its diversion/deferred prosecution program.

Cause—The County Attorney's Office did not have a process in place to ensure it complied with the current APAAC Guidelines and State law when it established its diversion/deferred prosecution program fees.

Recommendations—The County Attorney's Office should formally establish its diversion/deferred prosecution program fees according to the APAAC Guidelines and State law.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

2018-03

Managing risk

Condition and context—The County's process for managing its risks did not include an overall risk-assessment process that included identifying, analyzing, and responding to the County-wide information technology (IT) risks, such as potential harm from unauthorized access, use, disclosure, disruption, modification, or destruction of IT data and systems. Also, it did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls and evaluating and determining the business functions and IT systems that would need to be restored quickly if the County were impacted by disasters or other system interruptions.

Criteria—Effectively managing risk at the County includes an entity-wide risk-assessment process that involves members of the County's administration and IT management to determine the risks the County faces as it seeks to achieve its objectives to not only report accurate financial information and protect its IT systems and data but to also carry out its overall mission and service objectives. The process should provide the basis for developing appropriate responses based on identified risk tolerances and specific potential risks to which the County might be subjected. To help ensure the County's objectives can be met, an annual risk assessment should include considering IT risks. For each identified risk, the County should analyze the identified risk and develop a plan to respond within the context of the County's defined objectives and risk tolerances. The process of managing risks should also address the risk of unauthorized access and use, modification, or loss of sensitive information and the risk of losing the continuity of business operations in the event of a disaster or system interruption.

Effect—The County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk.

Cause—The County focused its efforts on the day-to-day operations and did not prioritize its IT risk-assessment policies and procedures.

Recommendations—The County should identify, analyze, and reduce risks to help prevent undesirable incidents and outcomes that could impact business functions and IT systems and data. It also should plan for where resources should be allocated and where critical controls should be implemented. To help ensure it has effective entity-wide policies and procedures to achieve these objectives, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. Responsible administrative officials and management over finance, IT, and other entity functions should be asked for input in the County's process for managing risk. The County should conduct the following as part of its process for managing risk:

- Perform an annual entity-wide IT risk-assessment process that includes evaluating risks such as risks of inappropriate access that would affect financial data, system changes that could adversely impact or disrupt system operations, and inadequate or outdated system security.
- Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.
- Evaluate and determine the business functions and IT systems that would need to be restored quickly given the potential impact disasters or other IT system interruptions could have on critical organizational functions, such as public safety, and operations, such as payroll and accounting, and determine how to prioritize and plan for recovery.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year finding 2017-04.

2018-04

Information technology (IT) controls—access, configuration and change management, security, and contingency planning

Condition and context—The County's control procedures were not sufficiently designed, documented, and implemented to respond to risks associated with its IT systems and data. The County lacked adequate procedures over the following:

- **Restricting access to its IT systems and data—**Procedures did not consistently help prevent or detect unauthorized or inappropriate access.
- **Configuring systems securely and managing system changes—**Procedures did not ensure IT systems were securely configured and all changes were adequately managed.
- **Securing systems and data—**IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.
- **Updating a contingency plan—**Plan lacked key elements related to restoring operations in the event of a disaster or other system interruption.

Criteria—The County should have effective internal controls to protect its IT systems and help ensure the integrity and accuracy of the data it maintains.

- **Logical and physical access controls**—Help to ensure systems and data are accessed by users who have a need, systems and data access granted is appropriate, key systems and data access is monitored and reviewed, and physical access to system infrastructure is protected.
- **Well-defined documented configuration management process**—Ensures the County's IT systems are configured securely and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system security or operations. Separation of responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **IT security internal control policies and procedures**—Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.
- **Comprehensive documented and tested contingency plan**—Provides the preparation necessary to place the plan in operation and helps to ensure business operations continue and systems and data can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and the loss of confidentiality and integrity of systems and data. It also increases the County's risk of not being able to effectively continue daily operations and completely and accurately recover vital IT systems and data in the event of a disaster or system interruption.

Cause—The County had some documented policies and procedures and processes in place; however, the County did not compare them against IT standards and best practices, and they were not comprehensive and sufficiently detailed to ensure they were followed.

Recommendations—To help ensure the County has effective policies and procedures over its IT systems and data, the County should follow guidance from a credible IT security framework such as that developed by the National Institute of Standards and Technology. To help achieve these control objectives, the County should develop, document, and implement control procedures in each IT control area described below:

Access

- Assign and periodically review employee user access ensuring appropriateness and compatibility with job responsibilities.
- Remove terminated employees' access to IT systems and data.
- Review all other account access to ensure it remains appropriate and necessary.
- Evaluate the use and appropriateness of accounts shared by 2 or more users and manage the credentials for such accounts.
- Enhance authentication requirements for IT systems.
- Manage employee-owned and entity-owned electronic devices connecting to the County's systems and data.
- Manage remote access to the County's systems and data.
- Review data center physical access periodically to determine whether individuals still need it.

Configuration and change management

- Establish and follow a documented change management process.
- Review proposed changes for appropriateness, justification, and security impact.
- Document changes, testing procedures and results, change approvals, and post-change review.

- Develop and document a plan to roll back changes in the event of a negative impact to IT systems.
- Test changes prior to implementation.
- Separate responsibilities for the change management process or, if impractical, perform a post-implementation review to ensure the change was implemented as approved.
- Configure IT resources appropriately and securely and maintain configuration settings.
- Manage software installed on employee computer workstations.

Security

- Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
- Prepare and implement a security-incident-response plan clearly stating how to report and handle incidents.
- Provide all employees ongoing training on IT security risks and their responsibilities to ensure systems and data are protected.
- Perform IT vulnerability scans and remediate vulnerabilities in accordance with a remediation plan.
- Identify, evaluate, and apply patches in a timely manner.

Contingency planning

- Update the contingency plan and ensure it includes all required elements to restore critical operations, including being prepared to enable moving critical operations to a separate alternative site if necessary.
- Test the contingency plan.
- Train staff responsible for implementing the contingency plan.

The County's responsible officials' views and planned corrective action are in its corrective action plan included at the end of this report.

This finding is similar to prior-year findings 2017-02 (access), 2017-03 (configuration and change management), 2017-05 (IT security), and 2017-06 (contingency planning).

Federal award findings and questioned costs

2018-101

CFDA number and name:	93.069 **Public Health Emergency Preparedness**
Award number and year:	ADHS17-133191, July 1, 2017 through June 30, 2018
Federal agency:	**U.S. Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Health Services
Compliance requirement:	Matching
Questioned costs:	$19,265

Condition and context—To comply with its grant agreement, the County was required to match 10 percent of its award amount with nonfederal monies to further support the public health services this grant provided. During the period July 1, 2017 through June 30, 2018, the required 10 percent match was $19,265. The grant agreement allows matching to be provided through unrecovered indirect costs determined from a rate approved by the federal grantor agency, the U.S. Department of Health and Human Services. However, the indirect cost rate the County used to calculate its unrecovered indirect costs was not approved, and therefore, the County did not meet any of its required match.

Criteria—In accordance with 45 Code of Federal Regulations (CFR) §75.306, the County must ensure its nonfederal match is met through an allowable source. For example, using unrecovered indirect costs, which is the difference between any indirect costs charged to the award and the amount that could have been charged to the award under the entity's federally approved negotiated indirect cost rate, would be an allowable source. Also, the County must establish and maintain effective internal control over its federal awards that provides reasonable assurance that it is managing them in compliance with all applicable laws, regulations and award terms (2 CFR §200.303).

Effect—The County may not have provided its citizens with the appropriate amount of emergency preparedness services that the grant agreement intended.

Cause—The County did not have policies and procedures establishing internal controls to ensure that it complied with the matching requirement and was not aware that the indirect cost rate used to determine unrecovered indirect costs must be federally approved.

Recommendation—To help ensure that the appropriate amount of nonfederal sources are used to match federal revenues to support the program's activities, the County should develop detailed policies and procedures for ensuring it meets the matching requirements. The policies and procedures should include a requirement that any unrecovered indirect costs used for matching are based on a federally approved indirect cost rate. Alternatively, the County may consider other allowable sources to meet the program's matching requirements such as unrestricted, nonfederal revenue sources or in-kind contributions as the grant agreement allowed.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

2018-102

CFDA number and name:	93.069 **Public Health Emergency Preparedness**
Award numbers and year:	ADHS17-133191, July 1, 2017 through June 30, 2018
Federal agency:	**U.S. Department of Health and Human Services**
Pass-through grantor:	Arizona Department of Health Services
Compliance requirement:	Cash management and reporting
Questioned costs:	$17,250

Condition and context—During the period July 1, 2017 through June 30, 2018, the County reported to the pass-through grantor $17,250 of indirect administrative fees that it was allowed to allocate to the grant program and received reimbursement for them. However, the County failed to record these administrative fees as expenditures in its grant program accounting records, and therefore, those records did not appropriately support the expenditures it reported to the pass-through grantor. The County also excluded the fees from the program's expenditures on its schedule of expenditures of federal awards (SEFA). In addition, because the County had recorded the total reimbursement as revenues in its program accounting records, those records falsely indicated that the County had $17,250 of extra grant revenue available.

Criteria—In accordance with 2 CFR §200.34, program expenditures may include indirect charges such as administrative fees. The County should recognize these indirect charges as expenditures in the accounting records that support the federal grant program and report them on the County's SEFA. Also, the County should request reimbursement only after costs have been incurred and appropriately charged to the program and accurately recorded in its accounting records.

Effect—Because the County did not have adequate policies and procedures in place to ensure it records in its grant program accounting records indirect administrative fees charged to the program, the grant program accounting records did not accurately reflect the program's actual expenditures and what was reported to the pass-through grantor. Also, the omission of the expenditures in the program accounting records caused management to temporarily believe the County had $17,250 of excess program revenues. Without complete grant program accounting records, the County might not accurately report and request and receive reimbursement for its actual incurred expenditure types for administering the program.

Cause—The County did not have policies and procedures establishing internal controls to ensure that it complies with the cash management and reporting requirements by establishing a review process to include ensuring the expenditures reported and requested for reimbursement were recorded in its grant program accounting records and appropriately reported on its SEFA. Further, the County was not aware that the administrative fees or similar indirect charges should be recorded as expenditures in its grant program accounting records.

Recommendation—To help ensure that expenditure reports submitted are accurately prepared and its SEFA is complete, the County should develop detailed policies and procedures for cash management and reporting requirements including:

- Recording and identifying all federal program expenditures, including administrative or similar indirect charges, in the grant program accounting records and the SEFA.
- Reviewing and approving expenditure reports prior to submission to ensure expenditures are supported by and reconciled to the grant program accounting records and were incurred prior to making reimbursement requests.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

COUNTY SECTION

Graham County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 555	National School Lunch Program (NSLP)	Child Nutrition Cluster	Arizona Department of Education	None	$ 13,462	
10 557	WIC Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS14-053054	177,927	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster			471,715	
10 704	Law Enforcement Agreements		Forest Service	12-LE-11030518-002	76,790	
10 923	Emergency Watershed Protection Program		Natural Resources Conservation Service	68-9457-17-202	153,750	$ 153,750
	Total Department of Agriculture				893,644	153,750
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		Arizona Department of Housing	117-14; 129-18	24,549	
Department of Justice						
16 575	Crime Victim Assistance		Arizona Department of Public Safety	2018-283	22,919	
16 606	State Criminal Alien Assistance Program				12,347	
16 607	Bulletproof Vest Partnership Program				327	
16 738	Edward Byrne Memorial Justice Assistance Grant Program				3,002	
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-18-024, DC-18-005	23,392	
	Total 16.738				26,394	
	Total Department of Justice				61,987	
Department of Transportation						
20 600	State and Community Highway Safety	Highway Safety Cluster	Governor's Office of Highway Safety	2018-AL-015	11,664	
20 616	National Priority Safety Programs	Highway Safety Cluster	Governor's Office of Highway Safety	2018-PTS-028, 2017-405d-043	19,913	
	Total Highway Safety Cluster				31,577	
	Total Department of Transportation				31,577	
Department of Education						
84 010	Title I Grants to Local Educational Agencies (LEAs)		Arizona Department of Education	18FT1TTI-813185-01A	17,997	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA, Part B)	Arizona Department of Education	18FESCBG0813185-09A, 18FESCBG-813225-09A, 18FESSCG-813225-55B	10,833	
84 358	Rural Education				8,536	
84 424	Student Support and Academic Enrichment Program		Arizona Department of Education	18FT4TIV-813185-01A	6,762	
	Total Department of Education				44,128	
Department of Health and Human Services						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS17-133191	199,683	
93 323	Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		Arizona Department of Health Services	ADHS17-133191	154	

See accompanying notes to schedule.

Graham County
Schedule of expenditures of federal awards
Year ended June 30, 2018

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
93 539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds		Arizona Department of Health Services	ADHS18-177679	72,532	
93 758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)		Arizona Department of Health Services	ADHS16-098358	1,624	
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS17-165277; ASHS18-180129; ADHS18-188828	6,651	
93 945	Assistance Programs for Chronic Disease Prevention and Control		Arizona Department of Health Services	ADHS17-149140	879	
93 977	Sexually Transmitted Diseases (STD) Prevention and Control Grants		Arizona Department of Health Services	ADHS14-068669	5,371	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS16-098358	60,671	
	Total Department of Health and Human Services				347,565	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMF-2017-EP-00008-S01	50,357	
97 067	Homeland Security Grant Program		Arizona Department of Emergency and Military Affairs	160306-01, 170415-01	73,289	
	Total Department of Homeland Security				123,646	
	Total expenditures of federal awards				$ 1,527,096	$ 153,750

See accompanying notes to schedule.

Graham County
Notes to schedule of expenditures of federal awards
Year ended June 30, 2018

Note 1 – Basis of presentation

The accompanying schedule of expenditures of federal awards (schedule) includes Graham County's federal grant activity for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

Note 2 – Summary of significant accounting policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 3 – Catalog of Federal Domestic Assistance (CFDA) numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2018 *Catalog of Federal Domestic Assistance*.

Note 4 – Indirect cost rate

The County did not elect to use the 10 percent de minimis indirect cost rate as covered in 2 CFR §200.414.

This page is intentionally left blank.

COUNTY RESPONSE

Graham County Board of Supervisors
921 Thatcher Blvd • Safford, AZ 85546
Phone: (928) 428-3250 • Fax: (928) 428-5951

James A. Palmer, Chairman
Paul David, Vice Chairman
Danny Smith, Member

Dustin Welker, County Manager/Clerk

March 7, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Julie Rodriguez
Chief Financial Officer

Graham County
Corrective action plan
Year ended June 30, 2018

Financial statement findings

2018-01
Financial statement preparation
Contact person: Julie Rodriguez, Chief Financial Officer
Anticipated completion date: July 2020
Response: Concur
Corrective action:

- As CFO, I will continue to develop and implement detailed written policies and procedures for compiling and presenting information within the annual financial report. These written procedures will include instructions for compiling and obtaining information both from within the County's accounting system as well as information not readily available.
- During the 2020 budget process, we again will work to budget for hiring additional finance personnel with a knowledge of GAAP and financial reporting to perform a detailed review of the annual financial report to ensure the report is accurate, complete and presented in accordance with GAAP.

2018-02
Complying with guidelines and state law for diversion/deferred prosecution program fees
Contact person: Jaime Aguilar, Diversion Officer
Anticipated completion date: June 2019
Response: Concur
Corrective action: The Graham County Attorney's Office will establish a fee schedule for the Diversion Program and submit the proposed fee schedule for approval to the Graham County Board of Supervisors. The proposed fee schedule will be established pursuant to A.R.S. Section 11-251.08. The fees charged shall be attributable to defray or cover the expense of the Diversion Program pursuant to APAAC guidelines.

2018-03
Managing risk
Contact person: McCoy Hawkins, IT Director
Anticipated completion date: June 2020
Response: Concur
Corrective action: We will perform an IT risk assessment to identify, analyze, and respond to risks that may impact our IT resources. Policies and procedures for risk management and categorization are in process, along with various other policies being drafted based on best practices.

2018-04
Information technology (IT) controls – access, configuration and change management, security, and contingency planning
Contact person: McCoy Hawkins, IT Director
Anticipated completion date: June 2020
Response: Concur
Corrective action plan: We are currently drafting information management and related policies and procedures. These policies will include all aspects of information security and change management from access controls to configuring, testing, and reviewing changes based upon current IT standards and best practices. A comprehensive contingency plan to ensure business operations can recover from a disaster is currently being developed, along with incident response and training.

Federal award findings and questioned costs

Finding number: 2018-101
Matching
CFDA number and name: 93.069 Public Health Emergency Preparedness
Questioned costs: $19,265
Contact person: Brian Douglas, Health Director
Anticipated completion date: June 2019
Response: Concur
Corrective action plan: We will work with the Arizona Department of Health Services, Public Health Emergency Preparedness Program to identify acceptable in-kind labor for the allowable 10% match. We will ensure that costs for the 2018-2019 fiscal year follow the new allowable match agreement.

Finding number: 2018-102
Cash management and reporting
CFDA number and name: 93.069 Public Health Emergency Preparedness
Questioned costs: $17,250
Contact person: Brian Douglas, Health Director
Anticipated completion date: June 2019
Response: Concur
Corrective action plan: Graham County will develop policies and procedures for PHEP indirect monies that tie to program expenditure reports and to be transferred to a County general fund account on a monthly basis.

Graham County Board of Supervisors
921 Thatcher Blvd • Safford, AZ 85546
Phone: (928) 428-3250 • Fax: (928) 428-5951

James A. Palmer, Chairman
Paul David, Vice Chairman
Danny Smith, Member

Dustin Welker, County Manager/Clerk

March 7, 2019

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Julie Rodriguez
Chief Financial Officer

Graham County
Summary schedule of prior audit findings
Year ended June 30, 2018

The County should develop detailed financial statement preparation policies and procedures
Finding no.: 2017-01
Status: Partially Corrected

- As CFO, I have continued to develop and implement detailed written procedures for compiling and presenting information within the financial report. These written procedures include instructions for compiling and obtaining information both from within the County's accounting system as well as information not readily available.
- These procedures are currently being revised but a policy has not yet been drafted. The anticipated policy draft date is July 1, 2020.
- During the 2019 budget process, we were unable to hire additional finance personnel to perform a detailed review of the annual financial report. We will again try to secure this position during the 2020 budget process.

The County should improve access controls over its information technology resources
Finding no.: 2015-01, 2016-03, 2017-02
Status: Partially Corrected

- As specified in the Users Access Administrative Policy #2-2017, a coordinated process was developed to verify all user accounts with employment and contract status a minimum of twice a year. VPN accounts are also reviewed to verify they are still active and necessary. These procedures are currently being drafted with an estimated completion of July 1, 2019.
- Netwrix Auditor software logs activities and changes made to all active directory user accounts, with notifications of elevated access alterations.
- Cisco's Identity Services Engine was purchased and is currently being configured to control remote access and compliance to our security standards of connecting users and devices. This solution is anticipated to be operational by July 1, 2019.
- The reason for the finding's recurrence is lack of personnel and County resources to create or update policies and procedures, and configure new software within the time frame given.

The County should improve its configuration management processes over its information technology resources
Finding no.: 2015-02, 2016-04, 2017-03
Status: Partially corrected.

- The Change Management policy and related procedures are currently being drafted with a goal to be completed by July 1, 2019. The policy will include processes covering all aspects of performing and documenting change management from testing changes, rolling back changes, and reviewing changes. The policy will address the separation of change management responsibilities and outline training of proper personnel about those responsibilities.

- Configuration settings are being added to the County's IT Policies and Procedures for Server Management, which was approved March 23, 2017; completion goal is set to July 1, 2019.
- New software is projected to be implemented July 2019 to phase out current Treasurer's program. This new software will improve access controls by allowing rights to be assigned and authenticated by Active Directory groups.
- The reason for the finding's recurrence is lack of personnel to draft the necessary policies and procedures within the time frame given.

The County should improve its risk-assessment process to include information technology security

Finding no.: 2015-04, 2016-05, 2016-07, 2017-04, 2017-05

Status: Partially corrected.

- The County will perform an IT risk assessment to identify, analyze, and respond to risks that may impact our IT resources by the end of June 2019.
- Information Security Risk Categorization and Information Security Risk Management policies, as well as Contingency Planning Policy, including a Business Impact Analysis for NewWorld Systems, have been drafted alongside various other information security and management policies based on best practices and in collaboration with other counties. This collaboration has since disbanded, extending projected completion date to December 2019.
- Netwrix Auditor software logs activities and changes made to all active directory user accounts, with immediate notifications of elevated access alterations, and daily report of Active Directory Change Summary sent to the Systems Administrator.
- Incident response will be included in the Information Security Policy anticipated completion extended to December 2019 due to the county policy collaboration dissolving.
- Although cyber-security information and tips are posted to the County's Intranet monthly, another mandatory Cyber-Security training will be held March 2019. Beginning September 2016, Safe-Personnel online trainings were implemented for new employees to complete all trainings required by their position, including cyber-security.
- In addition to the anti-virus and anti-malware software already on all devices, and Advanced Threat Protection on the web filters, an Intrusion Prevention System module was added to the firewall in October 2016 to also perform vulnerability scans.
- Windows Server Update Services (WSUS) was implemented May 2017 to review, track, and apply Windows patches on all domain devices in a timely manner. The Server Management Policy is being updated to include Configuration and Change Management Policies of all software on County resources; completion goal is July 1, 2019.
- An Information Management Policy is being drafted to include guidelines on protecting data, especially information classified as sensitive or restricted, also as it relates to Vendor access and conformance.
- The reason for the finding's recurrence is lack of personnel and County resources to perform the risk-assessment and draft the required policies and procedures within the time frame given.

The County should improve its contingency planning procedures for its information technology resources and its security over its information technology resources

Finding no.: 2015-03, 2016-06, 2017-06

Status: Partially corrected.

- On April 28, 2018, a test of virtual machine storage redundancy and continuity of 911 operations was successful.
- The County is in process of developing a Contingency Planning Policy, as well as upgrading the IT disaster recovery plan to help ensure that IT systems and data necessary to conduct daily operations in the event of a disaster, system or equipment failure, or other system interruption, can be recovered and restored. Incident response and training is being developed with this contingency plan which is projected to be completed by December 2019.
- The reason for the finding's recurrence is lack of personnel and County resources to update and draft necessary policies and procedures within the time frame given.

ARIZONA
Auditor General
Making a Positive Difference