

Graham County, Arizona

Single Audit Reporting Package

June 30, 2004

Graham County
Single Audit Reporting Package
June 30, 2004

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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, 2004, 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, 2004, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages 3 through 9, the Schedule of Agent Retirement Plan's Funding Progress on page 33, and the Budgetary Comparison Schedules on pages 34 through 37, 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 October 6, 2005, 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, 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* and should be considered in assessing the results of our audit.

Miller, Allen & Co., P.C.

October 6, 2005



GRAHAM COUNTY BOARD OF SUPERVISORS

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Graham County Management Discussion and Analysis June 30, 2004

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, 2004.

Financial Highlights

- The assets of Graham County exceeded its liabilities at the close of the most recent fiscal year by \$23,609,927 (net assets). Of this amount, \$5,024,513 (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 \$6,779,327, a decrease of \$1,953,424 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,236,068 or 18% of total general fund expenditures.
- Graham County's total assets, before restatement of the 2003 balances, increased by \$3,062,069 during the current fiscal year. The key factors in this increase were a combination of increases in capital assets being depreciated and a decrease in cash and cash equivalents. Both changes were the result of major investments in road projects as nearly \$3,000,000 in road improvements were added in this fiscal year. Also a major building was added at the Dan Hinton Accommodation School, built by School Facilities Board funds.

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.

Graham County
Management Discussion and Analysis
June 30, 2004

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).

The governmental activities of Graham County 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 11 - 12 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 two funds considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The basic governmental funds' financial statements can be found on pages 13 - 16 of this report.

Graham County
Management Discussion and Analysis
June 30, 2004

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 proprietary funds.

The basic fiduciary funds financial statements can be found on pages 17 - 18 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 19 - 31 of this report.

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 33 - 37 of this report.

Government-wide Financial Analysis

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 \$23.6 million at the close of the most recent fiscal year.

| | Graham County's Net Assets Governmental Activities (in millions) | |
|-----------------------------------|--|---------------|
| | 2003 | |
| | 2004 | (as restated) |
| Current and other assets | \$ 9.1 | \$ 11.1 |
| Capital assets | 18.6 | 14.1 |
| Total assets | 27.7 | 25.2 |
| Long-term liabilities outstanding | 2.0 | 1.7 |
| Other liabilities | 2.1 | 2.1 |
| Total liabilities | 4.1 | 3.8 |
| Net assets: | | |
| Invest in capital assets | 18.6 | 14.1 |
| Unrestricted | 5.0 | 7.3 |
| Total net assets | \$ 23.6 | \$ 21.4 |

By far the largest portion of Graham County's net asset (78%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment, and infrastructure), less accumulated depreciation. Graham County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Graham County
Management Discussion and Analysis
June 30, 2004

None of Graham County's net assets represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$5 million) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The increase in total net assets, related to governmental activities, is due to primarily to increased investments in capital assets. Current and other assets decreased by \$2 million as a result of budgeted expenditures for capital projects and for road improvement projects. Capital assets increased, primarily by major road improvement projects and building costs. The slight increase in long-term liabilities results from inflation factors related to closure and post-closure costs of landfill sites.

The 2003 balances were restated for a correction of an error in recording capital assets net of accumulated depreciation. Restated balances are unaudited.

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 chart of changes in net assets follows. For the fiscal year, net assets increased \$2.2 million, with all of the increase coming from governmental activities. 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 operation of the County.

Graham County's Changes in Net Assets
(in millions)

| | Governmental Activities | |
|---|----------------------------|-----------------------|
| | 2004 | 2003 (as restated) |
| Revenues | | |
| Program revenues: | | |
| Charges for services | \$ 2.5 | \$ 3.0 |
| Operating grants and contributions | 10.6 | 10.0 |
| Capital Grants and contributions | .4 | .2 |
| General revenues: | | |
| Property taxes | 2.0 | 1.9 |
| Sales taxes | 3.6 | 3.6 |
| Vehicle license tax | .6 | .6 |
| Schools facility board capital contribution | 1.6 | |
| Miscellaneous | 1.6 | 1.6 |
| Total revenues | 22.9 | 20.9 |
| Expenses | | |
| General government | 5.7 | 5.4 |
| Public safety | 6.2 | 5.5 |
| Highways and streets | 2.9 | 2.9 |
| Sanitation | 0.5 | .6 |
| Health | 1.0 | .8 |
| Welfare | 1.8 | 1.8 |

Graham County
Management Discussion and Analysis
June 30, 2004

Graham County's Changes in Net Assets
(in millions)

| | Governmental Activities | |
|--|----------------------------|-----------------------|
| | 2004 | 2003 (as restated) |
| Culture and recreation | .5 | .6 |
| Education | 2.1 | 1.9 |
| Total expenses | <u>20.7</u> | <u>19.5</u> |
| Increase in net assets | <u>2.2</u> | <u>1.4</u> |
| Net assets, beginning of year, as restated | 21.4 | 20.0 |
| Net assets, end of year | <u>\$ 23.6</u> | <u>\$ 21.4</u> |

The 2003 balances were restated for a correction of an error in recording capital assets net of accumulated depreciation. Restated balances are unaudited.

Governmental activities.

Governmental activities revenues totaled \$22.9 million for fiscal year 2004. The following are highlights of County revenues:

- Sales taxes are comprised of state shared-sales tax and a .5% County excise tax. Overall sales tax revenue decreased by \$69 thousand approximately (2%) in the current fiscal year. Both state-shared sales tax, the largest component of sales tax, and the County excise tax experienced decreases in the year of approximately the same percent. Based upon the Arizona State Department of Revenue projections, it is expected that State-shared sales tax will show an increase in fiscal year 2004/05.
- Property taxes increased nominally between fiscal years, which reflects the amounts levied in both fiscal years.
- Operating grants include state-shared highway user revenue (gas tax). This revenue increased to \$868 thousand, a jump of 8.5% over the prior year, which was due primarily to an increase in highway user revenue and an increase in health grants.
- Schools facilities board capital contribution was received for construction of the Dan Hinton School.

Expenses

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services, with the exception of sanitation expenses. This decrease is because fiscal year 2002-2003 includes the closure costs of the Central Landfill and fiscal 2003-2004 includes only normal operation expenses.

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.

Graham County
Management Discussion and Analysis
June 30, 2004

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 \$6,779,327, a decrease of \$1,953,424 in comparison with the prior year. This change is primarily attributable to the decrease in the fund balance of the Highway Road fund. There was an excess of expenditures over revenues in the Highway Road fund of \$2,042,933, which was primarily due to an increase in capital outlay for road projects. The fund balance is unreserved other than the reserve for inventories of \$362,593.

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 \$2,236,068, which was \$236,022 less than the previous fiscal year. The primary reason for this decrease was that expenditures increased at a greater rate than did revenues. Otherwise both revenues and expenditures for the current fiscal year closely followed estimates.

General Fund Budgetary Highlights

The general fund expenditure budget of \$15,192,462 did not change during the year.

The \$274,550 variance for the expenditures budgeted for welfare funds was due to unanticipated savings in payments to attorneys for the indigent and in indigent medical payments.

The \$349,136 variance for the expenditures budgeted for sanitary landfill was due to expenses for the year being much lower than expected.

The \$983,988 variance for the expenditures budgeted for contingency was due to very little contingency funds actually required to be spent.

The \$299,408 variance for the expenditures budgeted for miscellaneous was due to insurance premiums being lower than budgeted and several services not utilized as budgeted.

The \$563,442 variance for the expenditures budgeted for capital outlay was due to efforts to accumulate funds for future projects such as an adult detention facility and matching funds for the eighth avenue bridge.

The \$398,881 variance for the revenues budgeted for intergovernmental revenues was due to payments received from the Federal Government for the Medicaid Program reimbursement which was not budgeted and increases in the average daily Federal juvenile and adult detainees at County facilities.

Graham County
Management Discussion and Analysis
June 30, 2004

Capital Asset and Debt Administration

Capital Assets. Graham County's investment in capital assets for its governmental as of June 30, 2004, was \$18.6 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, and infrastructure. In addition, roads and highways constructed in the fiscal year ended June 30, 2004, 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 32%, all of which is attributed to governmental activities.

Additional information on Graham County's capital assets can be found in Note 5 on page 25.

Long-term liabilities. At the end of the current fiscal year the County had long-term liabilities outstanding of \$1,975,107.

Additional information on the County's long-term liabilities can be found in Notes 6 through 8 to the financial statements on pages 26 – 27.

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 \$6,034,855. 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 6.8 percent, which is a slight increase from a rate of 6.6 percent a year ago. This compares favorably to the state's average unemployment rate of 5.6 percent.

Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2004/05 fiscal year. The unreserved ending fund balance in the general fund of \$2,236,068 was appropriated for spending in the 2004/05 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 general fund property tax rate for the 2004/05 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.

Financial Statements

Graham County
Statement of Net Assets
June 30, 2004

| | <u>Primary Government Governmental Activities</u> |
|--|---|
| Assets | |
| Cash and cash equivalents | \$ 7,547,925 |
| Receivables: | |
| Property taxes | 259,739 |
| Accounts | 10,162 |
| Due from other governments | 988,538 |
| Inventories | 362,593 |
| Capital assets, not being depreciated | 2,698,193 |
| Capital assets, being depreciated, net | 15,887,221 |
| Total assets | 27,754,371 |
| Liabilities | |
| Accounts payable | 390,575 |
| Accrued payroll and employee benefits | 280,508 |
| Deposits held for others | 36,921 |
| Deferred revenue | 1,461,333 |
| Noncurrent liabilities | |
| Due within one year | 417,586 |
| Due in more than one year | 1,557,521 |
| Total liabilities | 4,144,444 |
| Net assets | |
| Invested in capital assets | 18,585,414 |
| Unrestricted | 5,024,513 |
| Total net assets | \$ 23,609,927 |

The notes to the financial statements are an integral part of this statement.

Graham County
Statement of Activities
Year Ended June 30, 2004

| 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 | \$ 5,742,635 | \$ 1,321,015 | \$ 799,098 | | \$ (3,622,522) |
| Public safety | 6,201,603 | 325,110 | 4,731,101 | | (1,145,392) |
| Highways and streets | 2,938,382 | | 3,057,028 | \$ 354,970 | 473,616 |
| Sanitation | 535,219 | 163,925 | 34,687 | | (336,607) |
| Health | 964,177 | 22,000 | 812,768 | | (129,409) |
| Welfare | 1,769,534 | | | | (1,769,534) |
| Culture and recreation | 460,467 | 50,288 | | | (410,179) |
| Education | 2,093,676 | 625,063 | 1,190,969 | | (277,644) |
| Total governmental activities | <u>\$ 20,705,693</u> | <u>\$ 2,507,401</u> | <u>\$ 10,625,651</u> | <u>\$ 354,970</u> | <u>\$ (7,217,671)</u> |
| General revenues: | | | | | |
| Property taxes, levied for general purposes | | | | | 1,996,996 |
| Shared revenues – state sales taxes | | | | | 3,580,188 |
| Shared revenues – state vehicle license tax | | | | | 638,789 |
| Shared revenues – state lottery | | | | | 550,035 |
| School facilities board capital contribution | | | | | 1,646,407 |
| Donated capital assets | | | | | 120,000 |
| Interest on investments | | | | | 218,231 |
| Miscellaneous | | | | | 697,711 |
| Total general revenues | | | | | <u>9,448,357</u> |
| Change in net assets | | | | | 2,230,686 |
| Net assets – July 1, 2003, as restated | | | | | 21,379,241 |
| Net assets – June 30, 2004 | | | | | <u>\$ 23,609,927</u> |

The notes to the financial statements are an integral part of this statement.

Graham County
Balance Sheet
Governmental Funds
June 30, 2004

| | General | Highway Road | Other Governmental Funds | Total Governmental Funds |
|---------------------------------------|---------------------|---------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 3,485,109 | \$ 899,306 | \$ 3,163,510 | \$ 7,547,925 |
| Receivables: | | | | |
| Property taxes | 252,752 | - | 6,987 | 259,739 |
| Accounts | 10,162 | - | - | 10,162 |
| Due from other governments | 507,288 | 277,666 | 203,584 | 988,538 |
| Inventories | - | 362,593 | - | 362,593 |
| | <u>\$ 4,255,311</u> | <u>\$ 1,539,565</u> | <u>\$ 3,374,081</u> | <u>\$ 9,168,957</u> |
| Liabilities | | | | |
| Accounts payable | \$ 121,415 | \$ 203,960 | \$ 65,200 | \$ 390,575 |
| Accrued payroll and employee benefits | 184,799 | 31,144 | 64,565 | 280,508 |
| Deposits held for others | 36,921 | - | - | 36,921 |
| Deferred revenues | 1,676,108 | - | 5,518 | 1,681,626 |
| | <u>2,019,243</u> | <u>235,104</u> | <u>135,283</u> | <u>2,389,630</u> |
| Fund Balances | | | | |
| Reserved for inventories | - | 362,593 | - | 362,593 |
| Unreserved, reported in: | | | | |
| General fund | 2,236,068 | - | - | 2,236,068 |
| Special revenue funds | - | 941,868 | 3,083,743 | 4,025,611 |
| Capital projects funds | - | - | 155,055 | 155,055 |
| | <u>2,236,068</u> | <u>1,304,461</u> | <u>3,238,798</u> | <u>6,779,327</u> |
| Total fund balances | <u>2,236,068</u> | <u>1,304,461</u> | <u>3,238,798</u> | <u>6,779,327</u> |
| Total liabilities and fund balances | <u>\$ 4,255,311</u> | <u>\$ 1,539,565</u> | <u>\$ 3,374,081</u> | <u>\$ 9,168,957</u> |

The notes to the financial statements are an integral part of this statement.

Graham County
Reconciliation of the Balance Sheet
to the Statement of Net Assets
Governmental Funds
June 30, 2004

| | |
|--|----------------------|
| Fund balances – total governmental funds | \$ 6,779,327 |
| 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. | 18,585,414 |
| Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds. | 220,293 |
| Some liabilities, such as compensated absences, and landfill closure and post-closure care cost, are not due and payable in the current period and therefore, are not reported in the funds. | (1,975,107) |
| Net assets of governmental activities | <u>\$ 23,609,927</u> |

The notes to the financial statements are an integral part of this statement.

Graham County
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2004

| | General | Highway Road | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Property taxes | \$ 1,948,063 | \$ - | \$ 59,070 | \$ 2,007,133 |
| Licenses and permits | 11,494 | - | - | 11,494 |
| Intergovernmental | 9,169,821 | 3,175,447 | 4,259,936 | 16,605,204 |
| Charges for services | 552,354 | 13,859 | 1,001,386 | 1,567,599 |
| Fines and forfeits | 239,012 | - | 20,484 | 259,496 |
| Investment income | 55,538 | 87,495 | 75,198 | 218,231 |
| Rents | 15,000 | - | 54,788 | 69,788 |
| Miscellaneous | 52,700 | 93,494 | 294,970 | 441,164 |
| Total revenues | 12,043,982 | 3,370,295 | 5,765,832 | 21,180,109 |
| Expenditures | | | | |
| Current | | | | |
| General government | 4,908,878 | - | 538,008 | 5,446,886 |
| Public safety | 4,536,512 | - | 1,401,648 | 5,938,160 |
| Highways and streets | - | 2,583,168 | 59,836 | 2,643,004 |
| Sanitation | 203,838 | - | 34,553 | 238,391 |
| Health | 202,167 | - | 715,743 | 917,910 |
| Welfare | 1,769,534 | - | - | 1,769,534 |
| Culture and recreation | 141,759 | - | 274,860 | 416,619 |
| Education | 162,104 | - | 1,854,760 | 2,016,864 |
| Capital Outlay | 232,428 | 2,830,060 | 813,551 | 3,876,039 |
| Total expenditures | 12,157,220 | 5,413,228 | 5,692,959 | 23,263,407 |
| Excess (deficiency) of revenues over expenditures | (113,238) | (2,042,933) | 72,873 | (2,083,298) |
| Other financing sources (uses): | | | | |
| Transfers in | 27,216 | - | 158,776 | 185,992 |
| Transfers out | (150,000) | (8,776) | (27,216) | (185,992) |
| Total other financing sources (uses) | (122,784) | (8,776) | 131,560 | - |
| Net change in fund balances | (236,022) | (2,051,709) | 204,433 | (2,083,298) |
| Fund balances, July 1, 2003 | 2,472,090 | 3,226,296 | 3,034,365 | 8,732,751 |
| Increase in reserve for inventories | - | 129,874 | - | 129,874 |
| Fund balances, June 30, 2004 | \$ 2,236,068 | \$ 1,304,461 | \$ 3,238,798 | \$ 6,779,327 |

The notes to the financial statements are an integral part of this statement.

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, 2004

Net change in fund balances – total governmental funds \$ (2,083,298)

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 | 3,876,039 | |
| School Facility Board Capital Contribution | 1,646,407 | |
| Donated capital asset | 120,000 | |
| Depreciation expense | (1,144,246) | 4,498,200 |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (10,137)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.

| | | |
|---|-----------|-----------|
| Increase in compensated absences | (278) | |
| Increase in landfill closure and postclosure care costs | (303,675) | (303,953) |

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. 129,874

Changes in net assets of governmental activities \$ 2,230,686

The notes to the financial statements are an integral part of this statement.

Graham County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

| | Investment Trust Funds | Agency Funds |
|---|---------------------------|-----------------|
| Assets | | |
| Cash and cash equivalents | \$ 28,186,738 | \$ 489,682 |
| Interest receivable | 13,054 | |
| Total assets | 28,199,792 | \$ 489,682 |
| Liabilities | | |
| Deposits held for others | - | \$ 489,682 |
| Total liabilities | - | \$ 489,682 |
| Net Assets | | |
| Held in trust for investment trust participants | \$ 28,199,792 | |

The notes to the financial statements are an integral part of this statement.

Graham County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2004

| | <u>Investment Trust Funds</u> |
|---------------------------------|---------------------------------------|
| Additions: | |
| Contributions from participants | \$ 45,705,024 |
| Investment income | <u>1,312,539</u> |
| Total additions | <u>47,017,563</u> |
| Deductions: | |
| Distributions to participants | <u>48,985,247</u> |
| Total deductions | <u>48,985,247</u> |
| Change in net assets | (1,967,684) |
| Net assets, July 1, 2003 | <u>30,167,476</u> |
| Net assets, June 30, 2004 | <u><u>\$ 28,199,792</u></u> |

The notes to the financial statements are an integral part of this statement.

Graham County
Notes to Financial Statements
June 30, 2004

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).

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 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, therefore, are clearly identifiable to a particular function. The County does not allocate indirect expenses to programs or functions. Program revenues include:

Graham County
Notes to Financial Statements
June 30, 2004

- 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, 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 and nonpooled assets held and invested by the County Treasurer on behalf of the County's departments and other governmental entities.

The agency funds account 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 taxes are recognized as revenue in the year for which they are levied. Grants and

Graham County
Notes to Financial Statements
June 30, 2004

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

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 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.

Graham County
Notes to Financial Statements
June 30, 2004

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:

| | Capitalization Threshold | | |
|--------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land | \$10,000 | | |
| Construction in progress | \$10,000 | | |
| | | Depreciation Method | Estimated Useful Life |
| 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.

Graham County
Notes to Financial Statements
June 30, 2004

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 in the financial statements.

Note 2 - Deficit Fund Balances

The Racing Commission – Parks Fund which is an Other Governmental Fund had a fund deficit of \$27,370 at June 30, 2004. The deficit is expected to be corrected through normal operations.

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, 2004, 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.

The investment pool's investments at June 30, 2004, 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.

Graham County
Notes to Financial Statements
June 30, 2004

| | Category | | | Fair |
|--|----------|---------------|---|----------------------|
| | 1 | 2 | 3 | Value |
| U.S. government securities | - | \$ 30,475,585 | - | \$ 30,475,585 |
| Investments not subject to categorization: | | | | |
| State Treasurer's investment pools | | | | 4,961,430 |
| Total | | | | <u>\$ 35,437,015</u> |

Other Deposits – The County's nonpooled deposits at June 30, 2004, 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, 2004, the County's nonpooled investments consisted of the following:

| | |
|---|-------------------------|
| Investments in State Treasurer's investment pools | Fair Value \$ 70,491 |
|---|-------------------------|

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 Pools | Other | Total |
|--------------------------------|--|------------|---------------|
| Cash on hand | \$ 141,895 | | \$ 141,895 |
| Carrying amount of deposits | | \$ 574,944 | 574,944 |
| Reported amount of investments | 35,437,015 | 70,491 | 35,507,506 |
| Total | \$ 35,578,910 | \$ 645,435 | \$ 36,224,345 |

Statement of Net Assets:

| | Total Primary Government | Total Fiduciary Funds | Total |
|---------------------------|--------------------------------|-----------------------------|---------------|
| Cash and cash equivalents | \$ 7,547,925 | \$ 28,676,420 | \$ 36,224,345 |

Note 4 - Due From Other Governments

Amounts due from other governments at June 30, 2004, include \$130,738 in state-shared revenue from sales tax, \$98,467 in county excise tax distributions due from the State Treasurer, \$59,068 in state motor vehicle license taxes from the Arizona Department of Transportation, \$178,693 in prisoner detention fees from the U.S. Department of Justice, and \$40,322 in other fees from federal, state, and local governments recorded in the General Fund; \$277,666 in state-shared revenue from highway user taxes recorded in the Highway Road Funds; \$203,584 in other fees from state and local governments recorded in the Other Governmental Funds.

Graham County
Notes to Financial Statements
June 30, 2004

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2004, was as follows:

| | Balance July 1, 2003 (as restated) | Additions | Deletions | Balance June 30, 2004 |
|---|--|---------------------|-------------------|--------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,474,215 | \$ 25,360 | | \$ 2,499,575 |
| Construction in progress (estimated cost to complete \$185,000) | 564,537 | 198,618 | \$ 564,537 | 198,618 |
| Total capital assets not being depreciated | <u>3,038,752</u> | <u>223,978</u> | <u>564,537</u> | <u>2,698,193</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 11,345,244 | 2,076,734 | | 13,421,978 |
| Machinery and equipment | 6,951,539 | 1,004,616 | 444,524 | 7,511,631 |
| Infrastructure | 448,119 | 2,995,139 | - | 3,443,258 |
| Total | <u>18,744,902</u> | <u>6,076,489</u> | <u>444,524</u> | <u>24,376,867</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,938,276 | 306,560 | - | 3,244,836 |
| Machinery and equipment | 4,742,290 | 800,155 | 351,040 | 5,191,405 |
| Infrastructure | 15,874 | 37,531 | - | 53,405 |
| Total | <u>7,696,440</u> | <u>1,144,246</u> | <u>351,040</u> | <u>8,489,646</u> |
| Total capital assets being depreciated, net | <u>11,048,462</u> | <u>4,932,243</u> | <u>93,484</u> | <u>15,887,221</u> |
| Governmental activities capital assets, net | <u>\$ 14,087,214</u> | <u>\$ 5,156,221</u> | <u>\$ 658,021</u> | <u>\$ 18,585,414</u> |

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 three years.

Depreciation expense was charged to functions as follows:

| | |
|--|--------------------|
| Governmental Activities: | |
| General government | \$ 291,799 |
| Public safety | 265,319 |
| Highway and streets | 419,767 |
| Sanitation | 3,452 |
| Health | 44,926 |
| Culture and recreation | 40,914 |
| Education | 78,069 |
| Total governmental activities depreciation expense | <u>\$1,144,246</u> |

Graham County
Notes to Financial Statements
June 30, 2004

Note 6 - Long-term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2004.

| | Balance July 1, 2003 | Additions | Reductions | Balance June 30, 2004 | Due within 1 year |
|---|-------------------------|-------------------|-------------------|--------------------------|-------------------------|
| Governmental activities: | | | | | |
| Compensated absences payable | \$ 518,398 | \$ 423,975 | \$ 423,697 | \$ 518,676 | \$ 414,941 |
| Landfill closure and postclosure care costs payable | 1,152,756 | 303,675 | 0 | 1,456,431 | 2,645 |
| Governmental activities long-term liabilities | <u>\$ 1,671,154</u> | <u>\$ 727,650</u> | <u>\$ 423,697</u> | <u>\$ 1,975,107</u> | <u>\$ 417,586</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 2004, the County paid for compensated absences as follows: 70 percent from the General Fund, 11 percent from major funds, and 19 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 \$1,456,431 reported as landfill closure and postclosure care liability at June 30, 2004, represents the cumulative amount reported to date for postclosure care of the Central Landfill as well as closure and postclosure costs for the Regional Landfill. The amount is based on the use of 100 and 51 percent, respectively, of the estimated capacity of the two landfills. These funds are expected to be adequate for the 30 years of monitoring currently required by the Arizona Statutes. The County closed the Central landfill during the prior fiscal year and although it surrendered the Regional landfill operations to the city of Safford on July 1, 2003, the County is still working with the Arizona Department of Environmental Quality to transfer the financial liability. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Graham County
Notes to Financial Statements
June 30, 2004

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 Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust, which are described below.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and 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 Property and Casualty 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 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

Graham County
Notes to Financial Statements
June 30, 2004

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 employees of the State of Arizona and employees of the participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System* (PSPRS) 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 participating 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
3010 East Camelback Road, Suite 200
Phoenix, AZ 85016-4416
(602) 255-5575

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

Graham County
Notes to Financial Statements
June 30, 2004

Cost-sharing plan - For the year ended June 30, 2004, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.70 percent (5.20 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2004, 2003, and 2002 were \$342,406, \$146,761, and \$142,602, respectively, which were equal to the required contributions for the year.

Agent plan - For the year ended June 30, 2004, 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 11.97 percent.

Annual Pension Cost - The County's pension cost for the PSPRS for the year ended June 30, 2004, and related information follow.

| | |
|---------------------|----------|
| Contribution rates: | |
| County | 11.97% |
| Plan members | 7.65% |
| Annual pension cost | \$74,080 |
| Contributions made | \$74,080 |

The current-year annual required contributions for the PSPRS was determined as part of the June 30, 2002, 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, 2002, was 20 years.

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

| <u>Plan</u> | <u>Year Ended</u> <u>June 30</u> | <u>Annual Pension</u> <u>Cost (APC)</u> | Contributions Required and Contributions Made | |
|-------------|-------------------------------------|--|--|---|
| | | | <u>Percentage of</u> <u>APC</u> <u>Contributed</u> | <u>Net Pension</u> <u>Obligation</u> |
| PSPRS | 2004 | \$ 74,080 | 100% | \$ -0- |
| | 2003 | 58,592 | 100% | -0- |
| | 2002 | 68,797 | 100% | -0- |

Graham County
Notes to Financial Statements
June 30, 2004

Note 11 - Interfund Activity

Interfund transfers for the year ended June 30, 2004, were as follows:

| | Transfer in | | Total |
|-----------------------------|--------------------|-----------------------------------|-------------------|
| | General Fund | Nonmajor Governmental Funds | |
| Transfer out | | | |
| General fund | | \$ 150,000 | \$ 150,000 |
| Highway road fund | | 8,776 | 8,776 |
| Nonmajor governmental funds | \$ 27,216 | | 27,216 |
| Total governmental | <u>\$ 27,216</u> | <u>\$ 158,776</u> | <u>\$ 185,992</u> |

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 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 | \$ 30,226,920 | 1.5 – 5.0% | 8/04 - 2/08 | \$ 30,475,585 |
| Investment in State Treasurer's investment pool | 4,961,430 | 1.06 – 1.45% | None Stated | 4,961,430 |

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

Statement of Net Assets

| | |
|-------------|----------------------|
| Assets | \$ 35,591,880 |
| Liabilities | -0- |
| Net assets | <u>\$ 35,591,880</u> |

Graham County
Notes to Financial Statements
June 30, 2004

| | |
|--------------------------------|---------------|
| Net assets held in trust for: | |
| Internal participants | \$ 7,462,663 |
| External participants | 28,129,217 |
| Total net assets held in trust | \$ 35,591,880 |

Statement of Changes in Net Assets

| | |
|---------------------------|---------------|
| Total additions | \$ 67,458,366 |
| Total deductions | 71,084,266 |
| Net decrease | (3,625,900) |
| Net assets held in trust: | |
| July 1, 2003 | 39,217,780 |
| June 30, 2004 | \$ 35,591,880 |

Note 13 - Restatement of Beginning Net Assets

Beginning net assets of the primary government have been restated to correct an error in recording capital assets net of accumulated depreciation.

| | |
|---|---------------|
| Net assets, June 30, 2003, as previously reported | \$ 20,846,714 |
| Correction of error | 532,527 |
| Net assets, July 1, 2003, as restated | \$ 21,379,241 |

Note 14 - Subsequent Events

In June 2005 the County entered into an agreement, for \$799,989, with an engineering firm to design the replacement of the 8th Avenue bridge.

In July 2005 the County entered into a capital lease agreement, for \$296,985, for the purchase of a phone system.

Other Required Supplemental Information

Graham County
 Required Supplementary Information
 Schedule of Agent Retirement Plan's Funding Progress
 June 30, 2004

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) |
|--------------------------------|---|--|---|--------------------------|-------------------------------------|--|
| 6/30/04 | \$ 1,555,459 | \$ 1,767,387 | \$ (211,928) | 88.0% | \$ 644,118 | 32.9% |
| 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% |

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---------------------------------|-------------------|-------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Property taxes | \$ 2,001,605 | \$ 2,001,605 | \$ 1,948,063 | \$ (53,542) |
| Licences and permits | 15,000 | 15,000 | 11,494 | (3,506) |
| Intergovernmental | 8,770,940 | 8,770,940 | 9,169,821 | 398,881 |
| Charges for services | 625,000 | 625,000 | 552,354 | (72,646) |
| Fines and forfeits | 350,000 | 350,000 | 239,012 | (110,988) |
| Investment income | 60,000 | 60,000 | 55,538 | (4,462) |
| Rents | 21,000 | 21,000 | 15,000 | (6,000) |
| Miscellaneous | 76,000 | 76,000 | 52,700 | (23,300) |
| Total revenues | 11,919,545 | 11,919,545 | 12,043,982 | 124,437 |
| Expenditures | | | | |
| Current: | | | | |
| General Government: | | | | |
| Board of Supervisors | 503,208 | 503,208 | 506,531 | (3,323) |
| Treasurer | 246,145 | 246,145 | 233,459 | 12,686 |
| Assessor | 320,165 | 320,165 | 315,394 | 4,771 |
| Recorder | 200,475 | 200,475 | 195,628 | 4,847 |
| Elections | 92,981 | 92,981 | 51,529 | 41,452 |
| Attorney | 628,692 | 628,692 | 537,515 | 91,177 |
| Clerk of the Court | 398,964 | 398,964 | 400,224 | (1,260) |
| Superior Court | 472,542 | 472,542 | 496,805 | (24,263) |
| Justice of the Peace No.1 | 249,552 | 249,552 | 238,861 | 10,691 |
| Justice of the Peace No.2 | 148,982 | 148,982 | 142,571 | 6,411 |
| Victim witness | 66,565 | 66,565 | 68,308 | (1,743) |
| Public Fiduciary | 76,631 | 76,631 | 75,833 | 798 |
| Planning and zoning | 130,006 | 136,006 | 136,515 | (509) |
| Building Maintenance | 151,808 | 151,808 | 149,692 | 2,116 |
| Electrical Maintenance | 59,387 | 59,387 | 56,660 | 2,727 |
| Overtime | 13,542 | 13,542 | 2,508 | 11,034 |
| General services | 229,200 | 229,200 | 205,014 | 24,186 |
| Contingency | 1,045,000 | 1,039,000 | 55,012 | 983,988 |
| Miscellaneous | 724,853 | 724,853 | 425,445 | 299,408 |
| Medical Examiner | 31,500 | 31,500 | 31,194 | 306 |
| Information Technology | 630,152 | 630,152 | 584,180 | 45,972 |
| Total general government | 6,420,350 | 6,420,350 | 4,908,878 | 1,511,472 |
| Public Safety | | | | |
| Probation | 72,822 | 72,822 | 73,249 | (427) |
| Sheriff | 3,225,988 | 3,225,988 | 3,048,513 | 177,475 |
| Search and rescue | 25,120 | 25,120 | 12,823 | 12,297 |
| Juvenile detention center | 1,418,559 | 1,418,559 | 1,327,003 | 91,556 |
| Animal shelter | 101,903 | 101,903 | 74,924 | 26,979 |
| Total public safety | 4,844,392 | 4,844,392 | 4,536,512 | 307,880 |
| Sanitation | | | | |
| Sanitary Landfill | 552,974 | 552,974 | 203,838 | 349,136 |
| Total sanitation | 552,974 | 552,974 | 203,838 | 349,136 |

See accompanying notes to bugetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|-------------------|-------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Health | | | | |
| Health Services | \$ 206,517 | \$ 206,517 | \$ 202,167 | \$ 4,350 |
| Total health | <u>206,517</u> | <u>206,517</u> | <u>202,167</u> | <u>4,350</u> |
| Welfare | | | | |
| Attorney for the indigent | 470,000 | 470,000 | 333,833 | 136,167 |
| Indigent medical | <u>1,574,084</u> | <u>1,574,084</u> | <u>1,435,701</u> | <u>138,383</u> |
| Total Welfare | <u>2,044,084</u> | <u>2,044,084</u> | <u>1,769,534</u> | <u>274,550</u> |
| Cultural and recreation | | | | |
| Parks and recreation | <u>162,432</u> | <u>162,432</u> | <u>141,759</u> | <u>20,673</u> |
| Total culture and recreation | <u>162,432</u> | <u>162,432</u> | <u>141,759</u> | <u>20,673</u> |
| Education | | | | |
| School superintendent | 156,693 | 156,693 | 153,294 | 3,399 |
| Employment and training | <u>9,150</u> | <u>9,150</u> | <u>8,810</u> | <u>340</u> |
| Total education | <u>165,843</u> | <u>165,843</u> | <u>162,104</u> | <u>3,739</u> |
| Capital Outlay | <u>795,870</u> | <u>795,870</u> | <u>232,428</u> | <u>563,442</u> |
| Total expenditures | <u>15,192,462</u> | <u>15,192,462</u> | <u>12,157,220</u> | <u>3,035,242</u> |
| Excess of (deficiency) of revenues over (under) expenditures | (3,272,917) | (3,272,917) | (113,238) | 3,159,679 |
| Other financing sources: | | | | |
| Transfer in | - | - | 27,216 | 27,216 |
| Other financing expenditures: | | | | |
| Transfer out | <u>-</u> | <u>-</u> | <u>(150,000)</u> | <u>(150,000)</u> |
| Net change in fund balances | (3,272,917) | (3,272,917) | (236,022) | 3,036,895 |
| Fund balance, July 1, 2003 | <u>3,272,917</u> | <u>3,272,917</u> | <u>2,472,090</u> | <u>(800,827)</u> |
| Fund balance, June 30, 2004 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,236,068</u> | <u>\$ 2,236,068</u> |

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
Highway Road Fund
Year Ended June 30, 2004

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|------------------|------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues: | | | | |
| Intergovernmental | \$ 2,888,288 | \$ 2,888,288 | \$ 3,175,447 | \$ 287,159 |
| Charges for Services | 85,000 | 85,000 | 13,859 | (71,141) |
| Investment Income | 120,000 | 120,000 | 87,495 | (32,505) |
| Miscellaneous | 108,000 | 108,000 | 93,494 | (14,506) |
| Total revenues | 3,201,288 | 3,201,288 | 3,370,295 | 169,007 |
| Expenditures | | | | |
| Current: | | | | |
| Highway and streets | | | | |
| General road | 3,066,621 | 3,066,621 | 2,350,698 | 715,923 |
| Engineering | 226,814 | 226,814 | 183,531 | 43,283 |
| Safety Department | 51,702 | 51,702 | 48,939 | 2,763 |
| Total highway and streets | 3,345,137 | 3,345,137 | 2,583,168 | 761,969 |
| Capital outlay | 2,454,919 | 2,454,919 | 2,830,060 | (375,141) |
| Total expenditures | 5,800,056 | 5,800,056 | 5,413,228 | 386,828 |
| Excess of (deficiency) of revenues over (under) expenditures | (2,598,768) | (2,598,768) | (2,042,933) | 555,835 |
| Other financing expenditures | | | | |
| Transfer out | - | - | (8,776) | (8,776) |
| Net change in fund balances | (2,598,768) | (2,598,768) | (2,051,709) | 547,059 |
| Fund balance, July 1, 2003 | 2,598,768 | 2,598,768 | 3,226,296 | 627,528 |
| Increase in reserve for inventories | - | - | 129,874 | 129,874 |
| Fund balance, June 30, 2004 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,304,461</u> | <u>\$ 1,304,461</u> |

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
Year Ended June 30, 2004

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, 2004, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) for the general fund as follows:

| <u>Department</u> | <u>Excess</u> |
|----------------------|---------------|
| Board of Supervisors | \$ 3,323 |
| Clerk of the Court | 1,260 |
| Superior Court | 24,263 |
| Victim Witness | 1,743 |
| Planning and zoning | 509 |
| Probation | 427 |

These over expenditures were funded by greater than anticipated revenues.

Supplementary Information

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Expenditures</u> |
|--|------------------------|--|---------------------|
| U.S. Department of Agriculture | | | |
| Pass-through programs from: | | | |
| Arizona Department of Health Services | | | |
| Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) | 10.557 | HG361073 | \$ 182,013 |
| Farmers' Market Nutrition Program | 10.572 | HG361342 | 273 |
| Arizona State Treasurer | | | |
| Schools and Roads – Grants to States | 10.665 | None | 76,262 |
| Total U.S. Department of Agriculture | | | <u>258,548</u> |
| U.S. Department of Housing and Urban Development | | | |
| Pass-through programs from: | | | |
| Arizona Department of Housing | | | |
| Community Development Block Grant | 14.228 | 066-02H | <u>354,970</u> |
| U.S. Department of the Interior | | | |
| Direct grants | | | |
| Payments in Lieu of Taxes | 15.226 | | 1,461,333 |
| Undocumented Immigrants Environmental Mitigation and Coordination | 15.Unknown | | 3,147 |
| Total U.S. Department on Interior | | | <u>1,464,480</u> |
| U.S. Department of Justice | | | |
| Direct Grants | | | |
| Victims of Child Abuse | 16.547 | | 1,960 |
| Bulletproof Vest Partnership Program | 16.607 | | 9,189 |
| COPS Universal Hiring Program | 16.710 | | 13,916 |
| Pass-through programs from: | | | |
| Arizona Division of Emergency Management | | | |
| State and Local Domestic Preparedness Equipment Support Program | 16.007 | 2003-TE-CX-0142 | 38,179 |
| State and Local Domestic Preparedness Equipment Support Program | 16.007 | 2003-TE-TX-0196 | <u>154,347</u> |
| Total State and Local Domestic Preparedness Equipment Support Program | | | 192,526 |
| Arizona Governor's Office of Community Policy | | | |
| Juvenile Accountability Incentive Block Grants | 16.523 | JA-GRA-03-5273-05 | 8,761 |
| Arizona Criminal Justice Commission | | | |
| Byrne Formula Grant Program | 16.579 | AC-130-04 | 31,614 |

(Continued)

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

| Federal Grantor/Pass-Through Grantor/Program Title | CFDA Number | Pass-Through Grantor's Number | Expenditures |
|---|----------------|----------------------------------|--------------|
| Crime Victim Assistance/Discretionary Grants | 16.582 | VA04021 | 8,421 |
| Local Law Enforcement Block Grants Program | 16.592 | LLBG-04-134 | 6,194 |
| Total U.S. Department of Justice | | | 272,581 |
| U.S. Department of Labor | | | |
| Pass-through programs from: | | | |
| Arizona Department of Economic Security | | | |
| WIA Cluster: | | | |
| WIA Adult Program | 17.258 | E5703005 | 116,945 |
| WIA Youth Activities | 17.259 | E5703005 | 163,878 |
| WIA Youth Activities | 17.259 | E5704005 | 25,215 |
| Total WIA Youth Activities | | | 189,093 |
| Total U.S. Department of Labor | | | 306,038 |
| U.S. Department of Education | | | |
| Direct grants | | | |
| Rural Education | 84.358 | | 12,543 |
| Passed-through programs from: | | | |
| Arizona Department of Education | | | |
| Title I Grants to Local Educational Agencies | 84.010 | S010A010003 | 17,862 |
| Title I Program for Neglected and Delinquent Children | 84.013 | 04FAANAD-470887-07A | 23,054 |
| Special Education Cluster (IDEA): | | | |
| Special Education - Grants to States | 84.027 | H027A000007 | 364,649 |
| Special Education - Grants to States | 84.027 | 04FESCBG-470887-01A | 2,849 |
| Total Special Education - Grants to States | | | 367,498 |
| Special Education - Preschool Grants | 84.173 | H173A030003 | 24,949 |
| Total Special Education Cluster (IDEA) | | | 392,447 |
| Safe and Drug-Free Schools and Communities State Grants | 84.186 | S186A020003 | 331 |
| Safe and Drug-Free Schools and Communities State Grants | 84.186 | 04FSSIVB-470887-06A | 311 |
| Total Safe and Drug-Free Schools and Communities State Grants | | | 642 |
| Eisenhower Professional Development State Grants | 84.281 | S281A030003 | 2,444 |
| Innovative Education Program Strategies | 84.298 | S298A020003 | 265 |
| Innovative Education Program Strategies | 84.298 | 04FAATVA-470887-04A | 1,483 |
| Total Innovative Education Program Strategies | | | 1,748 |
| Education Technology State Grants | 84.318 | S318X020003A | 176,543 |
| Education Technology State Grants | 84.318 | S318X030003 | 283 |
| Total Education Technology State Grants | | | 176,826 |
| Reading First State Grants | 84.357 | S357A020003 | 21,805 |

(Continued)

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Expenditures</u> |
|--|------------------------|--|----------------------------|
| Improving Teacher Quality State Grants | 84.367 | S367A030049 | 53,387 |
| Improving Teacher Quality State Grants | 84.367 | 04FAATII-470887-03A | <u>7,746</u> |
| Total Improving Teacher Quality State Grants | | | <u>61,133</u> |
| Total U.S. Department of Education | | | <u>710,504</u> |
| | | | |
| U.S. Department of Health and Human Services | | | |
| Pass-through programs from: | | | |
| Arizona Department of Health Services | | | |
| Immunization Grants | 93.268 | HG352212 | 51,139 |
| Breast and Cervical Cancer Early Detection | 93.919 | HG361204 | 74,285 |
| Healthy Start Initiative | 93.926 | HG361270 | 4,216 |
| HIV Prevention Activities: Health Department Based | 93.940 | HG352260 | 10,087 |
| Maternal and Child Health Services Block Grant to the States | 93.994 | HG361137 | 40,422 |
| Bioterrorism Training and Curriculum Development Program | 93.996 | 252044 | <u>182,358</u> |
| Total U.S. Department of Health and Human Services | | | <u>362,507</u> |
| | | | |
| U.S. Department of Homeland Security | | | |
| Pass-through programs from: | | | |
| Arizona Department of Emergency and Military Affairs | | | |
| Emergency Management Performance Grant | 97.042 | None | <u>57,577</u> |
| Total Expenditures of Federal Awards | | | <u><u>\$ 3,787,205</u></u> |

See accompanying notes to schedule.

Graham County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2004

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 2004 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

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 | \$ 176,543 |

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ROBERT L. MILLER, C.P.A.
(1931 - 1992)

**Independent Auditor's 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***

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, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated October 6, 2005. 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.

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 basic financial statements and not to provide an opinion 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 **04-1**.

A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

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.

October 6, 2005

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**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, 2004. 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, 2004.

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 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 caused by error or fraud 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.

October 6, 2005

Graham County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2004

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:

- 14.228 Community Development Block Grant
- 15.226 Payments in Lieu of Taxes
- 16.007 State and Local Domestic Preparedness Equipment Support Program
- 93.996 Bioterrorism Training and Curriculum Development Program

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, 2004

Section II - Financial Statement Findings

Item: 04-1 (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.
- f. The same individual performed all accounting duties of the Dan Hinton School.

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, 2004

Section III – Federal Award Findings and Questioned Costs

No matters reported.

County Responses

Graham County
Corrective Action Plan
Year Ended June 30, 2004

Financial Statement Findings

Item: 04-1

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, 2004

Federal Award Findings and Questioned Costs

No prior year federal audit findings were reported.