

Graham County, Arizona  
Single Audit Reporting Package  
June 30, 2008

Graham County  
Single Audit Reporting Package  
June 30, 2008

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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, Arizona (County) as of and for the year ended June 30, 2008, 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 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. 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 the 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.

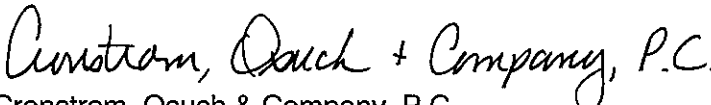
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County, Arizona as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement No's. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; and 50, *Pension disclosures (an amendment of GASB Statements No. 25 and No. 27)*, for the year ended June 30, 2008, which represent changes in accounting principles.

The Management's Discussion and Analysis on pages 3 through 9, the Schedule of Agent Retirement Plans' Funding Progress on pages 41 and 42 and the Budgetary Comparison Schedules on pages 43 through 46, are not required parts 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 February 15, 2009, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

  
Cronstrom, Osuch & Company, P.C.

February 15, 2009

Graham County  
Management's Discussion and Analysis  
June 30, 2008

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, 2008.

**Financial Highlights**

- The assets of Graham County exceeded its liabilities at the close of the most recent fiscal year by \$35,611,137 (net assets).
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balance of \$5,807,434, a decrease of \$373,145 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$635,233 or 4% of total General Fund expenditures.
- Graham County's capital assets increased by \$1,565,907 during the current fiscal year. The key factor in this increase is construction projects that began or continued this fiscal year. The biggest project is the Eighth Avenue Bridge which should be ready to go out to bid this fall or winter, with construction to begin in the spring. The other projects that began this year are additional cells, classroom and laundry rooms for the Adult Detention Facility, an extension of Ft Grant road to the Cochise County line and an addition on the Pima JP Court Building. Additional funds also were spent on the CDBG Project at the County Fairgrounds.

**Overview of the Financial Statements**

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

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

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

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

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

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Management's Discussion and Analysis  
June 30, 2008

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 fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating 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 fund 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 fund financial statements can be found on pages 13 - 16 of this report.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Graham County's own programs. The accounting used for fiduciary funds is much like that used for 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 – 39 of this report.

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Management's Discussion and Analysis  
June 30, 2008

**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 funds. Required supplementary information can be found on pages 41 - 46 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 \$35.6 million at the close of the most recent fiscal year.

**Condensed Statement of Net Assets**  
As of June 30, 2008 and 2007

	Governmental Activities	
	2008	2007
Current and other assets	\$ 8,337,816	\$ 8,329,046
Capital assets	30,916,694	29,350,787
<b>Total assets</b>	<b>39,254,510</b>	<b>37,679,833</b>
Long-term liabilities outstanding	1,235,282	3,714,014
Other liabilities	2,408,091	2,032,026
<b>Total liabilities</b>	<b>3,643,373</b>	<b>5,746,040</b>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	30,606,021	29,162,190
Restricted	4,913,524	4,608,504
Unrestricted	91,592	(1,836,901)
<b>Total net assets</b>	<b>\$ 35,611,137</b>	<b>\$ 31,933,793</b>

The largest portion of Graham County's net asset (87%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less accumulated depreciation and any related debt used to acquire those assets that are still outstanding. Graham County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Graham County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was increased this year from a deficit of \$1,836,901 at June 30, 2007 to a positive balance of \$91,592 at the end of the fiscal year ended June 30, 2008.



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The large increase in unrestricted net assets arose primarily because of two factors. First, the County has transferred the liability for the closure and postclosure costs for the Regional Landfill to the City of Safford effective July 1, 2007. The City of Safford took over operations of the Landfill July 1, 2003. However, the liability was not transferred until this fiscal year. Second, the County received a \$2 million contribution to assist in the construction of the 8<sup>th</sup> avenue bridge.

Current assets, related to governmental activities, has remained relatively consistent as compared to the previous fiscal year. Property tax receivables continued the downward trend this year. Depreciation expense exceeded additions to depreciable capital assets and several projects were begun in the spring or continued from the past year increasing the construction in progress by more than \$2 million. Accounts payable, deposits held for others and deferred revenues all increased modestly but the liability for closure and postclosure costs for landfills decreased dramatically. The City of Safford has filed its financial disclosure forms with the Arizona Department of Environmental Quality accepting financial responsibility for the regional landfill which the City has operated since taking over July 1, 2003.

**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. For the fiscal year, net assets increased \$3.7 million, 72% of the increase is attributable to the transfer of the closure and postclosure liability of the regional landfill being assumed by the City of Safford. 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.

<b>Condensed Statement of Revenues, Expenses and Changes in Net Assets</b>		
Years Ended June 30, 2008 and 2007		
Governmental		
Activities		
	2008	2007
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 3,515,419	\$ 3,201,236
Operating grants and contributions	12,625,360	13,058,659
Capital grants and contributions	2,000,000	-0-
General revenues:		
Property taxes	2,553,309	2,294,384
Sales taxes	5,777,169	5,388,952
Vehicle license tax	912,374	822,581
Miscellaneous	1,786,426	1,475,826
<b>Total revenues</b>	29,170,057	26,241,638
<b>Expenses</b>		
General government	7,850,973	7,095,200
Public safety	9,555,776	9,155,916
Highways and streets	4,049,079	4,354,876
Sanitation	162,863	796,341
Health	1,347,114	1,171,695
Welfare	2,271,355	2,065,546
Culture and recreation	635,054	635,665
Education	2,279,440	2,184,171
<b>Total expenses</b>	28,151,654	27,459,410
<b>Increase (decrease) in net assets before special items</b>	1,018,403	(1,217,772)
Special Items	2,658,941	-0-
<b>Increase (decrease) in net assets</b>	3,677,344	(1,217,772)
Net assets, July 1, 2007	31,933,793	33,151,565
Net assets, June 30, 2008	\$ 35,611,137	\$ 31,933,793

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**Governmental activities.**

Governmental activities revenues and gains from special items totaled \$31.8 million for fiscal year 2008. The following are highlights of County revenues:

- Operating grants decreased by \$433,299 over the prior fiscal year. The majority of this change was receiving a one-time grant of \$209,000 in the prior fiscal year for the elections process. Also, highway users revenues were down \$130,604 reflecting the spike in fuel costs. In the previous fiscal year, the County had received funding for flood remediation projects which were completed, reducing grant funds by \$250,000. Funding from the State of Arizona for Probation Services increased \$140,000 and funding for housing Federal and Juvenile inmates increased \$210,000 over the previous fiscal year. Increases in small grants for the sheriff's Office of \$107,000 more than offset the \$57,000 decrease in Homeland Security funding.
- Capital grants increased \$2,000,000 due to a contribution from Freeport McMoran, Inc. for construction related to the Eighth Avenue Bridge over Gila River and the Peterson Wash Project.
- Overall sales tax revenue continued to increase in this fiscal year, due primarily to the opening of the Safford mine by Freeport McMoran Inc. The increase was more modest than the previous years increase but was still \$388,000 or 7%. Locally collected sales tax still out gained state revenue sharing by nearly three to one. Based upon the Arizona State Department of Revenue projections and current economic conditions, it is expected that State-shared sales tax will decrease in fiscal year 2008/09.
- Property taxes increased 11% or nearly \$259,000 this fiscal year in spite of a state mandated decrease in the County tax rate. The addition of the mining equipment to the tax rolls and increases in property values from increased construction and speculative land purchases in the County are behind this increase.
- The County reported an increase in special items of \$2,658,941 due to a transfer of the liability for closure and post closure care costs of the Regional Landfill to the City of Safford.

**Expenses:**

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services, with the exception of Sanitation. Sanitation expenses decreased due to the transfer of the liability for the Regional Landfill to the City of Safford previously discussed. Although the County was not operating the landfill in prior years, the County was no longer required to accrue estimated closure and postclosure care costs.

Highways and Street expenses decreased in spite of increased depreciation expense due to the retroactively added infrastructure in fiscal year 2007. This is due to the decreased revenues from highway users fund and funds available for highways and streets.

**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's Discussion and Analysis  
June 30, 2008

**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.

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 \$635,233, which was \$594,123 less than the previous fiscal year. There was an excess of expenditures over revenues in the General Fund of \$893,001 (prior to any other financing sources or uses), which was primarily due to an increase in costs overall. Revenue increases are currently not keeping pace with the expenditures. The pressure related to increasing demand for service from the mining sector has exceeded the revenue being generated.

The highway road fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the care of the County. There is a project to build a new major bridge in the County. The bridge is nearing the time when the Arizona Department of Transportation will be putting the project out for bid. Most of the funding will come from federal grants but will require a substantial local match. \$500,000 was transferred from the Highway fund to other governmental funds for that match. The fund balance decreased \$127,531.

The other governmental fund balance increased by \$348,509. This is a combination of many non-major funds of the County, most funded by various grants. The largest decrease in the fund balance occurred in the parks and recreation funds decreasing nearly \$126,000 due to increasing labor costs. The remaining increase of \$474,509 was spread over several funds.

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

The General Fund expenditure budget of \$19,542,938 was not amended during the year.

The \$968,866 variance for budgeted revenues for intergovernmental was due to budgeted federal funds for the Eighth Avenue Bridge that were delayed until next fiscal year.

The \$175,038 variance for budgeted revenue for charges for services was due to demand for services not meeting expectations. While fees for services, (Court, Public Fiduciary, Animal Impound and Sanitation) increased, the increase was less than anticipated. Assessor, Recorder and Treasurer fees decreased from the prior year.

The \$108,002 variance for budgeted revenue for fines and forfeits resulted from the expectation that more fines would be levied as a result of the larger population of construction workers in town working at the local mine. Fines collected actually went down slightly while forfeitures increased.

The \$919,596 variance for the expenditures budgeted for contingency was due to very little contingency funds actually required to be spent.

The \$254,242 variance for the expenditures budgeted for miscellaneous was due to insurance premiums being lower than budgeted and several services not utilized as budgeted.

The \$189,024 variance for the expenditures budgeted for information technology was due primarily to capital expenditures being budgeted at the department level, but the actual costs being recorded in general fund capital expenditures. Data processing supplies and phone communication costs were less than budgeted.

Graham County  
Management's Discussion and Analysis  
June 30, 2008

Capital outlay expenses were \$516,722 below budget due to unspent budgets for major repairs and replacements.

**Capital Asset and Debt Administration**

**Capital Assets.** Graham County's capital assets for its governmental activities as of June 30, 2008, amounts to \$30.9 million (net of accumulated depreciation). The capital assets include land, buildings, infrastructure, machinery and equipment. The 1.6 million net increase in capital assets for the current fiscal year is largely for projects started before the end of the year which are still in progress. The largest of these projects is the Eighth Avenue Bridge which has been discussed on previous pages. Other significant projects are paving a portion of Ft Grant Road, a building addition for the Justice of the Court #2 in Pima, and an addition onto the Adult Detention Facility for additional beds, classroom space and a laundry room.

Additional information on Graham County's capital assets can be found in Note 5 on page 28 of this report.

**Long-term debt.** At the end of the current fiscal year, the County had total debt outstanding of \$310,673. The County did not have any outstanding bonded debt.

Additional information on the County's long-term debt can be found in Notes 6 and 7 to the financial statements on page 29.

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 \$10,514,654. 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 5.6 percent, which is an increase from a rate of 4.2 percent a year ago. This compares more favorably to the state's average unemployment rate of 4.8 percent. The City of Safford's unemployment rate is 2.7 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2007/08 fiscal year. The unreserved ending fund balance in the General Fund of \$635,233 was appropriated for spending in the 2008/09 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 2008/09 fiscal year.

**Requests for Information**

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

## Basic Financial Statements

Graham County  
Statement of Net Assets  
June 30, 2008

	Primary Government
	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 5,574,581
Property taxes receivable	137,326
Due from other governments	1,945,525
Inventories	680,384
Capital assets, not being depreciated	5,877,827
Capital assets, being depreciated, net	25,038,867
Total Assets	39,254,510
<b>Liabilities</b>	
Accounts payable	681,423
Deposits held for others	186,725
Unearned revenues	1,539,943
Noncurrent liabilities	
Due within one year	789,283
Due in more than one year	445,999
Total Liabilities	3,643,373
<b>Net Assets</b>	
Invested in capital assets, net of related debt	30,606,021
Restricted for:	
Highway and streets	1,888,536
Other purposes	2,953,068
Capital projects	71,920
Unrestricted	91,592
Total Net Assets	\$ 35,611,137

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

Graham County  
Statement of Activities  
Year Ended June 30, 2008

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	\$ 7,850,973	\$ 1,943,703	\$ 761,271	\$ -	\$ (5,145,999)
Public safety	9,555,776	465,325	5,899,961	-	(3,190,490)
Highways and streets	4,049,079	-	3,680,822	2,000,000	1,631,743
Sanitation	162,863	112,857	49,073	-	(933)
Health	1,347,114	56,567	974,357	-	(316,190)
Welfare	2,271,355	-	-	-	(2,271,355)
Culture and recreation	635,054	81,776	-	-	(553,278)
Education	2,279,440	855,191	1,259,876	-	(164,373)
Total governmental activities	<u>\$ 28,151,654</u>	<u>\$ 3,515,419</u>	<u>\$ 12,625,360</u>	<u>\$ 2,000,000</u>	<u>(10,010,875)</u>

General revenues:	
Property taxes, levied for general purposes	2,553,309
State shared revenues:	
Sales taxes	5,777,169
Vehicle license tax	912,374
State shared lottery	550,035
Gain on sale of capital assets	28,570
Interest on investments	298,893
Miscellaneous	908,928
Special item - transfer of the closure and and postclosure care liability (Note 9)	<u>2,658,941</u>
Total general revenues and special item	<u>13,688,219</u>
Change in net assets	3,677,344
Net assets - July 1, 2007	31,933,793
Net assets - June 30, 2008	<u>\$ 35,611,137</u>

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

Graham County  
Balance Sheet  
Governmental Funds  
June 30, 2008

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 1,627,458	\$ 1,104,334	\$ 2,842,789	\$ 5,574,581
Property taxes receivable	132,841	-	4,485	137,326
Due from other governments	986,854	357,676	600,995	1,945,525
Inventories	-	680,384	-	680,384
<b>Total Assets</b>	<b>\$ 2,747,153</b>	<b>\$ 2,142,394</b>	<b>\$ 3,448,269</b>	<b>\$ 8,337,816</b>
<b>Liabilities</b>				
Accounts payable	\$ 266,847	\$ 176,656	\$ 237,920	\$ 681,423
Deposits held for others	186,725	-	-	186,725
Deferred revenues	1,658,348	-	3,886	1,662,234
<b>Total Liabilities</b>	<b>2,111,920</b>	<b>176,656</b>	<b>241,806</b>	<b>2,530,382</b>
<b>Fund Balances</b>				
Reserved for inventories	-	680,384	-	680,384
Unreserved, reported in:				
General fund	635,233	-	-	635,233
Special revenue funds	-	1,285,354	3,134,543	4,419,897
Capital projects funds	-	-	71,920	71,920
<b>Total Fund Balances</b>	<b>635,233</b>	<b>1,965,738</b>	<b>3,206,463</b>	<b>5,807,434</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,747,153</b>	<b>\$ 2,142,394</b>	<b>\$ 3,448,269</b>	<b>\$ 8,337,816</b>

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



Graham County Funds Balance Sheet  
Reconciliation of the Balance Sheet  
to the Statement of Net Assets  
Governmental Funds  
June 30, 2008

Fund balances – total governmental funds	\$ 5,807,434
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.	30,916,694
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	122,291
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,235,282)</u>
Net assets of governmental activities	<u>\$ 35,611,137</u>

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

Graham County  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2008

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 2,486,959	\$ -	\$ 85,177	\$ 2,572,136
Licenses and permits	123,802	-	-	123,802
Intergovernmental	12,181,134	3,612,769	4,752,103	20,546,006
Charges for services	731,662	72,303	1,420,811	2,224,776
Fines and forfeits	316,998	-	8,327	325,325
Investment income	78,312	75,443	145,138	298,893
Rents	41,000	1,200	118,249	160,449
Miscellaneous	280,789	214,202	2,489,813	2,984,804
Total revenues	<u>16,240,656</u>	<u>3,975,917</u>	<u>9,019,618</u>	<u>29,236,191</u>
<b>Expenditures:</b>				
Current				
General government	6,638,913	-	940,434	7,579,347
Public safety	6,976,764	-	1,974,547	8,951,311
Highways and streets	-	3,356,881	138,268	3,495,149
Sanitation	110,902	-	49,223	160,125
Health	244,378	-	1,006,667	1,251,045
Welfare	2,271,355	-	-	2,271,355
Culture and recreation	269,656	-	323,649	593,305
Education	198,411	-	1,981,930	2,180,341
Capital Outlay	423,278	443,045	2,664,702	3,531,025
Total expenditures	<u>17,133,657</u>	<u>3,799,926</u>	<u>9,079,420</u>	<u>30,013,003</u>
Excess (deficiency) of revenues over expenditures	<u>(893,001)</u>	<u>175,991</u>	<u>(59,802)</u>	<u>(776,812)</u>
<b>Other financing sources (uses):</b>				
Capital lease agreements	207,189	-	-	207,189
Transfers in	122,184	-	530,495	652,679
Transfers out	(30,495)	(500,000)	(122,184)	(652,679)
Total other financing sources (uses)	<u>298,878</u>	<u>(500,000)</u>	<u>408,311</u>	<u>207,189</u>
Net change in fund balances	(594,123)	(324,009)	348,509	(569,623)
Fund balances, July 1, 2007	1,229,356	2,093,269	2,857,954	6,180,579
Increase in reserve for inventories	-	196,478	-	196,478
Fund balances, June 30, 2008	<u>\$ 635,233</u>	<u>\$ 1,965,738</u>	<u>\$ 3,206,463</u>	<u>\$ 5,807,434</u>

The notes to the basic 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  
 For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ (569,623)

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.

Expenditures for capital assets	3,466,448	
Less current year depreciation	<u>(1,893,134)</u>	1,573,314

The Statement of Activities reports only the gain/loss arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets but the proceeds from the sale increased financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold.

(7,407)

Revenues deferred in the governmental funds that did not provide current financial resources have been recognized in the statement of activities and therefore are reported as revenues in the statement of activities.

5,850

The issuance of long-term debt (e.g. bonds and leases) provides current financial resources, while the repayment of principal on long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The issuance of long-term debt increases long-term liabilities on the statement of net assets and the repayment of principal on long-term debt reduces long-term debt on the statement of net assets.

Principal payments on long-term debt	85,113	
Lease purchase agreements	<u>(207,189)</u>	(122,076)

The purchase of inventory is recorded as a net change in fund balance in the governmental funds, but is reflected as an expense when consumed in the governmental activities.

196,478

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

Increase in compensated absences	(55,986)	
Decrease in landfill closure and postclosure care costs	<u>2,656,794</u>	2,600,808

Changes in net assets of governmental activities \$ 3,677,344

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

Graham County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2008

	<u>Investment Trust Fund</u>	<u>Agency Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 29,755,270	\$ 33,031
Accrued interest receivable	6,498	
Total assets	<u>29,761,768</u>	<u>\$ 33,031</u>
<b>Liabilities</b>		
Deposits held for others	-	\$ 33,031
Total liabilities	<u>-</u>	<u>\$ 33,031</u>
<b>Net Assets</b>		
Held in trust for investment participants	<u>\$ 29,761,768</u>	

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

Graham County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2008

	Investment Trust Fund
Additions:	
Contributions from participants	\$ 53,469,900
Investment earnings	1,459,157
	54,929,057
Total additions	
Deductions:	
Distributions to participants	58,897,110
	58,897,110
Total deductions	
Change in net assets	(3,968,053)
Net assets, July 1, 2007	33,729,821
Net assets, June 30, 2008	\$ 29,761,768

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

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

The accounting policies of Graham County (County) conform to accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

For the year ended June 30, 2008, the County implemented the provisions of GASB Statement No's. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*; and 50, *Pension Disclosure (an amendment of GASB Statements No. 25 and No. 27)*. GASB Statement No. 45 establishes governmental employer accounting and financial reporting requirements for postemployment benefits other than pensions. GASB Statement No. 50 amends GASB Statement No's. 25 and 27 to require governmental employers to present certain additional pension disclosures in the notes and additional required supplementary information.

**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 are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. The 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 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.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

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

Program revenues include:

- charges to customers or applicants for goods, services, or privileges provided;
- operating grants and contributions; and
- capital grants and contributions

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, 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 Fund* accounts for pooled assets held and invested by the County Treasurer on behalf of County departments and other governmental entities.

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**C. Basis of Accounting**

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, (with the exception of the agency fund) and the accrual basis of accounting. The agency fund is custodial in nature and does not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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

All investments are stated at fair value.

**E. Inventories**

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



Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

Inventories in the government-wide financial statements are recorded as assets when purchased and expensed when consumed.

**F. Property Tax Calendar**

The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and becomes delinquent after the first business day of November. The second installment is due on the first day of March of the next year and becomes delinquent after the first business day of May.

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

**G. Capital Assets**

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

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

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	\$10,000		
Construction in progress	10,000		
Buildings	\$10,000	Straight-line	40 years
Machinery and equipment	\$2,500	Straight-line	5 -10 years
Vehicles	\$5,000	Straight-line	5 years
Infrastructure	\$10,000	Straight-line	40 years

**H. Investment Income**

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**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 240 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. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year end.

Employees may accumulate up to 1500 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but for employees with less than 500 hours of accumulated sick leave, these hours are forfeited upon termination of employment. Pursuant to ARS 38-615, upon separation for the purpose of retirement, employees with at least 500 hours of accrued sick leave will receive a set percentage of the employee's final hourly rate for each hour of accumulated sick leave, in accordance with the schedule identified below. However, the maximum that is payable to an employee or officer under this provision shall not exceed \$30,000. Vested sick leave is accrued in the government-wide financial statements at the lesser of \$30,000 or the number of accrued hours multiplied by the employee's current hourly rate at the rate of reimbursement presented below. Vested sick hours are only accrued in the governmental fund financial statements if they have matured, as defined in the previous paragraph.

<u>Sick Leave Balance</u>	<u>Rate of Reimbursement</u>
500 - 749 hours	25% of established hourly rate for each hour
750 - 999 hours	33% of established hourly rate for each hour
1,000 – 1,500 hours	50% of established hourly rate for each hour

**Note 2 - Individual Fund Deficit**

The Racing Commission Parks Fund which is an Other Governmental Fund had a fund deficit of \$268,565 at June 30, 2008. The deficit is expected to be corrected through normal operations.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Note 3 - Deposits and Investments**

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified state and local government bonds; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

*Credit risk*

Statutes have the following requirements for credit risk:

1. Commercial paper must be rated P1 by Moody's investors service or A1 or better by Standard and Poor's rating service.
2. Corporate bonds, debentures, and notes must be rated A or better by Moody's investors service or Standard and Poor's rating service.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

*Custodial credit risk*

Statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

*Concentration of credit risk*

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

*Interest rate risk*

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits have a maximum maturity of 3 years. Investments in repurchase agreements must have a maximum maturity of 180 days.

*Foreign currency risk*

Statutes do not allow foreign investments.

**Deposits** – At June 30, 2008, the carrying amount of the County's deposits was \$3,129,865, and the bank balance was \$3,189,311. The County does not have a policy related to custodial credit risk.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Investments** – The County’s investments at June 30, 2008, were as follows:

<u>Investment Type</u>	<u>Amount</u>
State Treasurer’s investment pool 7	\$ 7,777,130
State Treasurer’s investment pool 5	1,407,117
U.S. agency securities	16,041,234
U.S. Treasury securities	6,689,380
Total	<u>\$ 31,914,861</u>

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

**Credit Risk** – The County does not have a formal investment policy with respect to credit risk. At June 30, 2008, credit risk for the County’s investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
State Treasurer’s investment pool 7	Unrated	Not applicable	\$7,777,130
State Treasurer’s investment pool 5	Unrated	Not applicable	1,407,117
U.S. agency securities	AAA	Standard + Poor’s	16,041,234
Total			<u>\$25,225,481</u>

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

**Concentration of credit risk** – The County does not have a formal investment policy with respect to concentration of credit risk. The County had investments at June 30, 2008, of 5 percent or more in the Federal National Mortgage Association, the Federal Home Loan Bank and the Federal Farm Credit Bank. These investments were 10.99 percent, 21.95 percent and 11.02 percent, respectively, of the County’s total investments.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Interest rate risk** – The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2008, the County had the following investments in debt securities.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (In Years)</u>
State Treasurer's investment pool 7	\$ 7,777,130	0.06
State Treasurer's investment pool 5	1,407,117	0.12
U.S. agency securities	16,041,234	2.79
U.S. Treasury securities	6,689,380	1.76
Total	<u>\$ 31,914,861</u>	

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

Cash, deposits, and investments:

Cash on hand	\$ 318,156
Amount of deposits	3,129,865
Amount of investments	31,914,861
Total	<u>\$ 35,362,882</u>

Statements of Net Assets and Fiduciary Net Assets:

	Governmental Activities	Investment Trust Fund	Agency Fund	Total
Cash and cash equivalents	<u>\$ 5,574,581</u>	<u>\$29,755,270</u>	<u>\$ 33,031</u>	<u>\$ 35,362,882</u>

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Note 4 - Due From Other Governments**

Amounts due from other governments at June 30, 2008, include \$201,882 in state-shared revenue from sales tax, \$219,929 in county excise tax distributions due from the State Treasurer, \$49,269 in state motor vehicle license taxes from the Arizona Department of Transportation, \$209,774 in prisoner detention fees from the U.S. Department of Justice, \$234,200 in Medicaid shared reimbursement from the State of Arizona and \$71,800 in other fees from federal, state, and local governments recorded in the General Fund; \$218,385 in state-shared revenue from highway user taxes, \$35,489 in state motor vehicle license taxes from the Arizona Department of Transportation and \$103,802 in fees from other local governments recorded in the Highway Road Fund; \$210,338 in reimbursements from Homeland Security Grants and \$390,657 in other fees and grants from federal, state and local governments recorded in the Other Governmental Funds.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Delinquent property taxes receivable	\$ 118,405	\$ -0-
Unearned grant revenue	-0-	1,539,943
Other Governmental Funds		
Delinquent property taxes receivable	<u>3,886</u>	<u>-0-</u>
	<u>\$ 122,291</u>	<u>\$ 1,539,943</u>

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Note 5 - Capital Assets**

Capital assets activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,720,646	\$ 37,369	\$ -	\$ 2,758,015
Construction in progress	981,374	2,274,513	136,075	3,119,812
Total capital assets not being depreciated	<u>3,702,020</u>	<u>2,311,882</u>	<u>136,075</u>	<u>5,877,827</u>
Capital assets being depreciated:				
Buildings	13,807,497	-	-	13,807,497
Machinery and equipment	10,712,163	1,029,463	307,522	10,434,104
Infrastructure	16,734,911	261,178	-	16,996,089
Total	<u>41,254,571</u>	<u>1,290,641</u>	<u>307,522</u>	<u>42,237,690</u>
Less accumulated depreciation for:				
Buildings	4,235,426	335,676	-	4,571,102
Machinery and equipment	6,556,570	1,134,742	300,115	7,391,197
Infrastructure	4,813,808	422,716	-	5,236,524
Total	<u>15,605,804</u>	<u>1,893,134</u>	<u>300,115</u>	<u>17,198,823</u>
Total capital assets being depreciated, net	<u>25,648,767</u>	<u>(602,493)</u>	<u>7,407</u>	<u>25,038,867</u>
Governmental activities capital assets, net	<u>\$ 29,350,787</u>	<u>\$ 1,709,389</u>	<u>\$ 143,482</u>	<u>\$ 30,916,694</u>

Depreciation expense was charged to functions as follows:

<b>Governmental Activities:</b>	
General government	\$ 330,362
Public safety	568,883
Highways and streets	765,174
Sanitation	591
Health	83,337
Culture and recreation	38,842
Education	105,945
Total governmental activities depreciation expense	<u>\$1,893,134</u>

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Note 6 - Capital Leases**

The County has entered into lease agreements as lessee for financing the acquisition of a phone system and computer equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of its net minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Equipment	\$ 538,411
Less: accumulated depreciation	<u>182,172</u>
Total	<u>\$ 356,239</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2008, were as follows:

	Governmental Activities
Year ending June 30,	
2009	\$ 164,269
2010	88,578
2011	<u>73,440</u>
Total minimum lease payments	326,287
Less: amount representing interest	<u>(15,614)</u>
Present value of net minimum lease payments	<u>\$ 310,673</u>

**Note 7 - Long-term Liabilities**

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2008.

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within 1 year
<b>Governmental activities:</b>					
Compensated absences payable	\$ 787,753	\$ 656,951	\$ (600,965)	\$ 843,739	\$ 632,804
Leases payable	188,597	207,189	(85,113)	310,673	154,719
Landfill closure and postclosure care costs payable	<u>2,737,664</u>	<u>2,147</u>	<u>(2,658,941)</u>	<u>80,870</u>	<u>1,760</u>
Governmental activities long-term liabilities	<u>\$ 3,714,014</u>	<u>\$ 866,287</u>	<u>\$ (3,345,019)</u>	<u>\$ 1,235,282</u>	<u>\$ 789,283</u>



Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Note 8 - Compensated Absences**

Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2008, the County paid for compensated absences as follows: 71 percent from the General Fund, 10 percent from other major funds, and 19 percent from other funds.

**Note 9 - 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 \$80,870 reported as landfill closure and postclosure care liability at June 30, 2008, represents the cumulative amount reported to date for postclosure care of the Central Landfill, which represent the estimated current costs to maintain and monitor the landfill. The amount is based on the use of 100 percent of the estimated capacity of the landfill. The County closed the Central Landfill during the 2003 fiscal year and transferred operations of the Regional Landfill to the City of Safford on July 1, 2003. During the current fiscal year, the County with the assistance from the Arizona Department of Environmental Quality, transferred the financial liability to the City of Safford. The actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Note 10 - Interfund Balances and Activity**

Interfund transfers for the year ended June 30, 2008, were as follows:

	Transfer to		
	General Fund	Other Governmental Funds	Total
<b>Transfer from</b>			
General Fund	\$ -0-	\$ 30,495	\$ 30,495
Highway Road Fund	-0-	500,000	500,000
Other Governmental Funds	<u>122,184</u>	<u>-0-</u>	<u>122,184</u>
<b>Total</b>	<u>\$ 122,184</u>	<u>\$ 530,495</u>	<u>\$ 652,679</u>

Transfers are used to move revenues from the fund that statute or budget requires monies to be collected to the fund that statute or budget requires monies to be expended. The transfer from the Highway Road Fund to Other Governmental Funds was recorded to fund the matching portion of the eighth avenue bridge project.

**Note 11 - 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 a deductible 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 \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A County must participate in the pool for 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.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

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 every five years. 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 life, health and disability benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust, currently composed of six member counties. The Trust provides benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and may require its employees to contribute a portion of that premium. The County is not liable for claims in excess of coverage limits due to reinsurance and stop loss agreements, 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.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**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.

Substantially all deposits and all investments of the County's primary government are included in the County Treasurer's investment pool; therefore, the deposit and investment risks of the Treasurer's investment pool are the same as the County's deposit and investment risks. See Note 3 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow.

Investment Type	Principal	Interest Rates	Maturities	Fair Value
State Treasurer's investment pool 7	\$ 7,777,130	None stated	None stated	\$ 7,777,130
State Treasurer's investment pool 5	1,407,117	None stated	None stated	1,407,117
U.S. agency securities	16,020,850	3.34 – 5.07%	8/08 – 12/12	16,041,234
U.S. Treasury securities	6,095,505	2.53 – 4.72%	8/08 – 11/11	6,689,380
	<u>\$ 31,300,602</u>			<u>\$ 31,914,861</u>

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

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

**Statement of Net Assets**

Assets	\$ 34,685,149
Liabilities	-0-
Net assets	<u>\$ 34,685,149</u>

Net assets held in trust for:	
Internal participants	\$ 4,923,381
External participants	29,761,768
Total net assets held in trust	<u>\$ 34,685,149</u>

**Statement of Changes in Net Assets**

Total additions	\$ 84,719,845
Total deductions	89,879,926
Net decrease	<u>(5,160,081)</u>

Net assets held in trust:	
July 1, 2007	39,845,230
June 30, 2008	<u>\$ 34,685,149</u>

**Note 14 - Retirement Plans**

**Plan Descriptions** - The County contributes to the four plans described below. Benefits are established by state statute and the plans generally provide retirement, long-term disability, and health insurance premium benefits, including death and survivor benefits. The retirement benefits are generally paid at a percentage, based on years of service, of the retirees' average compensation. Long-term disability benefits vary by circumstance, but generally pay a percentage of the employee's monthly compensation. Health insurance premium benefits are generally paid as a fixed dollar amount per month towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan that covers employees of the State of Arizona and employees of 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.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

The *Public Safety Personnel Retirement System* (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium 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.

The *Corrections Officer Retirement Plan* (CORP) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers certain employees of the State of Arizona's Department of Corrections and Department of Juvenile Corrections, and county employees whose primary duties require direct inmate contact. The CORP is governed by The Fund Manager of PSPRS and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The *Elected Officials Retirement Plan* (EORP) administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium plan that covers State of Arizona and county elected officials and judges, and elected officials of participating cities. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. Because the health insurance premium plan benefit of the EORP is not established as a formal trust, the EORP is reported in accordance with GASB Statement No. 45 as an agent multiple-employer defined benefit plan. Accordingly, the disclosures that follow reflect the EORP as if it were an agent multiple-employer defined benefit plan.

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 North Central Avenue  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or (800) 621-3778

**PSPRS, CORP, and EORP**

3010 East Camelback Road, Suite 200  
Phoenix, AZ 85016-4416  
(602) 255-5575

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

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

*Cost-sharing plans*—For the year ended June 30, 2008, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

The County's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30	<u>Retirement Fund</u>	<u>Health Benefit Supplement Fund</u>	<u>Long-Term Disability Fund</u>
2008	\$ 445,523	\$ 58,112	\$ 27,672
2007	516,116	67,338	32,069
2006	394,735	51,501	24,527

*Agent plans*—For the year ended June 30, 2008, 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 12.89 percent and 5.39 percent for Graham County Sheriffs and Graham County Attorney Investigators, respectively; the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.68 percent and 0.90 percent of covered payroll for the Graham County Sheriffs and Graham County Attorney Investigators, respectively. Active CORP members were required by statute to contribute 7.96 percent of the members' annual covered payroll and the County was required to contribute 5.0 percent for both the Graham County Dispatchers and Corrections Officers; the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.24 percent and 0.41 percent of covered payroll for the Graham County Dispatchers and Corrections Officers, respectively. Active EORP members were required by statute to contribute 7.00 percent of the members' annual covered payroll; and the County was required to remit a designated portion of certain court fees plus additional contributions at the actuarially determined rate of 12.84 percent of the members' annual covered payroll. The health insurance premium portion of the contribution rate for normal cost was actuarially set at 1.05 percent of covered payroll.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2008, were established by the June 30, 2006, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on 1) the plans as understood by the County and plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2008 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	30 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	Investment rate of return 8.50%
Projected salary increases	5.50% – 8.50% for PSPRS and CORP; 5.00% for EORP
Inflation rate	5.00%



Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Annual Pension/OPEB Cost** - The County's pension/OPEB cost for the agent plans for the year ended June 30, 2008, and related information follows. The PSPRS and the CORP are reported in the aggregate and include all groups of employees.

	<u>PSPRS</u>		<u>CORP</u>		<u>EORP</u>	
	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>	<u>Pension</u>	<u>Health Insurance</u>
Annual pension/ OPEB cost	\$ 119,648	\$ 11,126	\$ 54,590	\$ 7,762	\$104,027	\$ 9,265
Contributions made	119,648	11,126	54,590	7,762	104,027	9,265

**Trend Information** - Annual pension cost information for the current and 2 preceding years follows for each of the agent plans. The PSPRS and the CORP are reported in the aggregate and include all groups of employees. Annual OPEB cost information for the current year (i.e., transition year) is as follows. Information about preceding years will be added over the next 2 years.

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension/ OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net Pension OPEB Obligation</u>
<b>PSPRS</b>				
Pension	2008	\$ 119,648	100 %	\$ -0-
Health insurance	2008	11,126	100	-0-
Pension and health insurance	2007	98,349	100	-0-
	2006	88,244	100	-0-
<b>CORP</b>				
Pension	2008	54,590	100	-0-
Health insurance	2008	7,762	-0-	-0-
Pension and health insurance	2007	101,300	100	-0-
	2006	62,979	100	-0-
<b>EORP</b>				
Pension	2008	104,027	100	-0-
Health insurance	2008	9,265	100	-0-
Pension and health insurance	2007	95,262	100	-0-
	2006	114,315	100	-0-

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2008

**Funded Status** - The funded status of the plans as of the most recent valuation date, June 30, 2008, along with the actuarial assumptions and methods used in those valuations follow. The PSPRS and CORP are reported in the aggregate. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Fund Manager obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government, is not available.

	<u>PSPRS</u>		<u>CORP</u>	
	<u>Premium</u>	<u>Health Insurance</u>	<u>Premium</u>	<u>Health Insurance</u>
<i>Actuarial accrued liability (a)</i>	\$ 2,821,606	\$ 116,169	\$ 1,334,819	\$ 32,945
<i>Actuarial value of assets (b)</i>	1,640,894	-0-	1,526,624	-0-
<i>Unfunded actuarial accrued liability (funding excess) (a) – (b)</i>	1,180,712	116,169	(191,805)	32,945
<i>Funded ratio (b)/(a)</i>	58.2%	-0-%	114.4%	-0-%
<i>Covered payroll (c)</i>	\$1,039,847	\$1,039,847	\$1,101,806	\$1,101,806
<i>Unfunded actuarial accrued liability (funding excess) As a percentage of covered payroll [(a) – (b)] / (c)</i>	113.5%	11.2%	-0-%	3.0%

**Note 15 – Subsequent Events**

Subsequent to June 30, 2008, the County entered into a \$336,081 long-term lease agreement, classified as a capital lease for accounting purposes, for the acquisition of a financial management system. The lease provides for thirty-six monthly principal and interest payments of \$10,012 beginning August 2008 at 3.85%.

## Required Supplementary Information

Graham County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2008

**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)
Pension 6/30/08	\$ 1,640,894	\$ 2,821,606	\$ (1,180,712)	58.2%	\$1,039,847	113.5%
Health 6/30/08	-0-	116,169	(116,169)	-0-	1,039,847	11.2%
Pension and Health 6/30/07	1,592,101	2,824,344	(1,232,243)	56.4%	960,460	128.3%
6/30/06	1,599,572	2,157,738	(558,166)	74.1%	688,726	81.0%

\*The Public Safety Personnel Retirement System is reported in the aggregate and includes the Graham County Sheriffs and Graham County Attorney Investigators.

**Corrections Officer Retirement Plan**

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)
Pension 6/30/08	\$ 1,526,624	\$ 1,334,819	\$ 191,805	114.4%	\$1,101,806	N/A %
Health 6/30/08	-0-	32,945	(32,945)	-0-	1,101,806	3.0%
Pension and Health 6/30/07	1,219,968	1,193,242	26,726	102.2%	1,084,818	N/A %
6/30/06	1,057,447	999,503	57,944	105.8%	703,722	N/A %

\* The Corrections Officer Retirement Plan is reported in the aggregate and includes both the Graham County Corrections Officers and Graham County Dispatchers.

Graham County  
Required Supplementary Information  
Notes to Schedule of Agent Retirement Plans' Funding Progress  
June 30, 2008

**Note 1 – Actuarial Information Available**

For valuation years prior to 2008, which was prior to the implementation of GASB Statement No's. 43 and 45, the actuarial measurements were made in the aggregate as to pension and health insurance benefits. In future years when GASB Statement No's. 43 and 45 measurements are made and reported, the pension and health insurance benefits information will be disaggregated and reported separately. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Fund Manager obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government, is not available.

Graham County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 2,542,399	\$ 2,542,399	\$ 2,486,959	\$ (55,440)
Licences and permits	120,000	120,000	123,802	3,802
intergovernmental	13,150,000	13,150,000	12,181,134	(968,866)
Charges for services	906,700	906,700	731,662	(175,038)
Fines and forfeits	425,000	425,000	316,998	(108,002)
Investment income	75,000	75,000	78,312	3,312
Rents	24,000	24,000	41,000	17,000
Miscellaneous	248,000	248,000	280,789	32,789
Total revenues	17,491,099	17,491,099	16,240,656	(1,250,443)
<b>Expenditures:</b>				
<b>Current:</b>				
<b>General Government</b>				
Board of Supervisors	636,058	636,058	617,613	18,445
Treasurer	316,785	316,785	310,207	6,578
Assessor	521,180	521,180	435,209	85,971
Recorder	252,503	252,503	240,692	11,811
Elections	189,197	189,197	92,317	96,880
Attorney	1,001,307	1,001,307	921,677	79,630
Clerk of the Court	602,470	602,470	546,562	55,908
Superior Court	653,090	653,090	627,848	25,242
Justice of the Peace No.1	371,000	371,000	326,685	44,315
Justice of the Peace No.2	241,025	241,025	235,906	5,119
Victim Witness	21,947	21,947	21,947	-
Public Fiduciary	102,400	102,400	107,836	(5,436)
Planning and Zoning	255,890	255,890	248,601	7,289
Building Maintenance	202,384	202,384	197,445	4,939
Electrical Maintenance	74,802	74,802	53,483	21,319
Overtime	14,070	14,070	556	13,514
General Services	299,000	299,000	283,147	15,853
Contingency	1,000,000	1,000,000	80,404	919,596
Miscellaneous	739,904	739,904	485,662	254,242
Medical Examiner	30,000	30,000	43,000	(13,000)
Information Technology	951,140	951,140	762,116	189,024
Total general government	8,476,152	8,476,152	6,638,913	1,837,239
<b>Public Safety</b>				
Probation	85,490	85,490	94,018	(8,528)
Sheriff	4,483,482	4,483,482	4,450,435	33,047
Search and Rescue	41,000	41,000	14,691	26,309
Juvenile Detention Center	2,208,616	2,208,616	2,189,284	19,332
Animal Shelter	241,468	241,468	228,336	13,132
Total public safety	7,060,056	7,060,056	6,976,764	83,292

See accompanying notes to budgetary comparison schedules.

(Continued)

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2008

(Concluded)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Sanitation				
Sanitary Landfill	111,600	111,600	110,902	698
Total sanitation	111,600	111,600	110,902	698
Health				
Health Services	249,049	249,049	244,378	4,671
Total health	249,049	249,049	244,378	4,671
Welfare				
Attorney for the Indigent	566,500	566,500	586,499	(19,999)
Indigent Medical	1,706,400	1,706,400	1,684,856	21,544
Total Welfare	2,272,900	2,272,900	2,271,355	1,545
Cultural and recreation				
Parks and Recreation	229,067	229,067	269,656	(40,589)
Total culture and recreation	229,067	229,067	269,656	(40,589)
Education				
School Superintendent	191,026	191,026	187,220	3,806
Employment and Training	13,088	13,088	11,191	1,897
Total education	204,114	204,114	198,411	5,703
Capital Outlay	940,000	940,000	423,278	516,722
Total expenditures	19,542,938	19,542,938	17,133,657	2,409,281
Excess (deficiency) of revenues over expenditures	(2,051,839)	(2,051,839)	(893,001)	1,158,838
Other financing sources (uses):				
Transfer in	16,000	16,000	122,184	106,184
Transfer out	-	-	(30,495)	(30,495)
Capital lease	-	-	207,189	207,189
Total other financing sources (uses)	16,000	16,000	298,878	282,878
Net change in fund balances	(2,035,839)	(2,035,839)	(594,123)	1,441,716
Fund balance, July 1, 2007	2,035,839	2,035,839	1,229,356	(806,483)
Fund balance, June 30, 2008	\$ -	\$ -	\$ 635,233	\$ 635,233

See accompanying notes to budgetary comparison schedules.

Graham County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Highway Road Fund  
 Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 3,966,172	\$ 3,966,172	\$ 3,612,769	\$ (353,403)
Charges for services	95,000	95,000	72,303	(22,697)
Investment income	60,000	60,000	75,443	15,443
Rents	-	-	1,200	1,200
Miscellaneous	10,000	10,000	214,202	204,202
<b>Total revenues</b>	<b>4,131,172</b>	<b>4,131,172</b>	<b>3,975,917</b>	<b>(155,255)</b>
Expenditures				
Current:				
Highways and Streets				
General Road	4,277,414	4,277,414	3,008,197	1,269,217
Engineering	323,654	323,654	309,600	14,054
Safety Department	77,115	77,115	39,084	38,031
<b>Total highways and streets</b>	<b>4,678,183</b>	<b>4,678,183</b>	<b>3,356,881</b>	<b>1,321,302</b>
Capital Outlay	738,000	738,000	443,045	294,955
<b>Total expenditures</b>	<b>5,416,183</b>	<b>5,416,183</b>	<b>3,799,926</b>	<b>1,616,257</b>
Excess (deficiency) of revenues over expenditures	(1,285,011)	(1,285,011)	175,991	1,461,002
Other financing sources and uses:				
Transfer out	-	-	(500,000)	(500,000)
<b>Total other financing sources and uses</b>	<b>-</b>	<b>-</b>	<b>(500,000)</b>	<b>(500,000)</b>
Net change in fund balances	(1,285,011)	(1,285,011)	(324,009)	961,002
Fund balance, July 1, 2006	1,285,011	1,285,011	2,093,269	808,258
Increase in reserve for inventories	-	-	196,478	196,478
<b>Fund balance, June 30, 2007</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,965,738</b>	<b>\$ 1,965,738</b>

See accompanying notes to budgetary comparison schedules.



Graham County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2008

**Note 1 - Budgeting and Budgetary Control**

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

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

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

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

For the year ended June 30, 2008, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) for the General Fund in the following departments. Budgets in these departments have been increased for the next fiscal year and discussions are ongoing with Department Supervisors/Elected Officials to change procedure, including adding new financial software to give departments' greater access to data for making financial decisions.

<u>Department</u>	<u>Excess</u>
Public Fiduciary	\$ 5,436
Medical Examiner	13,000
Probation	8,528
Attorney for the Indigent	19,999
Parks and Recreation	40,489

## Supplementary Information

**Graham County**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Direct Grants:			
Watershed Protection and Flood Prevention	10.904	N/A	\$ 58,152
Pass-through programs from:			
Arizona Department of Education National School Lunch Program	10.555	N/A	34,862
Arizona Department of Health Services Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	HG361073	194,449
Arizona State Treasurer Schools and Roads – Grants to States	10.665	None	<u>79,656</u>
Total U.S. Department of Agriculture			<u>367,119</u>
<b>U.S. Department of Housing and Urban Development</b>			
Pass-through programs from:			
Arizona Department of Housing Community Development Block Grant	14.228	116-07	<u>101,825</u>
Total U.S. Department of Housing and Urban Development			<u>101,825</u>
<b>U.S. Department of the Interior</b>			
Direct grants:			
Payments in Lieu of Taxes BLM – Patrol Grant	15.226 15.Unknown	N/A N/A	1,487,969 <u>1,186</u>
Total U.S. Department of the Interior			<u>1,489,155</u>
<b>U.S. Department of Justice</b>			
Direct grants:			
Methamphetamine Interdiction Grant	16.710	N/A	3,711
Pass-through programs from:			
Arizona Criminal Justice Commission Byrne Formula Grant Program	16.538	AC-08-130	25,151
Crime Victim Assistance/Discretionary Grants	16.576	VA008053	<u>7,672</u>
Total U.S. Department of Justice			<u>36,534</u>
<b>U.S. Department of Labor</b>			
Pass-through programs from:			
Arizona Department of Economic Security WIA Cluster:			
WIA Administrative Costs	17.259	E5704005	18,089
WIA Youth Activities	17.259	E5703005	76,949
WIA Adult Program	17.258	E5703005	<u>100,806</u>
Total U.S. Department of Labor			<u>195,844</u>
<b>U.S. Department of Transportation</b>			
Pass-through programs from:			
Arizona Department of Transportation Federal Highway Administration	20.205	STPGGHO(1)P	24,562
Federal Highway Administration	20.205	BR-GGH-0(007)A	<u>113,220</u>
Total U.S. Department of Transportation			<u>137,782</u>

(Continued)

**Graham County**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2008

<u>Federal Grantor/Pass-Through Grantor/Program Title (Concluded)</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Education</b>			
Pass-through programs from:			
Arizona Department of Education			
Title I – LEA School Improvement	84.010	SO10A070003	\$ 14,543
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	HO27A070007	398,768
Special Education - Preschool Grants	84.173	H173A070003	23,053
Secure Care	84.027	HO27A050007	9,536
Total Special Education Cluster			<u>431,357</u>
Safe and Drug Free Schools and Communities: State Grants	84.186	Q186A070003	335
Innovative Education Program Strategies	84.298	S298A070003	110
Education Technology State Grants	84.318	S318X070003	81,135
Title VI – Small Schools Rural Achievement Program	84.358	S358B070003	16,207
Improving Teacher Quality State Grants	84.367	S367A070049	42,890
Jail Resource Officer	84.Unknown	Unknown	59,915
Total U.S. Department of Education			<u>646,492</u>
<b>U.S. Department of Health and Human Services</b>			
Pass-through programs from:			
Arizona Department of Health Services			
Immunization Grants	93.268	15-2041	49,058
Breast and Cervical Cancer Early Detection	93.919	HG361204	76,347
Healthy Start Initiative	93.926	HG361270	64,900
HIV Prevention Activities: Health Department Based	93.940	15-2013	6,816
Maternal and Child Health Services Block Grant to the States	93.994	76-1105	53,716
Bioterrorism Grant Training and Curriculum Development Program	93.996	252044	238,336
Total U.S. Department of Health and Human Services			<u>489,173</u>
<b>U.S. Department of Homeland Security</b>			
<b>Homeland Security Grant Cluster:</b>			
Pass-through programs from:			
Arizona Department of Emergency and Military Affairs			
Emergency Management – Performance Grants	97.042	Unknown	101,324
Homeland Security Grant Program	97.067	2006-GE-T6-007	427,587
Homeland Security Grant Program	97.067	2008-SG-T8-0007	45,029
Total U.S. Department of Homeland Security			<u>573,940</u>
Total Expenditures of Federal Awards			<u>\$ 4,037,864</u>

Graham County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2008

**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 2008 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to the program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" was used.

**Note 3 - Subrecipients**

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

Program Title	CFDA Number	Amount
Education Technology State Grants	84.318	\$ 81,135

**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, Arizona (County) as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated February 15, 2009. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45 and 50. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the basic financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **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 or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management of Graham County in a separate letter dated February 15, 2009.

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, management, 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.

  
Cronstrom, Osuch & Company, P.C.

February 15, 2009

**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, Arizona (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, 2008. 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 of 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, 2008.



## Internal Control over Compliance

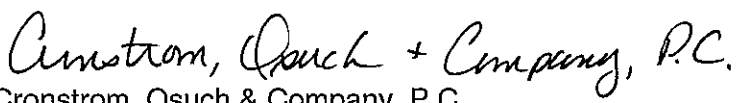
The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness, as defined above.

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, management, 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.

  
Cronstrom, Osuch & Company, P.C.

February 15, 2009

Graham County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2008

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

**Financial Statements**

Type of auditor's report issued:

**Unqualified**

	<u>YES</u>	<u>NO</u>
Material weakness identified in internal control over financial reporting?	_____	<u>X</u>
Significant deficiency identified not considered to be a material weakness?	_____	<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	_____	<u>X</u>

**Federal Awards**

Material weakness identified in internal control over major programs?	_____	<u>X</u>
Significant deficiency identified not considered to be a material weakness?	_____	<u>X</u> (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])?	_____	<u>X</u>
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Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payments in Lieu of Taxes
84.027 and 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:		\$300,000
Auditee qualified as low-risk auditee?	_____	<u>X</u>

**Other Matters**

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (Section .315[b])?	_____	<u>X</u>
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Graham County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2008

**Section II - Financial Statement Findings**

No matters reported.

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

No matters reported.

**Section IV – Summary Schedule of Prior Year Audit Findings**

U.S. Department of Homeland Security  
 Homeland Security Grant Cluster  
 CFDA Nos.: 97.042 and 97.067  
 Award year: 2007  
 Award Number: 2006-TE-CX-0196  
 Passed through the Arizona Department of  
 Emergency and Military Affairs

U.S. Department of the Interior  
 Payments in Lieu of Taxes  
 CFDA No.: 15.226  
 Award year: 2007  
 Award Number: N/A

U.S. Department of Health and Human Services  
 Bioterrorism Grant Training and Curriculum  
 Development Program  
 CFDA No.: 93.996  
 Award year: 2007  
 Award No.: 252044  
 Passed through the Arizona Department of  
 Health Services

U.S. Department of Education  
 Special Education Cluster  
 CFDA Nos.: 84.027 and 84.173  
 Award year: 2007  
 Award Nos.: H027A000007 and  
 H143A010003  
 Passed through the Arizona Department  
 of Education

07-1 and 06-1	<i>Condition/ Context</i>	The annual financial statement audit and compliance audit of the County's federal grants was not completed within nine months of the end of the fiscal year.
	<i>Status</i>	Corrected in fiscal year 2007-08.

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2008

**Section IV – Summary Schedule of Prior Year Audit Findings (Concl'd)**

U.S. Department of Education  
Special Education Cluster  
CFDA Nos.: 84.027 and 84.173

Award year: 2007

Award Nos.: H027A000007 and H143A010003

Passed through the Arizona Department of Education

07-2    *Condition*                      Cash balances as reported on cash management reports did not  
always agree to the general ledger.

*Status*                              Corrected in fiscal year 2007-08.