A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Graham County

Year Ended June 30, 2015

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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Graham County
Single Audit Reporting Package
Year Ended June 30, 2015

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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2015, 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.

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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, 2015, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2015, the County adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through x, the Budgetary Comparison Schedules on pages 48 through 52, Schedule of the County's Proportionate Share of the Net Pension Liability—Cost-Sharing Pension Plans on page 53, Schedule of Changes in the County's Net Pension Liability (Asset) and Related Ratios—Agent Pension Plans on pages 54 through 56, Schedule of County Pension Contributions on pages 57 through 58, and Schedule of Agent OPEB Plans' Funding Progress on page 60 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* 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 the responsibility of management 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 use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the 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 30, 2016, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

March 30, 2016

Graham County
Management's Discussion and Analysis
June 30, 2015

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, 2015. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights for Fiscal Year 2015

- The County's total net position decreased $21,698,076, primarily due to the implementation of the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (GASB 68).
- Graham County's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the current fiscal year by $22,079,677 (net position). Of this amount, $34,715,086 is the net investment in capital assets (e.g., land, buildings, improvements, machinery and equipment, infrastructure and construction in progress); $6,708,211 is restricted for specific purposes (restricted net position); and $(19,343,620) is the unrestricted net position deficit balance that is primarily a result of the implementation of GASB 68.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of $8,940,572, a decrease of $737,937 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $2,204,237, or 12.0 percent of total General Fund expenditures.
- Graham County's capital assets decreased by $677,008 during the current fiscal year. The key factor in this decrease was normal yearly depreciation on assets. The largest capital asset purchases were two highway department motor graders and 1.5 miles of construction on Ft. Grant Road. A show arena, computer software and jail security board 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 comprised 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 the 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 and the Highway Road 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 3 through 6 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 7 and 8 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 9 through 45 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 48 through 61 of this report.

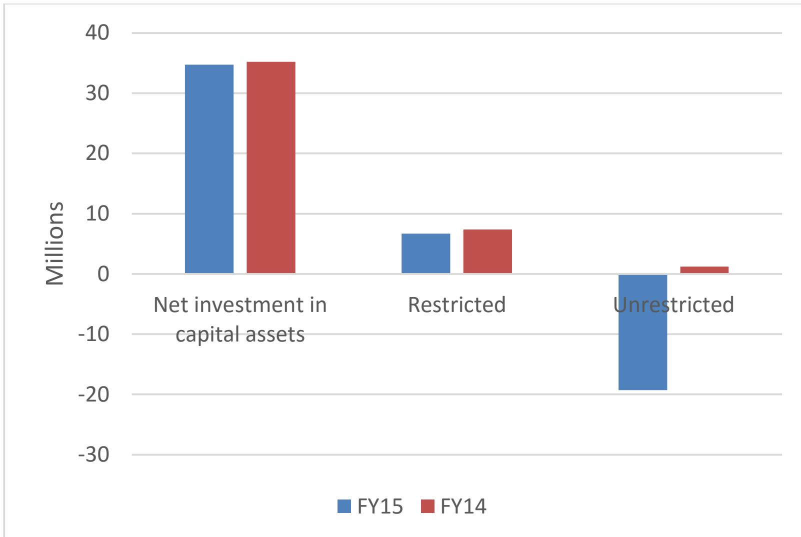
Government-wide Financial Analysis

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 exceeded liabilities by $22,079,677.

Condensed Statement of Net Position
As of June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
Current and other assets	$ 10,526,521	$10,950,190
Capital assets	35,585,964	36,262,972
Total assets	46,112,485	47,213,162
Deferred outflows of resources		
Total outflows of resources	5,044,721	0
Long-term liabilities outstanding	24,867,453	2,364,350
Other liabilities	1,314,053	1,071,059
Total liabilities	26,181,506	3,435,409
Deferred inflows of resources		
Total inflows of resources	2,895,753	0
Net position:		
Net investment in capital assets	34,715,086	35,175,358
Restricted	6,708,211	7,404,337
Unrestricted	(19,343,620)	1,198,058
Total net position	$ 22,079,677	$43,777,753

Net Position
June 30, 2015 and 2014



The largest portion of Graham County's net position reflects 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 $1,198,058 at June 30, 2014, to $(19,343,620) at June 30, 2015. Again, this is primarily a result of the implementation of GASB 68.

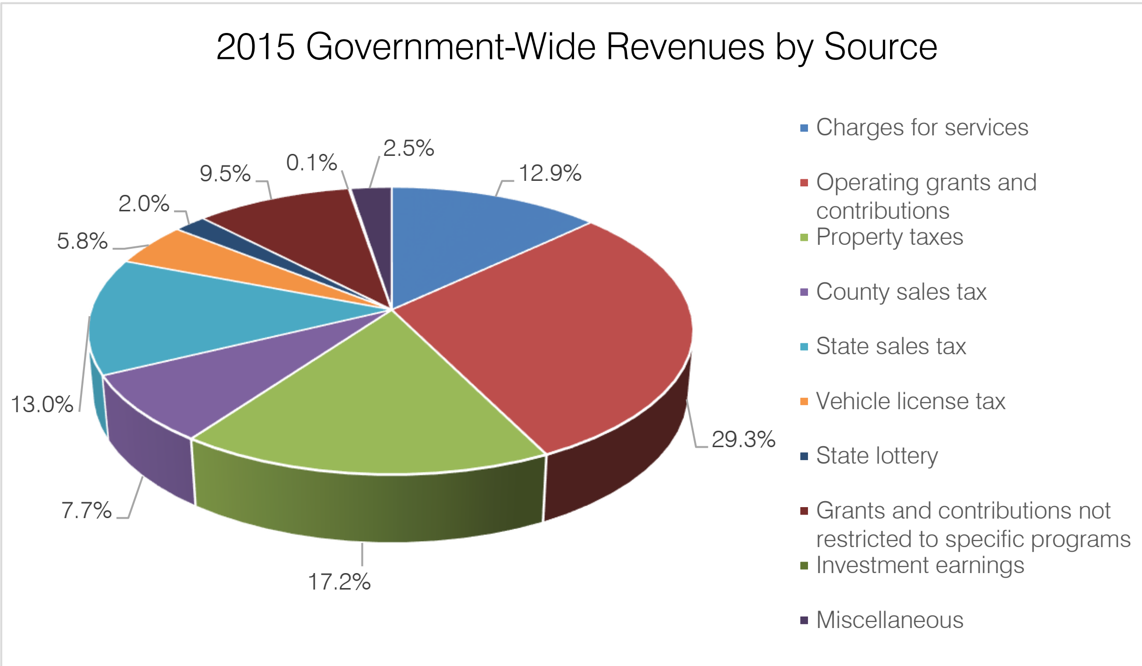
Current assets, related to governmental activities, decreased as compared to the previous fiscal year, primarily because amounts due from other governments decreased. Capital assets decreased this fiscal year as assets placed in service did not exceed the write-off of obsolete assets and depreciation of all assets.

Long-term liabilities increased $22,503,103 with the implementation of GASB 68. The implementation of GASB 68 resulted in the County reporting a net pension liability in the amount of $22,636,917 for its employees at year-end. Compensated absences increased $84,175, reflecting employees' increased carryover of vacation and sick leave hours. Capital leases payable decreased $216,736 as lease payments were made and no new leases were incurred. Other liabilities increased $242,994, or 22.7 percent, mainly because of an increase 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. Although state vehicle license tax, investment earnings and miscellaneous revenues increased over the previous year and state lottery shared revenues remained the same, all other sources of revenue decreased, resulting in a revenue decrease of $1,493,096 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 Revenues,
Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

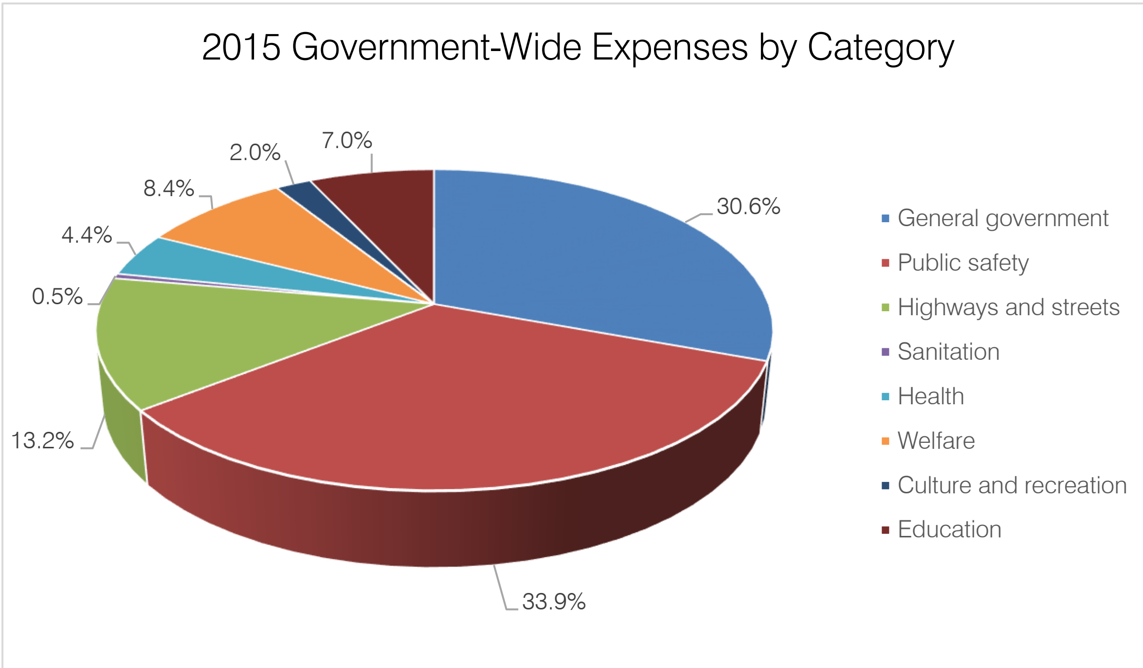
	Governmental Activities	
	2015	2014
Revenues		
Program revenues:		
Charges for services	$ 3,570,363	$ 3,781,390
Operating grants and contributions	8,144,627	9,093,520
General revenues:		
Property taxes, levied for general purposes	4,790,821	5,077,466
County sales tax, levied for general purposes	2,128,651	2,130,788
Shared revenue—state sales tax	3,599,316	3,714,934
Shared revenue—state vehicle license tax	1,610,377	1,540,698
Shared revenue—state lottery	550,038	550,038
Grants and contributions not restricted to specific programs	2,629,350	2,878,355
Investment Earnings	28,093	21,939
Miscellaneous	684,839	440,443
Total revenues	27,736,475	29,229,571
Expenses		
General government	$ 9,584,681	$9,058,290
Public safety	10,624,145	9,478,110
Highways and streets	4,132,366	4,115,502
Sanitation	152,600	150,962
Health	1,371,435	1,403,125
Welfare	2,632,019	2,597,390
Culture and recreation	606,035	535,865
Education	2,200,333	1,977,555
Total expenses	31,303,614	29,316,799
Change in net position	(3,567,139)	(87,228)
Net position—beginning, as restated	25,646,816	43,864,981
Net position—ending	$22,079,677	$43,777,753



Governmental activities

Governmental activities revenues totaled $27,736,475 for fiscal year 2015. The following are highlights of county revenues:

- Charges for services decreased by $211,027, or 5.6 percent, as an IGA with the City of Safford to provide their geographical information services ended with fiscal year 2014 and was not renewed.
- Operating grants and contributions decreased by $948,893, or 10.4 percent, primarily because of the completion of the CDBG Colonia Water project.
- Property taxes decreased by $286,645, or 5.6 percent, due to pending litigation and other delinquent tax payers.
- Grants and contributions not restricted to specific programs decreased by $249,005, or 8.7 percent, as PILT was not funded to the level previously expected.
- Investment earnings increased by $6,154, or 28.1 percent, as interest rates began to rise.
- Miscellaneous revenues increased by $244,396 or 55.5 percent as the County received donations for a show arena at the fairgrounds, and donations of both used vehicles and body cameras for sheriff deputies.



Expenses:

Overall expenses in governmental activities increased $1,986,815, or 6.8 percent. The Board of Supervisors approved a 4.0 percent market adjustment to salaries of all employees for fiscal year 2015. Spending for two-thirds of the functions increased during the fiscal year. The majority of the increase was within the public safety function, with culture and recreation and education resulting in smaller increases.

- General government increased by $526,391, or 5.8 percent. This included a major increase in recorded pension expense of $1,140,089 but was offset by a decrease in expenses following the completion of the Solomon Colonia Water CDBG.
- Public safety had the largest increase of $1,146,035, or 12.1 percent related to recorded pension expense of $716,388 and increased payroll costs related to countywide 4% market adjustment.
- Culture and recreation increased $70,170, or 13.1 percent due in large part to increased depreciation costs of $29,871 on the reverse osmosis system installed at the end of fiscal year 2014 as well as pension expense of $9,893.
- Education increased $222,778, or 11.3 percent. Due in large part to pension expense for education functions of $111,943 and maintenance and operation costs at the Dan Hinton Accommodation School increased $79,614.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Graham County. At June 30, 2015, the General Fund's unassigned fund balance was $2,204,237, which was a decrease of $370,379 from the prior fiscal year. Revenues were less than expenses by $448,731 in the General Fund (prior to any other financing sources or uses). Revenues were $513,933 less than the previous fiscal year with the largest reductions in property taxes and charges for service.

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 had a slight decrease of $112,518 this fiscal year. The Highway Department works very hard to keep a close eye on expenditures to keep costs down whenever possible.

The other governmental fund's balances increased by $262,084. This is a combination of many nonmajor funds of the County, most funded by various grants. Funding for some programs faced years of cuts but now appear to be leveling off, although most grants are only awarded for one fiscal year at a time.

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 $1,486,221; or 7.7 percent. The largest variances from budgeted amounts were in intergovernmental revenues, which were $1,414,769, or 13.9 percent, below budget and property taxes, which was $198,337, or 4.1 percent, below budget. The General Fund expenditure budget of $21,270,214 was also not amended this fiscal year. General Fund Expenditures were less than the final budget by $2,954,451, or 13.9 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of $2,091,593. These savings were a result of conservative budgeting practices and reduced spending due to tight economic conditions that resulted in spending less than anticipated from the elections, attorney, treasurer, justice of the peace no. 2, medical examiner, overtime, general services, contingency, and miscellaneous funds.

Capital Asset and Debt Administration

Capital assets—The County's capital assets for its governmental activities as of June 30, 2015, amount to $35,585,964 (net of accumulated depreciation). The decrease of $677,008 is due primarily to the depreciation expense exceeding capital asset additions. Funding agencies have decreased funding for capital assets in almost all programs except the Homeland Security Grant.

Graham County's Capital Assets
(Net of depreciation)

	Governmental Activities	
	2015	2014
Land	$ 2,803,060	$ 2,803,060
Buildings	8,095,353	8,371,523
Machinery and equipment	2,552,867	2,517,855
Infrastructure	21,552,197	22,011,711
Construction in progress	582,487	558,823
Total	$35,585,964	$36,262,972

Additional information on Graham County's capital assets can be found in Note 5 on page 18 of this report.

Long-term Debt—At the end of the current fiscal year, the County had total long-term liabilities outstanding of $24,867,453. The largest portion of the long-term liabilities includes $22,636,917 for net pension liability. Also included in long-term liabilities is $1,282,585 for the future payment of compensated absences for unused employee vacation and sick leave, capital leases of $870,878 and post-closure care costs of $77,073. The County did not have any outstanding bonded debt as of June 30, 2015.

Additional information on the County's long-term debt can be found in Note 7 to the financial statements on pages 19 through 21.

Economic Factors and Next Year's Budget and Rates

- The unemployment rate for Graham County is currently 7.4 percent (exclusive of the San Carlos Apache Reservation). This is a slight decrease from 7.5 percent a year ago. Comparatively, the State rate is 6.3 percent. This rate is reflective of our reliance on the local copper mining industry where a decrease in copper prices has led to a reduction in contract employees.
- Inflationary trends in the region compare favorably to national indices.
- Graham County continues to see lower levels in federal and state grant revenue and uncertainty in federal PILT (Payment in Lieu of Taxes) funding.

These factors were considered in preparing Graham County's budget for the 2016 fiscal year. The unassigned ending fund balance in the General Fund of $2,204,237 was appropriated for spending in the 2015/16 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. Due to an decrease in assessed valuations, the County raised the General Fund property tax rate from 2.1794 to 2.3071, which was equal to the Truth in Taxation Rate for the fiscal year 2016.

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 Thatcher Blvd., Safford, AZ 85546.

Graham County
Statement of Net Position
June 30, 2015

	Primary Government
	Governmental Activities
Assets	
Cash, cash equivalents, and investments	$ 8,286,527
Receivables:	
Property taxes	230,217
Accounts	18,613
Due from other governments	1,486,251
Inventories	432,899
Net pension assets	71,744
Capital assets, not being depreciated	3,385,547
Capital assets, being depreciated, net	32,200,417
Total assets	46,112,215
Deferred Outflows of Resources	
Deferred outflows related to pensions	5,044,721
Total deferred outflows of resources	5,044,721
Liabilities	
Accounts payable	588,833
Accrued payroll and employee benefits	639,202
Due to other governments	86,018
Noncurrent liabilities	
Due within 1 year	1,034,644
Due in more than 1 year	23,832,809
Total liabilities	26,181,506
Deferred Inflows of Resources	
Deferred inflows related to pensions	2,895,753
Total deferred inflows of resources	2,895,753
Net Position	
Net investment in capital assets	34,715,086
Restricted for:	
Highways and streets	3,238,230
Other purposes	3,469,981
Unrestricted (deficit)	(19,343,620)
Total net position	$ 22,079,677

See accompanying notes to financial statements.

Graham County
Statement of Activities
Year Ended June 30, 2015

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
				Primary Government
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**
Primary government:				
Governmental activities:				
General government	$ 9,584,681	$ 2,394,169	$ 2,024,844	$ (5,165,668)
Public safety	10,624,145	189,104	1,639,354	(8,795,687)
Highways and streets	4,132,366		2,806,165	(1,326,201)
Sanitation	152,600		53,920	(98,680)
Health	1,371,435	52,566	851,381	(467,488)
Welfare	2,632,019			(2,632,019)
Culture and recreation	606,035	80,629		(525,406)
Education	2,200,333	853,895	768,963	(577,475)
Total governmental activities	$ 31,303,614	$ 3,570,363	$ 8,144,627	(19,588,624)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	4,790,821
County sales taxes, levied for general purposes	2,128,651
Shared revenue—state sales tax	3,599,316
Shared revenue—state vehicle license tax	1,610,377
Shared revenue—state lottery	550,038
Grants and contributions not restricted to specific programs	2,629,350
Investment earnings	28,093
Miscellaneous	684,839
Total general revenues	16,021,485
Change in net position	(3,567,139)
Net position, July 1, 2014, as restated	25,646,816
Net position, June 30, 2015	$ 22,079,677

See accompanying notes to financial statements.

Graham County
Balance Sheet
Governmental Funds
June 30, 2015

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 1,817,496	$ 3,023,728	$ 3,445,303	$ 8,286,527
Receivables:				
Property taxes	223,244		6,973	230,217
Accounts		5,047	13,566	18,613
Due from other governments	1,151,625	243,408	91,218	1,486,251
Inventories		432,899		432,899
Total assets	$ 3,192,365	$ 3,705,082	$ 3,557,060	$ 10,454,507
Liabilities				
Accounts payable	$ 125,342	$ 414,003	$ 49,488	$ 588,833
Accrued payroll and employee benefits	477,483	52,849	108,870	639,202
Due to other governments	48,394		37,624	86,018
Total liabilities	651,219	466,852	195,982	1,314,053
Deferred Inflows of Resources				
Unavailable revenue—property taxes	194,193		5,689	199,882
Total deferred inflows of resources	194,193		5,689	199,882
Fund balances				
Nonspendable		432,899		432,899
Restricted		2,805,331	865,467	3,670,798
Committed			429,069	429,069
Assigned	142,716		2,060,853	2,203,569
Unassigned	2,204,237			2,204,237
Total fund balances	2,346,953	3,238,230	3,355,389	8,940,572
Total liabilities, deferred inflows of resources, and fund balances	$ 3,192,365	$ 3,705,082	$ 3,557,060	$ 10,454,507

See accompanying notes to financial statements.

Graham County
Reconciliation of the Governmental Funds Balance Sheet to the Government-wide Statement of Net Position
June 30, 2015

Fund balances—total governmental funds		$ 8,940,572
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	$ 65,243,672	
Less accumulated depreciation	(29,657,708)	35,585,964
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		199,882
Net pension assets held in trust for future benefits are not available for county operations and, therefore, are not reported in the funds.		71,744
Some long-term liabilities are not due and payable in the current period and, therefore, are not reported as a liability in the funds.		
Net pension liability	(22,636,917)	
Compensated absences	(1,282,585)	
Leases payable	(870,878)	
Landfill liability	(77,073)	(24,867,453)
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		2,148,968
Net position of governmental activities		$ 22,079,677

See accompanying notes to financial statements.

Graham County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 4,660,432		$ 131,129	$ 4,791,561
County sales taxes	2,128,651			2,128,651
Licenses and permits	52,228			52,228
Intergovernmental	8,779,701	$ 3,525,193	3,654,702	15,959,596
Charges for services	1,778,179		1,337,646	3,115,825
Fines and forfeits	211,068		46,832	257,900
Investment earnings	3,423	10,957	13,713	28,093
Rents	21,545		122,865	144,410
Miscellaneous	54,485	17,176	409,955	481,616
Donations	177,320		25,903	203,223
Total revenues	17,867,032	3,553,326	5,742,745	27,163,103
Expenditures:				
Current:				
General government	7,105,186		563,570	7,668,756
Public safety	7,350,605		2,184,737	9,535,342
Highways and streets		3,230,735	135,656	3,366,391
Sanitation	99,917		53,936	153,853
Health	297,236		1,010,814	1,308,050
Welfare	2,632,019			2,632,019
Culture and recreation	317,773		159,874	477,647
Education	215,472		1,726,754	1,942,226
Capital outlay	297,555	352,105	115,668	765,328
Total expenditures	18,315,763	3,582,840	5,951,009	27,849,612
Deficiency of revenues over expenditures	(448,731)	(29,514)	(208,264)	(686,509)
Other financing sources (uses):				
Sale of capital assets	141		1,890	2,031
Transfers in	54,167		577,132	631,299
Transfers out	(493,080)	(29,545)	(108,674)	(631,299)
Total other financing sources (uses)	(438,772)	(29,545)	470,348	2,031
Net change in fund balances	(887,503)	(59,059)	262,084	(684,478)
Fund balances, July 1, 2014	3,234,456	3,350,748	3,093,305	9,678,509
Decrease in inventories		(53,459)		(53,459)
Fund balances, June 30, 2015	$ 2,346,953	$ 3,238,230	$ 3,355,389	$ 8,940,572

See accompanying notes to financial statements.

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, 2015

Net change in fund balances—total governmental funds		$ (684,478)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	$ 1,147,844	
Depreciation expense	(1,978,320)	(830,476)
In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.		459
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		(740)
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	1,443,998	
Pension expense	(4,150,369)	
State's nonemployer pension contributions	574,112	(2,132,259)
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.		
Principal payments on long-term debt		216,736
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.		
Increase in compensated absences	(84,175)	
Decrease in landfill and postclosure care costs	1,253	(82,922)
Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.		
Decrease in inventories		(53,459)
Change in net position of governmental activities		$ (3,567,139)

See accompanying notes to financial statements.

Graham County
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

	Investment Trust Funds	Agency Funds
Assets		
Cash, cash equivalents, and investments	$ 41,591,963	$ 529,732
Accrued interest receivable	35,403	
Total assets	$ 41,627,366	$ 529,732
Liabilities		
Due to other governments		$ 529,732
Total liabilities		$ 529,732
Net Position		
Held in trust for investment trust participants	$ 41,627,366	

See accompanying notes to financial statements.

Graham County
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2015

	Investment Trust Funds
Additions:	
Contributions from participants	$ 62,818,195
Investment earnings	338,327
Total additions	63,156,522
Deductions:	
Distributions to participants	69,363,062
Total deductions	69,363,062
Change in net position	(6,206,540)
Net position, July 1, 2014	47,833,906
Net position, June 30, 2015	$ 41,627,366

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).

For the year ended June 30, 2015, the County implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, and GASB Statement No. 69, *Government Combinations and Disposals of Governmental Operations*. GASB Statements Nos. 68 and 71 establish standards for measuring and recognizing net pension (assets and) liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits. GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The implementation of Statement No. 69 did not have an effect on the County's financial statements.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are so intertwined with the County that they are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. The blended component unit discussed below has 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 A.R.S. §48-3602 that provides flood control facilities and regulates floodplains and drainage to prevent flooding of property within Graham County. As the Graham County Board of Supervisors serves as the Board of Directors of the Flood Control District, it manages the programs, projects, activities, or level of services the District provides; therefore, the District is considered a blended component unit of the County. Separate financial statements for the District 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; and
- 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 Funds (HURF) and vehicle license taxes.

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 two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

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

G. Capital Assets

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

Capitalization thresholds (the dollar 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	$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 section 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 (asset and) 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 resignations and 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 - Beginning Balances Restated

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. In addition, as a result of reporting errors in previous years relating to an infrastructure asset, the County restated net position. The following is a summary of adjustments made to beginning net position:

Governmental Activities	
Net position as previously reported at June 30, 2014	$ 43,777,753
Prior period adjustment—Implementation of GASB 68:	
Net pension asset (measurement date 2013)	22,045
Net pension liability (measurement date 2013)	(19,704,730)
Deferred outflows—county pension contributions made during fiscal year 2014	1,398,739
Total prior period adjustment	(18,283,946)
Correction of an error:	
Infrastructure	1,412,387
Accumulated depreciation	(1,259,378)
Total correction of an error	153,009
Net position as restated, July 1, 2014	$25,646,816

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; 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 two ratings by a nationally recognized rating agency.
2. 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 two nationally recognized rating agencies.

3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk
Statutes require collateral for deposits 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, 2015, the carrying amount of the County's deposits was $17,175,801, and the bank balance was $18,252,053. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County's investments at June 30, 2015, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	$14,331,181
State Treasurer's investment pool 5	3,174,685
Negotiable certificates of deposit	8,640,989
U.S. agency securities	7,004,600
Total	$33,151,455

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

Credit risk—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, 2015, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment pool 7	Unrated	Not applicable	$14,331,181
State Treasurer's investment pool 5	AAAf/S1+	Standard & Poor's	3,174,685
Negotiable certificates of deposit	Unrated	Not applicable	8,640,989
U.S. agency securities	AAA	Moody's	7,004,600
Total			$33,151,455

Custodial credit risk—For an investment, custodial credit risk is the risk that, in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in an outside party's possession. The County does not have a formal policy with respect to custodial credit risk.

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, 2015, of 5 percent or more in the Federal Farm Credit Bank and the Federal National Mortgage Association. These investments were 12.05 percent and 6.05 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, 2015, the County had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity (In Years)
State Treasurer's investment pool 7	$14,331,181	.10
State Treasurer's investment pool 5	3,174,685	.15
Negotiable certificates of deposit	8,640,989	1.64
U.S. agency securities	7,004,600	1.99
Total	$33,151,455	

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Position follows:

Cash, deposits, and investments:

Cash on hand	$ 80,965
Amount of deposits	17,175,802
Amount of investments	33,151,455
Total	$50,408,222

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Statement of Net Position:				
Cash, cash equivalents, and investments	$8,286,527	$41,591,963	$529,732	$50,408,222

Note 4 - Due from Other Governments

Amounts due from other governments at June 30, 2015, totaled $1,486,251 and include $627,999 in state-shared revenue from sales tax, $382,351 in county sales tax distributions from the State Treasurer, $86,621 from the State of Arizona for Emergency Services Funding, $40,250 in state motor vehicle license taxes from the Arizona Department of Transportation, $7,504 in Justice of the Peace salary reimbursement from the State of Arizona, and $6,900 in prisoner detention fees from the U.S. Department of Justice recorded in the General Fund; $212,752 in state-shared revenue from highway user taxes and $30,656 in state motor vehicle license taxes from the Arizona Department of Transportation, recorded in the Highway Road Fund; $43,729 in health grants from the Arizona Department of Health Services, $14,843 in jail enhancement funding, $11,465 in homeland security grants from the Arizona Department of Homeland Security, $12,791 in waste tire funds from the State Treasurer, and $8,390 for Bulletproof Vest reimbursement from the Department of Justice recorded in the other governmental funds.

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014 (as restated)	Increases	Decreases	Balance June 30, 2015
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,803,060			$ 2,803,060
Construction in progress	558,823	$ 169,282	$145,618	582,487
Total capital assets not being depreciated	3,361,883	169,282	145,618	3,385,547
Capital assets being depreciated:				
Buildings	15,001,639	87,201	11,709	15,077,131
Machinery and equipment	13,528,470	830,016	470,874	13,887,612
Infrastructure	32,686,419	206,963		32,893,382
Total of assets being depreciated	61,216,528	1,124,180	482,583	61,858,125
Less accumulated depreciation for:				
Buildings	6,630,116	363,371	11,709	6,981,778
Machinery and equipment	11,010,615	795,463	471,333	11,334,745
Infrastructure	10,521,699	819,486		11,341,185
Total	28,162,430	1,978,320	483,042	29,657,708
Total capital assets being depreciated, net	33,054,098	(854,140)	(459)	32,200,417
Governmental activities capital assets, net	$36,415,981	$ (684,858)	$145,159	$35,585,964

The July 1, 2014, balances were restated for prior period corrections to include an infrastructure asset.

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 336,091
Public safety	359,690
Highways and streets	1,006,862
Health	54,462
Culture and recreation	117,852
Education	103,363
Total governmental activities depreciation expense	$1,978,320

As of June 30, 2015, the County was involved in only one significant construction project, the Eighth Avenue and Airport Road intersection project. Currently, the design/concept report is approximately 30 percent complete. Due to delays from ADOT stemming from differences with the design firm, no progress was made in fiscal year 2015. The estimated construction costs are $2,691,0184, of which the County's estimated share is $26,018. The remaining amounts will be paid from federal grants.

Note 6 - Short-Term Loans

The County maintains a line of credit with Wells Fargo Bank to cover timing differences in the receipt of revenue and the payment of obligations during the year. At June 30, 2015, the County had an outstanding balance of $0. The activity for the year ended June 30, 2015, was as follows:

	Fiscal year 2015
Beginning balance	$ 0
Total borrowings	5,049,334
Total payments	5,049,334
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, 2015:

Governmental activities	Balance July 1, 2014 (as restated)	Additions	Reductions	Balance June 30, 2015	Due within 1 year
Compensated absences payable	$ 1,198,410	$ 803,662	$ 719,487	$ 1,282,585	$ 897,810
Capital leases payable	1,087,614		216,736	870,878	134,874
Net pension liability	19,704,730	4,153,724	1,221,537	22,636,917	
Landfill closure and post-closure care costs payable	78,326	707	1,960	77,073	1,960
Total governmental activities long-term liabilities	$22,069,080	$4,958,093	$2,159,720	$24,867,453	$1,034,644

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 assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Equipment	$971,636
Building	417,288
Less: accumulated depreciation	566,222
Carrying value	$822,702

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2015:

	Governmental Activities
Year ending June 30	
2016	$ 175,624
2017	175,625
2018	557,835
Total minimum lease payments	909,084
Less amount representing interest	38,206
Present value of net minimum lease payments	$870,878

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 $77,073 reported as landfill postclosure care costs payable at June 30, 2015, is based on what it would cost to perform all remaining postclosure care in fiscal year 2015. 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.

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

Compensated Absences—Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2015, the County paid for compensated absences as follows: 75 percent from General Fund, 8 percent from the Highway Road Fund, and 17 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, 2015, were as follows:

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:				
Nonspendable:				
Inventories		$ 432,899		$ 432,899
Total nonspendable		432,899		432,899
Restricted for:				
Social services			$ 403,222	403,222
Law enforcement			369,114	369,114
Highways and streets		2,805,331		2,805,331
Sanitation			1	1
Health			24,665	24,665
Education			66,475	66,475
Capital outlay			1,990	1,990
Total restricted		2,805,331	865,467	3,670,798

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Committed to:				
General government			$ 156,176	$ 156,176
Highways and streets			270,812	270,812
Education			2,080	2,080
Total committed			429,069	429,069
Assigned to:				
Social services			450,675	450,675
Law enforcement	$ 142,716		305,662	448,368
Health			92,565	92,565
Culture and recreation			253,863	253,863
Education			929,975	929,975
Capital outlay			28,124	28,124
Total assigned	142,716		2,060,853	2,203,569
Unassigned:	2,204,237			2,204,237
Total fund balances	$2,346,953	$3,238,230	$3,355,389	$8,940,572

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 three 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 11 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 is a public entity risk pool currently composed of six member counties. The pool provides member counties with health, prescription, dental, vision, life, short-term disability and accidental death benefits for the counties' employees and their dependents. 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.

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 and Other Postemployment Benefits

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

At June 30, 2015, the County reported the following aggregate amounts related to pension for all plans to which it contributes:

Statement of Net Position and Statement of Activities	Governmental Activities
Net pension assets	$ 71,744
Net pension liabilities	22,636,917
Deferred outflows of resources	5,044,721
Deferred inflows of resources	2,895,753
Pension expense	4,150,369

The County's accrued payroll and employee benefits includes $70,783 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2015. Also, the County reported $1,443,998 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan Descriptions—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, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its Web site at www.azasrs.gov.

Benefits provided—The ASRS provides retirement, health insurance premium supplement, long-term disability, 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 earnings. 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 survivor benefit is determined by the retirement benefit option chosen. 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, 2015, active ASRS members were required by statute to contribute at the actuarially determined rate of 11.6 percent (11.48 percent for retirement and 0.12 percent for long-term disability) of the members' annual covered payroll, and the County was required by statute to contribute at the actuarially determined rate of 11.6 percent (10.89 percent for retirement, 0.59 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members' annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.57 percent (9.31 percent for retirement, 0.20 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the County in positions that would typically be filled by an employee who contributes to ASRS. The County's contributions to the pension plan for the year ended June 30, 2015, were $743,150. The County's contributions for the current and 2 preceding years for OPEB, all of which were equal to the required contributions, were as follows:

ASRS

Year ended June 30	Health Benefit Supplement Fund	Long-Term Disability Fund
2015	$39,722	$ 8,071
2014	34,880	13,952
2013	36,611	13,518

During fiscal year 2015, the County paid for ASRS pension and OPEB contributions as follows: 66.6 percent from the General Fund, 15.2 percent from the Highway Fund, and 18.2 percent from other funds.

Pension liability—At June 30, 2015, the County reported a liability of $10,607,990 for its proportionate share of the ASRS' net pension liability. The net pension liability was measured as of June 30, 2014. 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, 2013, to the measurement date of June 30, 2014. 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, 2014. The County's proportion measured as of June 30, 2014, was 0.071692 percent, which was an increase of 0.000742 from its proportion measured as of June 30, 2013.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2015, the County recognized pension expense for ASRS of $735,122. At June 30, 2015, 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	$ 539,129	
Net difference between projected and actual earnings on pension plan investments		$1,855,009
Changes in proportion and differences between county contributions and proportionate share of contributions	127,823	42,582
County contributions subsequent to the measurement date	743,150	
Total	$1,410,102	$1,897,591

The $1,410,102 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, 2016. 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	
2016	$(192,287)
2017	(192,287)
2018	(382,313)
2019	(463,752)

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

ASRS	
Actuarial valuation date	June 30, 2013
Actuarial roll forward date	June 30, 2014
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, 2013, 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 8.79 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 Real Rate of Return
Equity	63%	7.03%
Fixed income	25%	3.20%
Real estate	8%	4.75%
Commodities	4%	4.50%
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 8.79 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	$13,407,954	$10,607,990	$9,088,868

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 an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined health insurance premium benefit (OPEB) plan (agent plans). A seven-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.

County detention officers, county dispatchers, and Administrative Office of the Courts (AOC) probation, surveillance, and juvenile detention officers participate in the Correction Officer Retirement Plan (CORP). The CORP administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined health insurance premium benefit (OPEB) plan for county detention officers and dispatchers (agent plans), and a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for AOC officers (cost-sharing plans). 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 and CORP issue publicly available financial reports that include their financial statements and required supplementary information. The reports are available on the PSPRS Web site at www.psprs.com.

Benefits provided—The PSPRS and CORP provides retirement, a health insurance premium supplement, 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**
Years of service and age required to receive benefit	20 years any age 15 years age 62	25 years 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%	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:** **Before January 1, 2012**	**On or after January 1, 2012**
Retirement and Disability		
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 or normal retirement, whichever is greater	
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 based on excess investment earning. 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, 2015, 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	6	4	0
Inactive employees entitled to but not yet receiving benefits	5	9	3
Active employees	17	38	6
Total	28	51	9

Contributions and annual OPEB cost—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 and health insurance premium 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, 2015, are indicated below. Rates are a percentage of active members' annual covered payroll.

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Active members—Pension	11.05%	8.41%	7.96%	8.41%
County				
Pension	20.73	7.70	5.82	14.88
Health insurance premium benefit	1.44	0.69	0.63	1.24

In addition, the County was required by statute to contribute at the actuarially determined rate of 19.65 percent for the PSPRS and 7.34 percent for the CORP of annual covered payroll of retired members who worked for the County in positions that would typically be filled by an employee who contributes to PSPRS or CORP.

For the agent plans, the County's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2015, were:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Pension				
Contributions made	$193,270	$74,587	$10,664	$218,876
Health Insurance Premium Benefit				
Annual OPEB cost	12,655	6,357	1,154	18,076
Contributions made	12,655	6,357	1,154	18,076

Contributions to the CORP AOC pension plan for the year ended June 30, 2015 were $218,876. The County's contributions for the current and 2 preceding years for the CORP AOC OPEB, all of which were equal to the required contributions, were as follows:

CORP AOC Year ended June 30	Health Insurance Fund
2015	$18,076
2014	15,111
2013	17,965

During fiscal year 2015, the County paid for PSPRS and CORP pension and OPEB contributions as follows: 74.28 percent from the General Fund and 25.72 percent from other funds.

Pension liability (asset)—At June 30, 2015, the County reported the following net pension liabilities (and asset):

	Net Pension Liability (Asset)
PSPRS Sheriff	$2,496,241
CORP Detention	450,565
CORP Dispatchers	(71,744)
CORP AOC (County's proportionate share)	2,765,040

The net pension liabilities (and asset) were measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The total pension liabilities as of June 30, 2014, reflect the following changes of benefit terms and actuarial assumptions.

- In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, the plans changed benefit terms to reflect the prior mechanism for funding permanent benefit increase and revised actuarial assumptions to explicitly value future permanent benefit increases.

- The wage growth actuarial assumption was decreased from 4.5 percent to 4.0 percent.

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

PSPRS and CORP-Pension	
Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Discount rate	7.85%
Projected salary increases	4.0%-8.0% for PSPRS and 4.0%-7.25% for CORP
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.85 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. 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 Real Rate of Return
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	100%	

Pension discount rates—The following discount rates were used to measure the total pension liabilities:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Discount rates	7.85%	7.85%	7.85%	7.85%

The projection of cash flows used to determine the PSPRS and CORP discount rates 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 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.

Changes in the Net Pension Liability (Asset)

PSPRS-Sheriff

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	$5,183,219	$2,988,661	$2,194,558
Changes for the year:			
Service cost	192,299		192,299
Interest on the total pension liability	407,274		407,274
Changes of benefit terms	108,018		108,018
Differences between expected and actual experience in the measurement of the pension liability	(396,687)		(396,687)
Changes of assumptions or other inputs	606,963		606,963
Contributions—employer		195,845	(195,845)
Contributions—employee		98,297	(98,297)
Net investment income		414,968	(414,968)
Benefit payments, including refunds of employee contributions	(182,340)	(182,340)	
Administrative expense		(3,342)	3,342
Other changes		(89,584)	89,584
Net changes	735,527	433,844	301,683
Balances at June 30, 2015	$5,918,746	$3,422,505	$2,496,241

CORP-Detention

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	$2,228,882	$1,743,788	$ 485,094
Changes for the year:			
Service cost	159,853		159,853
Interest on the total pension liability	169,277		169,277
Changes of benefit terms	37,587		37,587
Differences between expected and actual experience in the measurement of the pension liability	(171,643)		(171,643)
Changes of assumptions or other inputs	196,121		196,121
Contributions—employer		104,148	(104,148)
Contributions—employee		93,360	(93,360)
Net investment income		230,025	(230,025)
Benefit payments, including refunds of employee contributions	(304,826)	(304,826)	
Administrative expense		(1,809)	1,809
Net changes	86,369	120,898	(34,529)
Balances at June 30, 2015	$2,315,251	$1,864,686	$ 450,565

CORP-Dispatchers

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension (Asset) (a) – (b)**
Balances at June 30, 2014	$386,939	$408,984	$(22,045)
Changes for the year:			
Service cost	34,365		34,365
Interest on the total pension liability	31,045		31,045
Changes of benefit terms			
Differences between expected and actual experience in the measurement of the pension liability	(29,030)		(29,030)
Changes of assumptions or other inputs	1,695		1,695
Contributions—employer		14,898	(14,898)
Contributions—employee		16,679	(16,679)
Net investment income		56,641	(56,641)
Benefit payments, including refunds of employee contributions	(17,295)	(17,295)	
Administrative expense		(444)	444
Net changes	20,780	70,479	(49,699)
Balances at June 30, 2015	$407,719	$479,463	$(71,744)

The County's proportion of the CORP AOC net pension liability as of June 30, 2013 and 2014, 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, 2014. The County's proportion measured as of June 30, 2013 and 2014, was 1.232231 percent.

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 rates noted above, 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 or 1 percentage point higher than the current rate:

	1% Decrease	**Current Discount Rate**	**1% Increase**
PSPRS Sheriff			
Rate	6.85%	7.85%	8.85%
Net pension liability	$3,265,926	$2,496,241	$1,864,967
CORP Detention			
Rate	6.85%	7.85%	8.85%
Net pension liability	$ 746,563	$ 450,565	$ 208,521
CORP Dispatchers			
Rate	6.85%	7.85%	8.85%
Net pension asset	$ 16,860	$ (71,744)	$ (141,963)
CORP AOC			
Rate	6.85%	7.85%	8.85%
County's proportionate share of the net pension liability	$3,651,171	$2,765,040	$2,028,784

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, 2015, the County recognized the following pension expense:

	Pension Expense
PSPRS Sheriff	$465,713
CORP Detention	125,244
CORP Dispatchers	7,725
CORP AOC (County's proportionate share)	369,996

Pension deferred outflows/inflows of resources—At June 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS-Sheriff	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$321,123
Changes of assumptions or other inputs	$491,344	
Net difference between projected and actual earnings on pension plan investments		138,406
County contributions subsequent to the measurement date	193,270	
Total	$684,614	$459,529

CORP-Detention	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$145,431
Changes of assumptions or other inputs	$166,171	
Net difference between projected and actual earnings on pension plan investments		76,365
County contributions subsequent to the measurement date	74,587	
Total	$240,758	$221,796

CORP-Dispatchers	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience		$25,194
Changes of assumptions or other inputs	$ 1,471	
Net difference between projected and actual earnings on pension plan investments		18,803
County contributions subsequent to the measurement date	10,664	
Total	$12,135	$43,997

CORP-AOC	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$131,249	
Changes of assumptions or other inputs	406,229	
Net difference between projected and actual earnings on pension plan investments		$153,073
County contributions subsequent to the measurement date	218,876	
Total	$756,354	$153,073

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 (or an increase of the net pension asset) in the year ending June 30, 2016. 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				
2016	$ 6,122	($14,991)	($8,224)	$79,095
2017	6,122	(14,991)	(8,224)	79,095
2018	6,122	(14,991)	(8,224)	79,095
2019	6,122	(14,991)	(8,224)	79,095
2020	10,001	3,738	(3,612)	68,024
Thereafter		2,048	(5,663)	

Agent plan OPEB actuarial assumptions—The health insurance premium benefit contribution requirements for the year ended June 30, 2015, were established by the June 30, 2013, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on (1) the plans as the County and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS and CORP plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2015 contribution requirements:

PSPRS and CORP-OPEB Contribution Requirements	
Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.5%-8.5% for PSPRS and 4.5%-7.75% for CORP
Wage growth	4.5% for PSPRS and CORP

Agent plan OPEB trend information—Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows for each of the agent plans:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
PSPRS Sheriff			
2015	$12,655	100%	$0
2014	11,987	100	0
2013	15,738	100	0

Year Ended June 30	Annual OPEB Cost	Percentage of Annual Cost Contributed	Net OPEB Obligation
CORP Detention			
2015	$ 6,357	100%	$0
2014	8,329	100	0
2013	8,388	100	0
CORP Dispatchers			
2015	$ 1,154	100%	$0
2014	1,364	100	0
2013	2,048	100	0

Agent plan OPEB funded status—The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2015, along with the actuarial assumptions and methods used in those valuations follow:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers
Actuarial value of assets (a)	$219,330	$ 68,249	$17,053
Actuarial accrued liability (b)	189,883	64,395	15,793
Funding excess (b) – (a)	(29,447)	(3,854)	(1,260)
Funded ratio (a)/(b)	115.51%	105.98%	107.98%
Annual covered payroll (c)	$810,650	$1,257,699	$183,228
Funding excess as a percentage of covered payroll (b) – (a) / (c)	(3.6%)	(0.3%)	(0.7%)

The actuarial methods and assumptions used are the same for all the PSPRS and CORP health insurance premium benefit plans (unless noted), and for the most recent valuation date are as follows:

PSPRS and CORP-OPEB Funded Status	
Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%-8% for PSPRS and 4%-7.25% for CORP
Wage growth	4% for PSPRS and CORP

C. Elected Officials Retirement Plan

Plan description—Elected officials and judges participate in the Elected Officials Retirement Plan (EORP). EORP administers a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) 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 EORP issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on the PSPRS's Web site at www.psprs.com.

Benefits provided—The EORP provides retirement, health insurance premium supplement, 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	**Retirement** **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 percent for each month of early retirement precedes the member's normal retirement age, with a maximum reduction of 30 percent.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning.

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 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, 2015, active EORP members were required by statute to contribute 13 percent of the members' annual covered payroll, and the County was required to contribute 23.5 percent of active EORP members' annual covered payroll. The County's contributions to the pension plan for the year ended June 30, 2015, were $203,451. No OPEB contributions were required or made for the year ended June 30, 2015. The County's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

EORP	**Health Insurance Fund**
Year ended June 30	
2015	$ 0
2014	14,159
2013	15,422

During fiscal year 2015, the County paid for EORP pension contributions: 100 percent from the General Fund.

Pension liability—At June 30, 2015, 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	$6,317,081
State's proportionate share of the EORP net pension liability associated with the County	1,935,486
Total	$8,252,567

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. In February 2014, the Arizona Supreme Court affirmed a Superior Court ruling that a 2011 law that changed the mechanism for funding permanent benefit increases was unconstitutional. As a result, for the June 30, 2014, actuarial valuation, the plan changed benefit terms to reflect the prior mechanism for funding permanent benefit increase and revised actuarial assumptions to explicitly value future permanent benefit increases.

The County's proportion of the net pension liability as of June 30, 2013 and 2014, 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, 2014. The County's proportion measured as of June 30, 2013 and 2014, was 0.9420437 percent.

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2015, the County recognized pension expense for EORP of $2,446,569 and revenue of $574,112 for the County's proportionate share of the State's appropriation to EORP. At June 30, 2015, 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	$ 27,757	
Changes of assumptions or other inputs	1,709,550	
Net difference between projected and actual earnings on pension plan investments		$119,767
County contributions subsequent to the measurement date	203,451	
Total	$1,940,758	$119,767

The $203,451 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, 2016. 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	
2016	$970,581
2017	706,843
2018	(29,942)
2019	(29,942)

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

EORP

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.25%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.85 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. 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 Real Rate of Return
Short term investments	2%	3.25%
Absolute return	4%	6.75%
Risk parity	4%	6.04%
Fixed income	7%	4.75%
Real assets	8%	5.96%
GTAA	10%	5.73%
Private equity	11%	9.50%
Real estate	11%	6.50%
Credit opportunities	13%	8.00%
Non-U.S. equity	14%	8.63%
U.S. equity	16%	7.60%
Total	100%	

Discount Rate—At June 30, 2014, the discount rate used to measure the EORP total pension liability was 5.67 percent, which was a decrease of 2.18 from the discount rate used as of June 30, 2013. 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 contributors 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 7.85 percent was applied to periods of projected benefit payments through the year ended June 30, 2030. A municipal bond rate of 4.29 percent obtained from the 20-year Bond Buyer index, as published by the Federal Reserve as of June 30, 2014, was applied to periods of projected benefit payments after June 30, 2030.

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 5.67 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 (4.67 percent) or 1 percentage point higher (6.67 percent) than the current rate:

EORP	1% Decrease (4.67%)	Current Discount Rate (5.67%)	1% Increase (6.67%)
County's proportionate share of the net pension liability	$7,374,665	$6,317,081	$5,424.119

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

Note 11 - Interfund Activity

Interfund transfers—Interfund transfers for the year ended June 30, 2015, were as follows:

	Transfer to		
Transfer from	General Fund	Other Governmental Funds	Total
General Fund		$493,080	$493,080
Highway Fund		29,545	29,545
Other Governmental Funds	$54,167	54,507	108,674
Total	$54,167	$577,132	$631,299

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. $477,340, which represents the majority of the $493,080 transfer from General Fund to Other Governmental Funds, was to clear a deficit balance from County Racing, which ceased to operate in Graham County in 2010.

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, $1,462 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 $630,108 of deposits and $62,232 of investments in the State Treasurer's investment pools. 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 7	$14,331,181	None stated	None stated	$14,331,181
State Treasurer's investment pool 5	3,112,453	None stated	None stated	3,112,453
Negotiable certificates of deposit	8,607,000	.50-2.00%	7/15 – 2/18	8,640,989
U.S. agency securities	7,000,000	.54-1.14%	9/16 – 12/17	7,004,600
	$33,050,634			$33,089,223

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

Statement of Net Position	
Assets	$ 49,751,285
Net position	$ 49,751,285
Net position held in trust for:	
Internal participants	$ 8,158,044
External participants	41,593,241
Total net position held in trust	$ 49,751,285

Statement of Changes in Net Position	
Total additions	$ 96,076,971
Total deductions	102,422,304
Net increase (decrease)	(6,345,333)
Net position held in trust:	
July 1, 2014	56,096,618
June 30, 2015	$ 49,751,285

Note 13 - Subsequent Event

On November 4, 2014, the voters of Graham County approved the establishment of the Graham County Jail District and authorized the establishment of an excise tax to support the Jail District. This will result in the equivalent of a half-cent per dollar sales tax increase. The sales tax is authorized for 25 years, with collections beginning July 1, 2015. The tax will provide revenue for acquiring, constructing, operating, maintaining, and financing county jail facilities and a county jail system. The estimated annual revenue to be raised from the sales tax will be approximately $2 million.

On September 23, 2015, the Graham County Jail District issued $26,340,000 in pledged revenue obligations to construct a new adult detention facility. Repayment of bonds, including principal and interest, will begin on July 1, 2016, and ends on July 1, 2040.

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Other Required Supplementary Information

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Property taxes	$ 4,858,769	$ 4,858,769	$ 4,660,432	$ (198,337)
County sales taxes	2,000,000	2,000,000	2,128,651	128,651
Licenses and permits	57,000	57,000	52,228	(4,772)
Intergovernmental	10,194,470	10,194,470	8,779,701	(1,414,769)
Charges for services	1,847,804	1,847,804	1,778,179	(69,625)
Fines and forfeits	220,000	220,000	211,068	(8,932)
Investment income	3,000	3,000	3,423	423
Rents	20,000	20,000	21,545	1,545
Miscellaneous	152,210	152,210	231,805	79,595
Total revenues	19,353,253	19,353,253	17,867,032	(1,486,221)
Expenditures:				
Current				
General government				
Board of supervisors	773,922	773,922	771,723	2,199
Treasurer	317,385	317,385	266,096	51,289
Assessor	585,075	585,075	561,901	23,174
Recorder	255,995	255,995	226,466	29,529
Elections	215,812	215,812	182,960	32,852
Attorney	1,164,803	1,164,803	864,653	300,150
Employment and training	17,131	17,131	53,818	(36,687)
Clerk of the court	529,218	529,218	502,925	26,293
Superior court	971,024	971,024	842,142	128,882
Justice of the peace No.1	356,309	356,309	382,117	(25,808)
Justice of the peace No.2	240,725	240,725	197,171	43,554
Victim witness	13,669	13,669	15,433	(1,764)
Public fiduciary	88,365	88,365	86,607	1,758
Planning and zoning	253,911	253,911	253,257	654
Building maintenance	161,966	161,966	190,623	(28,657)
Electrical Maintenance	8,857	8,857	2,104	6,753
Overtime	12,000	12,000		12,000
General services	323,500	323,500	250,364	73,136
Contingency	870,000	870,000		870,000
Miscellaneous	599,584	599,584	342,007	257,577
Medical examiner	52,000	52,000	33,600	18,400
Information technology	1,385,528	1,385,528	1,079,219	306,309
Total general government	9,196,779	9,196,779	7,105,186	2,091,593

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015
(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Public safety				
Probation	$ 163,309	$ 163,309	$ 158,564	$ 4,745
Sheriff	5,388,711	5,388,711	5,233,824	154,887
Search and rescue	12,000	12,000	19,419	(7,419)
Detention health services	531,117	531,117	441,903	89,214
Juvenile detention center	1,470,456	1,470,456	1,280,180	190,276
Animal shelter	255,638	255,638	216,715	38,923
Total public safety	7,821,231	7,821,231	7,350,605	470,626
Sanitation				
Sanitary landfill	108,500	108,500	99,917	8,583
Health				
Health services	299,838	299,838	297,236	2,602
Welfare				
Attorney for the indigent	538,000	538,000	536,200	1,800
Indigent medical	2,110,000	2,110,000	2,095,819	14,181
Total welfare	2,648,000	2,648,000	2,632,019	15,981
Cultural and recreation				
Parks and recreation	365,403	365,403	317,773	47,630
Education				
School superintendent	215,463	215,463	215,472	(9)
Capital outlay	615,000	615,000	297,555	317,445
Total expenditures	21,270,214	21,270,214	18,315,763	2,954,451
Excess (deficiency) of revenues over expenditures	(1,916,961)	(1,916,961)	(448,731)	1,468,230

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2015
(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Other financing sources (uses):				
Proceeds from sale of capital assets			$ 141	$ 141
Transfers in	$ 65,792	$ 65,792	54,167	(11,625)
Transfers out	75,000	75,000	(493,080)	(568,080)
Total other financing sources and (uses)	140,792	140,792	(438,772)	(579,564)
Net change in fund balances	(1,776,169)	(1,776,169)	(887,503)	888,666
Fund balances, July 1, 2014, as restated	1,785,169	1,785,169	3,234,456	1,449,287
Fund balances, June 30, 2015	$ 9,000	$ 9,000	$ 2,346,953	$ 2,337,953

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
Highway Road Fund
Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	$ 3,564,152	$ 3,564,152	$ 3,525,193	$ (38,959)
Charges for services	120,000	120,000		(120,000)
Investment income	9,000	9,000	10,957	1,957
Rents	1,500	1,500		(1,500)
Miscellaneous	70,000	70,000	17,176	(52,824)
Total revenues	3,764,652	3,764,652	3,553,326	(211,326)
Expenditures:				
Current:				
Highways and streets				
General road	4,963,381	4,963,381	3,008,114	1,955,267
Engineering	388,619	388,619	200,535	188,084
Safety department	23,687	23,687	22,086	1,601
Total highways and streets	5,375,687	5,375,687	3,230,735	2,144,952
Capital outlay	1,047,400	1,047,400	352,105	695,295
Total expenditures	6,423,087	6,423,087	3,582,840	2,840,247
Excess (deficiency) of revenues over expenditures	(2,658,435)	(2,658,435)	(29,514)	2,628,921
Other financing sources:				
Transfers out			29,545	29,545
Total other financing sources			(29,545)	(29,545)
Net change in fund balances	(2,658,435)	(2,658,435)	(59,059)	2,599,376
Fund balances, July 1, 2014	2,658,435	2,658,435	3,350,748	692,313
Changes in nonspendable resources:				
Decrease in inventories			(53,459)	(53,459)
Fund balances, June 30, 2015	$ -	$ -	$ 3,238,230	$ 3,238,230

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, 2015, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	**Excess**
General Fund	
Employment and training	$36,687
Victim witness	1,764
School superintendent	9

These amounts are due to unanticipated expenditures and departments' exceeding the budget. The finance department will continue to work with the departments to improve the accuracy of the budget and budgetary control.

Graham County
Required Supplementary Information
Schedule of the County's Proportionate Share of the Net Pension Liability
Cost-Sharing Pension Plans
June 30, 2015

Arizona State Retirement System	**Reporting Fiscal Year (Measurement Date)**	
	2015 (2014)	**2014 through 2006**
County's proportion of the net pension liability	0.071692%	Information
County's proportionate share of the net pension liability	$10,607,990	Not available
County's covered-employee payroll	$6,492,585	
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	163.39%	
Plan fiduciary net position as a percentage of the total pension liability	69.49%	

Corrections Officer Retirement Plan—Administrative Office of the Courts	**Reporting Fiscal Year (Measurement Date)**	
	2015 (2014)	**2014 through 2006**
County's proportion of the net pension liability	1.232231%	Information
County's proportionate share of the net pension liability	$2,765,040	Not available
County's covered-employee payroll	$1,395,919	
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	198.08%	
Plan fiduciary net position as a percentage of the total pension liability	58.59%	

Elected Officials Retirement Plan	**Reporting Fiscal Year (Measurement Date)**	
	2015 (2014)	**2014 through 2006**
County's proportion of the net pension liability	0.9420437%	Information
County's proportionate share of the net pension liability	$6,317,081	Not available
State's proportionate share of the net pension liability associated with the County	1,936,876	
Total	$8,253,957	
County's covered-employee payroll	$865,822	
County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	729.61%	
Plan fiduciary net position as a percentage of the total pension liability	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, 2015

PSPRS-Sheriff

	Reporting Fiscal Year (Measurement Date)	
	2015 (2014)	**2014 through 2006**
Total pension liability		Information
Service cost	$ 192,299	Not available
Interest on the total pension liability	407,274	
Changes of benefit terms	108,018	
Differences between expected and actual experience in the measurement of pension liability	(396,687)	
Changes of assumptions or other inputs	606,963	
Benefit payments, including refunds of employee contributions	(182,340)	
Net changes in total pension liability	735,527	
Total pension liability—beginning	5,183,219	
Total pension liability—ending (a)	$5,918,746	
Plan fiduciary net position		
Contributions—employer	195,845	
Contributions—employee	98,297	
Net investment income	414,968	
Benefit payments, including refunds of employee contributions	(182,340)	
Administrative expense	(3,342)	
Other changes	(89,584)	
Net changes in plan fiduciary net position	433,844	
Plan fiduciary net position—beginning	2,988,661	
Plan fiduciary net position—ending (b)	$3,422,505	
County's net pension liability—ending (a) – (b)	$2,496,241	
Plan fiduciary net position as a percentage of the total pension liability	57.82%	
Covered-employee payroll	$1,015,971	
County's net pension liability as a percentage of covered-employee payroll	245.70%	

Graham County
Required Supplementary Information
Schedule of Changes in the County's Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2015

CORP-Detention	**Reporting Fiscal Year (Measurement Date)**	
	2015 (2014)	**2014 through 2006**
Total pension liability		Information
Service cost	$ 159,853	Not available
Interest on the total pension liability	169,277	
Changes of benefit terms	37,587	
Differences between expected and actual experience in the measurement of pension liability	(171,643)	
Changes of assumptions or other inputs	196,121	
Benefit payments, including refunds of employee contributions	(304,826)	
Net changes in total pension liability	86,369	
Total pension liability—beginning	2,228,882	
Total pension liability—ending (a)	$2,315,251	
Plan fiduciary net position		
Contributions—employer	104,148	
Contributions—employee	93,360	
Net investment income	230,025	
Benefit payments, including refunds of employee contributions	(304,826)	
Administrative expense	(1,809)	
Net changes in plan fiduciary net position	120,898	
Plan fiduciary net position—beginning	1,743,788	
Plan fiduciary net position—ending (b)	$1,864,686	
County's net pension liability—ending (a) – (b)	$ 450,565	
Plan fiduciary net position as a percentage of the total pension liability	80.54%	
Covered-employee payroll	$1,227,123	
County's net pension liability as a percentage of covered-employee payroll	36.72%	

Graham County
Required Supplementary Information
Schedule of Changes in the County's Net Pension Liability (Asset) and Related Ratios
Agent Pension Plans
June 30, 2015

CORP-Dispatchers	Reporting Fiscal Year (Measurement Date)	
	2015 (2014)	2014 through 2006
Total pension liability		Information
Service cost	$ 34,365	Not available
Interest on the total pension liability	31,045	
Differences between expected and actual experience in the measurement of pension liability	(29,030)	
Changes of assumptions or other inputs	1,695	
Benefit payments, including refunds of employee contributions	(17,295)	
Net changes in total pension liability	20,780	
Total pension liability—beginning	386,939	
Total pension liability—ending (a)	$407,719	
Plan fiduciary net position		
Contributions—employer	14,898	
Contributions—employee	16,679	
Net investment income	56,641	
Benefit payments, including refunds of employee contributions	(17,295)	
Administrative expense	(444)	
Net changes in plan fiduciary net position	70,480	
Plan fiduciary net position—beginning	408,984	
Plan fiduciary net position—ending (b)	$479,463	
County's net pension asset—ending (a) – (b)	$ (71,744)	
Plan fiduciary net position as a percentage of the total pension liability	117.60%	
Covered-employee payroll	$227,697	
County's net pension asset as a percentage of covered-employee payroll	(31.51)%	

Graham County
Required Supplementary Information
Schedule of County Pension Contributions
June 30, 2015

Arizona State Retirement System

	Reporting Fiscal Year		
	2015	**2014**	**2013 through 2006**
Statutorily required contribution	$ 743,150	$ 691,491	Information
County's contributions in relation to statutorily required contribution	743,150	691,491	Not available
County's contribution deficiency (excess)	$ 0	$ 0	
County's covered-employee payroll	$6,896,484	$6,492,585	
County's contributions as a percentage of covered-employee payroll	10.78%	10.65%	

Corrections Officer Retirement Plan—Administrative Office of the Courts

	Reporting Fiscal Year		
	2015	**2014**	**2013 through 2006**
Statutorily required contribution	$ 218,876	$ 191,632	Information
County's contributions in relation to statutorily required contribution	218,876	191,632	Not available
County's contribution deficiency (excess)	$ 0	$ 0	
County's covered-employee payroll	$1,425,612	$1,395,919	
County's contributions as a percentage of covered-employee payroll	15.35%	13.73%	

Elected Officials Retirement Plan

	Reporting Fiscal Year		
	2015	**2014**	**2013 through 2006**
Statutorily required contribution	$203,451	$200,725	Information
County's contributions in relation to statutorily required contribution	203,451	200,725	Not available
County's contribution deficiency (excess)	$ 0	$ 0	
County's covered-employee payroll	$866,869	$865,822	
County's contributions as a percentage of covered-employee payroll	23.47%	23.18%	

See accompanying notes to pension plan schedules.

Graham County
Required Supplementary Information
Schedule of County Pension Contributions
June 30, 2015

PSPRS-Sheriff

	Reporting Fiscal Year		
	2015	**2014**	**2013 through 2006**
Actuarially determined contribution	$193,270	$ 195,845	Information
County's contributions in relation to statutorily required contribution	193,270	195,845	Not available
County's contribution deficiency (excess)	$ 0	$ 0	
County's covered-employee payroll	$955,277	$1,015,971	
County's contributions as a percentage of covered-employee payroll	20.23%	19.28%	

CORP-Detention

	Reporting Fiscal Year		
	2015	**2014**	**2013 through 2006**
Actuarially determined contribution	$ 74,587	$ 104,148	Information
County's contributions in relation to statutorily required contribution	74,587	104,148	Not available
County's contribution deficiency (excess)	$ 0	$ 0	
County's covered-employee payroll	$1,381,253	$1,227,123	
County's contributions as a percentage of covered-employee payroll	5.40%	8.49%	

CORP-Dispatchers

	Reporting Fiscal Year		
	2015	**2014**	**2013 through 2006**
Actuarially determined contribution	$ 10,664	$ 14,898	Information
County's contributions in relation to statutorily required contribution	10,664	14,898	Not available
County's contribution deficiency (excess)	$ 0	$ 0	
County's covered-employee payroll	$193,986	$227,697	
County's contributions as a percentage of covered-employee payroll	5.50%	6.54%	

See accompanying notes to pension plan schedules.

Note 1 – Actuarially Determined Contribution Rates

Actuarial determined contribution rates for PSPRS and CORP are calculated as of June 30, two 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 closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2013 actuarial valuation	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	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 2013 actuarial valuation, wage grown 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)

Graham County
Required Supplementary Information
Schedule of Agent OPEB Plans' Funding Progress
June 30, 2015

Health Insurance Premium Benefit

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
PSPRS Sheriff						
6/30/15	$219,330	$189,883	$ (29,447)	115.5%	$ 810,650	(3.6)%
6/30/14	199,475	172,468	(27,007)	115.7%	884,579	(3.1)%
6/30/13	0	171,853	171,853	0.0%	1,031,637	16.7%
CORP Detention						
6/30/15	68,249	64,395	(3,854)	106.0%	1,257,699	(0.3)%
6/30/14	61,384	62,218	834	98.7%	1,322,239	0.1%
6/30/13	0	73,314	73,314	0.0%	1,120,750	6.5%
CORP Dispatchers						
6/30/15	17,053	15,793	(1,260)	108.0%	183,228	(0.7)%
6/30/14	15,144	15,385	241	98.4%	208,836	0.1%
6/30/13	0	13,750	13,750	0.0%	236,747	5.8%

See accompanying note to schedule of agent OPEB plans' funding progress.

Note 1 - Factors That Affect the Identification of Trends

Beginning in fiscal year 2014, PSPRS and CORP established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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Supplementary Information

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures
Department of Agriculture					
10 555	National School Lunch Program	Child Nutrition Cluster	Arizona Department of Education	None	$ 27,759
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS14-053054	214,143
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster	Arizona State Treasurer	None	512,973
	Total Department of Agriculture				754,875
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	112-12, 117-14	928
Department of the Interior					
15 226	Payments in Lieu of Taxes				2,536,842
Department of Justice					
16 606	State Criminal Alien Assistance Program				789
16 607	Bulletproof Vest Partnership Program				17,906
16 738	Edward Byrne Memorial Justice Assistance Grant Program				23,968
16 738	Edward Byrne Memorial Justice Assistance Grant Program		Arizona Criminal Justice Commission	DC-15-024, DC-15-005	27,107
	Total 16.738				51,075
	Total Department of Justice				69,770
Department of Education					
84 010	Title I Grants to Local Educational Agencies		Arizona Department of Education	S010A040003	12,906
84 013	Title I State Agency Program for Neglected and Delinquent Children and Youth		Arizona Supreme Court	S013A090003	4,470
84 013	Title I State Agency Program for Neglected and Delinquent Children and Youth		Arizona Supreme Court/Greenlee County	S013A090003	22,701
	Total 84.013				27,171
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	H027A050007, 15FESCBG-513185-09A, 15FECCBP-513185-37A	510,971
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Supreme Court	H027A050007, 15FESCBG-513185-09A, 15FESSCG-513189-558, KR13-0133	33,796
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Supreme Court/Greenlee County	H027A050007, 15FESCBG-S13185-09A, 15FESSCG-513189-55B, KR13-0134	7,044
	Total Special Education Cluster (IDEA)				564,717
84 358	Rural Education				11,611
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court/Greenlee	S281A0003	3,111
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court	S281A0003	10,716
	Total 84.367				13,827
	Total Department of Education				617,326

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures
Department of Health and Human Services					
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007888	159,822
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041540	90,160
93 283	Centers for Disease Control and Prevention—Investigations and Technical Assistance		Arizona Department of Health Services	ADHS13-029376	220
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS13-031211	6,509
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS12-020645, ADHS15-078130	35,121
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS13-034537	56,102
	Total Department of Health and Human Services				347,934
Department of Homeland Security					
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2014-EP-000016	113,461
97 067	Homeland Security Grant Program		Arizona Department of Emergency and Military Affairs	130303-01, 130308-01, 140308-01, 140304-01	69,727
	Total Department of Homeland Security				183,188
	Total expenditures of federal awards				$ 4,510,863

See accompanying notes to schedule.

Graham County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Note 1 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards includes Graham County's federal grant activity and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2015 *Catalog of Federal Assistance*.

STATE OF ARIZONA
DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL
OFFICE OF THE
AUDITOR GENERAL
MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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, 2015, 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 30, 2016.

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 were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and 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 2015-04 to be a material weakness.

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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 2015-01, 2015-02, and 2015-03 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Graham County Response to Findings

Graham County's responses to the findings identified in our audit are presented on pages 83 through 85. 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.

Debbie Davenport
Auditor General

March 30, 2016

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2015. 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 the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

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Basis for Adverse Opinion on the Emergency Management Performance Grants

As described in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding the Emergency Management Performance Grants program CFDA No. 97.042, as described in item 2015-101, for the allowable cost/cost principles compliance requirement. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Adverse Opinion on the Emergency Management Performance Grants

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion paragraph, Graham County did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Emergency Management Performance Grants program for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

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 each of its other major federal programs identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2015.

Graham County's response to the noncompliance finding identified in our audit is presented on pages 83 through 85. The County's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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 were not identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2015-101, that we consider to be a material weakness.

Graham County's response to the internal control over compliance finding identified in our audit is presented on pages 83 through 85. The County's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on it.

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Debbie Davenport
Auditor General

March 30, 2016

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Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified	
	Yes	**No**
Internal control over financial reporting:		
Material weaknesses identified?	X	
Significant deficiencies identified?	X	
Noncompliance material to the financial statements noted?		X

Federal Awards

Internal control over major programs:		
Material weakness identified?	X	
Significant deficiency identified?		X (None reported)

Type of auditors' report issued on compliance for major programs:
Unmodified for all major programs except for the Emergency Management Perform Grants (97.042), which was adverse.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.665	Forest Service Schools and Roads Cluster Schools and Roads—Grants to States
15.226	Payments in Lieu of Taxes
97.042	Emergency Management Performance Grants

Dollar threshold used to distinguish between Type A and Type B programs: $300,000

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

	Yes	No
Auditee qualified as low-risk auditee?	___	X

Other Matters

	Yes	No
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X	___

Financial Statement Findings

2015-01

The County should improve access controls over its information technology resources

Criteria: The County should have effective internal control policies and procedures to control access to its information technology (IT) resources, which include its systems, network, infrastructure, and data.

Condition and context: The County did not have adequate policies and procedures in place to limit logical and physical access to its IT resources. Specifically,

- The County did not have adequate policies and procedures for granting, removing, limiting, and changing logical access to its IT resources.
- Terminated employees had access to its network.
- The County had an excessive number of generic and administrator access accounts that various employees could use to gain access.
- Auditors identified inappropriate user access accounts to the County's network that it was not aware of.
- The County did not monitor user activity, including remote users and those users with elevated access on its IT resources.
- The County lacked written policies and procedures to control and monitor access of vendors who require remote access capabilities.
- The County did not have written policies and procedures to restrict access to its data center and periodically review assigned access.
- The County did not have adequate policies and procedures for password protection to its network and systems.

Effect: There is an increased risk that the County may not prevent or detect unauthorized access or use, manipulation, damage, or loss of IT resources, including sensitive and confidential information.

Cause: The County has no one dedicated to ensuring policies and procedures are written and up to date.

Recommendation: To help prevent and detect unauthorized access or use, manipulation, damage, or loss to its IT resources, the County should establish and implement effective access control policies and procedures that include the following:

- Reviewing employees' network and systems access immediately when their job responsibilities change to ensure access granted is compatible with their new job responsibilities.
- Performing a periodic, comprehensive review of all existing employee access accounts to help ensure that network and system access granted is needed and compatible with job responsibilities.
- Removing employees' network access immediately upon their terminations.
- Reviewing all system generic and administrator access accounts to eliminate or minimize their use when possible.

- Reviewing and monitoring the key activity of users, including remote users, and those with elevated access for propriety.
- Granting, removing, limiting, modifying, and monitoring user accounts for vendors who require remote access.
- Restricting data center access to only those employees who need it for their job responsibilities and periodically reviewing access granted to ensure that it continues to be needed.
- Strengthening network and system password policies by increasing the password length, requiring employees to use complex passwords, change passwords on a periodic basis, and by developing a reasonable account lockout threshold for incorrect password attempts.

2015-02

The County should improve its information technology change management processes

Criteria: The County should have adequate change management internal control policies and procedures to track and document changes made to its information technology (IT) resources, which include its systems, network, infrastructure, and data.

Condition and context: The County did not have written policies and procedures for managing changes to its IT resources. In addition, auditors noted that not all changes to its IT resources were documented, assessed for risk, prioritized, reviewed, approved, or tested. Further, the County did not retain records of all changes.

Effect: There is an increased risk that changes to the County's IT resources could be unauthorized or inappropriate, or could have unintended results, without proper documentation, authorization, review, testing, and approval, prior to being applied.

Cause: The County focused its efforts on the day-to-day operations and did not prioritize its IT change management policies and procedures.

Recommendation: To help prevent and detect unauthorized, inappropriate, and unintended changes to its IT resources, the County should develop written policies and procedures for managing changes and improve its change management processes to address the following:

- Establishing a change management process for each type of change, including emergency changes and changes exempt from the change management process.
- Ensuring all changes follow its change management processes and are appropriately documented.
- Reviewing proposed changes to determine appropriateness and justification, considering the security impact for the change.
- Logging, documenting, and retaining records of all change details, including test procedures, results, security impact analysis and approvals.
- Retaining necessary documentation to support the backing out of changes that negatively impact IT resources.

- Testing all changes, including software patches and system and hardware configurations, and performing a security impact analysis before implementing the changes.
- Separating the responsibilities for developing and implementing changes from the responsibilities of authorizing, reviewing, testing, and approving changes implemented.
- Approving the change at each appropriate phase of the change management process and documenting the approvals.
- Reviewing changes that were implemented to confirm they were implemented as approved and followed the change management process.

2015-03

The County should improve its disaster recovery plan and data backup procedures for its information technology resources

Criteria: It is critical that the County have a comprehensive, up-to-date disaster recovery plan and data backup policies and procedures in place to provide for the continuity of operations and to help ensure that vital information technology (IT) resources, which include its systems, network, infrastructure, and data, can be recovered in the event of a disaster, system or equipment failure, or other interruption.

Condition and context: Auditors reviewed the County's disaster recovery processes and determined it lacked certain key elements for restoring operations, specifically:

- The plan lacks detailed IT configuration information for its IT infrastructure and server inventory.
- The County did not perform regularly scheduled, comprehensive tests of its plan; document test results; and update the plan for any problems noted.
- The County did not test its backup data, and it did not have written policies and procedures detailing the data backup procedures, including restoring the systems using the backup data in an emergency.
- The County did not provide regular training of key personnel to ensure staff would be prepared to carry out the plan.

Effect: The County risks not being able to provide for the continuity of operations and recover vital IT resources and data and conduct daily operations in the event of a disaster, system or equipment failure, or other interruption, which could cause inaccurate or incomplete system information and data and expensive recovery efforts.

Cause: The County has some processes in place but lacks a sufficiently documented recovery plan based on current IT standards and best practices to ensure that its disaster recovery efforts and backup data can be relied on in the event that they are needed.

Recommendation: To help ensure the continuity of the County's operations in the event of a disaster, system or equipment failure, or other interruption, the County should:

- Include detailed IT configuration information including the IT infrastructure and server inventory in its disaster recovery plan.

- Develop a process to perform regularly scheduled tests of the disaster recovery plan and document the tests performed and results. This process should include updating and testing the disaster recovery plan at least annually or as changes necessitate, and coordinate testing with other county plans such as its cyber-incident response and emergency response plans. Plan testing may include actual tests, simulations, or table top discussions and should be comprehensive enough to evaluate whether the plan can be successfully carried out. Test results should be used to update or change the plan.
- Establish and document policies and procedures for testing backups of IT systems and data to help ensure that the County could recover them in the event that they are needed. Policies and procedures should require data backups to be protected and stored in an alternative site with security equivalent to the primary storage site. Backups should include user-level information, system-level information, and system documentation, including security-related documentation. In addition, critical information system software and security-related information should be maintained at an alternative site or stored in a fire-rated container.
- Develop and implement an ongoing training schedule for staff responsible for implementing the plan. In addition, ensure training provided is specific to the user's assigned roles and responsibilities.

2015-04

The County should improve security over is information resources

Criteria: To effectively maintain and secure financial and sensitive information, the County should establish internal control policies and procedures that include practices to help prevent, detect, and respond to instances of unauthorized access or use, manipulation, damage, or loss to its information technology (IT) resources, which include its systems, network, infrastructure, and data that are based on acceptable IT industry practices.

Condition and context: The County did not have written policies to help secure its information technology (IT) resources and did not adequately secure its IT resources. Specifically, the County did not:

- Develop a county-wide IT security risk-assessment process that is performed on a periodic basis or at least annually and includes identified risks, documentation of results, review by appropriate personnel, and prioritization of risks for remediation. In addition, any threats identified as part of the County's IT security vulnerability scans should be incorporated into this IT security risk assessment process.
- Identify and categorize data by sensitivity and take appropriate action to protect sensitive information.
- Log and monitor key user and system security activity.
- Require all employees to sign an acceptable use agreement.
- Manage the installation of software on employee workstations. For example, the County had no written policy or guidance to identify what software is appropriate, and there was no process to monitor and detect unauthorized software.
- Establish a process to identify and respond to security incidents and provide training to those involved in the process.
- Have a process in place to ensure its IT resources are configured securely. For example, the County did not limit the functionality of its IT resources to ensure they are performing only essential services.

- Have written policies and procedures to ensure patches are applied to all IT resources. Auditors identified patches that were not installed.
- Provide a security awareness program for its employees to keep personnel up to date on IT security risks, controls, and practices.
- The County did not have policies and procedures in place for media protection to ensure sensitive information is handled appropriately when stored or when transferring location.
- Have a process to identify vulnerabilities in its IT resources on a periodic basis, nor did they have a plan to prioritize and remediate or mitigate identified vulnerabilities.

Effect: There is an increased risk that the County may not prevent or detect unauthorized access or use, manipulation, damage, or loss to its IT resources.

Cause: The County was unaware its policies and procedures lacked critical elements related to IT security and did not evaluate its procedures against current IT standards and best practices.

Recommendation: To help ensure that the County is able to effectively maintain and secure its IT resources, the County should develop written policies and procedures over securing its IT resources and implement those policies. Those policies and procedures should include the following:

- Conducting an IT security risk-assessment process when there are changes to the IT resources, or at least annually that includes identification of risk scenarios that could impact the County, including the scenarios' likelihood and magnitude; documentation and dissemination of results; review by appropriate personnel; and prioritization of risks for remediation. Also, incorporate any threats identified as part of the County's IT security vulnerability scans into the IT security risk-assessment process.
- Identifying, categorizing, and inventorying sensitive information and developing security measures to protect it, such as implementing controls to prevent unauthorized access to the information. In addition, the County's policies and procedures should include the security categories into which the information should be classified as well as the state statutes and federal regulations that impact those categories.
- Performing proactive logging and log monitoring. The County should log key user and system activity, particularly users with administrative access privileges and remote access, along with other activities that could result in potential security incidents such as unauthorized access. The County should determine what events to log, configure the system to generate the logs, and decide how often to monitor these logs for indicators of potential attacks or misuse of IT resources. Also, the County should maintain activity logs where users with administrative access privileges cannot alter them.
- Adopting an official county-wide acceptable use agreement and have employees sign and resign on a periodic basis.
- Managing software installed on employee computer workstations. Policies and procedures should address what software is appropriate and the process for requesting, approving, installing, monitoring, and removing software on employee computer workstations.

- Establishing and documenting a process to identify and respond to security incidents. This process should include developing and testing an incident response plan and training staff responsible for the plan. The plan should define reportable incidents and address steps on how to handle incidents that include preparation, detection and analysis, containment, eradication, and recovery. The plan should also coordinate incident handling activities with contingency-planning activities, and incorporate lessons learned from ongoing incident-handling in the incident response procedures. The incident response plan should be distributed to incident response personnel and updated, as necessary. The incident response process should include provisions for automated incident handling, reporting, and assistance capabilities. Suspected incidents should be reported to individuals responsible for responding so incidents can be tracked and documented. The County should also ensure these policies and procedures follow regulatory and statutory requirements, provide a mechanism for assisting users in handling and reporting security incidents, and include making disclosures to affected individuals and appropriate authorities should an incident occur.
- Implementing a process to configure IT resources securely, including providing only essential capabilities to prevent unauthorized connection of devices or transfer of information. The County should review IT resources' functions and services to determine which functions and services it should eliminate.
- Developing patch-management policies and procedures to ensure patches are evaluated, tested, and applied in a timely manner once the vendor makes them available.
- Developing a plan to provide a security awareness training program for all employees that provides a basic understanding of information security, user actions to maintain security, and how to recognize and report potential indicators of security threats, including threats generated by other county employees. Provide such training for new users and on an ongoing basis as determined by the County.
- Developing media protection policies and procedures to restrict access to media containing data the County, federal regulation, or state statute identifies as sensitive or restricted. Such policies and procedures should require that the County appropriately mark media indicating the distribution limitations and handling caveats given the data included on the media. In addition, the County should physically control and secure such media until it can destroy or sanitize it using sanitization mechanisms with the strength and integrity commensurate with the information's security classification.
- Developing a formal process for vulnerability scans that includes performing IT vulnerability scans on a periodic basis and utilizing tools and techniques to automate parts of the process by using standards for software flaws and improper configuration, formatting procedures to test for the presence of vulnerabilities, and measuring the impact of identified vulnerabilities. In addition, the County should analyze vulnerability scan reports and results, remediate legitimate vulnerabilities as appropriate, and share information obtained from the vulnerability-scanning process with county departments to help eliminate similar vulnerabilities.
- Reviewing its IT policies and procedures against current IT standards and best practices, and updating them where needed, obtaining the proper authorization, and ensuring policies are implemented county-wide, as appropriate.

Federal Award Findings and Questioned Costs

2015-101

CFDA No. and Name:	97.042 **Emergency Management Performance Grants**
Award Number and Years:	EMW-2014-EP-000016, October 1, 2013 through June 30, 2015
Federal Agency:	**U.S. Department of Homeland Security**
Pass-Through Grantor:	Arizona Department of Emergency and Military Affairs
Compliance Requirements:	Allowable Costs/Cost Principles
Questioned Costs:	Unknown

Criteria: In accordance with 2 Code of Federal Regulations §225, Appendix B, Section 8.h., the County should maintain records that certify or confirm on an after-the-fact basis that employee compensation charged to the federal program represents a reasonable distribution of employees' actual time and effort worked on the program.

Condition and context: During the fiscal year, the County charged $113,461 in payroll costs for the ten employees working on the program. Expenditures were charged to the program based on budgeted distribution percentages established in the grant agreement. The County did not require the employees to prepare documents to certify or confirm their compensation represents the actual time spent on the federal program. As a result, the budgeted distribution percentages were not compared to actual costs and revised as necessary to reflect actual time spent working on the program.

Effect: The County did not comply with the cost principles requirements. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding. This finding has the potential to affect other federal programs the County administers.

Cause: The County lacked policies and procedures for certifying or confirming employees' time and effort spent on federal programs.

Recommendation: The County should implement policies and procedures to ensure that salaries and wages charged to the program represent actual costs. In addition, the County should establish policies and procedures for certifying or confirming on an after-the-fact basis employees' time and effort on federal programs.

This finding is similar to prior-year finding 2014-101.

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Graham County Board of Supervisors
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James A. Palmer, Chairman
Drew John, Vice Chairman
Danny Smith, Member

Terry Cooper, County Manager/Clerk

March 14, 2016

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in Government Auditing Standards, and by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting findings and the federal award finding and the names of the contact persons responsible for the corrective action, the corrective action planned, and the anticipated completion date for the financial and federal award findings included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Julie Rodriguez
Chief Financial Officer

Graham County
Corrective Action Plan
Year Ended June 30, 2015

Financial Statement Findings

Finding No.: 2015-01
Contact Person: John Lucas, Information Technology Director
Anticipated completion date: February 11, 2016
Response: Concur

Corrective Action Plan: To help prevent and detect unauthorized access to IT resources and unauthorized access or use, manipulation, damage, or loss to its IT systems, including its network, IT infrastructure, system software, and system information and data, the County will continue its efforts to ensure policies and procedures for IT access are documented in writing and are operational. In addition, the County performed the following.

- Implemented an IT admin policy on October 5, 2015.
- Implemented a password policy on all county owned equipment on February 11, 2016.
- Terminated employees' access was removed July 2015.
- Generic access accounts have either been disabled or locked to specific workstations; unnecessary administrator access accounts have all been removed – completed October 2015.
- VPN accounts have been verified to only necessary users having access to the County's network – completed October 2015.

Finding No.: 2015-02
Contact Person: John Lucas, Information Technology Director
Anticipated completion date: December 30, 2016
Response: Concur

Corrective Action Plan: To help prevent and detect unauthorized, inappropriate, and unintended changes to IT systems, including its network, IT infrastructure, system software, and databases, the County will ensure that policies and procedures for change management are documented in writing and are operational.

Finding No.: 2015-03
Contact Person: John Lucas, Information Technology Director
Anticipated completion date: October 30, 2016
Response: Concur

Corrective Action Plan: The County will continue to improve disaster recovery plan and backup policies and procedures and processes 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. In addition, the County installed a redundant critical server fail over at a location 4 miles from main location on February 22, 2016, and a redundant backup site will be installed in the Phoenix area on April 1, 2016.

Graham County
Corrective Action Plan
Year Ended June 30, 2015

Finding No.: 2015-04
Contact Person: John Lucas, Information Technology Director
Anticipated completion date: December 30, 2016
Response: Concur

Corrective Action Plan: Several points of the recommendation related to policies and procedures are currently being addressed and are expected to be completed over the next year. For the other points, the County will require additional resources to eliminate the deficiencies. Graham County is in the process of assessing available resources to comprehensively address these issues. In addition, all employees signed an acceptable use policy acknowledgement of our Graham County Information Technology Administrative Policy #2-2015, prior to implementation of said policy on February 11, 2016.

Federal Award Findings and Questioned Costs

Finding No.: 2015-101
CFDA No.: 97.042 Emergency Management Performance Grants
Contact Person: Julie Rodriguez, Chief Financial Officer, Judy Dickerson, Deputy Clerk of the Board and Brian Douglas, Deputy Director for Emergency Management
Anticipated completion date: July 1, 2015
Response: Concur

Corrective Action Plan: Graham County had budgeted over $315,000 in EMPG revenues for FY14-15. However, during that fiscal year, the Arizona Department of Emergency Management was in a period of uncertainly and during the issuance of the Audit Finding 2014-101 issued on the FY13-14 audit, we did not believe we would be receiving any funding for that year so our FY2014 audit response was that we had not submitted any requests for reimbursement for the time period beyond June 30, 2014. Late in FY14-15, Graham County was notified by the EMPG Program Coordinator of the Arizona Department of Emergency Management that they would be able to accept grant requests (albeit smaller than initially budgeted) but the turnaround time was extremely short. A decision was made by County management that we needed these funds so we again submitted requests for reimbursement on salaries and wages prior to a change in policy being made. Therefore, FY14-15 has the same issues with employee salary and wages documentation. However, for FY15-16, Graham County has modified its grant requests to a basis of expenditures combining equipment and maintenance and limited employee salaries and wages. Those requested salaries and wages will be backed up by appropriate time sheet documentation. In addition, a separate fund has been established to track EMPG revenues and expenditures.

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Graham County Board of Supervisors
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James A. Palmer, Chairman
Drew John, Vice Chairman
Danny Smith, Member

Terry Cooper, County Manager Clerk

March 14, 2016

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by the U.S. Office of Management and Budget Circular A 133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

Julie Rodriguez
Chief Financial Officer

Status of Federal Award Findings and Questioned Costs

CDBG-State Administered CDBG Cluster:
CFDA No.: 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Finding No.: 2013-102
Status: Fully corrected

CFDA No.: 97.042 Emergency Management Performance Grants
Finding No.: 2014-101
Contact Person: Julie Rodriguez, Chief Financial Officer, Judy Dickerson, Deputy Clerk of the Board and Brian Douglas, Deputy Director for Emergency Management
Status: Not corrected

Graham County had budgeted over $315,000 in EMPG revenues for FY14-15. However, during that fiscal year, the Arizona Department of Emergency Management was in a period of uncertainly and during the issuance of the Audit Finding 2014-101 issued on the FY13-14 audit, we did not believe we would be receiving any funding for that year so our FY2014 audit response was that we had not submitted any requests for reimbursement for the time period beyond June 30, 2014. Late in FY14-15, Graham County was notified by the EMPG Program Coordinator of the Arizona Department of Emergency Management that they would be able to accept grant requests (albeit smaller than initially budgeted) but the turnaround time was extremely short. A decision was made by County management that we needed these funds so we again submitted requests for reimbursement on salaries and wages prior to a change in policy being made. Therefore, FY14-15 has the same issues with employee salary and wages documentation. However, for FY15-16, Graham County has modified its grant requests to a basis of expenditures combining equipment and maintenance and limited employee salaries and wages. Those requested salaries and wages will be backed up by appropriate time sheet documentation. In addition a separate fund has been established to track EMPG revenues and expenditures.

CFDA No.: 97.042 Emergency Management Performance Grants
Finding No.: 2014-102
Contact Person: Julie Rodriguez, Chief Financial Officer, Judy Dickerson, Deputy Clerk of the Board and Brian Douglas, Deputy Director for Emergency Management
Status: Fully corrected

CDBG- State Administered CDBG Cluster:
CFDA No.: 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
Finding No.: 2014-103
Status: Fully corrected