

Graham County, Arizona

Single Audit Reporting Package

June 30, 2003

Graham County  
Single Audit Reporting Package  
June 30, 2003

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**Independent Auditor's Report**

The Auditor General of the State of Arizona

The Board of Supervisors of  
Graham County, Arizona

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, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2003, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended June 30, 2003, to implement a new financial reporting model.

The Management's Discussion and Analysis on pages 3 through 8, the Schedule of Agent Retirement Plan's Funding Progress on page 32, and the Budgetary Comparison Schedules on pages 33 through 36, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management

regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Miller, Allen & Co., P.C.

December 15, 2004

**Graham County**  
Management's Discussion and Analysis  
June 30, 2003

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, 2003. We encourage readers to consider the information presented here in conjunction with the County's financial statements, which begin on page 10.

**Financial Highlights**

- The assets of Graham County exceeded its liabilities at the close of the most recent fiscal year by \$20,846,714 (net assets). Of this amount, \$7,292,027 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balance of \$8,732,751 a decrease of \$147,212 in comparison with the prior period.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,472,090 or 21% of total general fund expenditures.
- Graham County's total debt decreased by a net \$412,760 during the current fiscal year. The key factor in this decrease was the closure of the Central Landfill.

**Overview of the Financial Statements**

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

**Government-wide financial statements** - The 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 assets presents information on all of Graham County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Graham County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements present functions of Graham County that are principally supported by taxes and intergovernmental revenues (governmental activities).

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

The government-wide financial statements can be found on pages 10 - 11 of this report.

**Fund financial statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Graham County, like other state and local governments uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of Graham County can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Graham 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 two funds 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 12 - 15 of this report.

**Fiduciary Funds** - 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 accounting used for fiduciary funds is much like that used for the government-wide financial statements.

The basic fiduciary funds financial statements can be found on pages 16 - 17 of this report.

**Notes to the financial statements** - The notes provide additional information that is essential to 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 18 - 30 of this report.

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**Other information** - In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Graham County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the general fund and major special revenue fund. Required supplementary information can be found on pages 32 - 36 of this report.

**Government-wide Financial Analysis**

As this is the first year of presentation under GASB Statement No. 34, no prior year comparisons are presented. Beginning next year, the County will present comparative amounts between fiscal years.

**Statement of Net Assets** - As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Graham County, assets exceeded liabilities by \$20.8 million at the close of the most recent fiscal year.

<b>Summary Statement of Net Assets</b>	
June 30, 2003 (in millions)	
Governmental Activities	
<hr/>	
Current and other assets	\$ 11.1
Capital assets	13.5
Total assets	<hr/> 24.6 <hr/>
Long-term liabilities outstanding	1.7
Other liabilities	2.1
Total liabilities	<hr/> 3.8 <hr/>
Net assets:	
Invested in capital assets	13.5
Unrestricted	7.3
Total net assets	<hr/> <b>\$ 20.8</b> <hr/>

By far the largest portion of Graham County's net assets (65%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt and accumulated depreciation used to acquire those assets that is still outstanding. Graham County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

At the end of the current fiscal year Graham County is able to report positive balances in both categories of net assets for the government as a whole.

**Statement of Activities** - Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during the most recent fiscal year. A



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chart of changes in net assets follows. For the fiscal year, net assets increased \$1.5 million. The increase in assets in governmental activities is related in large part to construction of assets, rather than accumulation of cash or other liquid assets. 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 construction of those assets.

<b>Changes in Net Assets</b>	
for the Fiscal Year Ended	
June 30, 2003	
(in millions)	
Governmental	
Activities	
<b>Revenues</b>	
Program revenues:	
Charges for services	\$ 3.0
Operating grants and contributions	10.0
Capital grants and contributions	.2
General revenues:	
Property taxes	1.9
Sales taxes	3.6
Vehicle license tax	.6
State shared lottery	.6
Miscellaneous	1.0
<b>Total revenues</b>	<b>20.9</b>
<b>Expenses</b>	
General government	5.3
Public safety	5.5
Highways and streets	2.9
Sanitation	.6
Health	.8
Welfare	1.8
Culture and recreation	.6
Education	1.9
<b>Total expenses</b>	<b>19.4</b>
<b>Increase in net assets</b>	<b>1.5</b>
Net assets, July 1, 2002, as restated	19.3
Net assets, June 30, 2003	<b>\$ 20.8</b>

**Governmental activities**

Governmental activities revenues totaled \$20.9 million for fiscal year 2003. The following are highlights of County revenues:

- State-shared sales tax experienced a slight increase in the year, from \$3.5 million to \$3.6 million. Based upon the Arizona State Department of Revenue projections, it is expected that State-shared sales tax will show a similar increase in fiscal year 2003/04.
- Property taxes increased nominally between fiscal years, which reflects the amounts levied in both fiscal years.

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- Operating grants include income received from the federal government for juvenile and adult inmates which increased by 80% and 43%, respectively, from the prior fiscal year as more federal prisoners were housed in Graham County facilities.

#### Expenses

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

#### **Financial Analysis of the Government'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 Graham 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.

As of the end of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of \$8,732,751, an increase of \$451,106 in comparison with the prior year. However, after applying the prior period adjustment for inclusion of the Hinton School fund the fund balance decreased by \$147,212. There were excess of expenditures over revenues in the Highway Road fund of \$808,966, which was primarily due to an increase in capital outlay for road projects. The remainder of the fund balance is unreserved other than the reserve for inventories of \$232,719.

The general fund is the chief operating fund of Graham County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,472,090. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance to total fund expenditures. Unreserved fund balance represents 21% of total general fund expenditures.

#### **General Fund Budgetary Highlights**

- The \$117,501 variance for the expenditures budgeted for the juvenile detention center was due to a significant increase in the daily average number of detainees for the current fiscal year.
- The \$281,266 variance for expenditures budgeted for sanitary landfill was due to closure costs being budgeted as capital outlay.
- The \$786,795 variance for the expenditures budgeted for contingency was due to very little contingency funds actually required to be spent.
- The \$262,239 variance for the expenditures budgeted for miscellaneous was due to insurance premiums being lower than budgeted and several services not utilized as budgeted.
- The \$1,159,788 variance for the expenditures budgeted for capital outlay was due to the closure of the Central Landfill. Expenditures being treated as fiscal period costs and

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some budgeted expenditures for buildings, data processing equipment and furniture were deferred to future fiscal years.

- The \$1,916,093 variance for the revenues budgeted for intergovernmental revenues was due to payments received from the Federal Government for PILT and Medicaid Program reimbursement which were not budgeted and a significant increase in the average daily Federal juvenile detainees at the juvenile detention center.

**Capital Asset and Debt Administration**

**Capital Assets** - Graham County's investment in capital assets for its governmental activities as of June 30, 2003, amounts to \$13.5 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment. In addition, roads and highways constructed in the fiscal year ended June 30, 2003, or in progress at that date, are included in capital assets. In accordance with GASB Statement No. 34, the County will retroactively value all infrastructure assets back to fiscal year 1981 by June 30, 2007. The total increase in Graham County's investment in capital assets for the current fiscal year was 10%, all of which is attributed to governmental activities.

Additional information on Graham County's capital assets can be found in Note 5 on pages 24-25 of this report.

**Long-term debt** - Graham County's total debt decreased by a net \$412,760 during the current fiscal year due to closure of the Central Landfill.

State statutes limit the amount of general obligation debt a county may issue to 6 percent of its total assessed valuation. The current debt limitation for the County is \$5,818,161. Since the County has no general obligation debt, this amount equals the debt capacity.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Graham County is currently 6.6 percent, which is a decrease from a rate of 6.8 percent a year ago. This compares to the state's average unemployment rate of 4.9 percent and the national average of 5.5 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2003/04 fiscal year. The unreserved ending fund balance in the general fund of \$2,472,090 was appropriated for spending in the 2003/04 fiscal year budget. This use of available fund balance in conjunction with realistic revenue projections and a conservative expenditure plan avoided the need to raise the property tax rate in the 2003/04 fiscal year.

**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 Boulevard, Safford, Arizona 85546.

## Basic Financial Statements

Graham County  
Statement of Net Assets  
June 30, 2003

	Primary Government
	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 9,246,890
Receivables:	
Property taxes	264,427
Accounts	16,315
Due from other governments	1,377,264
Inventories	232,719
Capital assets, not being depreciated	3,008,752
Capital assets, being depreciated, net	10,545,935
	24,692,302
<b>Total assets</b>	<b>24,692,302</b>
 <b>Liabilities</b>	
Accounts payable	525,152
Accrued payroll and employee benefits	199,872
Deposits held for others	28,225
Deferred revenues	1,421,185
Noncurrent liabilities	
Due within one year	1,550,534
Due in more than one year	120,620
	3,845,588
<b>Total liabilities</b>	<b>3,845,588</b>
 <b>Net assets</b>	
Invested in capital assets	13,554,687
Unrestricted net assets	7,292,027
	20,846,714
<b>Total net assets</b>	<b>\$ 20,846,714</b>

See accompanying notes to financial statements.

Graham County  
Statement of Activities  
Year Ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue & Changes in Net Assets
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental activities:					
General government	\$ 5,301,636	\$ 1,287,895	\$ 498,255	\$ 202,493	\$ (3,312,993)
Public safety	5,502,808	319,336	4,890,524		(292,948)
Highways and streets	2,854,280		2,849,510		(4,770)
Sanitation	640,713	82,044	457,554		(101,115)
Health	829,771	8,000	673,495		(148,276)
Welfare	1,800,042				(1,800,042)
Culture and recreation	556,439	64,727			(491,712)
Education	1,913,911	1,245,621	604,195		(64,095)
Total governmental activities	<u>\$ 19,399,600</u>	<u>\$ 3,007,623</u>	<u>\$ 9,973,533</u>	<u>\$ 202,493</u>	<u>\$ (6,215,951)</u>

General revenues:

Property taxes, levied for general purposes	1,976,878
Sales taxes	3,649,427
Vehicle license tax	559,592
State shared lottery	550,035
Interest on investments	163,951
Miscellaneous	832,526
Total general revenues	<u>7,732,409</u>
Change in net assets	1,516,458
Net assets – July 1, 2002, as restated	19,330,256
Net assets – June 30, 2003	<u>\$ 20,846,714</u>

See accompanying notes to financial statements.

Graham County  
Balance Sheet  
Governmental Funds  
June 30, 2003

	General	Highway Road	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 3,386,339	\$ 3,084,326	\$ 2,776,225	\$ 9,246,890
Receivables:				
Property taxes	257,876	-	6,551	264,427
Accounts	-	16,315	-	16,315
Due from:				
Other governments	739,384	240,646	397,234	1,377,264
Inventories	-	232,719	-	232,719
	<b>\$ 4,383,599</b>	<b>\$ 3,574,006</b>	<b>\$ 3,180,010</b>	<b>\$ 11,137,615</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 104,852	\$ 329,535	\$ 90,765	\$ 525,152
Accrued payroll and employee benefits	132,266	18,175	49,431	199,872
Deposits held for others	28,225	-	-	28,225
Deferred revenue	1,646,166	-	5,449	1,651,615
	1,911,509	347,710	145,645	2,404,864
Fund balances:				
Reserved for inventories	-	232,719	-	232,719
General fund	2,472,090	-	-	2,472,090
Special revenue funds	-	2,993,577	2,977,044	5,970,621
Capital projects funds	-	-	57,321	57,321
	2,472,090	3,226,296	3,034,365	8,732,751
	<b>\$ 4,383,599</b>	<b>\$ 3,574,006</b>	<b>\$ 3,180,010</b>	<b>\$ 11,137,615</b>

See accompanying notes to financial statements.

Graham County Funds Balance Sheet  
Reconciliation of the Balance Sheet  
to the Statement of Net Assets  
Governmental Funds  
June 30, 2003

Fund balances – total governmental funds	\$ 8,732,751
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,554,687
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	230,430
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,671,154)</u>
Net assets of governmental activities	<u>\$ 20,846,714</u>

See accompanying notes to financial statements.



Graham County  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2003

	General	Highway Road	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 1,902,896	\$ -	\$ 58,391	\$ 1,961,287
Licenses and permits	11,044	-	-	11,044
Intergovernmental	9,289,460	2,980,415	4,121,717	16,391,592
Charges for services	566,885	15,169	930,761	1,512,815
Fines and forfeits	244,044	-	11,879	255,923
Investment income	(48,436)	128,226	84,161	163,951
Rents	28,500	-	64,742	93,242
Miscellaneous	78,525	108,631	323,457	510,613
<b>Total revenues</b>	<b>12,072,918</b>	<b>3,232,441</b>	<b>5,595,108</b>	<b>20,900,467</b>
<b>Expenditures</b>				
<b>Current:</b>				
General government	4,479,729	-	547,832	5,027,561
Public safety	4,063,106	-	1,179,561	5,242,667
Highways and streets	-	2,543,200	55,561	2,598,761
Sanitation	588,898	-	438,361	1,027,259
Health	184,253	-	596,081	780,334
Welfare	1,800,042	-	-	1,800,042
Culture and recreation	134,736	-	378,157	512,893
Education	140,446	-	1,773,144	1,913,590
Capital outlay	168,672	1,498,207	524,201	2,191,080
<b>Total expenditures</b>	<b>11,559,882</b>	<b>4,041,407</b>	<b>5,492,898</b>	<b>21,094,187</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>513,036</b>	<b>(808,966)</b>	<b>102,210</b>	<b>(193,720)</b>
<b>Other financing sources (uses):</b>				
Transfers in	14,538	-	200,288	214,826
Transfers out	-	-	(214,826)	(214,826)
<b>Total other financing sources (uses)</b>	<b>14,538</b>	<b>-</b>	<b>(14,538)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>527,574</b>	<b>(808,966)</b>	<b>87,672</b>	<b>(193,720)</b>
Fund balances, July 1, 2002, as restated	1,944,516	3,988,754	2,946,693	8,879,963
Increase in reserve for inventories	-	46,508	-	46,508
<b>Fund balances, June 30, 2003</b>	<b>\$ 2,472,090</b>	<b>\$ 3,226,296</b>	<b>\$ 3,034,365</b>	<b>\$ 8,732,751</b>

See accompanying notes to financial statements.

**Graham County**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances to the Statement of Activities**  
**Governmental Funds**  
**Year Ended June 30, 2003**

Net change in fund balances – total governmental funds \$ (193,720)

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	2,191,080	
Depreciation expense	(955,761)	1,235,319

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. 15,591

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(57,983)	
Landfill closure and postclosure care costs	470,743	412,760

Purchases of inventory are reported as expenditures in the governmental funds when purchased. However, in the statement of activities they are reported as an expense when consumed. 46,508

Changes in net assets of governmental activities \$ 1,516,458

See accompanying notes to financial statements.

Graham County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2003

	Investment Trust Fund	Agency Fund
<b>Assets</b>		
Cash and cash equivalents	\$ 30,154,360	\$ 608,544
Accrued interest receivable	13,116	
Total assets	30,167,476	\$ 608,544
<b>Liabilities</b>		
Deposits held for others	-	\$ 608,544
Total liabilities	-	\$ 608,544
<b>Net Assets</b>		
Held in trust for investment participants	\$ 30,167,476	

See accompanying notes to financial statements.

Graham County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2003

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 50,987,416
Investment income	1,512,085
Total additions	52,499,501
Deductions:	
Distributions to participants	76,417,120
Total deductions	76,417,120
Change in net assets	(23,917,619)
Net assets, July 1, 2002, as restated	54,085,095
Net assets, June 30, 2003	\$ 30,167,476

See accompanying notes to financial statements.

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**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Graham County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2003, the County implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model consisting of both government-wide and fund financial statements. The County also implemented GASB Statement No. 38, which prescribes new and revised note disclosures.

**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 in substance in 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 combined financial statements to emphasize they are legally separate from the County. The County has no component units.

**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-based financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the usefulness of the information.

**Government-wide statements**-provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, 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,

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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 good, 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, 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* is used to account for road construction and maintenance of major regional roads, and is funded by Highway User Revenue Funds (HURF).

The County reports the following fund types:

*The investment trust funds* account for pooled assets held and invested by the County Treasurer on behalf of County departments and other governmental entities.

*The agency fund* accounts for assets held by the County as an agent for individuals, the State and various local governments.

**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. 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

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taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund-based 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 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

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

**D. Cash and Investments**

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

**E. Inventories**

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 are offset by a fund balance reserve to indicate that they do not constitute "available spendable resources." These inventories are stated at cost using the first-in, first-out method.

**F. Property Tax Calendar**

The County levies real 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.

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During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

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

**G. Capital Assets**

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

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

	<b>Capitalization Threshold</b>		
Land	\$10,000		
Construction in progress	10,000		
		<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Buildings	\$10,000	Straight-line	40 years
Furniture and equipment	\$1,000	Straight-line	5 -10 years
Vehicles	\$5,000	Straight-line	5 years
Infrastructure	\$10,000	Straight-line	40 years

**H. Investment Income**

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

**I. Compensated Absences**

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

Employees may accumulate up to 160 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at calendar year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.



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Employees may accumulate up to 1500 hours of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. However, for employees with sick leave in excess of 360 hours, sick leave benefits do vest and, therefore, are accrued.

**Note 2 - Beginning Balances Restated**

As a result of implementing GASB Statement No. 34, the County's governmental fund-type fund balances as of June 30, 2002, have been restated as net assets as of July 1, 2002, on the government-wide Statement of Activities. The reconciliation below summarizes the differences between governmental fund-type fund balances as of June 30, 2002, as restated (see Note 13), to net assets as of July 1, 2002, reported on the government-wide Statement of Activities.

Aggregate fund balances of governmental fund types as of June 30, 2002, as restated	\$ 8,879,963
Add: Capital assets, net of accumulated depreciation	12,319,368
Revenues earned but not yet available	214,839
Less: Long-term liabilities	<u>(2,083,914)</u>
Net assets of governmental activities as of July 1, 2002	<u>\$ 19,330,256</u>

**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; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

**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 (see Note 12). Those monies are pooled with County monies for investment purposes.

*Deposits* - The investment pool's deposits at June 30, 2003, were entirely covered by federal depository insurance or by collateral held by the County's custodial bank in the County's name.

*Investments* - The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares.

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The investment pool's investments at June 30, 2003, are categorized below to give an indication of the level of risk assumed by the County at year-end.

Category 1 - Insured or registered in the County's name, or securities held by the County or its agent in the County's name.

Category 2 - Uninsured and unregistered with securities held by the counterparty's trust department or agent in the County's name.

Category 3 - Uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the County's name.

	1	Category 2	3	Fair Value
U.S. government securities	-	\$ 30,132,885	-	\$ 30,132,885
Investments not subject to categorization:				
State Treasurer's investment pool				8,948,135
Total				<u>\$ 39,081,020</u>

**Other Deposits** – The County's nonpooled deposits at June 30, 2003, were entirely covered by federal depository insurance or by collateral held by the County's custodial banks in the County's name.

**Other Investments** – At June 30, 2003, the County's nonpooled investments consisted of the following:

Investments in State Treasurer's investment pools	<u>Fair Value</u>
	<u>\$ 123,768</u>

The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk.

A reconciliation of cash and investments to amounts shown on the Statement of Net Assets as follows.

Cash and investments:

	County Treasurer's Investment Pool	Other	Total
Cash on hand	\$ 123,861	\$ -	\$ 123,861
Carrying amount of deposits	-	681,145	681,145
Reported amount of investments	39,081,020	123,768	39,204,788
Total	<u>\$ 39,204,881</u>	<u>\$ 804,913</u>	<u>\$ 40,009,794</u>

Statement of Net Assets:

	Total Primary Government	Total Fiduciary Funds	Total
Cash and cash equivalents	<u>\$ 9,246,890</u>	<u>\$ 30,762,904</u>	<u>\$ 40,009,794</u>

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June 30, 2003

**Note 4 - Due From Other Governments**

Amounts due from other governments at June 30, 2003, include \$211,436 in state-shared revenue from sales tax, \$108,142 in county excise tax distributions due from the State Treasurer, \$51,899 in state motor vehicle license taxes from the Arizona Department of Transportation, \$329,734 in prisoner detention fees from the U.S. Department of Justice, and \$38,173 in other fees from federal, state, and local governments recorded in the General Fund; \$240,646 in state-shared revenue from highway user taxes Highway Road Funds; \$397,234 in other fees from state and local governments recorded in the Other Governmental Funds.

**Note 5 - Capital Assets**

Capital assets activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002 (as restated)	Additions	Deletions	Balance June 30, 2003
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,444,215	\$ -	\$ -	\$ 2,444,215
Construction in progress (estimated cost to complete \$122,223)	-	564,537	-	564,537
Total capital assets not being depreciated	<u>2,444,215</u>	<u>564,537</u>	<u>-</u>	<u>3,008,752</u>
Capital assets being depreciated:				
Buildings	10,529,630	368,506		10,898,136
Machinery and equipment	5,987,585	809,918	212,244	6,585,259
Infrastructure	-	448,119	-	448,119
Total	<u>16,517,215</u>	<u>1,626,543</u>	<u>212,244</u>	<u>17,931,514</u>
Less accumulated depreciation for:				
Buildings	2,597,980	263,473	-	2,861,453
Machinery and equipment	4,044,082	676,414	212,244	4,508,252
Infrastructure	-	15,874	-	15,874
Total	<u>6,642,062</u>	<u>955,761</u>	<u>212,244</u>	<u>7,385,579</u>
Total capital assets being depreciated, net	<u>9,875,153</u>	<u>670,782</u>	<u>-</u>	<u>10,545,935</u>
Governmental activities capital assets, net	<u>\$ 12,319,368</u>	<u>\$ 1,235,319</u>	<u>\$ -</u>	<u>\$ 13,554,687</u>

Infrastructure assets reported include assets that construction was started and/or completed during the year ended June 30, 2003. Infrastructure assets for which construction was completed prior to June 30, 2002 are not included and will retroactively be added to the County's capital assets listing within the next four years.

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**Notes to Financial Statements**  
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Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 251,203
Public safety	245,490
Highway and streets	375,067
Sanitation	3,452
Health	38,706
Culture and recreation	41,843
Total governmental activities depreciation expense	<u>\$ 955,761</u>

**Note 6 - Long-term Liabilities**

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2003.

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due within 1 year
<b>Governmental activities:</b>					
Compensated absences payable	\$ 460,415	\$ 482,812	\$ 424,829	\$ 518,398	\$ 475,808
Landfill closure and postclosure care costs payable	1,623,499	151,457	622,200	1,152,756	1,074,726
Governmental activities long-term liabilities	<u>\$ 2,083,914</u>	<u>\$ 634,269</u>	<u>\$ 1,047,029</u>	<u>\$ 1,671,154</u>	<u>\$ 1,550,534</u>

**Note 7 - Compensated Absences**

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2003, the County paid for compensated absences as follows: 83 percent from the General Fund, 5 percent from major funds, and 12 percent from other funds.

**Note 8 - Landfill Closure and Postclosure Care Costs**

State and federal laws and regulations require the County to place final covers on its two landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the dates that the landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs in each operating period even though actual payouts will not occur until the landfills are closed. These costs will be paid from the General Fund.

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$1,152,756 reported as landfill closure and postclosure care liability at June 30, 2003, represents the cumulative amount reported to date based on the use of 100 and 41 percent, respectively, of the estimated capacity of the two

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Notes to Financial Statements  
June 30, 2003

landfills. The County will recognize the remaining estimated cost of closure and postclosure care of \$1,546,557 as the remaining estimated capacity is filled. The County closed the Central landfill during the current fiscal year and expects to close the Regional landfill in the year 2019, and the actual cost may be higher due to 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 that assure the County can meet the costs of landfill closure, postclosure, and corrective action when needed. The County is in compliance with these requirements.

**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; but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by three public entity risk pools: the Arizona Counties Insurance Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust, which are described below.

The Arizona Counties Insurance Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and deductibles of \$5,000 per occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$10 million per occurrence for liability claims. A County must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

The Arizona Counties Insurance Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance triennially. Both pools accrue liabilities for losses that have

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Notes to Financial Statements  
June 30, 2003

been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

The County provides health benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust, currently composed of six member counties. The Trust provides benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and may require its employees to contribute a portion of that premium. The County is not liable for claims in excess of coverage limits and cannot be assessed retroactive premium adjustments. If it withdraws from the Trust, the County would be responsible for its proportional share of 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.

**Note 10 - Retirement Plans**

**Plan Descriptions** - The County contributes to three plans, two of which are described below. The Elected Officials Retirement Plan is not described due to its relative insignificance to the County's financial statements. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

ASRS  
3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or (800) 621-3778

PSPRS  
1020 E. Missouri Ave.  
Phoenix, AZ 85014  
(602) 255-5575

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June 30, 2003

**Funding Policy** - The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

*Cost-sharing plan* - For the year ended June 30, 2003, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2003, 2002, and 2001 were \$146,761, \$142,602, and \$132,288, respectively, which were equal to the required contributions for the year.

*Agent plan* - For the year ended June 30, 2003, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 11.33 percent.

**Annual Pension Cost** - The County's pension cost for the PSPRS for the year ended June 30, 2003, and related information follow.

Contribution rates:	
County	11.33%
Plan members	7.65%
Annual pension cost	\$58,592
Contributions made	\$58,592

The current-year annual required contributions for the PSPRS was determined as part of the June 30, 2001, actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2001, was 20 years.

**Trend Information** - Annual pension cost information for the current and two preceding years follows for the agent plan.

<b>Contributions Required and Contributions Made</b>				
<u>Plan</u>	<u>Year Ended</u>	<u>Annual Pension</u>	<u>Percentage of</u>	<u>Net Pension</u>
	<u>June 30</u>	<u>Cost (APC)</u>	<u>APC</u>	<u>Obligation</u>
			<u>Contributed</u>	
PSPRS	2003	\$ 58,592	100%	\$ -0-
	2002	68,797	100%	-0-
	2001	69,471	100%	-0-

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Notes to Financial Statements  
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**Note 11 - Interfund Balances and Activity**

Interfund transfers for the year ended June 30, 2003, were as follows:

	Transfer To		
	General Fund	Nonmajor Governmental Funds	Total
<b>Transfer from</b>			
Nonmajor governmental funds	\$ 14,538	\$ 200,288	\$ 214,826
Total governmental	\$ 14,538	\$ 200,288	\$ 214,826

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

**Note 12 - Condensed Financial Statements of the County Treasurer's Investment Pool**

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County monies under his 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 fair value of investments held by the State Treasurer in the Local Government Investment Pool at June 30, 2003 has been reduced due to a drop in the value of securities held in the NPF XII trust serviced by National Century Financial Enterprises. The total reduction attributable to the County Treasurer's investment pool was \$1,069,096 of which \$950,187, or 89%, represents a reduction in the fair value of investments held in trust for external participants.

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 values of the participants' investments.

Details of each major investment classification follow.

Investment Type	Principal	Interest Rates	Maturities	Fair Value
U.S. government securities	\$29,166,917	1.34 – 6.12%	8/03 – 12/06	\$30,132,885
Investment in State Treasurer's investment pool	8,948,135	1.54 – 1.88%	None stated	8,948,135

A condensed statement of the investment pool's net assets and changes in net assets follows.



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Notes to Financial Statements  
June 30, 2003

**Statement of Net Assets**

Assets	\$ 39,217,780
Liabilities	0
Net assets	<u>\$ 39,217,780</u>
Net assets held in trust for:	
Internal participants	\$ 9,174,289
External participants	30,043,491
Total net assets held in trust	<u>\$ 39,217,780</u>

**Statement of Changes in Net Assets**

Total additions	\$ 66,600,433
Total deductions	70,917,912
Net decrease	<u>(4,317,479)</u>
Net assets held in trust:	
July 1, 2002, as restated	43,535,259
June 30, 2003	<u>\$ 39,217,780</u>

**Note 13 - Restatement of Beginning Fund Balance/Net Assets**

Beginning fund balance of the other governmental funds have been restated to correct for the accumulated net errors of recording, in prior years, the operating activities of special revenue funds within a trust fund.

	Other Governmental Funds	Investment Trust Funds
Fund balance/net assets, June 30, 2002, as previously reported	\$8,281,645	\$54,683,413
Correction of error	598,318	(598,318)
Fund balance/net assets, July 1, 2002, as restated	<u>\$8,879,963</u>	<u>\$54,085,095</u>

**Note 14 - Subsequent Events**

On July 1, 2003, the Regional Landfill's closure and postclosure care costs were assumed by the City of Safford, and operations of the landfill were assigned to Gila Resources, Inc. The Regional Landfill is one of two landfills of the County.

Required Supplemental Information

Graham County  
 Required Supplemental Information  
 Schedule of Agent Retirement Plan's Funding Progress  
 June 30, 2003

**Public Safety Personnel Retirement System**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage Of Covered Payroll ((a-b)/c)
6/30/03	\$ 1,528,000	\$ 1,679,010	\$ (151,010)	91.0%	\$ 596,761	25.3%
6/30/02	1,407,175	1,488,462	(81,287)	94.5%	607,113	13.4%
6/30/01	1,315,876	1,239,251	76,625	106.2%	563,028	-%

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year End June 30, 2003

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property taxes	\$ 1,986,916	\$ 1,986,916	\$ 1,902,896	\$ (84,020)
Licenses and permits	25,000	25,000	11,044	(13,956)
Intergovernmental	7,373,367	7,373,367	9,289,460	1,916,093
Charges for services	704,320	704,320	566,885	(137,435)
Fines and forfeits	350,000	350,000	244,044	(105,956)
Investment income	100,000	100,000	(48,436)	(148,436)
Rents	13,000	13,000	28,500	15,500
Miscellaneous	250,000	250,000	78,525	(171,475)
<b>Total revenues</b>	<b>10,802,603</b>	<b>10,802,603</b>	<b>12,072,918</b>	<b>1,270,315</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General government:</b>				
Board of Supervisors	466,167	466,167	466,166	1
Treasurer	234,837	234,837	221,975	12,862
Assessor	330,143	330,143	306,873	23,270
Recorder	178,997	178,997	171,171	7,826
Elections	115,351	115,351	106,253	9,098
Attorney	515,754	515,754	502,369	13,385
Clerk of the Court	348,830	348,830	349,129	(299)
Superior Court	359,164	359,164	448,129	(88,965)
Justice of the Peace No. 1	226,332	226,332	217,077	9,255
Justice of the Peace No. 2	106,267	106,267	114,506	(8,239)
Victim witness	57,987	57,987	57,354	633
Public Fiduciary	71,157	71,157	70,914	243
Planning and zoning	132,325	132,325	111,869	20,456
Building maintenance	148,377	148,377	146,401	1,976
Electrical maintenance	55,922	55,922	52,194	3,728
Overtime	12,118	12,118	3,110	9,008
General services	230,700	230,700	199,487	31,213
Contingency	830,000	830,000	43,205	786,795
Miscellaneous	642,827	642,827	380,588	262,239
Medical Examiner	21,500	21,500	26,665	(5,165)
Information Technology	546,194	546,194	484,294	61,900
<b>Total general government</b>	<b>5,630,949</b>	<b>5,630,949</b>	<b>4,479,729</b>	<b>1,151,220</b>
<b>Public safety:</b>				
Probation	39,180	39,180	33,190	5,990
Sheriff	2,753,701	2,753,701	2,782,376	(28,675)
Search and rescue	15,100	15,100	13,006	2,094
Juvenile detention center	1,095,670	1,095,670	1,213,171	(117,501)
Animal shelter	-	-	21,363	(21,363)
<b>Total public safety</b>	<b>3,903,651</b>	<b>3,903,651</b>	<b>4,063,106</b>	<b>(159,455)</b>

See accompanying notes to budgetary comparison schedules.

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Sanitation:				
Sanitary landfill	\$ 307,672	\$ 307,672	\$ 588,898	\$ (281,226)
Total sanitation	307,672	307,672	588,898	(281,226)
Health:				
Health services	191,123	191,123	184,253	6,870
Total health	191,123	191,123	184,253	6,870
Welfare:				
Attorney for the indigent	320,000	320,000	266,580	53,420
Indigent medical	1,504,522	1,504,522	1,533,462	(28,940)
Total welfare	1,824,522	1,824,522	1,800,042	24,480
Culture and recreation:				
Parks and recreation	149,838	149,838	134,736	15,102
Total culture and recreation	149,838	149,838	134,736	15,102
Education:				
School superintendent	139,514	139,514	131,498	8,016
Employment and training	9,790	9,790	8,948	842
Total education	149,304	149,304	140,446	8,858
Capital outlay	1,328,460	1,328,460	168,672	1,159,788
Total expenditures	13,485,519	13,485,519	11,559,882	1,925,637
Excess of (deficiency) of revenues over (under) expenditures	(2,682,916)	(2,682,916)	513,036	3,195,952
Other financing sources:				
Transfers in	-	-	14,538	14,538
Net change in fund balances	2,682,916	2,682,916	527,574	3,210,490
Fund balance, July 1, 2002	2,682,916	2,682,916	1,944,516	(738,400)
Fund balance, June 30, 2003	\$ -	\$ -	\$ 2,472,090	\$ 2,472,090

See accompanying notes to budgetary comparison schedules.

Graham County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Highway Road Fund  
 Year End June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 2,943,257	\$ 2,943,257	\$ 2,980,415	\$ 37,158
Charges for services	25,000	25,000	15,169	(9,831)
Investment income	120,000	120,000	128,226	8,226
Miscellaneous	108,000	108,000	108,631	631
Total revenues	<u>3,196,257</u>	<u>3,196,257</u>	<u>3,232,441</u>	<u>36,184</u>
Expenditures:				
Current:				
Highway and streets:				
General road	3,607,585	3,607,585	2,407,021	1,200,564
Engineering	171,452	171,452	113,735	57,717
Safety department	53,694	53,694	22,444	31,250
Total highway and streets	<u>3,832,731</u>	<u>3,832,731</u>	<u>2,543,200</u>	<u>1,289,531</u>
Capital outlay	<u>3,009,749</u>	<u>3,009,749</u>	<u>1,498,207</u>	<u>1,511,542</u>
Total expenditures	<u>6,842,480</u>	<u>6,842,480</u>	<u>4,041,407</u>	<u>2,801,073</u>
Net changes in fund balance	(3,646,223)	(3,646,223)	(808,966)	2,837,257
Fund balance, July 1, 2002	3,646,223	3,646,223	3,988,754	342,531
Increase in reserve for inventories	-	-	46,508	46,508
Fund balance, June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,226,296</u>	<u>\$ 3,226,296</u>

See accompanying notes to budgetary comparison schedules.

Graham County  
 Required Supplementary Information  
 Notes to Budgetary Comparison Schedules  
 Year Ended June 30, 2003

**Note 1 - Budgeting and Budgetary Control**

A.R.S. require the County to prepare and adopt a balanced budget annually for each governmental fund. The Board of Supervisors must approve such operating budgets on or before the third Monday in July to allow sufficient time for the legal announcements and hearings required for the adoption of the property tax levy on the third Monday in August. A.R.S. prohibit expenditures or liabilities in excess of the amounts budgeted.

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval. With the exception of the General Fund, each fund includes only one department.

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

**Note 2 - Expenditures in Excess of Appropriations**

For the year ended June 30, 2003, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) for the general fund in the departments. These over expenditures were funded by greater than anticipated revenues.

<u>Department</u>	<u>Excess</u>
Clerk of the Court	\$ 299
Superior Court	88,965
Justice of the Peace No. 2	8,239
Medical examiner	5,165
Sheriff	28,675
Juvenile detention center	117,501
Animal shelter	21,363
Sanitary landfill	281,226
Indigent medical	28,940

## Supplementary Information



**Graham County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Pass-through programs from:			
Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	261056	\$ 50,323
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	H6361073	<u>129,530</u>
Total Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)			\$ 179,853
Arizona State Treasurer			
Schools and Roads – Grants to States	10.665	None	<u>75,357</u>
Total U.S. Department of Agriculture			<u>255,210</u>
<b>U.S. Department of the Interior</b>			
Direct grants			
Payments in Lieu of Taxes	15.226		<u>1,248,837</u>
<b>U.S. Department of Justice</b>			
Pass-through programs from:			
Arizona Division of Emergency Management			
State and Local Domestic Preparedness Equipment Support Program	16.007	2002-TE-CX-0142	2,472
Arizona Governor's Office of Community Policy			
Juvenile Accountability Incentive Block Grants	16.523	JA-GRA-02-4182-05	15,826
Arizona Criminal Justice Commission			
Byrne Formula Grant Program	16.579	AC-130-03	22,232
Crime Victim Assistance/Discretionary Grants	16.582	VA03021	26,341
Local Law Enforcement Block Grants Program	16.592	LLBG-03-134	1,114
Local Law Enforcement Block Grants Program	16.592	LLBG-02-134	<u>4,800</u>
Total Local Law Enforcement Block Grants Programs			<u>5,914</u>
Total U.S. Department of Justice			<u>72,785</u>
<b>U.S. Department of Labor</b>			
Pass-through programs from:			
Arizona Department of Economic Security			
WIA Cluster:			
WIA Adult Program	17.258	E5702005	119,383
WIA Youth Activities	17.259	E5702005	<u>223,221</u>
Total U.S. Department of Labor			<u>342,604</u>

(Continued)

**Graham County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Transportation</b>			
Pass-through programs from:			
Arizona Emergency Response Commission Interagency Hazardous Material Public Sector Training and Planning Grants	20.703	None	1,450
<b>U.S. Federal Emergency Management Agency</b>			
Pass-through programs from:			
Arizona Department of Emergency and Military Affairs Emergency Management – State and Local Assistance	83.534	None	21,578
<b>U.S. Department of Education</b>			
Direct grants			
Rural Education	84.358		14,915
Passed-through programs from:			
Arizona Department of Education			
Title I Grants to Local Educational Agencies	84.010	SO10A020003	11,484
Title I Program for Neglected and Delinquent Children	84.013	SO13A020003	4,914
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	HO27A000007	2,556
Special Education - Grants to States	84.027	HO27A010007	297,301
Total Special Education - Grants to States			299,857
Special Education - Preschool Grants	84.173	H173A010003	25,723
Total Special Education Cluster (IDEA)			325,580
Safe and Drug-Free Schools and Communities State Grants	84.186	S186A020003	967
Eisenhower Professional Development State Grants	84.281	S281A000003	13,171
Eisenhower Professional Development State Grants	84.281	S281A010003	17,046
Total Eisenhower Professional Development State Grants			30,217
Innovative Education Program Strategies	84.298	S298A020003	951
Education Technology State Grants	84.318	S318X020003	160,656
Education Technology State Grants	84.318	S318X030003	334
Total Education Technology State Grants			160,990
Improving Teacher Quality State Grants	84.367	S367A020003	175
Total U.S. Department of Education			550,193

(Continued)

Graham County  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2003

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
Pass-through programs from:			
Arizona Department of Health Services			
Immunization Grants	93.268	15-2041	41,827
Breast and Cervical Cancer Early Detection	93.919	253014	58,123
Breast and Cervical Cancer Early Detection	93.919	HG361204	<u>10,666</u>
Total Breast and Cervical Cancer Early Detection			68,789
Healthy Start Initiative	93.926	HG361270	2,859
HIV Prevention Activities: Health Department Based	93.940	15-2013	10,119
Maternal and Child Health Services Block Grant to the States	93.994	76-1105	17,821
Maternal and Child Health Services Block Grant to the States	93.994	HG361137	<u>19,814</u>
Total Maternal and Child Health Services Block Grant to the States			37,635
Bioterrorism Grant Training and Curriculum Development Program	93.996	252044	<u>62,145</u>
Total U.S. Department of Health and Human Services			<u>223,374</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,716,031</u></u>

Graham County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2003

**Note 1 - Basis of Accounting**

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

**Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers**

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2003 *Catalog of Federal Domestic Assistance*.

**Note 3 - Subrecipients**

From the federal expenditures presented in the schedule, the County awarded the following monies to a subrecipient.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Education Technology State Grants	84.318	\$ 160,656

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(1931 - 1992)

**Independent Auditor's Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Basic Financial Statements Performed in  
Accordance with *Government Auditing Standards***

The Auditor General of the State of Arizona

The Board of Supervisors of  
Graham County, Arizona

We have audited 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, 2003, which collectively comprise the County's basic financial statements, and have issued our report thereon dated December 15, 2004, which was modified due to the County implementing a new financial reporting model as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of basic 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 03-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, federal awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Miller, Allen & Co., P.C.

December 15, 2004

**MILLER, ALLEN & CO., P.C.**

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(1931 - 1992)

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control over Compliance in  
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of  
Graham County, Arizona

**Compliance**

We have audited the compliance of Graham County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, Graham County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

**Internal Control over Compliance**

The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal

control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Auditor General of the State of Arizona, the Board of Supervisors, federal awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Miller, Allen & Co., P.C.

December 15, 2004



Graham County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2003

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:

**Unqualified**

YES                      NO

Material weakness identified in internal control over financing reporting?

\_\_\_\_\_ X \_\_\_\_\_

Reportable condition identified not considered to be a material weakness?

X \_\_\_\_\_

Noncompliance material to the financial statements noted?

\_\_\_\_\_ X \_\_\_\_\_

**Federal Awards**

Material weakness identified in internal control over major programs?

\_\_\_\_\_ X \_\_\_\_\_

Reportable conditions identified not considered to be material weaknesses?

\_\_\_\_\_ X \_\_\_\_\_  
 (None reported)

Type of auditor's report issued on compliance for major programs:

**Unqualified**

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

\_\_\_\_\_ X \_\_\_\_\_

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.318	Education Technology State Grants
WIA Cluster	
17.258	WIA Adult Program
17.259	WIA Youth Activities
Special Education Cluster (IDEA)	
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X \_\_\_\_\_

**Other Matters**

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (Section .315[b])?

X \_\_\_\_\_

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2003

**Section II - Financial Statement Findings**

**Item: 03-1** (Repeat Finding)

*Subject:* Segregation of Duties

*Condition:* We noted insufficient segregation of duties as evidenced by the following:

- a. The same individual responsible for preparing accounts payable has access to signed checks and also mails them.
- b. The same individual responsible for preparing payroll has access to signed checks, distributes signed checks and receives unclaimed checks.
- c. Individuals responsible for preparing payables and payroll, respectively, have access to the general ledger functions.
- d. The same individual that performs the accounts payable function also maintains the capital assets listing.
- e. The same individual performed all accounting duties of the Public Fiduciary.

*Recommendation:* To help ensure that the assets of the County are properly safeguarded, accounting duties should be segregated. If this is not possible, due to size of available staff, the employee's supervisor or another staff member should review and approve the activity.

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2003

**Section III – Federal Award Findings and Questioned Costs**

No matters reported.

## County Responses

Graham County  
Corrective Action Plan  
Year Ended June 30, 2003

**Financial Statement Findings**

***Item: 03-1***

*Subject:* Segregation of Duties

*Contact Person:* Terry Cooper, Manager/Board Clerk

*Anticipated Completion Date:* Ongoing

*Corrective Action:* The County has reviewed its internal controls and determined that it is not feasible to add additional staff at this time, however, the Finance Director or other administrative personnel will review and monitor employee activity.

Graham County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2003

**Federal Award Findings and Questioned Costs**

***Item: 02-2***

*CFDA Number:* 17.258

*Program:* WIA Adult Program

*Status:* Corrected

*Planned Action:* The County now retains the required documentation.