A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Graham County

Year Ended June 30, 2009

STATE OF ARIZONA
OFFICE OF THE
AUDITOR
GENERAL

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Debra K. Davenport
Auditor General

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Graham County
Single Audit Reporting Package
Year Ended June 30, 2009

Table of Contents | Page

Graham County
Single Audit Reporting Package
Year Ended June 30, 2009

Table of Contents Page

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through viii, the Budgetary Comparison Schedules on pages 32 through 36, and the Schedule of Agent Retirement Plans' Funding Progress on pages 37 through 39 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 our 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.

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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 connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies received by the County pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the County solely for the authorized transportation purposes. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010, 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.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, and management and 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.

Debbie Davenport
Auditor General

November 22, 2010

Graham County
Management's Discussion and Analysis
June 30, 2009

As management of Graham County, we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of Graham County for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The assets of Graham County exceeded its liabilities at the close of the current fiscal year by $36,436,302 (net assets). Of this amount, $1,027,650 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of $6,420,497, a decrease of $926,880 in comparison with the prior year as restated.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was $1,729,103, or 10 percent of total General Fund expenditures.
- Graham County's capital assets increased by $437,417 during the current fiscal year. The key factor in this increase is construction projects that were completed in this fiscal year. The largest expenditures were related to the completion of the Ft. Grant Road project. Other projects completed were the additional cell, classroom, and laundry room for the adult detention facility and the CDBG project at the fairgrounds.

Overview of the Financial Statements

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

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 County's financial position is improving or deteriorating.

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

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

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

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

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

Because the 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*.

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

The basic governmental fund financial statements can be found on pages 3 through 7 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

The fiduciary funds financial statements can be found on pages 8 and 9 of this report.

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

The notes to the financial statements can be found on pages 10 through 29 of this report.

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

Required supplementary information can be found on pages 32 through 39 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. At the close of the fiscal year, Graham County's assets exceeded liabilities by $36,436,302.

Condensed Statement of Net Assets
As of June 30, 2009 and 2008

	Governmental Activities	
	2009	2008*
Current and other assets	$ 7,462,772	$ 8,337,816
Capital assets	31,211,497	30,774,080
Total assets	38,674,269	39,111,896
Long-term liabilities outstanding	1,540,108	1,235,282
Other liabilities	697,859	868,148
Total liabilities	2,237,967	2,103,430
Net assets:		
Invested in capital assets, net of related debt	30,717,258	30,463,407
Restricted	4,691,394	4,913,524
Unrestricted	1,027,650	1,631,535
Total net assets	$36,436,302	$37,008,466

* Net assets, capital assets, and other liabilities amounts for fiscal year 2008 were adjusted for various amounts due to the fiscal year 2008 beginning balance restatement. See Note 2 – Beginning Balances Restated for additional information.

The largest portion of Graham County's net assets (84 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure). This amount is presented less accumulated depreciation and any related debt used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the 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, decreased from $1,631,535 at June 30, 2008, (as restated) to $1,027,650 at June 30, 2009.

The decrease in unrestricted net assets is a reflection of the continuing struggle of the County, in the current economic conditions, to obtain revenues to meet the cost of providing mandated services to Graham County's citizens.

Current assets, related to governmental activities, decreased as compared to the previous fiscal year, even though property tax receivables increased 166 percent. Along with the economic challenges small business owners and homeowners are having, one large taxpayer did not make their tax payments and also sued Graham County to reduce its assessed value to reduce its tax bill. Decreases in cash, due from other governments, and inventories more than offset the property tax receivable increase. The County received an economic strength and job creation grant from the Arizona Departments of Commerce and Transportation to improve a county road, which largely contributed to the increase in capital assets.

Accounts payable decreased significantly as the County put increased efforts into making timely payments for its supplies and services. Most of this decrease was offset by accruing the County's remainder of payroll costs at the end of the fiscal year. Deposits held for others decreased dramatically this fiscal year, as most of the deposits were reclassified to being held in a fiduciary capacity by the County. The liability for compensated absences increased modestly, reflecting an increased carryover of vacation and sick leave hours by employees. The County entered into lease agreements as lessee for financing the acquisition of computer equipment, an accounting system, and sheriff's vehicles. Therefore, new capital leases exceeded the current year lease payments. The County's liability for post-closure costs for landfills remained almost unchanged from the prior year.

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 decreased $572,164 as inflation and increased use of services outpaced revenue increases. 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.

Condensed Statement of Revenues,
Expenses and Changes in Net Assets
Years Ended June 30, 2009 and 2008

	Governmental Activities	
	2009	2008*
Revenues		
Program revenues:		
Charges for services**	$ 2,929,664	$ 2,837,600
Operating grants and contributions**	10,335,378	11,031,102
Capital grants and contributions	0	2,000,000
General revenues:		
Property taxes	2,972,434	2,553,309
Sales taxes	5,143,005	5,777,169
Vehicle license tax **	1,610,757	1,696,482
Grants and contributions not restricted to specific programs **	3,499,434	3,027,912
Miscellaneous	2,161,900	1,786,426
Total revenues	28,652,572	30,710,000
Expenses		
General government**	8,074,038	7,993,587
Public safety	9,760,314	9,555,776
Highways and streets	4,431,042	4,049,079
Sanitation	198,484	162,863
Health	1,422,829	1,347,114
Welfare	2,449,406	2,271,355
Culture and recreation	583,743	635,054
Education	2,304,880	2,279,440
Total expenses	29,224,736	28,294,268
Increase (decrease) in net assets before special items	(572,164)	2,415,732
Special items	0	2,658,941
Increase (decrease) in net assets	(572,164)	5,074,673
Net assets—beginning (as restated)	37,008,466	31,933,793
Net assets—ending	$36,436,302	$37,008,466

* Net assets for July 1, 2008, were adjusted by $1,397,329 for capital assets and intergovernmental revenue adjustments related to the prior period. See Note 2 – Beginning Balances Restated for additional information.

** The fiscal year 2008 revenue amounts and general government expenditures have been reclassified for comparison with fiscal year 2009 amounts.

Governmental activities

Governmental activities revenues totaled $28,652,572 for fiscal year 2009. The following are highlights of county revenues:

- Capital grants and contributions decreased by $2 million over the previous year. The County did not receive any capital grant revenues.

- The collection of property tax levies continued to increase this fiscal year by $419,125, or 16 percent, as the Safford mine of Freeport-McMoRan Copper & Gold Inc. continued to add equipment and buildings costs to the tax rolls along with three new hotels in the area.

- Overall sales tax revenue decreased by $634,164, or 11 percent, which reflects a state-wide trend of decreases in locally collected sales taxes and state revenue sharing due to the recession.

- Grants and contributions not restricted to specific programs increased by $471,522, or 16 percent, in the current year due to an increase in Payments in Lieu of Taxes (PILT).

- The County reported special items of $2,658,941 in the prior fiscal year due to a one-time transfer of the liability for closure and postclosure care costs of the Regional Landfill to the City of Safford.

Expenses:

Overall expenses in governmental activities increased by $930,468, or 3 percent. For the most part, increases in expenses closely paralleled inflation and growth in the demand for services, with the exception of culture and recreation. The decrease in culture and recreation expenses was largely the result of decreased expenses related to annual horse races, with the remainder due to making changes in the operation of the snack bar.

Financial Analysis of the Government's Funds

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

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

The General Fund is the County's primary operating fund. At June 30, 2009, the General Fund's unreserved fund balance was $1,729,103, which was a decrease of $446,073 over the prior year as restated. There was an excess of expenditures over revenues in the General Fund of $1,606,295 (prior to any other financing sources or uses), which was primarily due to an increase in costs overall. Revenues did not keep pace with the expenditures. The State of Arizona kept some lottery funds and reimbursements for AHCCCS payments that it historically had passed on to the County.

The Highway Road Fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the County's care. The fund balance for the Highway Road Fund increased $57,685 this fiscal year. $285,870 was transferred to the Ft. Grant road project to cover the County's share and cost overruns for that project. Management made a conscious effort to increase the fund balance as the Arizona State Legislature reduced funding to help balance the State's budget.

The other governmental fund balance decreased by $538,492. This is a combination of many nonmajor funds of the County, most funded by various grants. Funding for several programs are being cut or reduced as the economy continues to struggle. As a result, balances were reduced and not replenished this fiscal year.

General Fund Budgetary Highlights

There were no amendments to the original budget for the General Fund. General Fund revenues were less than the final budget by $1,921,411, or 10.4 percent. A significant unfavorable revenue variance of $1,244,802, as compared to the budget, was incurred for intergovernmental revenues. This variance is primarily due to state-shared sales taxes received being less than anticipated due to the decline in the State's economic environment and a shortfall in funding from the Bureau of Prisons for housing juvenile detainees. General Fund expenditures were less than the final budget by $1,900,538, or 9.5 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of $2,027,251. These savings were a result of conservative budgeting practices and reduced spending due to declining economic conditions that resulted in spending less than anticipated from the contingency and miscellaneous funds.

Capital Asset and Debt Administration

Capital assets—The County's capital assets for its governmental activities as of June 30, 2009, amounts to $31,211,497 (net of accumulated depreciation). The capital assets include land, buildings, infrastructure, machinery, and equipment. The net increase of $437,417 in capital assets for the current year includes the completion of the Ft. Grant Road Paving project, the CDBG projects at the county fairgrounds, a new financial software package for the County, and vehicles for the sheriff's office. Also, the capital assets beginning balances were restated (decreased) by $142,614 for the correction of errors. Additional information on Graham County's capital assets can be found in Note 6 on page 18 of this report.

Long-term Debt—At the end of the current fiscal year, the County had total long-term liabilities outstanding of $1,540,108. Included in long-term liabilities is $965,086 for the future payment of compensated absences for unused employee vacation leave. The remainder of the long-term liabilities consists of capital leases of $494,239 and post-closure care costs of $80,783. The County did not have any outstanding bonded debt.

Additional information on the County's long-term debt can be found in Note 8 to the financial statements on pages 19 through 21.

Economic Factors and Next Year's Budget and Rates

- The unemployment rate for Graham County is currently 14.5 percent, which is a threefold increase from a rate of 5.6 percent a year ago. This is almost double the state rate of 8.7 percent, reflecting the difficult economic conditions in Graham County at the current time.

- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for fiscal year 2010. The unreserved ending fund balance in the General Fund of $1,729,103 was appropriated for spending in the fiscal year 2010 budget. The 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 fiscal year 2010.

Requests for Information

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

Graham County
Statement of Net Assets
June 30, 2009

	Primary Government
	Governmental Activities
Assets	
Cash, cash equivalents and investments	$ 5,086,281
Receivables:	
Property taxes	365,790
Due from other governments	1,449,260
Inventories	561,441
Capital assets, not being depreciated	5,636,657
Capital assets, being depreciated, net	25,574,840
Total assets	38,674,269
Liabilities	
Accounts payable	299,618
Accrued payroll and employee benefits	361,320
Deposits held for others	36,921
Noncurrent liabilities	
Due within 1 year	1,021,784
Due in more than 1 year	518,324
Total liabilities	2,237,967
Net Assets	
Invested in capital assets, net of related debt	30,717,258
Restricted for:	
Highways and streets	2,023,423
Capital projects	73,720
Other purposes	2,594,251
Unrestricted	1,027,650
Total net assets	$ 36,436,302

See accompanying notes to financial statements.

Graham County
Statement of Activities
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets: Primary Government: Governmental Activities
Primary government:				
Governmental activities:				
General government	$ 8,074,038	$ 1,508,491	$ 2,622,520	$ (3,943,027)
Public safety	9,760,314	258,627	1,911,835	(7,589,852)
Highways and streets	4,431,042	156,968	3,735,607	(538,467)
Sanitation	198,484		46,443	(152,041)
Health	1,422,829	32,455	938,126	(452,248)
Welfare	2,449,406			(2,449,406)
Culture and recreation	583,743	45,540		(538,203)
Education	2,304,880	927,583	1,080,847	(296,450)
Total governmental activities	$ 29,224,736	$ 2,929,664	$ 10,335,378	(15,959,694)

General revenues:	
Property taxes, levied for general purposes	2,972,434
Shared revenues—state sales tax	5,143,005
Shared revenues—state vehicle license tax	1,610,757
Shared revenues—lottery	582,877
Grants and contributions not restricted to specific programs	3,499,434
Investment earnings	301,723
Miscellaneous	1,277,300
Total general revenues	15,387,530
Change in net assets	(572,164)
Net assets, July 1, 2008, as restated	37,008,466
Net assets, June 30, 2009	$ 36,436,302

See accompanying notes to financial statements.

Graham County
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash, cash equivalents and investments	$ 1,568,012	$ 1,078,166	$ 2,440,103	$ 5,086,281
Receivables:				
Property taxes	350,946		14,844	365,790
Due from:				
Other governments	582,462	457,406	409,392	1,449,260
Inventories		561,441		561,441
Total assets	$ 2,501,420	$ 2,097,013	$ 2,864,339	$ 7,462,772
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	154,509	36,420	108,689	299,618
Accrued payroll and employee benefits	250,213	37,170	73,937	361,320
Deposits held for others	36,921			36,921
Deferred revenue	330,674		13,742	344,416
Total liabilities	772,317	73,590	196,368	1,042,275
Fund balances:				
Reserved for:				
Inventories		561,441		561,441
Unreserved, reported in:				
General fund	1,729,103			1,729,103
Special revenue funds		1,461,982	2,594,251	4,056,233
Capital projects funds			73,720	73,720
Total fund balances	1,729,103	2,023,423	2,667,971	6,420,497
Total liabilities and fund balances	$ 2,501,420	$ 2,097,013	$ 2,864,339	$ 7,462,772

See accompanying notes to financial statements.

Graham County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2009

Fund balances—total governmental funds	$ 6,420,497
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.	31,211,497
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	344,416
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,540,108)
Net assets of governmental activities	$ 36,436,302

See accompanying notes to financial statements.

Graham County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 2,644,782		$ 105,527	$ 2,750,309
Licenses and permits	65,601			65,601
Fines and forfeits	269,911		89,515	359,426
Intergovernmental	12,401,881	$ 4,085,668	5,287,919	21,775,468
Charges for services	764,073	51,507	1,468,956	2,284,536
Investment earnings	139,447	42,541	119,733	301,721
Rents	59,051	1,320	71,490	131,861
Miscellaneous	173,638	146,479	443,022	763,139
Total revenues	16,518,384	4,327,515	7,586,162	28,432,061
Expenditures:				
Current:				
General government	7,028,847		864,156	7,893,003
Public safety	7,213,039		1,995,386	9,208,425
Highways and streets		3,237,700	311,525	3,549,225
Sanitation	151,964		46,607	198,571
Health	262,895		1,046,026	1,308,921
Welfare	2,449,406			2,449,406
Culture and recreation	260,973		289,008	549,981
Education	215,753		1,960,277	2,176,030
Capital outlay	541,802	627,317	1,218,744	2,387,863
Total expenditures	18,124,679	3,865,017	7,731,729	29,721,425
Excess (deficiency) of revenues over expenditures	(1,606,295)	462,498	(145,567)	(1,289,364)

(Continued)

See accompanying notes to financial statements.

Graham County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009
(Continued)

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):				
Capital lease agreements	$ 479,398			$ 479,398
Sale of capital assets	2,029			2,029
Transfers in	678,795		$ 615,516	1,294,311
Transfers out		$ (285,870)	(1,008,441)	(1,294,311)
Total other financing sources and uses	1,160,222	(285,870)	(392,925)	481,427
Net change in fund balances	(446,073)	176,628	(538,492)	(807,937)
Fund balances, July 1, 2008, as restated	2,175,176	1,965,738	3,206,463	7,347,377
Decrease in reserve for inventories		(118,943)		(118,943)
Fund balances, June 30, 2009	$ 1,729,103	$ 2,023,423	$ 2,667,971	$ 6,420,497

See accompanying notes to financial statements.

Graham County
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
Governmental Funds
Year Ended June 30, 2009

Net change in fund balances—total governmental funds		$ (807,937)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	$ 2,535,060	
Depreciation expense	(1,951,316)	583,744
In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold.		(146,327)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		222,125
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Principal Payments on long-term debt	295,832	
Lease Purchase Proceeds	(479,398)	(183,566)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.		
Increase in compensated absences	(121,347)	
Decrease in landfill and postclosure care costs	87	(121,260)
Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.		
Decrease in inventories		(118,943)
Change in net assets of governmental activities		$ (572,164)

See accompanying notes to financial statements.

Graham County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	Investment Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	$ 26,581,036	$ 1,883,791
Accrued interest receivable	14,699	
Total assets	26,595,735	$ 1,883,791
Liabilities		
Deposits held for others		$ 1,883,791
Total liabilities		$ 1,883,791
Net Assets		
Held in trust for investment trust participants	$ 26,595,735	

See accompanying notes to financial statements.

Graham County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2009

	Investment Trust Funds
Additions:	
Contributions from participants	$ 52,878,111
Investment earnings	1,051,575
Total additions	53,929,686
Deductions:	
Distributions to participants	57,095,719
Total deductions	57,095,719
Change in net assets	(3,166,033)
Net assets, July 1, 2008	29,761,768
Net assets, June 30, 2009	$ 26,595,735

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the 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). 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 the fiduciary activities. Governmental activities generally are financed through taxes and intergovernmental revenues.

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

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

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, 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. 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) and vehicle license taxes.

The County reports the following fund types:

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

The *agency funds* account for assets held by the County as an agent for individuals, the State, and various local governments, such as local school districts, community college districts, and special districts.

C. Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of agency funds, and the accrual basis of accounting. The agency funds are custodial in nature and do 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 earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

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

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

Inventories in the government-wide financial statements are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method.

F. Property Tax Calendar

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

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

G. Capital Assets

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

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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 Earnings

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

I. Compensated Absences

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

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

Sick Leave Balance	Rate of Reimbursement
500 – 749 hours	25% of accrued leave hours
750 – 999 hours	33% of accrued leave hours
1,000 – 1,500 hours	50% of accrued leave hours

Note 2 - Beginning Balances Restated

On July 1, 2008, the County restated governmental activities capital asset balances for corrections of prior period errors totaling $142,614. On July 1, 2008, the County restated the governmental activities and general fund for prior period corrections of $1,539,943 pertaining to intergovernmental revenues that were improperly recorded on the County's general ledger. Beginning net assets and fund balances were adjusted for the above, as follows:

	Government-Wide Statements	Fund Statements
	Governmental Activities	General Fund
Net assets/fund balances as of June 30, 2008, as previously reported	$35,611,137	$ 635,233
Add: intergovernmental revenue	1,539,943	1,539,943
Less: Capital assets	142,614	
Net assets/fund balances as of July 1, 2008, as restated	$37,008,466	$2,175,176

Note 3 - Stewardship, Compliance, and Accountability

The General Fund departments with an excess of actual expenditures over appropriations were caused mainly by excess expenditures for which budget modifications were not made. In total, the County's General Fund did not have expenditures in excess of appropriations since the County budgeted significant expenditures for the contingency department and no budget modifications were made.

The Highway Road Fund capital outlay department's excess of actual expenditures over appropriations was caused mainly by excess expenditures for which budget modifications were not made. In total, the County's Highway Road Fund did not have expenditures in excess of appropriations since the County budgeted significant expenditures for the general road department and no budget modifications were made.

Deficit fund balances—At June 30, 2009, the Racing Commission Parks Fund had a deficit in fund balance of $418,292. The deficit is expected to be corrected through normal operations.

Note 4 - 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, 2009, the carrying amount of the County's deposits was $4,266,263, and the bank balance was $4,257,634. The County does not have a formal policy with respect to custodial credit risk.

In October 2008, the FDIC's Board of Directors authorized the publication in the Federal Register (73 FR 64179) of an interim rule that outlined the structure of a new program called the Temporary Liquidity Program (TLGP). This new program was designed to help stabilize the nation's financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest-bearing transaction accounts at participating insured depository institutions. On November 26, 2008, the final rule was published in the Federal Register (73 FR 72244). An amendment to 12 CFR 370, in part, extended the TAG program until June 30, 2010. As of June 30, 2009, no cash in the bank balance was uninsured or uncollateralized.

Investments—The County's investments at June 30, 2009, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	$10,075,270
State Treasurer's Investment pool 5	715,428
Certificates of deposit	906,625
U.S. agency securities	11,654,382
U.S. Treasury securities	5,908,380
Total	$29,260,085

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

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal policy with respect to credit risk.

At June 30, 2009, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer's investment Pool 7	Unrated	Not applicable	$10,075,270
State Treasurer's Investment Pool 5	AAAf/S1+	Standard & Poor's	715,428
U.S. agency securities	AAA	Standard & Poor's	11,654,382
Total			$22,445,080

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 policy with respect to custodial credit risk.

Concentration of credit risk—Concentration of credit risk is the risk of loss associated with the significance of investments in a single issuer. The County does not have a formal policy with respect to concentration of credit risk.

The County had investments at June 30, 2009, of 5 percent or more in the Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and the Federal Home Loan Bank. These investments were 11.73 percent, 16.06 percent, and 8.64 percent, respectively, of the County's total investments.

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

At June 30, 2009, the County had the following investments in debt securities.

Investment	Amount	Weighted Average Maturity (In Years)
State Treasurer's investment pool 7	$10,075,270	0.03
State Treasurer's Investment pool 5	715,428	0.11
U.S. agency securities	11,654,382	2.70
U.S. Treasury securities	5,908,380	1.49
Total	$28,353,460	

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

Cash, deposits, and investments:

Cash on hand	$ 24,760
Amount of deposits	4,266,263
Amount of investments	29,260,085
Total	$33,551,108

	Governmental Activities	Investment Trust Fund	Agency Fund	Total
Statement of Net Assets				
Cash, cash equivalents and investments	$5,086,281	$26,581,036	$1,883,791	$33,551,108

Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2009, include $150,246 in state-shared revenue from sales tax, $141,338 in county excise tax distributions due from the State Treasurer, $84,282 in state motor vehicle license taxes from the Arizona Department of Transportation, $165,134 in prisoner detention fees from the U.S. Department of Justice, and $41,462 in other fees from federal, state, and local governments recorded in the General Fund; $201,855 in state-shared revenue from highway user taxes, $67,345 in state motor vehicle license taxes from the Arizona Department of Transportation, $155,698 in reimbursement from the Federal Emergency Management Agency passed through Arizona State Emergency Management and $32,508 from Arizona State Emergency Management recorded in the Highway Road Fund; and $409,392 in other fees and grants from federal, state, and local governments recorded in the other governmental funds.

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008, as restated	Increases	Decreases	Balance June 30, 2009
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 2,743,757	$ 44,392		$ 2,788,149
Construction in progress	3,119,812	1,310,094	$1,581,398	2,848,508
Total capital assets, not being depreciated	5,863,569	1,354,486	1,581,398	5,636,657
Capital assets, being depreciated:				
Buildings	13,732,746	144,090		13,876,836
Machinery and equipment	11,036,334	1,684,456	1,147,640	11,573,150
Infrastructure	16,951,736	933,426		17,885,162
Total capital assets, being depreciated	41,720,816	2,761,972	1,147,640	43,335,148
Less: accumulated depreciation for:				
Buildings	4,537,466	335,108		4,872,574
Machinery and equipment	7,055,054	1,178,804	1,001,313	7,232,545
Infrastructure	5,217,785	437,404		5,655,189
Total accumulated depreciation	16,810,305	1,951,316	1,001,313	17,760,308
Total capital assets, being depreciated, net	24,910,511	810,656	146,327	25,574,840
Governmental activities capital assets, net	$30,774,080	$2,165,142	$1,727,725	$31,211,497

The July 1, 2008, capital asset balances for land, buildings, machinery and equipment, and infrastructure were restated due to a correction of an error. See Note 2 for additional information.

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	$ 371,017
Public safety	579,041
Highways and streets	750,048
Health	86,401
Culture and recreation	36,144
Education	128,665
Total governmental activities depreciation expense	$1,951,316

As of June 30, 2009, the County was involved in two construction projects. The estimated cost to complete the construction projects is $9,554,361, of which the County share is $287,589 and the remaining share is administered through the Arizona Department of Transportation.

Note 7 - Short-Term Liabilities

The County needed to open a line of credit with Wells Fargo Bank during the fiscal year to cover timing differences in the receipt of revenue and the payment of obligations during the year. There was no balance on the line of credit at the beginning of the fiscal year, nor at fiscal year end. The activity for the fiscal year ended June 30, 2009 was as follows:

Beginning balance	$ 0
Total borrowings	3,767,916
Total payments	3,767,916
Ending balance	$ 0

Note 8 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2009:

Governmental Activities	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due within 1 year
Compensated absences payable	$ 843,739	$ 746,321	$624,974	$ 965,086	$ 772,069
Capital leases payable	310,673	479,398	295,832	494,239	247,915
Landfill closure and post-closure care costs payable	80,870	1,698	1,785	80,783	1,800
Total governmental activities long-term liabilities	$1,235,282	$1,227,417	$922,591	$1,540,108	$1,021,784

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

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Equipment	$728,788
Software	365,684
Less: accumulated depreciation	253,794
Total	$840,678

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2009, were as follows:

	Governmental Activities
Year ending June 30	
2010	$267,130
2011	244,421
2012	10,015
Total minimum lease payments	521,566
Less: amount representing interest	(27,327)
Present value of net minimum lease payments	$494,239

Landfill closure and postclosure care costs—State and federal laws and regulations required the County to place a final cover on its Central landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs in each period that the county operates the landfill. 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 $80,783 reported as landfill closure and postclosure care liability at June 30, 2009, represents the cumulative amount reported to date based on the use of 100 percent of the estimated capacity of the landfill. This amount is based on what it would cost to perform all postclosure care in fiscal year 2009. The County closed the landfill during the 2003 fiscal year. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements 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.

Insurance claims—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 the 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 is responsible for any run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

Compensated Absences—Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During the fiscal year 2009, the County paid for compensated absences as follows: 72 percent from General Fund, 10 percent from Highway Road Funds, and 18 percent from other governmental funds.

Note 9 - Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, but was unable to obtain insurance at a cost it considered to be economically justifiable. Therefore, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool, which are described below, and the Arizona Local Government Employee Benefit Trust, which is described in the insurance claims section above.

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 for property claims and $5,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of $300 million per occurrence for property claims and $15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool for at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties with workers' compensation coverage, as required by law, and risk management services. The County is responsible for paying a premium, based on an experience-rating formula that allocates pool expenditures and liabilities among 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 5 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.

Note 10 - Pension and Other Postemployment Benefits

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.

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 and 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 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 1-800-621-3778

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

Funding Policy—The Arizona State Legislature establishes and may amend active plan members' and the County's Contribution rates for the ASRS, PSPRS, CORP, and EORP.

Cost-sharing plans—For the year ended June 30, 2009, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 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 9.45 percent (7.99 percent for retirement, 0.96 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 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2009	$463,981	$55,748	$29,035
2008	445,523	58,112	27,672
2007	516,116	67,338	32,069

Agent Plans—For the year ended June 30, 2009, active PSPRS members were required by statue to contribute 7.65 percent of the members' annual covered payroll and the County was required to contribute 17.43 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at

1.25 percent of covered payroll. Active CORP members (corrections officers) were required by statute to contribute 7.96 percent of the member's annual covered payroll except that, beginning October 2008, all non-dispatcher members were required to contribute 8.41 percent. In addition, the County was required to contribute 5.00 percent. The aggregate of the members' and the County's contributions is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.65 percent of covered payroll. Active CORP – Administrative Office of Courts (AOC) members (probation officers) were required by statue to contribute 7.96 percent of the members' annual covered payroll, and the County was required to contribute 8.41 percent. The contribution rates for 2009 were established by state statute and did not separate the retirement and health insurance premium contribution rates. Active CORP members (dispatchers) were required by statute to contribute 7.96 percent of the members' annual covered payroll, and the County was required to contribute 5.00 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.30 percent of covered payroll. 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 21.21 percent of the members' annual covered payroll through September 2008 and 14.05 percent of the members' annual covered payroll for October 2008 through June 2009. The health insurance premium portion of the contribution rate for normal cost was actuarially set at 0.91 percent of covered payroll.

Actuarial methods and assumptions—The contributions requirements for the year ended June 30, 2009, were established by the June 30, 2007, 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 2009 contribution requirements are as follows:

Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	29 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
includes inflation at	5.00%

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2009, and related information follows.

	PSPRS		CORP					EORP	
			Corrections		AOC	Dispatchers			
	Pension	Health Insurance	Pension	Health Insurance	Pension and Health Insurance	Pension	Health Insurance	Pension	Health Insurance
Annual pension/OPEB cost	$176,168	$13,610	$40,609	$6,068	$141,063	$17,176	$1,131	$141,541	$8,455
Contributions made	176,168	13,610	40,609	6,068	141,063	17,176	1,131	141,541	8,455

Trend Information—Annual pension and OPEB cost information for the current and 2 preceding years follows for each of the agent plans. Separately reported OPEB cost information for the last year of the required trend information will be reported next year when it becomes available.

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
PSPRS				
Pension	2009	$176,168	100%	$0
Health insurance	2009	13,610	100%	0
Pension	2008	119,648	100%	0
Health insurance	2008	11,126	100%	0
Pension and health insurance	2007	98,349	100%	0

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
CORP				
Corrections				
Pension	2009	$40,609	100%	$0
Health insurance	2009	6,068	100%	0
Pension	2008	37,203	100%	0
Health insurance	2008	6,024	100%	0
Pension and health insurance	2007	85,818	100%	0
AOC*				
Pension and health	2009	141,063	100%	0
insurance	2008	165,487	100%	0
Dispatchers				
Pension	2009	17,176	100%	0
Health insurance	2009	1,131	100%	0
Pension	2008	16,453	100%	0
Health insurance	2008	1,163	100%	0
Pension and health insurance	2007	15,482	100%	0
EORP				
Pension	2009	141,541	100%	0
Health insurance	2009	8,455	100%	0
Pension	2008	104,027	100%	0
Health insurance	2008	9,265	100%	0
Pension and health insurance	2007	95,262	100%	0

*The AOC began in 2008; therefore, previous years' cost information is not applicable.

Funded Status—The funded status of the plans as of the most recent valuation date, June 30, 2009, along with the actuarial assumptions and methods used in those valuations follow. 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.

	PSPRS		CORP					
			Corrections		AOC*		Dispatchers	
	Pension	Health insurance	Pension	Health insurance	Pension	Health insurance	Pension	Health insurance
Actuarial accrued liability (a)	$3,208,181	$127,550	$1,243,986	$66,198	N/A	N/A	$218,261	$6,970
Actuarial value of assets (b)	$1,859,906	$0	$1,334,376	$0	N/A	N/A	$386,862	$0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	$1,348,275	$127,550	($90,390)	$66,198	N/A	N/A	($168,601)	$6,970
Funded ratio (b)/(a)	58.0%	0.0%	107.3%	0.0%	N/A	N/A	177.2%	0.0%
Covered payroll (c)	$1,087,620	$1,807,620	$1,087,315	$1,087,315	N/A	N/A	$424,379	$424,379
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a) – (b)]/(c))	124.0%	11.7%	0.0%	6.1%	N/A	N/A	0.0%	1.6%

*The funded status information for CORP-AOC is only reported for the plan as a whole and, therefore, actuarial information for the County, as a participating government, is not available.

The actuarial methods and assumptions used are the same for all plans and related benefits, and for the most recent valuation date, are as follows:

Actuarial valuation date	June 30, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	27 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year 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
includes inflation at	5.50% for PSPRS and CORP; 5.00% for EORP

Note 11 - Interfund Balances and Activity

Interfund transfers—Interfund transfers for the year ended June 30, 2009, were as follows:

	Transfer to		
Transfer from	General Fund	Other Governmental Funds	Total
Highway Road Fund		$285,870	$ 285,870
Other Governmental Funds	$678,795	329,646	1,008,441
Total	$678,795	$615,516	$1,294,311

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them. The transfer from the Highway Road Fund to Other Governmental Funds was recorded to fund the matching portion of the Ft. Grant Road project.

Note 12 - County Treasurer's Investment Pool

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County monies under her stewardship. The Treasurer invests, on a pool basis, all idle monies not specifically invested for a fund or program. In addition, the Treasurer determines the fair value of those pooled investments annually at June 30.

The County Treasurer's investment pool is not registered with the Securities and Exchange Commission as an investment company, and there is no regulatory oversight of its operations. The pool's structure does not provide for shares, and the County has not provided or obtained any legally binding guarantees to support the values of the participants' investments.

The Treasurer allocates interest earnings to each of the pool's participants. However, for the County's monies in the pool, the Board of Supervisors authorized $1,664 of interest earned in certain other funds to be transferred to the General Fund

Substantially, all deposits and all investments of the County's primary government are included in the County Treasurer's investment pool, except for $707,508 of deposits and $161,152 of investments in State Treasurer's Investment Pools. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 4 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rate(s)	Maturities	Amount
State Treasurer's investment pool 7	$10,075,270	None stated	None stated	$10,075,270
State Treasurer's investment pool 5	554,276	None stated	None stated	554,276
Certificates of deposit	900,000	2.30 – 3.65%	11/09 – 02/11	906,625
U.S. agency securities	11,656,904	1.80 – 5.25%	08/09 – 11/13	11,654,382
U.S. Treasury securities	5,275,765	1.41 – 5.75%	08/09 – 05/12	5,908,380
	$28,462,215			$29,098,933

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

Statement of Net Assets	
Assets	$ 32,739,857
Net assets	$ 32,739,857
Net assets held in trust for:	
Internal participants	$ 6,158,821
External participants	26,581,036
Total net assets held in trust	$ 32,739,857
Statement of Changes in Net Assets	
Total additions	$104,259,791
Total deductions	106,205,083
Net decrease	(1,945,292)
Net assets held in trust:	
July 1, 2008	34,685,149
June 30, 2009	$ 32,739,857

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Other Required Supplementary Information

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Property taxes	$ 2,848,639	$ 2,848,639	$ 2,644,782	$ (203,857)
Licenses and permits	130,000	130,000	65,601	(64,399)
Fines and forfeits	375,000	375,000	269,911	(105,089)
Intergovernmental	13,646,683	13,646,683	12,401,881	(1,244,802)
Charges for services	857,473	857,473	764,073	(93,400)
Investment earnings	200,000	200,000	139,447	(60,553)
Rents	24,000	24,000	59,051	35,051
Miscellaneous	358,000	358,000	173,638	(184,362)
Total revenues	18,439,795	18,439,795	16,518,384	(1,921,411)
Expenditures:				
General government				
Board of supervisors	731,894	731,894	689,422	42,472
Treasurer	338,312	338,312	334,811	3,501
Assessor	528,937	528,937	454,046	74,891
Recorder	274,126	274,126	258,509	15,617
Elections	155,861	155,861	125,909	29,952
Attorney	1,098,213	1,098,213	944,610	153,603
Clerk of the court	609,021	609,021	549,800	59,221
Superior court	755,662	755,662	663,137	92,525
Justice of the peace No.1	387,505	387,505	377,265	10,240
Justice of the peace No.2	255,645	255,645	253,231	2,414
Victim witness	38,729	38,729	32,508	6,221
Public fiduciary	102,131	102,131	101,200	931
Planning and zoning	255,552	255,552	247,078	8,474
Building maintenance	202,636	202,636	207,415	(4,779)
Electrical maintenance	50,752	50,752	25,962	24,790
Overtime	14,070	14,070	6,003	8,067
General services	432,911	432,911	462,303	(29,392)
Contingency	1,000,000	1,000,000	2,000	998,000
Miscellaneous	785,503	785,503	447,520	337,983
Medical examiner	30,000	30,000	52,303	(22,303)
Information technology	1,008,638	1,008,638	793,815	214,823
Total general government	9,056,098	9,056,098	7,028,847	2,027,251

(Continued)

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2009
(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Public safety				
Probation	$ 168,546	$ 168,546	$ 173,679	$ (5,133)
Sheriff	4,985,111	4,985,111	5,349,817	(364,706)
Search and rescue	36,500	36,500	15,172	21,328
Juvenile detention center	1,734,838	1,734,838	1,436,191	298,647
Animal shelter	286,454	286,454	238,180	48,274
Total public safety	7,211,449	7,211,449	7,213,039	(1,590)
Sanitation				
Sanitary landfill	103,600	103,600	151,964	(48,364)
Health				
Health services	253,767	253,767	262,895	(9,128)
Welfare				
Attorney for the indigent	651,600	651,600	584,640	66,960
Indigent medical	1,874,900	1,874,900	1,864,766	10,134
Total welfare	2,526,500	2,526,500	2,449,406	77,094
Cultural and recreation				
Parks and recreation	245,860	245,860	260,973	(15,113)
Education				
School superintendent	214,868	214,868	203,644	11,224
Employment and training	12,575	12,575	12,109	466
Total education	227,443	227,443	215,753	11,690
Capital outlay	400,500	400,500	541,802	(141,302)
Total expenditures	20,025,217	20,025,217	18,124,679	1,900,538
Deficiency of revenues over expenditures	(1,585,422)	(1,585,422)	(1,606,295)	(20,873)

(Continued)

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2009
(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Other financing sources:				
Capital lease agreements			$ 479,398	$ 479,398
Sale of capital assets			2,029	2,029
Transfers in	$ 350,000	$ 350,000	678,795	328,795
Total other financing sources and uses	350,000	350,000	1,160,222	810,222
Net change in fund balances	(1,235,422)	(1,235,422)	(446,073)	789,349
Fund balances, July 1, 2008, as restated	1,235,422	1,235,422	2,175,176	939,754
Fund balances, June 30, 2009	$ -	$ -	$ 1,729,103	$ 1,729,103

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
Highway Road Fund
Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	$ 3,930,259	$ 3,930,259	$ 4,085,668	$ 155,409
Charges for services	45,000	45,000	51,507	6,507
Investment earnings	60,000	60,000	42,541	(17,459)
Rents			1,320	1,320
Miscellaneous	105,000	105,000	146,479	41,479
Total revenues	4,140,259	4,140,259	4,327,515	187,256
Expenditures:				
Highways and streets				
General road	4,202,696	4,202,696	2,954,446	1,248,250
Engineering	382,674	382,674	264,453	118,221
Safety Department	24,231	24,231	18,801	5,430
Total highways and streets	4,609,601	4,609,601	3,237,700	1,371,901
Capital outlay	608,684	608,684	627,317	(18,633)
Total expenditures	5,218,285	5,218,285	3,865,017	1,353,268
Excess (deficiency) of revenues over expenditures	(1,078,026)	(1,078,026)	462,498	1,540,524
Other financing uses:				
Transfers out			(285,870)	(285,870)
Net change in fund balances	(1,078,026)	(1,078,026)	176,628	1,254,654
Fund balances, July 1, 2008	1,078,026	1,078,026	1,965,738	887,712
Increase in reserve for inventories			(118,943)	(118,943)
Fund balances, June 30, 2009	$ -	$ -	$ 2,023,423	$ 2,023,423

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2009

Note 1 - Budgeting and Budgetary Control

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

Expenditures may not legally exceed appropriations at the department level. In certain instances, transfers of appropriations between departments or from the contingency account to a department may be made upon the Board of Supervisors' approval.

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2009, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund:	
Building maintenance	$ 4,779
General services	29,392
Medical examiner	22,303
Probation	5,133
Sheriff	364,706
Sanitary landfill	48,364
Health services	9,128
Parks and recreation	15,113
Capital outlay	141,302
Highway Road Fund:	
Capital outlay	18,633

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

Graham County
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2009

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 6/30/09	$1,859,906	$3,208,181	$(1,348,275)	58.0%	$1,087,620	124.0%
Health Insurance 6/30/09	0	127,550	(127,550)	0.0%	1,087,620	11.73%
Pension 6/30/08	1,594,202	2,821,606	(1,227,404)	56.5%	1,039,847	118.0%
Health Insurance 6/30/08	0	116,169	(116,169)	0.0%	1,039,847	11.17%
Pension and Health Insurance 6/30/07	1,386,772	2,619,386	(1,232,614)	52.9%	905,717	136.1%

Correction 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)
Corrections Officers						
Pension 6/30/09	$1,334,376	$1,243,986	$90,390	107.3%	$1,087,315	N/A
Health Insurance 6/30/09	0	66,198	(66,198)	0.0%	1,087,315	6.09%
Pension 6/30/08	1,207,810	1,161,382	46,428	104%	711,404	N/A
Health Insurance 6/30/08	0	29,821	(29,821)	0.0%	711,404	4.19%
Pension and Health Insurance 6/30/07	1,075,195	1,078,382	(3,127)	99.7%	713,554	0.4%

Graham County
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2009

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)
AOC						
Pension and Health Insurance	N/A	N/A	N/A	N/A	N/A	N/A
Dispatchers						
Pension 6/30/09	386,862	218,261	168,601	177.2%	424,379	N/A
Health Insurance 6/30/09	0	6,970	(6,970)	0	424,379	1.67%
Pension 6/30/08	318,814	173,437	145,377	183.8%	390,402	N/A
Health Insurance 6/30/08	0	3,124	(3,124)	0	390,402	0.80%
Pension and Health Insurance 6/30/07	144,773	114,920	29,853	126.0%	371,264	N/A

Graham County
Required Supplementary Information
Notes to Schedule of Agent Retirement Plans' Funding Progress
June 30, 2009

Note 1 - Actuarial Information Available

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.

The funding progress information for CORP-AOC is only reported for the plan as a whole and, therefore, actuarial information for the County as a participating government is not available. In addition, as the plan began in fiscal year 2008, prior year information was not available.

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Supplementary Information

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
National School Lunch Program, passed through the Arizona Department of Education	10.555	None	$ 25,421
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	HG861082	242,157
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	842,599
Watershed Protection and Flood Prevention	10.904		1,282
Total U.S. Department of Agriculture			1,111,459
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	116-07	296,627
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		3,499,434
BLM-Patrol Grant	15.unknown		1,916
Total U.S. Department of the Interior			3,501,350
U.S. Department of Justice			
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-09-053	7,515
Public Safety Partnership and Community Policing Grants	16.710		6,658
Enforcing Underage Drinking Laws Program, passed through the Governor's Office of Highway Safety	16.727	2007-OJJDP-017	1,436
Edward Byrne Memorial Justice Assistance Grant Program, passed through the Arizona Criminal Justice Commission	16.738	DC-10-017	5,177
Total U.S. Department of Justice			20,786
U.S. Department of Labor			
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE070296001, DE081292001, DE091200001	78,225
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE070296001, DE081292001, DE091200001	148,704
ARRA—WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE091200001	33,314
Total WIA Cluster			260,243
Total U.S. Department of Labor			260,243
U.S. Department of Transportation			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	JPA 08-78I, JPA 04-120	44,211
U.S. Department of Education			
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	S010A080003	45,248

(Continued)

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Special Education Cluster:			
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	H027A080007	$ 459,333
Special Education—Preschool Grants, passed through the Arizona Department of Education	84.173	H173A080004	23,503
Total Special Education Cluster			482,836
Safe and Drug Free Schools and Communities—State Grants, passed through the Arizona Department of Education	84.186	S186A080003	451
Education Technology State Grants, passed through the Arizona Department of Education	84.318	S318X080003	99
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	S281A080003, S367A80049	24,370
Total U.S. Department of Education			553,004
U.S. Department of Health and Human Services			
Public Health Emergency Preparedness Program, passed through the Arizona Department of Health Services	93.069	HG754196	236,654
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG854285	56,197
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs, passed through the Arizona Department of Health Services	93.919	HG761264	60,378
Healthy Start Initiative, passed through the Arizona Department of Health Services	93.926	HG361270	72,893
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	HG852276	6,124
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG854247	61,612
Total U.S. Department of Health and Human Services			493,858
U.S. Department of Homeland Security			
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	18660004580-033	99,318
Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs	97.067	2006-GE-T6-007, 444311-01	181,693
Total U.S. Department of Homeland Security			281,011
Total Expenditures of Federal Awards			$ 6,562,549

See accompanying notes to schedule.

Graham County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

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 a modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2009 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

Note 3 - Subrecipients

Graham County did not have any subrecipients for the year ended June 30, 2009.

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, and have issued our report thereon dated November 22, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider item 09-01 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Graham County's response to the finding identified in our audit is presented on page 56. We did not audit the County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, federal awarding agencies, and pass-through entities and 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.

Debbie Davenport
Auditor General

November 22, 2010

STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Compliance

We have audited the compliance of Graham County with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The County's major federal programs are identified in the Summary of Auditors' 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 U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

As described in items 09-104 and 09-105 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding suspension and debarment that are applicable to its Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii program and reporting that are applicable to its WIA Cluster. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 09-101 and 09-102.

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Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

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. We consider items 09-101 through 09-105 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

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. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 09-101 through 09-105 to be material weaknesses.

Graham County's responses to the findings identified in our audit are presented on pages 55 through 58. We did not audit the County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, federal awarding agencies, and pass-through entities and 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.

Debbie Davenport
Auditor General

November 22, 2010

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	Yes	No
Internal control over financial reporting:		
Material weakness identified in internal control over financial reporting?	X	
Significant deficiency identified that is not considered to be a material weakness?		X
Noncompliance material to the financial statements noted?		X

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	X	
Significant deficiency identified that is not considered to be a material weakness?		X
Type of auditors' report issued on compliance for major programs:	Qualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.665	Schools and Roads—Grants to States
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
15.226	Payments in Lieu of Taxes
17.258, 17.259	WIA Cluster

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

Other Matters

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?		X

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Financial Statement Findings

09-01
The County should establish procedures to accurately record and report financial information

Criteria: The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations and grant contracts.

Condition and context: The County took 17 months after fiscal year-end to issue its financial statements. In addition, they contained errors. For example, auditors noted errors in the statement of activities, funds omitted from the agency funds, and errors in various note disclosures. Finally, the County depended on one employee to prepare year-end adjustments to compile the financial statements.

Effect: The County missed the federal reporting deadline of March 31, 2010, for its 2009 Single Audit Reporting Package. Therefore, it may lose federal money in the future. Also, if the employee who compiles the financial statements terminates his employment with the County, other employees would not have the knowledge to accurately compile financial statements. The County adjusted its financial statements for all significant errors. This finding is a material weakness in internal control over financial reporting.

Cause: The County did not develop procedures and deadlines for preparing financial statements and supporting schedules, and train various employees for these responsibilities. In addition, the County implemented a new accounting system during the fiscal year that contributed to the delay.

Recommendation: To help ensure that the financial statements are accurate, timely, and prepared in accordance with generally accepted accounting principles, the County should:

- Train other employees in financial reporting responsibilities.
- Develop and follow written procedures for compiling the information and preparing the financial statements and accompanying notes. These procedures should include detailed instructions for obtaining information not readily available from the accounting system but necessary for financial statement preparation.
- Allocate the appropriate resources, and monitor and enforce completion dates for compiling, preparing, and reviewing the financial statements and supporting schedules.
- Have an employee who did not prepare the financial statements review them and the accompanying notes. The reviewer should make sure that the amounts are accurate and properly supported and the financial statements are presented in accordance with generally accepted accounting principles.

Federal Award Findings and Questioned Costs

09-101
CFDA No.: Not applicable
Questioned Cost: None

Criteria: OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320 requires the County to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

Condition and context: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2010; however, the County did not issue its Single Audit Reporting Package until November 2010.

Effect: The County did not comply with OMB Circular A-133 audit requirements. The late submission of the Single Audit Reporting Package affects all federal programs administered by the County. This finding is a material weakness in internal control over compliance and material noncompliance with OMB Circular A-133, §.320. However, this finding does not result in a control deficiency in internal control over compliance or noncompliance for the individual federal programs.

Cause: The County implemented a new accounting system during the fiscal year and was unable to prepare the accounting records and financial statements in a timely manner. In addition, as discussed in finding 09-01, the County had a material weakness in internal control over financial reporting.

Recommendation: The County should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse by the required deadline.

09-102
CFDA No.: Not applicable
Questioned Cost: None

Criteria: OMB Circular A-133, §.300 requires the County to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received, and prepare appropriate financial statements, including a Schedule of Expenditures of Federal Awards (SEFA). OMB Circular A-133, §.310(b) requires the SEFA to include the Catalog of Federal Domestic Assistance (CFDA) title and number, amount expended, name of the federal awarding agency, and if applicable, name and identifying number of the pass-through grantor, for each of the County's federal awards.

Condition and context: The County did not properly identify federal awards in its records and accounting system so that it could prepare an accurate and complete SEFA. Specifically, auditors noted the County understated its federal award expenditures for Payments in Lieu of Taxes program by approximately $1,025,000. In addition, the County incorrectly reported other required information for 20 of its federal programs.

Effect: The County adjusted its SEFA for these errors. This finding is a material weakness in internal control over compliance and material noncompliance with OMB Circular A-133, §§.300 and .310(b) for the County Finance Department, but not for the departments administering federal programs.

Cause: The County inaccurately recorded an adjustment while preparing its financial statements that affected the Payments in Lieu of Taxes program. The County did not have procedures in place to identify federal award information in its records and accounting system or ensure that all federal programs were properly reported on the SEFA.

Recommendation: The County should ensure that the SEFA is accurate and complete and contains all required information. The County should establish policies and procedures for recording federal program expenditures in its accounting system and for preparing the SEFA. These procedures should include the following:

- Assign an identifying number in the accounting system for federal grant programs to facilitate SEFA preparation.
- Confirm federal program information reported on the SEFA with the departments responsible for administering the federal programs or by contacting the grantor agency if necessary.
- Have an employee who did not prepare the SEFA review it for accuracy and completeness.

09-103
CFDA No.: 14.228 **Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**
U.S. Department of Housing and Urban Development
Passed through the Arizona Department of Housing
Award Period: July 1, 2008 through June 30, 2009
Award Number: 116-07
Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability of Federal Funds
Questioned Cost: None

Criteria: Effective controls and accountability should be maintained over federal monies. Responsibilities should be separated so that no one employee is responsible for initiating purchases, approving expenditures, and preparing request for payment reports without an independent supervisory review.

Condition and context: While obtaining our understanding of internal controls for this program, auditors observed that one employee in the Planning and Zoning Department was responsible for initiating purchases and approving expenditures without an independent supervisory review. In addition, this employee also prepared and submitted the request for payment reports.

Effect: The department management would be unaware if inappropriate costs were charged to the program. This finding is a material weakness in internal control over compliance with the program's activities allowed or unallowed, allowable costs/cost principles, cash management, and period of availability of federal funds compliance requirements. However, auditors did not note any noncompliance with the affected compliance requirements.

Cause: The Department was not aware of the need for separating responsibilities.

Recommendation: The Department should assign a second employee to review and approve expenditures and the request for payment reports before expenditures are paid and reports are submitted to the grantor agency.

09-104
CFDA No.: 14.228 **Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii**
U.S. Department of Housing and Urban Development
Passed through the Arizona Department of Housing
Award Period: July 1, 2008 through June 30, 2009
Award Number: 116-07
Suspension and Debarment
Questioned Cost: None

Criteria: In accordance with 2 Code of Federal Regulations (CFR) §§180.220 and 180.300, the County must verify that vendors are not suspended or debarred before making purchases exceeding $25,000 to be paid with federal monies. This verification may be accomplished by checking the Excluded Parties List System (EPLS), obtaining a certification from the vendor, or adding a clause or condition to the contract.

Condition and context: The Planning and Zoning Department did not establish policies and procedures to verify that vendors providing goods and services under the award had not been suspended, debarred, or otherwise excluded from federal contracts. Further, the Department did not perform procedures to determine if the vendors were suspended or debarred. However, auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred vendors.

Effect: Payments could be made to suspended or debarred subrecipients. This finding is a material weakness in internal control over compliance and material noncompliance with the program's suspension and debarment compliance requirements.

Cause: The Department was unaware of suspension and debarment requirements and, therefore, did not establish applicable policies and procedures.

Recommendation: The Department should establish policies and procedures to address suspension and debarment requirements. Further, the Department should document its determination that vendors expected to be paid over $25,000 in federal monies have not been suspended or debarred from doing business with governmental entities. This verification may be accomplished by checking the EPLS, obtaining vendor certifications, or adding clauses or conditions to the contracts.

09-105
WIA Cluster
CFDA No.: 17.258 **WIA Adult Program**
17.259 **WIA Youth Activities**
17.259 **ARRA—WIA Youth Activities**
U.S. Department of Labor
Passed through the Arizona Department of Economic Security
Award Period: April 1, 2007 through June 30, 2010
April 1, 2008 through June 30, 2011
February 17, 2009 through June 30, 2011
Award Numbers: DE070296001, DE081292001, and DE091200001
Reporting
Questioned Cost: Unknown

Criteria: In accordance with 29 CFR §97.20 (b)(6), amounts presented on reports should agree to the recipient's financial records. In addition, in accordance with 20 CFR §667.300 (c)(3), recipients should use the standard reporting form authorized by the pass-through grantor. The recipient must report cumulative expenditures on the accrual basis of accounting by fiscal year of appropriation. If the recipient's accounting records are not normally kept on the accrual basis of accounting, the recipient must develop accrual information through an analysis of other documentation.

Condition and context: The County did not have policies and procedures to ensure that information reported was supported by county records and that supporting records were retained. Specifically, the County's accounting records did not identify expenditures by individual grants awarded for the WIA Adult and Youth Activities programs, and the County was unable to provide supporting documentation that identified actual and accrued expenditures by award for amounts reported on its reimbursement requests and expenditure reports.

Effect: Auditors could not verify if expenditures on the reports were accurate. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's reporting compliance requirements.

Cause: The County used a spreadsheet to record actual and accrued expenditures and updated the accrued amounts with actual amounts as the transactions occurred. However, the County did not retain the spreadsheet to support each submitted report.

Recommendation: The County should maintain accounting records in the level of detail required by the pass-through grantor and retain such records for 3 years after the end of the award period.

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

Mark C. Herrington, Chairman
James A. Palmer, Vice Chairman
Drew John, Member

Terry Cooper, County Manager/Clerk

November 22, 2010

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action planned, and the anticipated completion date for each audit finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

Clel L Flake
Chief Financial Officer

Graham County
Corrective Action Plan
Year Ended June 30, 2009

Financial Statement Findings

09-01
The County should establish procedures to accurately record and report financial information
Contact person: Clel Flake, Chief Financial Officer
Anticipated completion date: 6/30/11

Corrective Action Plan: Concur. The Finance Department has limited resources available for the preparation of the financial statements. Budget cuts to the County put a further strain on available resources. The County did implement a new financial accounting system during the year being audited. This has changed long time financial procedures for the County. We will begin to write up the newly established procedures and develop additional procedures needed to insure compliance with financial statement preparation requirements. As part of the wrap up of this audit, we will make changes to the flow of information to correct some of the weaknesses identified. Further, we will be coordinating with the auditors and reviewing the supporting schedule preparation process to ensure the information being provided is consistent with the information necessary for the audit process.

Federal Award Findings and Questioned Costs

09-101
CFDA No.: Not applicable
Contact person: Clel Flake, Chief Financial Officer
Anticipated completion date: 3/31/11

Response: Concur

Corrective Action Plan: The County has completed the conversion of its financial accounting system and, as noted in the corrective action plan for 09-01, is addressing its report preparation procedures.

09-102
CFDA No.: Not applicable
Contact person: Clel Flake, Chief Financial Officer
Anticipated completion date: 3/31/11

Response: Concur

Corrective Action Plan: The County will establish appropriate policies and procedures to ensure that all federal programs are identified and tracked in the accounting system. Review procedures will be established to ensure that the SEFA is complete before submission to the appropriate audit agency.

Graham County
Corrective Action Plan
Year Ended June 30, 2009

09-103
CFDA No.: 14.228 Community Development Block Grants/States, # 116-07
Arizona Department of Housing
Contact person: William Wright, Planning and Zoning Director
Completion date: 10/1/10

Response: Concur

Corrective Action Plan: The County has implemented recommendation 09-103 by having the Chief Financial Officer review the expenditures and the request for payment reports before being submitted to the grantor agency.

09-104
CFDA No.: 14.228 Community Development Block Grants/States, # 116-07
Arizona Department of Housing
Contact person: William Wright, Planning and Zoning Director
Anticipated completion date: 12/31/10

Response: Concur

Corrective Action Plan: The Department will establish procedures to first determine if any vendor is expected to reach the threshold of $25,000 in federal monies for each grant being administered by the County and second check the appropriate sources to determine if any vendor identified has been suspended or debarred from doing business with governmental entities.

09-105
WIA Cluster:
CFDA No.: 17.258 WIA Adult Program, #s DE070296001, DE081292001, and DE091200001
17.259 WIA Youth Activities, #s DE070296001, DE081292001, and DE091200001
17.259 ARRA—WIA Youth Activities, # DE091200001
Department of Economic Security
Contact person: Neil Karnes, Health Director
Anticipated completion date: 10/31/2010

Response: Concur

Corrective Action Plan: The DES Form titled, "Arizona Department of Economic Security Accrued Expenditure and Cash Report for WIA", must be prepared on a monthly basis for each source of WIA funds identified in Graham County's contract with DES. Since this form must be reported on an accrual basis, Graham County must properly document actual expenditures, plus accrued expenditures in reporting cash disbursements to date. This will be accomplished in the following manner:

Graham County
Corrective Action Plan
Year Ended June 30, 2009

The internal Excel Spreadsheet that is maintained in the Workforce Development Office will be balanced to the County's Financials from the Board Office on a monthly basis. This will assure the basis for reporting the actual expenditures for the period ending date, to which we will add the accrued expenditures for the purpose of completing the DES Cash Reports.

The DES Cash Reports will be submitted on a monthly basis. Since the County pays demands on the first and third Monday of each month we will wait until after the second payment date of the month before issuing the CER for the prior month. This will assure proper reporting of accrued expenditures. All of the accrued expenses for the month will be posted to the internal Excel Spreadsheet that is maintained in the Workforce Development Office and a copy of that spreadsheet will be maintained for each cash report that is completed.

For example, the DES Cash Reports for the period ending September 30, 2010 were developed on October 18, 2010 after the County Financials had been balanced to the internal Workforce Development Excel Spreadsheet, and after both demand payment dates had been accomplished for the month of October. The actual expenditures that had been posted through September 30 were then added to the accrued expenditures for October in order to record the disbursements on the cash report.