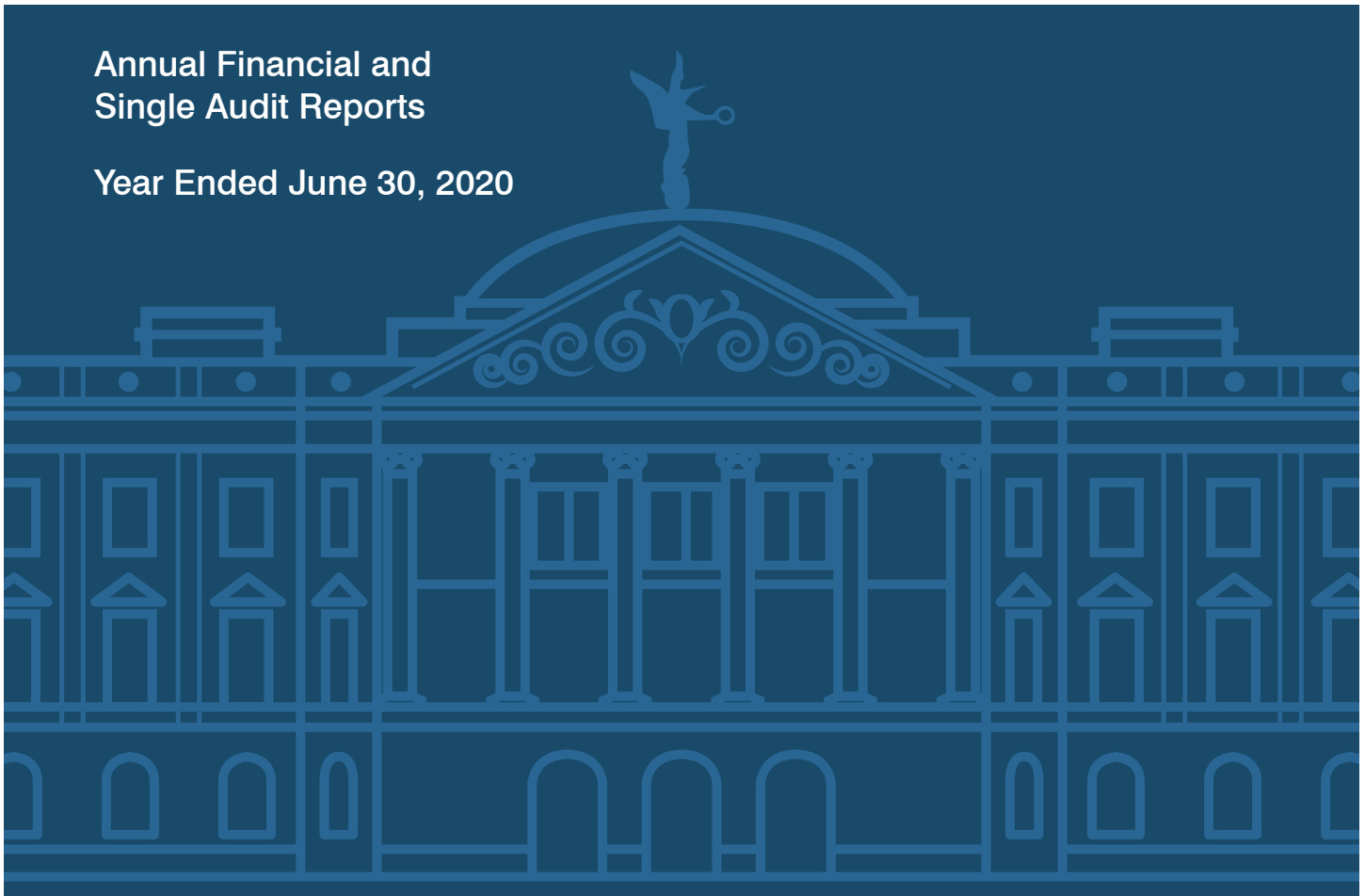


Graham County

Annual Financial and
Single Audit Reports

Year Ended June 30, 2020



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Nancy Barto**, Chair
Senator **Rosanna Gabaldon**
Senator **David Livingston**
Senator **Juan Mendez**
Senator **Kelly Townsend**
Senator **Karen Fann** (ex officio)

Representative **Joanne Osborne**, Vice Chair
Representative **Tim Dunn**
Representative **Steve Kaiser**
Representative **Jennifer L. Longdon**
Representative **Pamela Powers Hannley**
Representative **Rusty Bowers** (ex officio)

Audit Staff

Donna Miller, Director
Stephanie Gerber, Manager

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov



TABLE OF CONTENTS

Annual Financial Report

Independent auditors' report

Required supplementary information—management's discussion and analysis a-1

Government-wide statements

Statement of net position 1

Statement of activities 2

Governmental funds

Balance sheet 3

Reconciliation of the governmental funds balance sheet to the government-wide statement of net position 4

Statement of revenues, expenditures, and changes in fund balances 5

Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities 6

Fiduciary funds

Statement of fiduciary net position 7

Statement of changes in fiduciary net position 8

Notes to financial statements 9

Other required supplementary information

Budgetary comparison schedules 41

Notes to budgetary comparison schedules 46

Schedule of the County's proportionate share of the net pension liability—
Cost-sharing pension plans 47

Schedule of changes in the County's net pension liability (asset) and related ratios—
Agent pension plans 48

Schedule of County pension contributions 51

Notes to pension plan schedules 53

Single Audit Report

Auditors section

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* 55

Independent auditors' report on compliance for each major federal program and report on internal control over compliance 57

Schedule of findings and questioned costs 59

Summary of auditors' results 59

Financial statement findings 60

Federal award findings and questioned costs 62

County section

Schedule of expenditures of federal awards 63

Notes to schedule of expenditures of federal awards 64

County response

Corrective action plan

Summary schedule of prior audit findings

ANNUAL FINANCIAL REPORT



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Report on the financial statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the County as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Other matters

Required supplementary information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-10, budgetary comparison schedules on pages 41 through 45, schedule of the County's proportionate share of the net pension liability—cost-sharing pension plans on page 47, schedule of changes in the County's net pension liability (asset) and related ratios—agent pension plans on pages 48 through 50, and schedule of County pension contributions on pages 51 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information—schedule of expenditures of federal awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is management's responsibility and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Compliance over the use of Highway User Revenue Fund and other dedicated State transportation revenue monies

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to comply with the authorized transportation purposes, insofar as they relate to accounting matters, for Highway User Revenue Fund monies it received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated State transportation revenues it received. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the authorized transportation purposes referred to above, insofar as they relate to accounting matters.

The communication related to compliance over the use of Highway User Revenue Fund and other dedicated State transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, and other responsible parties within the County and is not intended to be and should not be used by anyone other than these specified parties.

Other reporting required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2021, 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 solely 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 the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Lindsey A. Perry, CPA, CFE
Auditor General

March 18, 2021

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

As management of Graham County, we offer readers of Graham County's financial statements this narrative overview and analysis of the financial activities of Graham County for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial highlights for fiscal year 2020

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the current fiscal year by \$27,857,215 (net position). Of this amount, \$28,760,121 is the net investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure, and construction in progress); \$15,343,405 is restricted for specific purposes (restricted net position); and \$(16,246,311) is the unrestricted net position deficit balance that is primarily a result of \$24,620,740 in net pension liability.
- The increase in the County's net position was \$7,728,340 in fiscal year 2020.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of \$25,353,951, an increase of \$5,066,374 in comparison with the prior year. The increase was primarily due to an increase in cash, cash equivalents, and investments held by both the general and other governmental funds and an increase in investments held by trustee by the jail district debt service fund.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$6,774,420, or 44.3 percent, of total general fund expenditures.
- Graham County's capital assets increased by \$464,405 during the current fiscal year. The key factor in this increase was purchases exceeded disposals and depreciation. Key disposals were of a motor grader from the highway fund and a reverse osmosis system from the general fund (machinery and equipment). The largest capital asset purchase was a road project, Klondyke Road and related land purchased for right-of-way. Other large capital assets purchased were a motor grader and loader for the highway department, hyperflex equipment for the information technology department and a shade awning for emergency management, and the Four Walls land purchase. A communications repeater, passenger vehicles, a backhoe and election equipment, including election security upgrades, round out the majority of capital asset additions.

Overview of the financial statements

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

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

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

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

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

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

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

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

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

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

Because the governmental funds' focus is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds 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, the highway road fund, the jail district operations fund, and the jail district debt service fund which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

The basic governmental funds financial statements can be found on pages 3 through 6 of this report.

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

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

The fiduciary funds financial statements can be found on pages 7 and 8 of this report.

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

The notes to the financial statements can be found on pages 9 - 39 of this report.

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

Required supplementary information can be found on pages 41 - 54 of this report.

Government-wide financial analysis

Statement of net position—As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Graham County's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$27,857,215.

Condensed Statement of Net Position As of June 30, 2020 and 2019

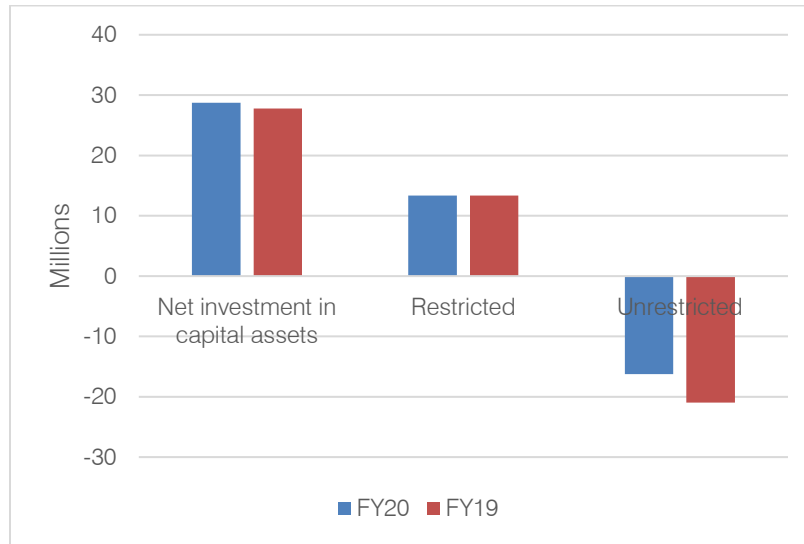
	Governmental Activities	
	2020	2019
Current and other assets	\$ 26,135,465	\$ 20,943,765
Capital assets	<u>55,606,447</u>	<u>55,142,042</u>
Total assets	<u>81,741,912</u>	<u>76,085,807</u>
Deferred outflows of resources		
Total deferred outflows of resources	<u>4,016,858</u>	<u>6,735,312</u>
Long-term liabilities outstanding	52,797,932	55,707,265
Other liabilities	<u>511,706</u>	<u>367,329</u>
Total liabilities	<u>53,309,638</u>	<u>56,074,594</u>
Deferred inflows of resources		
Total deferred inflows of resources	<u>4,591,917</u>	<u>6,617,650</u>
Net position:		
Net investment in capital assets	28,760,121	27,756,796
Restricted	15,343,405	13,340,394
Unrestricted	<u>(16,246,311)</u>	<u>(20,968,315)</u>
Total net position	<u>\$ 27,857,215</u>	<u>\$ 20,128,875</u>

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

Net Position
June 30, 2020 and 2019



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

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$(20,968,315) at June 30, 2019, to \$(16,246,311) at June 30, 2020. Again, this is primarily a result of changes in net pension liability.

Current and other assets, related to governmental activities, increased \$5,191,700 as compared to the previous fiscal year, primarily because of an increase in cash of \$3,246,541, along with increases in investments held by trustee of \$1,019,264, and in due from other governments of \$1,015,223. Capital assets increased by \$464,405 this fiscal year as new assets placed in service exceeded disposals of old equipment and depreciation of all assets.

Long-term liabilities decreased \$2,909,333 with a decrease of \$2,439,652 in net pension liability to \$24,620,740 for its employees at year-end. Compensated absences increased \$70,212, reflecting employees' increased carryover of vacation and sick leave hours. Capital leases payable decreased \$259,985 with no new leases incurred. Other liabilities increased \$144,377, or 39.3 percent, mainly because of an increase in accrued payroll and employee benefits.

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

Statement of activities—Already noted was the statement of activities' purpose in presenting information in how the County's net position changed during the most recent fiscal year. Most sources of revenue on the statement of activities increased with the exception of a small decrease in miscellaneous revenues which decreased \$28,368 or 4.1 percent. The net result was an increase in revenue of \$5,147,092 for the fiscal year. The basis of accounting used in the government-wide statement of activities excludes capital expenditures, while its revenues include taxes whose primary purpose is for the County's operation.

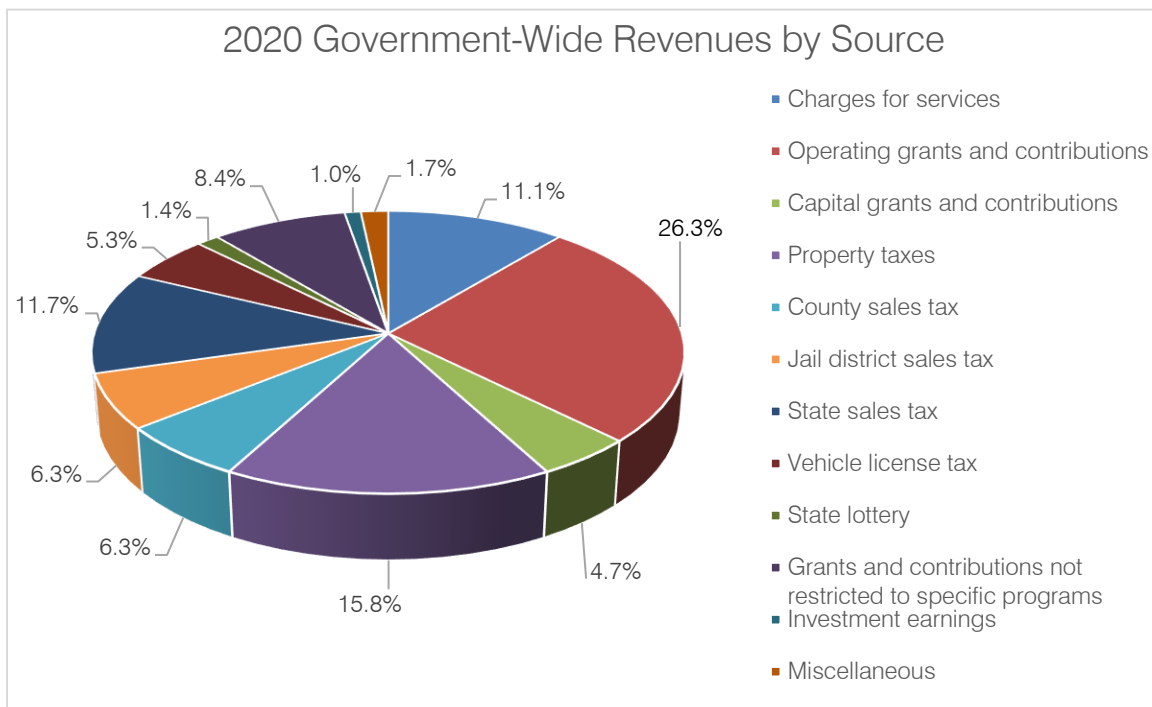
Condensed Statement of Activities Years Ended June 30, 2020 and 2019

	Governmental Activities	
	2020	2019
Revenues		
Program revenues:		
Charges for services	\$ 4,297,349	\$ 3,934,225
Operating grants and contributions	10,158,319	8,540,857
Capital grants and contributions	1,839,071	
General revenues:		
Property taxes, levied for general purposes	6,123,227	6,031,330
County sales taxes, levied for general purposes	2,430,278	2,166,228
Jail District sales taxes, levied for debt service	2,423,917	2,155,395
Shared revenue—state sales taxes	4,515,806	4,163,990
Shared revenue—state vehicle license taxes	2,039,128	1,978,305
State appropriations	550,050	550,050
Grants and contributions not restricted to specific programs	3,248,787	3,074,478
Investment earnings	374,543	230,157
Miscellaneous	<u>664,245</u>	<u>692,613</u>
Total revenues	<u>38,664,720</u>	<u>33,517,628</u>
Expenses		
General government	\$ 7,134,937	\$ 5,138,263
Public safety	10,523,089	10,828,867
Highways and streets	5,307,894	4,448,378
Sanitation	139,334	121,994
Health	1,265,125	1,105,330
Welfare	2,830,100	2,699,801
Culture and recreation	733,100	655,137
Education	1,891,233	1,912,878
Interest on long-term debt	<u>1,111,568</u>	<u>1,119,685</u>
Total expenses	<u>30,936,380</u>	<u>28,030,333</u>
Change in net position	7,728,340	5,487,295
Net position—beginning	<u>20,128,875</u>	<u>14,641,580</u>
Net position—ending	<u>\$27,857,215</u>	<u>\$20,128,875</u>

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

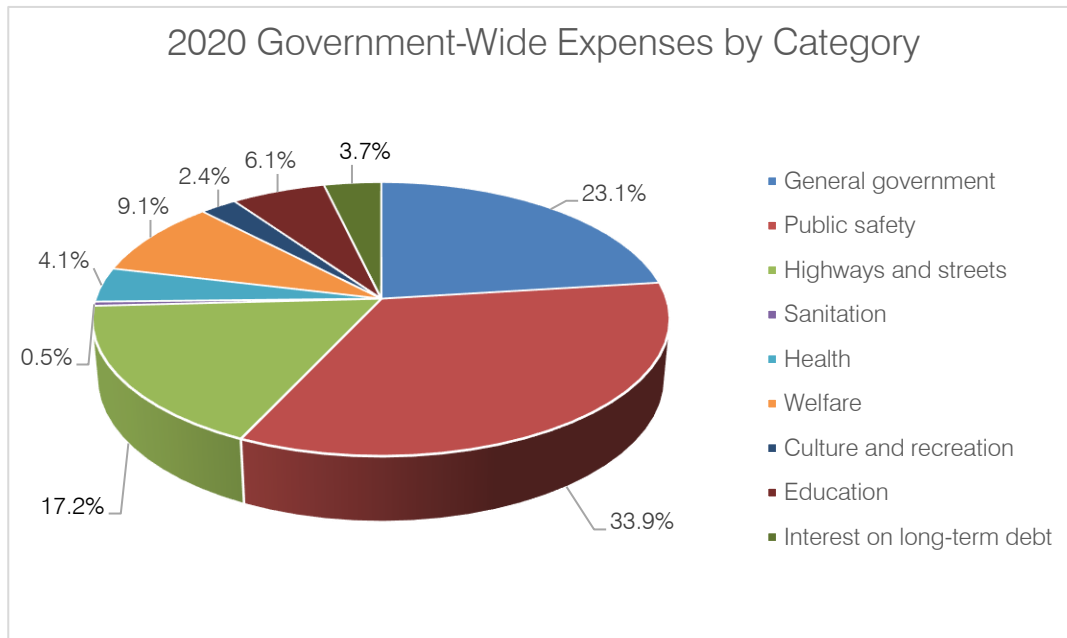


Governmental activities

Governmental activities revenues totaled \$38,664,720 for fiscal year 2020. The following are highlights of County revenues:

- Charges for services increased \$363,124, or 9.2 percent. The main sources of the increase were an increase of \$143,545, or 923.2 percent, in fair revenues from gate revenues, carnival receipts and booth rentals; an increase in recorder's fees of \$107,548, or 148.8 percent, as the cost of recording fees was raised by the State; an increase in dispatch intergovernmental agreement (IGA) fees of \$29,285, or 3.9 percent; an increase in clerk fines of \$29,030, or 111.7 percent; and an increase in planning and zoning permit fees of \$20,723, or 38.5 percent.
- Operating grants and contributions increased by \$1,617,462, or 18.9 percent. The main source of the increase was \$918,557 in CARES Act funds and \$314,470 in Coronavirus health funds received in fiscal year 2019-2020.
- Capital grants and contributions increased by \$1,839,071, or 100.0 percent, from costs paid by the Arizona Department of Transportation for the Eighth Avenue Roundabout road project which remains in construction in progress at the end of the fiscal year.
- Graham County continued to see a recovery in the economy, years behind the state's recovery as a whole, which was evidenced by an increase in County sales taxes of \$264,050, or 12.2 percent; an increase in Jail District sales tax of \$268,522, or 12.5 percent; and an increase in state shared sales tax revenues of \$351,816, or 8.5 percent.
- Investment earnings increased by \$144,386, or 62.7 percent, as interest rates continued to rise and gains in the fair market value of investments were recorded in fiscal year 2019-2020.
- Grants and contributions not restricted to specific programs increased \$174,309, or 5.7 percent. The main source of the increase was an increase in payments in lieu of taxes (PILT) of \$140,540, or 4.7 percent.

**Graham County
Management's discussion and analysis
Year-ended June 30, 2020**



Expenses:

Overall expenses in governmental activities increased \$2,906,047, or 10.4 percent. Spending for public safety decreased slightly during the fiscal year while all other functions increased. The majority of the increase was within the general government, highway, sanitation, health, and cultural/recreation functions.

- General government expenses increased \$1,996,674, or 38.8 percent, mainly as a result of an increase in pension expense as pension plans adjusted their actuarial assumptions.
- Highway expenses increased \$859,516, or 19.3 percent. Personnel costs increased \$236,533, or 20.6 percent, as the department was able to fill vacancies and road surface supplies increased \$593,435, or 118.4 percent, as increased staffing allowed for more road work to be completed.
- Sanitation expenses increased \$17,340, or 14.2 percent. Professional services increased \$10,330, or 68.2 percent, and refuse disposal fees increased \$10,007, or 59.7 percent, as the County did major community clean-up in the Little Hollywood area.
- Health expenses increased \$159,795, or 14.5 percent. Coronavirus expenses of \$ 47,043 were new for fiscal year 2020. Teen pregnancy and family planning expenses increased \$45,212, or 55.3 percent, and \$31,635, or 53.1 percent, respectively. Public health accreditation expenses increased \$47,569, or 4,085.2 percent, for a consulting firm which was hired to work on accreditation plans.
- Cultural/recreation expenses increased \$77,963, or 11.9 percent. Expenses for the county fair attributable to increased professional service costs for entertainment, as well as fair premium expenses, accounted for the majority of the increase.

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

Financial analysis of the County's funds

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

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

The general fund is the chief operating fund of Graham County. At June 30, 2020, the general fund's unassigned fund balance was \$6,774,420 which was an increase of \$3,048,141 from the prior fiscal year. Revenues were more than expenditures by \$6,017,856 in the general fund (prior to any other financing sources or uses). Revenues were \$1,912,917 more than the previous fiscal year with increases in all county revenues with the exception of a decrease in miscellaneous revenues. The largest increase was in intergovernmental revenues with an increase of \$1,406,235, or 14.4 percent, which was largely a result of \$918,557 in CARES Act funds received in fiscal year 2019-2020.

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 decreased \$51,511, or 0.9 percent, this fiscal year to \$5,857,023. Intergovernmental revenues saw an increase, as did investment earnings and miscellaneous revenues. Only charges for services had a decrease in revenues. Highway expenses increased \$1,168,001, or 32.5 percent, this year as the department was able to fill vacancies and increased staffing allowed for more road work to be completed.

The jail district operations fund is comprised of two main functions—adult detention and detention health services. The jail district operations fund's main source of revenues is the maintenance of effort transfer from the general fund. For fiscal year 2020 this transfer totaled \$3,029,355, a \$66,762 increase over the previous year. The transfers varies each year based on calculations tied to changes in the U.S. gross domestic product. The jail district operations fund balance decreased \$26,242 this fiscal year to end with a balance of \$91,169. A contract with the U.S. Marshals to house federal detainees was still in place but the County housed lower numbers of inmates which is largely responsible for the decrease in fund balance.

The jail district debt service fund receives the jail district sales tax which went into effect on July 1, 2015. The district uses these taxes to service the principal and interest payments on the bonds issued to build the new adult detention facility. The debt service is scheduled to be paid off in 25 years, by the year 2040. The County sales tax for the jail district debt service fund totaled \$2,423,917. A principal payment of \$240,000 was made toward the outstanding bonds, as well as \$1,150,294 in bond interest payments.

The other governmental funds are a combination of many nonmajor funds of the County, most funded by various grants. Grants are typically only awarded for one fiscal year at a time. Funding for many programs have faced multiple years of cuts but after several years of decreases, intergovernmental revenues increased in fiscal year 2020 by \$540,573. Total revenues increased by \$933,420 while expenditures decreased by \$152,939. The other governmental funds' balance increased by \$1,038,752.

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

General fund budgetary highlights

There were no amendments to the original revenue budget for the general fund. General fund revenues received were over the adopted budget amount by \$1,696,410, or 8.6 percent. The largest variances from budgeted amounts were in investment earnings, which were \$71,849, or 1,197.5 percent, above budget due to the recognition of gain in fair market value of treasurer investments. Licenses and permits were \$18,781, or 33.2 percent, above budget due to an increase in planning and zoning permit fees. County sales taxes were \$280,278, or 13.0 percent, above budget due to stronger than forecasted retail sales. Intergovernmental revenues were \$1,280,142, or 12.9 percent, above budget which was largely a result of \$918,557 in CARES Act funds received. Charges for services were \$107,696, or 8.4 percent, above budget mainly from an increase in recorder's fees of \$104,843, 139.8 percent, above budget.

The general fund expenditure budget of \$20,154,202 was also not amended this fiscal year. General fund expenditures were less than the final budget by \$4,854,496, or 24.1 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of \$4,187,770 which included \$2,776,617 in unspent contingency. The public safety function also had a favorable expenditure variance of \$502,034 as compared to the budget. These savings were a result of conservative budgeting practices that resulted in spending less than anticipated in both juvenile detention and the sheriff's office. All general fund departments were under budget.

Capital asset and debt administration

Capital assets—The County's capital assets for its governmental activities as of June 30, 2020, amount to \$55,606,447 (net of accumulated depreciation). The increase of \$464,405 is due primarily to increases in construction in progress.

Graham County's Capital Assets (Net of depreciation)

	Governmental Activities	
	<u>2020</u>	<u>2019</u>
Land	\$ 3,481,430	\$ 3,244,850
Buildings	28,612,756	29,477,086
Machinery and equipment	2,002,866	1,617,966
Infrastructure	19,567,157	20,004,439
Construction in progress	<u>1,942,238</u>	<u>797,701</u>
Total	<u>\$55,606,447</u>	<u>\$55,142,042</u>

Additional information on Graham County's capital assets can be found in Note 5 on pages 18 – 19 of this report.

Long-term debt—At the end of the current fiscal year, the County had total long-term liabilities outstanding of \$52,797,932. The largest portion of the long-term liabilities includes \$25,635,000 in revenue bonds payable and \$24,620,740 for net pension liability. Also included in long-term liabilities is \$1,257,824 for the future payment of compensated absences for unused employee vacation and sick leave, capital leases of \$432,632, unamortized bond premium of \$778,694, and landfill closure and post-closure care costs of \$73,042.

Graham County

Management's discussion and analysis

Year-ended June 30, 2020

Additional information on the County's long-term debt can be found in Note 6 to the financial statements on pages 19 - 21.

Economic factors and next year's budget and rates

- The unemployment rate as of June 2020 for the State was 10.3 percent and for Graham County was 8.9 percent (exclusive of the San Carlos Apache Reservation). This is an increase from 5.6 percent a year ago, most likely due to COVID-19.
- State shared revenues have increased for the past few years and Graham County is seeing higher County sales taxes indicative of a healthier local and state economy.
- As Graham County has seen a healthier economy in rural Arizona, the County is working to maintain a budget reserve to minimize future negative fiscal impacts of unforeseen events over which the County has little or no control. In addition, the County has begun to work on deferred maintenance projects for County buildings and facilities.
- As the State economy has improved, the Legislature has taken back some of the cost shifts that had been imposed on counties during the recession. Removal of these cost shifts has been important because other costs outside of the County's control have increased, such as long-term care costs, indigent attorney and restoration to competency costs as well as employee pension and retirement costs. The County will continue their efforts to educate state legislators regarding the impact of cost shifts and unfunded state mandates.
- Increasing costs from State-controlled pension systems are a concern for Graham County. Like other counties in Arizona, Graham County has struggled to pay for required increases to the Public Safety Personnel Retirement System (PSPRS), Elected Officials Retirement Plan (EORP), and Corrections Officer Retirement Plan (CORP).
- The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses and communities. The extent to which COVID-19 impacts the County's operations and workforce will depend on future developments, which are highly uncertain and cannot be predicted with confidence.

These factors were considered in preparing Graham County's budget for the 2021 fiscal year. The unassigned ending fund balance in the general fund of \$6,774,420 was appropriated for spending in the 2020-2021 fiscal year budget, with most of it budgeted in contingency for unexpected needs that may arise during the fiscal year. Graham County balances the use of available fund balances with realistic revenue projections while implementing a conservative plan for the expenditure of limited resources to meet its citizens' current and future needs. Assessed valuations rose for the second time in five years. The County lowered the general fund property tax rate from 2.9644 to 2.7500, but it was above the Truth in Taxation Rate for the fiscal year 2021.

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 W. Thatcher Blvd., Safford, AZ 85546.

Graham County
Statement of net position
June 30, 2020

	Governmental activities
Assets	
Cash, cash equivalents, and investments	\$ 15,244,027
Property taxes receivable	305,945
Due from other governments	3,384,300
Investments held by trustee—restricted	6,628,661
Inventories	273,280
Prepaid assets	299,252
Capital assets, not being depreciated	5,423,668
Capital assets, being depreciated, net	<u>50,182,779</u>
Total assets	<u>81,741,912</u>
Deferred outflows of resources	
Deferred outflows related to pensions	<u>4,016,858</u>
Total deferred outflows of resources	<u>4,016,858</u>
Liabilities	
Accounts payable	5,312
Accrued payroll and employee benefits	426,668
Due to other governments	79,726
Noncurrent liabilities	
Due within 1 year	1,228,472
Due in more than 1 year	<u>51,569,460</u>
Total liabilities	<u>53,309,638</u>
Deferred inflows of resources	
Deferred inflows related to pensions	<u>4,591,917</u>
Total deferred inflows of resources	<u>4,591,917</u>
Net position	
Net investment in capital assets	28,760,121
Restricted for:	
Highways and streets	5,857,023
Debt service	7,083,115
Other purposes	2,403,267
Unrestricted (deficit)	<u>(16,246,311)</u>
Total net position	<u>\$ 27,857,215</u>

See accompanying notes to financial statements.

Graham County
Statement of activities
Year ended June 30, 2020

Functions/programs	Expenses	Program revenues		Net (expense) revenue and changes in net position
		Charges for services	Operating grants and contributions	
Governmental activities:				
General government	\$ 7,134,937	\$ 2,000,506	\$ 2,381,562	\$ (2,752,869)
Public safety	10,523,089	353,500	2,784,182	(7,385,407)
Highways and streets	5,307,894	44,041	3,468,245	43,463
Sanitation	139,334		52,098	(87,236)
Health	1,265,125	68,977	1,280,500	84,352
Welfare	2,830,100			(2,830,100)
Culture and recreation	733,100	232,148	111,500	(389,452)
Education	1,891,233	1,598,177	80,232	(212,824)
Interest on long-term debt	1,111,568			(1,111,568)
Total governmental activities	<u>\$30,936,380</u>	<u>\$ 4,297,349</u>	<u>\$10,158,319</u>	<u>\$ 1,839,071</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				6,123,227
County sales taxes, levied for general purposes				2,430,278
Jail District sales tax, levied for debt service				2,423,917
Shared revenue—State sales tax				4,515,806
Shared revenue—State vehicle license tax				2,039,128
State appropriations				550,050
Grants and contributions not restricted to specific programs				3,248,787
Investment earnings				374,543
Miscellaneous				664,245
Total general revenues				<u>22,369,981</u>
Change in net position				7,728,340
Net position, July 1, 2019				<u>20,128,875</u>
Net position, June 30, 2020				<u>\$ 27,857,215</u>

See accompanying notes to financial statements.

Graham County
Balance sheet
Governmental funds
June 30, 2020

	General Fund	Highway Road Fund	Jail District Operations Fund	Jail District Debt Service Fund	Other governmental funds	Total governmental funds
Assets						
Cash, cash equivalents, and investments	\$ 4,724,444	\$ 5,291,231	\$ 147,811		\$ 5,080,541	\$ 15,244,027
Investments held by trustee				\$ 6,628,661		6,628,661
Property taxes receivable	297,135				8,810	305,945
Due from other governments	2,298,907	342,666	15,582	454,454	272,691	3,384,300
Inventories		273,280				273,280
Prepaid items	299,252					299,252
Total assets	<u>\$ 7,619,738</u>	<u>\$ 5,907,177</u>	<u>\$ 163,393</u>	<u>\$ 7,083,115</u>	<u>\$ 5,362,042</u>	<u>\$ 26,135,465</u>
Liabilities						
Accounts payable					\$ 5,312	\$ 5,312
Accrued payroll and employee benefits	\$ 231,167	\$ 50,154	\$ 65,610		79,737	426,668
Due to other governments	52,381		6,614		20,731	79,726
Total liabilities	<u>283,548</u>	<u>50,154</u>	<u>72,224</u>		<u>105,780</u>	<u>511,706</u>
Deferred inflows of resources						
Unavailable revenue—property taxes	262,518				7,290	269,808
Total deferred inflows of resources	<u>262,518</u>				<u>7,290</u>	<u>269,808</u>
Fund balances						
Nonspendable	299,252	273,280				572,532
Restricted		5,583,743	91,169	7,083,115	2,312,098	15,070,125
Committed					588,447	588,447
Assigned					2,348,427	2,348,427
Unassigned	6,774,420					6,774,420
Total fund balances	<u>7,073,672</u>	<u>5,857,023</u>	<u>91,169</u>	<u>7,083,115</u>	<u>5,248,972</u>	<u>25,353,951</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 7,619,738</u>	<u>\$ 5,907,177</u>	<u>\$ 163,393</u>	<u>\$ 7,083,115</u>	<u>\$ 5,362,042</u>	<u>\$ 26,135,465</u>

See accompanying notes to financial statements.

Graham County

Reconciliation of the governmental funds balance sheet to the government-wide statement of net position June 30, 2020

Fund balances—total governmental funds		\$ 25,353,951
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets	\$ 93,926,665	
Accumulated depreciation	<u>(38,320,218)</u>	55,606,447
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		
		269,808
Long-term liabilities, such as net pension liabilities and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Bonds payable	(25,635,000)	
Bond premium	(778,694)	
Net pension liability	(24,620,740)	
Compensated absences payable	(1,257,824)	
Leases payable	(432,632)	
Landfill liability	<u>(73,042)</u>	<u>(52,797,932)</u>
Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.		
		<u>(575,059)</u>
Net position of governmental activities		<u>\$ 27,857,215</u>

See accompanying notes to financial statements.

Graham County
Statement of revenues, expenditures, and changes in fund balances
Governmental funds
Year ended June 30, 2020

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>Jail District Operations Fund</u>	<u>Jail District Debt Service Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:						
Property taxes	\$ 5,901,368				\$ 205,100	\$ 6,106,468
County sales taxes	2,430,278			\$ 2,423,917		4,854,195
Licenses and permits	75,281					75,281
Intergovernmental	11,166,551	\$ 4,399,976	\$ 648,024		4,346,115	20,560,666
Charges for services	1,382,835	44,041	54,830		2,319,887	3,801,593
Fines and forfeits	219,165				49,997	269,162
Investment earnings	77,849	131,879	3,551	54,568	106,696	374,543
Rents	20,613				130,700	151,313
Miscellaneous	43,622	168,893	2,199		137,450	352,164
Donations					355,067	355,067
Total revenues	<u>21,317,562</u>	<u>4,744,789</u>	<u>708,604</u>	<u>2,478,485</u>	<u>7,651,012</u>	<u>36,900,452</u>
Expenditures:						
Current:						
General government	6,870,829				567,611	7,438,440
Public safety	4,293,784		3,734,003		2,450,490	10,478,277
Highways and streets		4,347,449			202,488	4,549,937
Sanitation	88,123				52,184	140,307
Health	185,906				1,067,467	1,253,373
Welfare	2,830,100					2,830,100
Culture and recreation	385,088				291,037	676,125
Education	246,010				1,658,607	1,904,617
Debt service:						
Principal				240,000		240,000
Interest and other charges				1,150,503		1,150,503
Capital outlay	<u>399,866</u>	<u>412,472</u>	<u>30,198</u>		<u>305,985</u>	<u>1,148,521</u>
Total expenditures	<u>15,299,706</u>	<u>4,759,921</u>	<u>3,764,201</u>	<u>1,390,503</u>	<u>6,595,869</u>	<u>31,810,200</u>
Excess (deficiency) of revenues over expenditures	<u>6,017,856</u>	<u>(15,132)</u>	<u>(3,055,597)</u>	<u>1,087,982</u>	<u>1,055,143</u>	<u>5,090,252</u>
Other financing sources (uses):						
Sale of capital assets	851	540				1,391
Transfers in	83,586		3,029,355		69,402	3,182,343
Transfers out	<u>(3,084,900)</u>	<u>(11,650)</u>			<u>(85,793)</u>	<u>(3,182,343)</u>
Total other financing sources (uses)	<u>(3,000,463)</u>	<u>(11,110)</u>	<u>3,029,355</u>		<u>(16,391)</u>	<u>1,391</u>
Net change in fund balances	<u>3,017,393</u>	<u>(26,242)</u>	<u>(26,242)</u>	<u>1,087,982</u>	<u>1,038,752</u>	<u>5,091,643</u>
Fund balances, July 1, 2019	4,056,279	5,908,534	117,411	5,995,133	4,210,220	20,287,577
Decrease in inventories		<u>(25,269)</u>				<u>(25,269)</u>
Fund balances, June 30, 2020	<u>\$ 7,073,672</u>	<u>\$ 5,857,023</u>	<u>\$ 91,169</u>	<u>\$ 7,083,115</u>	<u>\$ 5,248,972</u>	<u>\$25,353,951</u>

See accompanying notes to financial statements.

Graham County

Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities Year ended June 30, 2020

Net change in fund balances—total governmental funds \$ 5,091,643

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 1,148,521	
Less current year depreciation	<u>(2,478,810)</u>	(1,330,289)

In the statement of activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.

(44,377)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	16,759	
Capital contributions	<u>1,839,071</u>	1,855,830

County pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension liability is measured a year before the County's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.

County pension contributions	2,293,166	
Pension expense	(533,469)	
State's nonemployer pension contributions	<u>(48,576)</u>	1,711,121

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is issued, whereas these amounts are amortized in the statement of activities.

Amortization of bond premium	38,935	
Principal payments on long-term (bond) debt	240,000	
Principal payments on long-term (capital lease) debt	<u>259,985</u>	538,920

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	(70,212)	
Decrease in landfill closure and postclosure care costs	<u>973</u>	(69,239)

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		<u>(25,269)</u>
-------------------------	--	-----------------

Change in net position of governmental activities \$ 7,728,340

Graham County
Statement of fiduciary net position
Fiduciary funds
June 30, 2020

	<u>Investment trust funds</u>	<u>Agency funds</u>
Assets		
Cash, cash equivalents, and investments	\$ 23,287,258	\$ 564,465
Accrued interest receivable	71,406	
Total assets	<u>\$ 23,358,664</u>	<u>\$ 564,465</u>
Liabilities		
Deposits held for others		\$ 564,465
Total liabilities		<u>\$ 564,465</u>
Net position		
Held in trust for investment trust participants	<u>\$ 23,358,664</u>	

See accompanying notes to financial statements.

Graham County
Statement of changes in fiduciary net position
Fiduciary funds
Year ended June 30, 2020

	<u>Investment trust funds</u>
Additions:	
Contributions from participants	\$ 99,979,364
Investment earnings	<u>630,232</u>
Total additions	<u>100,609,596</u>
Deductions:	
Distributions to participants	<u>99,392,174</u>
Total deductions	<u>99,392,174</u>
Change in net position	1,217,422
Net position, July 1, 2019	<u>22,141,242</u>
Net position, June 30, 2020	<u>\$ 23,358,664</u>

See accompanying notes to financial statements.

Graham County

Notes to financial statements

June 30, 2020

Note 1 – Summary of significant accounting policies

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

A. Reporting entity

The County is a general purpose local government that is governed by a separately elected board of 3 County supervisors. The accompanying financial statements present the activities of the County (the primary government) and its component units.

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are so intertwined with the County that they are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. The blended component units discussed below have a June 30 year-end. The County has no discretely presented component units.

The Graham County Flood Control District is a legally separate tax-levying entity pursuant to Arizona Revised Statutes (A.R.S.) §48-3602 that provides flood control facilities and regulates floodplains and drainage to prevent flooding of property within Graham County. The Graham County Jail District is a legally separate tax-levying entity pursuant to A.R.S. §48-4001 that acquires, constructs, operates, maintains, and finances the County adult detention facility. As the Graham County Board of Supervisors serves as the Board of Directors of the Flood Control and Jail Districts, it is able to significantly influence the programs, projects, activities, and level of services provided by the districts; the Board also establishes policy, appoints management, exercises budgetary control and determines the Flood Control District's tax rate. Further, the districts provide services almost entirely for the benefit of the County; therefore, the Flood Control and the Jail Districts are considered blended component units of the County. Separate financial statements for the districts are not available.

B. Basis of presentation

The basic financial statements include both government-wide statements and fund financial statements. The government-wide statements focus on the County as a whole, while the fund financial statements focus on major funds. Each presentation provides valuable information that can be analyzed and compared between years and between governments to enhance the information's usefulness.

Government-wide statements—Provide information about the primary government (the County) and its component units. The statements include a statement of net position and a statement of activities. These statements report the overall government's financial activities, except for fiduciary activities. Governmental activities generally are financed through taxes and intergovernmental revenues.

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

Graham County

Notes to financial statements

June 30, 2020

- Charges to customers or applicants for goods, services, or privileges provided.
- Operating grants and contributions.
- Capital grants and contributions.

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes the County levies or imposes, are reported as general revenues.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements to minimize the double-counting of internal activities. However, charges for interfund services provided and used are not eliminated if the prices approximate their external exchange values.

Fund financial statements—Provide information about the County’s funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Fiduciary funds are aggregated and reported by fund type.

The County reports the following major governmental funds:

The *General Fund* is the County’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Highway Road Fund* accounts for road construction and maintenance of major regional roads, and is funded by highway user revenue fund (HURF) and vehicle license taxes.

The *Jail District Operations Fund* accounts for all financial resources of the Jail District and is funded mainly by maintenance-of-effort payments from the County’s General Fund.

The *Jail District Debt Service Fund* accounts for the accumulation of resources for, and the payment of, principal and interest on bonds issued to finance the construction of an adult detention facility. Revenues are from the voter-approved Jail District sales tax.

The County also reports the following fund types:

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

The *agency funds* account for assets the County holds as an agent for the State, cities, towns, and other parties.

C. Basis of accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in

Graham County

Notes to financial statements

June 30, 2020

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

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The County's major revenue sources that are susceptible to accrual are property taxes, intergovernmental, charges for services, and investment earnings. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

D. Cash and investments

All investments are stated at fair value.

E. Inventories

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

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

F. Prepaid items

The County reports prepaid items as an asset in the period in which they were purchased and defers recognition of the expenditure until the period in which the prepaid items are consumed. The prepaid items of the governmental funds consist of prepaid water costs and amounts at year-end are shown on the balance sheet as nonspendable fund balance to indicate that they do not constitute "available spendable resources."

Graham County
Notes to financial statements
June 30, 2020

G. 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 2 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.

H. Capital assets

Capital assets are reported at actual cost. Donated assets are reported at acquisition value.

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

	Capitalization threshold		
Land (including right of ways)	\$10,000		
Land improvements	10,000		
Construction in progress	10,000		
		Depreciation method	Estimated useful life
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

I. Deferred outflows and inflows of resources

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

J. Pensions

For purposes of measuring the net pension asset and liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plans' fiduciary net position and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Graham County

Notes to financial statements

June 30, 2020

K. Fund balance classifications

The governmental funds' fund balances are reported separately within classifications based on a hierarchy of the constraints placed on those resources' use. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable, restricted, and unrestricted, which includes committed, assigned, and unassigned fund balance classifications.

The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form, such as inventories, or are legally or contractually required to be maintained intact. Restricted fund balances are those that have externally imposed restrictions on their usage by creditors (such as through debt covenants), grantors, contributors, or laws and regulations.

The unrestricted fund balance category is composed of committed, assigned, and unassigned resources. Committed fund balances are self-imposed limitations that the County's Board of Supervisors approved, which is the highest level of decision-making authority within the County. Only the Board can remove or change the constraints placed on committed fund balances.

Assigned fund balances are resources constrained by the County's intent to be used for specific purposes, but that are neither restricted nor committed. The Board of Supervisors has authorized the County manager to assign resources for a specific purpose.

The unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not reported in the other classifications. Also, deficits in fund balances of the other governmental funds are reported as unassigned.

When an expenditure is incurred that can be paid from either restricted or unrestricted fund balances, the County will use restricted fund balance first. The County will use committed amounts first when disbursing unrestricted fund balances, followed by assigned amounts, and lastly unassigned amounts.

L. Investment earnings

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

M. Compensated absences

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

Employees may accumulate up to 320 hours of vacation depending on years of service, but they forfeit any unused vacation hours in excess of the maximum amount at calendar year-end. Upon terminating employment, the County pays all unused and unforfeited vacation benefits to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Graham County
Notes to financial statements
June 30, 2020

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

Sick leave balance	Rate of reimbursement
500–749 hours	25% of accrued leave hours
750–999 hours	33% of accrued leave hours
1,000–1,500 hours	50% of accrued leave hours

Note 2 – Deposits and investments

Arizona Revised Statutes (A.R.S.) authorize the County to invest public monies in the State Treasurer's investment pool; obligations issued or guaranteed by the United States or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations, or instrumentalities; specified State and local government bonds, notes, and other evidences of indebtedness including registered warrants for counties, incorporated cities and towns, school districts, or special taxing districts; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top 2 ratings by a nationally recognized rating agency.
2. Specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better at the time of purchase by at least 2 nationally recognized rating agencies.
3. Fixed income securities must carry 1 of the 2 highest ratings by Moody's investors service and Standard and Poor's rating service. If only 1 of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

Concentration of credit risk

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

Graham County
Notes to financial statements
June 30, 2020

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Deposits—At June 30, 2020, the carrying amount of the County’s deposits was \$3,393,262, and the bank balance was \$5,366,896. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County had total investments of \$42,306,584 at June 30, 2020. The County categorizes certain investments measured at fair value within the fair value hierarchy established by generally accepted accounting principles as follows:

		Fair value measurement using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	Amount			
Investments by fair value level				
U.S. agency securities	\$ 8,038,330		\$8,038,330	
Negotiable certificates of deposit	11,179,737	\$11,179,737		
Money market funds with trustee	6,628,661	6,628,661		
School district warrants	<u>2,830,130</u>	_____	_____	<u>\$2,830,130</u>
Total investments categorized by fair value level	<u>\$28,676,858</u>	<u>\$17,808,398</u>	<u>\$8,038,330</u>	<u>\$2,830,130</u>
External investment pools measured at fair value				
State Treasurer’s investment pools	<u>\$13,629,726</u>			
Total investments	<u>\$42,306,584</u>			

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. Investments categorized as Level 2 are valued using an automated-IDC institutional bond pricing model. School district warrants categorized as Level 3 are valued using a net asset value (NAV) of \$1.00 per share. Investments in the State Treasurer’s investment pools are valued at the pool’s share price multiplied by the number of shares the County held. The fair value of a participant’s position in the pools approximates the value of that participant’s pool shares. The State Board of Investment provides oversight for the State Treasurer’s investment pools.

The money market fund investments are attributable solely to the Jail District Debt Service Fund. Monies from the Jail District’s tax levy and remaining unspent revenue bond proceeds reported in the Jail District Debt Service Fund were invested in these money market funds through a trustee.

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, 2020, credit risk for the County’s investments was as follows:

Graham County
Notes to financial statements
June 30, 2020

Investment type	Rating	Rating agency	Amount
U.S. agency securities	Aaa	Moody's	\$ 8,038,330
Negotiable certificates of deposit	Unrated	Not applicable	11,179,737
Money market funds with trustee	AAAm	Standard & Poor's	6,628,661
School district warrants	Unrated	Not applicable	2,830,130
State Treasurer's investment pool 7	Unrated	Not applicable	9,442,183
State Treasurer's investment pool 5	AAAf/S1+	Standard & Poor's	<u>4,187,543</u>
Total			<u>\$42,306,584</u>

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, 2020, of 5 percent or more in Federal Home Loan Bank and Safford School District. These investments were 9.53 percent and 6.69 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, 2020, the County had the following investments in debt securities:

Investment type	Amount	Weighted average maturity (in years)
U.S. agency securities	\$ 8,038,330	1.91
Negotiable certificates of deposit	11,179,737	1.57
Money market funds with trustee	6,628,661	0.19
School district warrants	2,830,130	indefinite
State Treasurer's investment pool 7	9,442,183	0.15
State Treasurer's investment pool 5	<u>4,187,543</u>	0.12
Total	<u>\$42,306,584</u>	

A reconciliation of cash, deposits, and investments to amounts shown on the statement of net position follows:

Cash, deposits, and investments:

Cash on hand	\$ 24,565
Amount of deposits	3,393,262
Amount of investments	<u>42,306,584</u>
Total	<u>\$45,724,411</u>

	Governmental activities	Investment trust funds	Agency funds	Total
Statement of net position:				
Cash, cash equivalents, and investments	\$15,244,027	\$23,287,258	\$564,465	\$39,095,750
Investments held by trustee—restricted	<u>6,628,661</u>	<u>6,628,661</u>		<u>6,628,661</u>
Total	<u>\$21,872,688</u>	<u>\$23,287,258</u>	<u>\$564,465</u>	<u>\$45,724,411</u>

Graham County
Notes to financial statements
June 30, 2020

Note 3 – County Treasurer’s investment pool

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

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

The Treasurer allocates interest earnings to each of the pool’s participants. However, for the County’s monies in the pool, \$5,362 of interest earned in certain other funds was transferred to the General Fund.

The deposits and investments the County holds are included in the County Treasurer’s investment pool, except for \$4,250 of cash on hand, \$442,806 of deposits, \$64,424 of investments in the State Treasurer’s investment pools, and \$6,628,661 of investments held by trustee. Therefore, the deposit and investment risks of the Treasurer’s investment pool are substantially the same as the County’s deposits and investment risk. See Note 2 for disclosure of the County’s deposit and investment risks.

Details of each major investment classification follow:

Investment type	Principal	Interest rates	Maturities	Amount
State Treasurer’s investment pool 5	\$ 4,123,119	None stated	None stated	\$ 4,123,119
State Treasurer’s investment pool 7	9,442,183	None stated	None stated	9,442,183
Negotiable certificates of deposit	10,908,000	0.35-3.10%	07/20 – 06/23	11,179,737
U.S. agency securities	8,000,000	0.45-2.11%	08/20 – 03/24	8,038,330
School district warrants	2,830,130	None stated	Indefinite	2,830,130

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

Statement of net position	
Assets	<u>\$ 38,584,270</u>
Net position	<u>\$ 38,584,270</u>
Net position held in trust for:	
Internal participants	\$ 15,333,325
External participants	<u>23,250,945</u>
Total net position held in trust	<u>\$ 38,584,270</u>
Statement of changes in net position	
Total additions	\$143,802,354
Total deductions	<u>139,390,002</u>
Net increase	<u>4,412,352</u>
Net position held in trust:	
July 1, 2019	<u>34,171,918</u>
June 30, 2020	<u>\$ 38,584,270</u>

Graham County
Notes to financial statements
June 30, 2020

Note 4 – Due from other governments

Amounts due from other governments at June 30, 2020, are shown as follows:

	General fund	Highway road fund	Jail district operations fund	Jail district debt service fund	Other governmental funds	Total
State-shared sales tax	\$ 845,107					\$ 845,107
County sales tax	454,374					454,374
Jail district sales tax				\$454,454		454,454
State-shared vehicle license tax	57,507	\$ 44,272				101,779
Highway user revenue		241,732				241,732
Grants and contributions from local, state and federal governments	941,919	48,249			\$272,691	1,262,859
Reimbursement for services provided for governmental units			\$15,582			15,582
Miscellaneous reimbursements		8,413				8,413
	<u>\$2,298,907</u>	<u>\$342,666</u>	<u>\$15,582</u>	<u>\$454,454</u>	<u>\$272,691</u>	<u>\$3,384,300</u>

Note 5 – Capital assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,244,850	\$ 236,580		\$ 3,481,430
Construction in progress	<u>797,701</u>	<u>2,073,317</u>	<u>\$928,780</u>	<u>1,942,238</u>
Total capital assets not being depreciated	<u>4,042,551</u>	<u>2,309,897</u>	<u>928,780</u>	<u>5,423,668</u>
Capital assets being depreciated:				
Buildings	38,193,800	85,306		38,279,106
Machinery and equipment	14,461,391	1,108,483	441,114	15,128,760
Infrastructure	<u>34,692,924</u>	<u>412,686</u>	<u>10,479</u>	<u>35,095,131</u>
Total of assets being depreciated	<u>87,348,115</u>	<u>1,606,475</u>	<u>451,593</u>	<u>88,502,997</u>
Less accumulated depreciation for:				
Buildings	8,716,714	949,636		9,666,350
Machinery and equipment	12,843,425	689,685	407,216	13,125,894
Infrastructure	<u>14,688,485</u>	<u>839,489</u>		<u>15,527,974</u>
Total	<u>36,248,624</u>	<u>2,478,810</u>	<u>407,216</u>	<u>38,320,218</u>
Total capital assets being depreciated, net	<u>51,099,491</u>	<u>(872,335)</u>	<u>44,377</u>	<u>50,182,779</u>
Governmental activities capital assets, net	<u>\$55,142,042</u>	<u>\$1,437,562</u>	<u>\$973,157</u>	<u>\$55,606,447</u>

Graham County
Notes to financial statements
June 30, 2020

Depreciation expense was charged to functions as follows:

Governmental activities:		
General government		\$ 255,256
Public safety		915,348
Highways and streets		1,087,068
Health		62,259
Culture and recreation		70,178
Education		<u>88,701</u>
Total governmental activities depreciation expense		<u>\$2,478,810</u>

The \$2.1 million increase in construction-in-progress is mainly due to construction of a round-about located at the intersection of Eighth Avenue, Airport Road, and Safford-Bryce Road. Arizona Department of Transportation is responsible for \$1.8 million of this construction-in-progress. The round-about will be completed and placed in service during fiscal year 2020-2021.

The \$1.1 million increase in machinery and equipment is mainly comprised of the purchase of \$333,027 in vehicles, \$322,942 in machinery (motor grader, backhoe, loader) and \$252,004 in Information Technology equipment.

Note 6 – Long-term liabilities

The following schedule details the County’s long-term liability and obligation activity for the year ended June 30, 2020:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due within 1 year
Governmental activities					
Bonds payable:					
Revenue bonds	\$25,875,000		\$ 240,000	\$25,635,000	\$ 250,000
Premium on bonds	<u>817,629</u>		<u>38,935</u>	<u>778,694</u>	<u>38,934</u>
Total bonds payable	<u>26,692,629</u>		<u>278,935</u>	<u>26,413,694</u>	<u>288,934</u>
Compensated absences payable	1,187,612	\$730,360	660,148	1,257,824	880,477
Capital leases payable	692,617		259,985	432,632	56,601
Net pension liability	27,060,392		2,439,652	24,620,740	
Landfill closure and post-closure care costs payable	<u>74,015</u>	<u>1,347</u>	<u>2,320</u>	<u>73,042</u>	<u>2,460</u>
Total governmental activities long-term liabilities	<u>\$55,707,265</u>	<u>\$731,707</u>	<u>\$3,641,040</u>	<u>\$52,797,932</u>	<u>\$1,228,472</u>

Bonds—The County’s bonded debt consists of one issuance of \$26,340,000 of revenue bonds that are generally noncallable with interest payable semiannually. Bond proceeds paid for the construction of an adult detention facility as part of the County jail district. The County has pledged, as security for bonds issued, the proceeds from a half-cent sales tax to be used for debt repayment of the bonds. The projected amount of the revenue pledged was estimated to be \$2 million for fiscal year 2020 and each year thereafter. The sales tax, which was voter approved for the purpose of building the adult detention facility, began on July 1, 2015 and continues for 25 years. One hundred percent of this special sales tax collected is pledged to be used for required debt repayment of the bonds. The revenue bonds were issued on September 23, 2015. For fiscal year 2020, \$2,423,917 of pledged revenues were recognized. Interest payments of

Graham County
Notes to financial statements
June 30, 2020

\$1,150,294 and principal payments of \$240,000 were due in fiscal year 2020. The final bond principal and interest payments will be made on July 1, 2040.

The following bond was outstanding at June 30, 2020:

Description	Amount issued	Maturity ranges	Interest rates	Outstanding Principal
Revenue bonds	\$26,340,000	7/1/2020-7/1/2040	3.500%-5.000%	\$25,635,000

The following schedule details debt service requirements to maturity for the County's bond payable at June 30, 2020:

Year ending June 30	Governmental activities	
	Revenue bonds	
	Principal	Interest
2021	\$ 250,000	1,140,494
2022	790,000	1,115,744
2023	830,000	1,075,244
2024	870,000	1,032,744
2025	915,000	988,119
2026-2030	5,305,000	4,195,981
2031-2035	6,635,000	2,839,294
2036-2040	8,190,000	1,255,559
2041	<u>1,850,000</u>	<u>38,156</u>
Total	<u>\$25,635,000</u>	<u>\$13,681,335</u>

Capital leases—The County has acquired equipment (two motor graders and a copy machine) under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term.

The following assets were acquired through capital leases:

Assets:	Governmental activities
Equipment	\$637,045
Less: accumulated depreciation	<u>382,515</u>
Carrying value	<u>\$254,530</u>

The following schedule details minimum lease payments to maturity for the County's capital leases payable at June 30, 2020:

Graham County
Notes to financial statements
June 30, 2020

Governmental activities

Year ending June 30	
2021	\$ 70,717
2022	70,021
2023	69,789
2024	153,132
2025	<u>117,568</u>
Total minimum lease payments	481,227
Less amount representing interest	<u>48,595</u>
Present value of net minimum lease payments	<u><u>\$432,632</u></u>

Landfill closure and postclosure care costs—State and federal laws and regulations required the County to place a final cover on its Central landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

The County closed the landfill in 2003. The \$73,042 reported as landfill postclosure care costs payable at June 30, 2020, is based on what it would cost to perform all remaining postclosure care in fiscal year 2020. These costs will be paid from the general fund. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

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

Compensated Absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2020, the County paid for compensated absences as follows: 55 percent from general fund, 10 percent from the highway road fund, 16 percent from the jail district operations fund and 19 percent from other governmental funds.

Note 7 – Fund balance classifications of the governmental funds

The fund balance classifications of the governmental funds as of June 30, 2020, were as follows:

	General Fund	Highway Road Fund	Jail District Operations Fund	Jail District Debt Service Fund	Other governmental funds	Total governmental funds
Fund balances:						
Nonspendable:						
Inventories		\$273,280				\$273,280
Prepaid items	<u>\$ 299,252</u>					<u>299,252</u>
Total nonspendable	<u>299,252</u>	<u>273,280</u>				<u>572,532</u>
Restricted for:						
Social services					\$ 562,430	562,430
Law enforcement			\$91,169		309,620	400,789
Highways and streets		5,583,743				5,583,743
Health					1,146,587	1,146,587
Education					268,946	268,946
Debt service				\$7,083,115		7,083,115
Capital outlay					<u>24,515</u>	<u>24,515</u>
Total restricted		<u>5,583,743</u>	<u>91,169</u>	<u>7,083,115</u>	<u>2,312,098</u>	<u>15,070,125</u>

Graham County
Notes to financial statements
June 30, 2020

	General Fund	Highway Road Fund	Jail District Operations Fund	Jail District Debt Service Fund	Other governmental funds	Total governmental funds
Committed to:						
Social services					\$ 235,859	\$ 235,859
Highways and streets					350,358	350,358
Education					<u>2,230</u>	<u>2,230</u>
Total committed					<u>588,447</u>	<u>588,447</u>
Assigned to:						
Social services					792,686	792,686
Law enforcement					140,505	140,505
Health					54,440	54,440
Culture and recreation					324,405	324,405
Education					1,006,563	1,006,563
Capital outlay					<u>29,829</u>	<u>29,829</u>
Total assigned					<u>2,348,427</u>	<u>2,348,427</u>
Unassigned:	<u>\$6,774,420</u>					<u>6,774,420</u>
Total fund balances	<u>\$7,073,672</u>	<u>\$5,857,023</u>	<u>\$91,169</u>	<u>\$7,083,115</u>	<u>\$5,248,972</u>	<u>\$25,353,951</u>

Note 8 – Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For these risks of loss, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust that are described below.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 13 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; cyber security; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$5,000 per occurrence for property claims and \$5,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$300 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 12 member counties. The pool provides member counties with workers' compensation coverage, as law requires, and risk-management services. The County is responsible for paying a premium, based on an experience-rating formula that allocates pool expenditures and liabilities among the members.

The Arizona Local Government Employee Benefit Trust is a public entity risk pool currently composed of 9 member entities. The pool provides member entities with health, prescription, dental, vision, life, short-term disability and accidental death benefits for the entities' employees and their dependents. The County is responsible for paying a premium based on enrolled employees and dependents and requires its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible

Graham County
Notes to financial statements
June 30, 2020

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

The Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. All pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation. If a pool were to become insolvent, the County would be assessed an additional contribution.

Note 9 – Pensions

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

At June 30, 2020, the County reported the following aggregate amounts related to pensions for all plans to which it contributes:

Statement of net position and statement of activities	Governmental activities
Net pension liability	\$24,620,740
Deferred outflows of resources	4,016,858
Deferred inflows of resources	4,591,917
Pension expense	533,469

The County's accrued payroll and employee benefits includes \$81,360 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2020. Also, the County reported \$2,293,166 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

A. Arizona State Retirement System

Plan description—County employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at www.azasrs.gov.

Benefits provided—The ASRS provides retirement and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

Graham County
Notes to financial statements
June 30, 2020

ASRS	Retirement	
	Initial membership date:	
	Before July 1, 2011	On or after July 1, 2011
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

* With actuarially reduced benefits.

Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

Contributions—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2020, statute required active ASRS members to contribute at the actuarially determined rate of 11.94 percent for retirement of the members’ annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 11.45 percent for retirement of the active members’ annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 10.29 percent for retirement of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the ASRS would typically fill. The County’s contributions to the pension plan for the year ended June 30, 2020, were \$796,803.

During fiscal year 2020, the County paid for ASRS pension contributions as follows: 54.4 percent from the General Fund, 16.1 percent from the Highway Road Fund, 2.3 percent from the Jail District Operations Fund, and 27.2 percent from other funds.

Pension liability—At June 30, 2020, the County reported a liability of \$9,418,968 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2018, to the measurement date of June 30, 2019.

The County’s proportion of the net pension liability was based on the County’s actual contributions to the plan relative to the total of all participating employers’ contributions for the year ended June 30, 2019. The County’s proportion measured as of June 30, 2019, was 0.0647 percent, which was a decrease of 0.0027 from its proportion measured as of June 30, 2018.

Graham County
Notes to financial statements
June 30, 2020

Pension expense and deferred outflows/inflows of resources—For the year ended June 30, 2020, the County recognized pension expense for ASRS of \$507,488. At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

ASRS	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 170,156	\$ 1,771
Changes of assumptions or other inputs	39,814	375,082
Net difference between projected and actual earnings on pension plan investments		211,706
Changes in proportion and differences between County contributions and proportionate share of contributions	39,808	461,156
County contributions subsequent to the measurement date	<u>796,803</u>	
Total	<u>\$1,046,581</u>	<u>\$1,049,715</u>

The \$796,803 reported as deferred outflows of resources related to ASRS pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2021	(441,724)
2022	(374,257)
2023	(40,657)
2024	56,701

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

ASRS	
Actuarial valuation date	June 30, 2018
Actuarial roll forward date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.5%
Projected salary increases	2.7-7.2%
Inflation	2.3%
Permanent benefit increase	Included
Mortality rates	2017 SRA Scale U-MP

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on ASRS pension plan investments was determined to be 7.5 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected

Graham County
Notes to financial statements
June 30, 2020

inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

ASRS Asset class	Target allocation	Long-term expected geometric real rate of return
Equity	50%	6.09%
Credit	20%	5.36%
Interest rate sensitive bonds	10%	1.62%
Real estate	<u>20%</u>	5.85%
Total	<u>100%</u>	

Discount rate—The discount rate used to measure the ASRS total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County’s proportionate share of the ASRS net pension liability to changes in the discount rate—The following table presents the County’s proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5 percent) or 1 percentage point higher (8.5 percent) than the current rate:

ASRS	1% decrease (6.5%)	Current discount rate (7.5%)	1% increase (8.5%)
County’s proportionate share of the net pension liability	\$13,405,373	\$9,418,968	\$6,087,360

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

B. Public Safety Personnel Retirement System and Corrections Officer Retirement Plan

Plan descriptions—County sheriff employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS) or employees who became members on or after July 1, 2017, may participated in the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The PSPRS administers agent and cost-sharing multiple-employer defined benefit pension plans. A 9-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4. Employees who were PSPRS members before July 1, 2017, participate in the agent plan, and those who became PSPRS members on or after July 1, 2017, participate in the cost-sharing plan (PSPRS Tier 3 Risk Pool) which is not further disclosed because of its relative insignificance to the County’s financial statements.

Graham County
Notes to financial statements
June 30, 2020

County detention officers, County dispatchers, and Administrative Office of the Courts (AOC) probation, surveillance, and juvenile detention officers participate in the Corrections Officer Retirement Plan (CORP) or the Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP). The CORP administers an agent multiple-employer defined benefit pension plan for County detention officers and dispatchers (agent plans), which were closed to new members as of July 1, 2018, and a cost-sharing multiple-employer defined benefit pension plan for AOC officers (cost-sharing plan). Employees who were CORP members before July 1, 2018, participate in CORP, and AOC probation and surveillance officers who became members on or after July 1, 2018, participate in CORP or PSPDCRP. Detention officers and juvenile detention officers who became members on or after July 1, 2018, participate in PSPDCRP. The PSPRS Board of Trustees and the participating local boards govern CORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS and CORP plans. The report is available on the PSPRS website at www.psprs.com.

Benefits provided—The PSPRS and CORP provide retirement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

PSPRS	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2017
Retirement and disability		
Years of service and age required to receive benefit	20 years of service, any age 15 years of service, age 62	25 years of service or 15 years of credited service, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	1.5 to 2.5% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement, whichever is greater	
Catastrophic disability retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary disability retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
Survivor benefit		
Retired members	80% to 100% of retired member's pension benefit	
Active members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

Graham County
Notes to financial statements
June 30, 2020

CORP	Initial membership date:		
	Before January 1, 2012	On or after January 1, 2012 and before July 1, 2018	AOC probation and surveillance officers: On or after July 1, 2018
Retirement and disability			
Years of service and age required to receive benefit	Sum of years and age equals 80 25 years, any age (dispatchers) 20 years, any age (all others) 10 years, age 62	25 years, age 52.5 10 years, age 62	10 years, age 52.5* 10 or more years, age 55
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years	
Benefit percent			
Normal retirement	2.0% to 2.5% per year of credited service, not to exceed 80%	2.5% per year of credited service, not to exceed 80%	1.25% to 2.25% per year of credited service, not to exceed 80%
Accidental disability retirement	50% or normal retirement if more than 20 years of credited service	50% or normal retirement if more than 25 years of credited service	
Total and permanent disability retirement	50% or normal retirement if more than 25 years of credited service		
Ordinary disability retirement	2.5% per year of credited service		
Survivor benefit			
Retired members	80% of retired member's pension benefit		
Active members	40% of average monthly compensation or 100% of average monthly compensation if death was the result of injuries received on the job. If there is no surviving spouse or eligible children, the beneficiary is entitled to 2 times the member's contributions.		

*With actuarially reduced benefits.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

Employees covered by benefit terms—At June 30, 2020, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers
Inactive employees or beneficiaries currently receiving benefits	9	5	0
Inactive employees entitled to but not yet receiving benefits	4	30	4
Active employees	<u>14</u>	<u>20</u>	<u>3</u>
Total	<u>27</u>	<u>55</u>	<u>7</u>

Contributions—State statutes establish the pension contribution requirements for active PSPRS and CORP employees. In accordance with State statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and CORP pension benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. Contribution rates for the year ended June 30, 2020, are indicated below. Rates are a percentage of active members' annual covered payroll.

Graham County
Notes to financial statements
June 30, 2020

	Active member—pension	County—pension
PSPRS Sheriff	7.65%-11.65%	30.15%
CORP Detention	8.41	9.64%
CORP Dispatchers	7.96	7.35%
CORP AOC	8.41 or 10.18	30.71 or 27.91

In addition, statute required the County to contribute at the actuarially determined rate indicated below of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the PSPRS or CORP would typically fill and employees participating in the PSPRS Tier 3 Risk Pool and PSPDCRP members in addition to the County's required contributions to the PSPRS Tier 3 Risk Pool and PSPDCRP.

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Pension	18.2%	2.99%	0.00%	22.96%

The County's contributions to the plans for the year ended June 30, 2020, were:

	Pension
PSPRS Sheriff	\$576,303
CORP Detention	148,289
CORP Dispatchers	6,615
CORP AOC	251,199

During fiscal year 2020, the County paid for PSPRS and CORP pension contributions as follows: 57.6 percent from the General Fund, 16.4 percent from the Jail District Operations Fund, and 26.0 percent from other funds.

Pension liability—At June 30, 2020, the County reported the following net pension liabilities:

	Net pension liability
PSPRS Sheriff	\$4,013,731
CORP Detention	723,193
CORP Dispatchers	29,509
CORP AOC (County's proportionate share)	3,001,162

The net pension liabilities were measured as of June 30, 2019, and the total liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

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

Graham County
Notes to financial statements
June 30, 2020

PSPRS and CORP—Pension

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.5%
Price inflation	2.5%
Cost-of-living adjustment	1.75%
Mortality rates	PubS-2010 tables

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.3 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

PSPRS and CORP		
Asset class	Target allocation	Long-term expected geometric real rate of return
Short term investments	2%	0.25%
Risk parity	4%	4.01%
Fixed income	5%	3.00%
Real assets	9%	6.75%
GTS	12%	4.01%
Private credit	16%	5.36%
Real estate	10%	4.50%
Private equity	12%	8.40%
Non-U.S. equity	14%	5.00%
U.S. equity	<u>16%</u>	4.75%
Total	<u>100%</u>	

Pension discount rate—At June 30, 2019, the discount rate used to measure the PSPRS and CORP total pension liabilities was 7.3 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Graham County
Notes to financial statements
June 30, 2020

Changes in the net pension liability

PSPRS

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2019	\$8,493,834	\$4,807,601	\$3,686,233
Changes for the year:			
Service cost	214,770		214,770
Interest on the total pension liability	627,960		627,960
Differences between expected and actual experience in the measurement of the pension liability	(20,846)		(20,846)
Changes of assumptions or other inputs	172,001		172,001
Contributions—employer		323,440	(323,440)
Contributions—employee		83,079	(83,079)
Net investment income		265,479	(265,479)
Benefit payments, including refunds of employee contributions	(445,313)	(445,313)	
Administrative expense		(5,611)	5,611
Net changes	<u>548,572</u>	<u>221,074</u>	<u>327,498</u>
Balances at June 30, 2020	<u>\$9,042,406</u>	<u>\$5,028,675</u>	<u>\$4,013,731</u>

CORP—Detention

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balances at June 30, 2019	\$2,847,681	\$2,245,901	\$ 601,780
Changes for the year:			
Service cost	172,423		172,423
Interest on the total pension liability	212,465		212,465
Differences between expected and actual experience in the measurement of the pension liability	(7,230)		(7,230)
Changes of assumptions or other inputs	52,309		52,309
Contributions—employer		113,877	(113,877)
Contributions—employee		80,173	(80,173)
Net investment income		117,297	(117,297)
Benefit payments, including refunds of employee contributions	(297,901)	(297,901)	
Administrative expense		(2,793)	2,793
Net changes	<u>132,066</u>	<u>10,653</u>	<u>121,413</u>
Balances at June 30, 2020	<u>\$2,979,747</u>	<u>\$2,256,554</u>	<u>\$ 723,193</u>

Graham County
Notes to financial statements
June 30, 2020

CORP—Dispatchers	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (asset) (a) – (b)
Balances at June 30, 2019	\$633,328	\$669,138	(\$35,810)
Changes for the year:			
Service cost	22,951		22,951
Interest on the total pension liability	46,409		46,409
Differences between expected and actual experience in the measurement of the pension liability	35,705		35,705
Changes of assumptions or other inputs	16,768		16,768
Contributions—employer		11,455	(11,455)
Contributions—employee		11,355	(11,355)
Net investment income		35,029	(35,029)
Benefit payments, including refunds of employee contributions	(58,266)	(58,266)	
Administrative expense		(1,325)	1,325
Net changes	<u>63,567</u>	<u>(1,752)</u>	<u>65,319</u>
Balances at June 30, 2020	<u>\$696,895</u>	<u>\$667,386</u>	<u>\$ 29,509</u>

The County’s proportion of the CORP AOC net pension liability was based on the County’s actual contributions to the plan relative to the total of all participating counties’ actual contributions for the year ended June 30, 2019. The County’s proportion measured as of June 30, 2019, was 0.7113 percent, which was a decrease of 0.3787 from its proportion measured as of June 30, 2018.

Sensitivity of the County’s net pension liability (asset) to changes in the discount rate—The following table presents the County’s net pension liabilities (asset) calculated using the discount rate of 7.3 percent, as well as what the County’s net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

	1% decrease (6.3%)	Current discount rate (7.3%)	1% increase (8.3%)
PSPRS Sheriff			
Net pension liability	\$5,308,483	\$4,013,731	\$2,974,240
CORP Detention			
Net pension liability	\$1,141,988	\$ 723,193	\$ 384,362
CORP Dispatchers			
Net pension liability/(asset)	\$ 151,351	\$ 29,509	\$ (68,030)
CORP AOC			
County’s proportionate share of the net pension liability	\$3,855,695	\$3,001,162	\$2,304,667

Pension plan fiduciary net position—Detailed information about the pension plans’ fiduciary net position is available in the separately issued PSPRS and CORP financial reports.

Graham County
Notes to financial statements
June 30, 2020

Pension expense—For the year ended June 30, 2020, the County recognized the following pension expense:

	Pension expense
PSPRS Sheriff	\$966,490
CORP Detention	318,259
CORP Dispatchers	17,524
CORP AOC (County's proportionate share)	84,548

Pension deferred outflows/inflows of resources—At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

PSPRS	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 45,586	\$19,226
Changes of assumptions or other inputs	245,531	
Net difference between projected and actual earnings on pension plan investments	69,462	
County contributions subsequent to the measurement date	<u>576,303</u>	
Total	<u>\$936,882</u>	<u>\$19,226</u>
	Deferred outflows of resources	Deferred inflows of resources
CORP—Detention		
Differences between expected and actual experience		\$181,501
Changes of assumptions or other inputs	\$112,374	
Net difference between projected and actual earnings on pension plan investments	31,780	
County contributions subsequent to the measurement date	<u>148,289</u>	
Total	<u>\$292,443</u>	<u>\$181,501</u>
	Deferred outflows of resources	Deferred inflows of resources
CORP—Dispatchers		
Differences between expected and actual experience	\$28,564	\$27,059
Changes of assumptions or other inputs	15,188	3,259
Net difference between projected and actual earnings on pension plan investments	9,374	
County contributions subsequent to the measurement date	<u>6,615</u>	
Total	<u>\$59,741</u>	<u>\$30,318</u>

Graham County
Notes to financial statements
June 30, 2020

CORP—AOC	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$214,440	\$ 85,353
Changes of assumptions or other inputs	192,394	
Net difference between projected and actual earnings on pension plan investments	56,425	
Changes in proportion and differences between County contributions and proportionate share of contributions	11,904	1,315,837
County contributions subsequent to the measurement date	<u>251,199</u>	
Total	<u>\$726,362</u>	<u>\$1,401,190</u>

The amounts reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers	CORP AOC
Year ending June 30				
2021	\$175,464	\$ (8,698)	\$ 2,745	\$(252,108)
2022	57,607	(20,472)	(2,707)	(267,759)
2023	59,103	(3,310)	10,190	(236,152)
2024	49,179	(4,867)	12,580	(170,008)

PSPDCRP plan—County sheriff employees, County detention officers, and AOC probation, surveillance, and juvenile detention officers who are not members of PSPRS or CORP participate in the PSPDCRP. The PSPDCRP is a defined contribution pension plan. The PSPRS Board of Trustees governs the PSPDCRP according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.1. Benefit terms, including contribution requirements, are established by State statute.

For the year ended June 30, 2020, active PSPDCRP members were required by statute to contribute at least 9 percent (County sheriff employees) or 5 percent (County detention officers and AOC probation, surveillance, and juvenile detention officers) of the members' annual covered payroll, and the County was required by statute to contribute 9 percent or 5 percent, respectively, of active members' annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the earnings on those contributions. Employees vest in a portion of the County's contributions each year as set forth in statute. The plan retains nonvested County contributions when forfeited because of employment terminations. For the year ended June 30, 2020, the County recognized pension expense of \$79,334.

C. Elected Officials Retirement Plan

Plan description—Elected officials and judges participate in the Elected Officials Retirement Plan (EORP), or the Elected Officials Defined Contribution Retirement System (EODCRS). EORP administers a cost-sharing multiple-employer defined benefit pension plan for elected officials and judges who were members of the plan on December 31, 2013. This plan was closed to new members as of January 1, 2014. The PSPRS

Graham County
Notes to financial statements
June 30, 2020

Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on the PSPRS’s website at www.psprs.com.

Benefits provided—The EORP provides retirement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

EORP	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
Retirement and disability		
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability Retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
Survivor benefit		
Retired members	75% of retired member’s benefit	50% of retired member’s benefit
Active members and other inactive members	75% of disability retirement benefit	50% of disability retirement benefit

* With reduced benefits of 0.25% for each month early retirement precedes the member’s normal retirement age, with a maximum reduction of 30%.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on inflation. In addition, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase’s effects on the plan.

Contributions—State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement the normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2020, statute required active EORP members to contribute 7 or 13 percent of the members’ annual covered payroll and the County to contribute at the actuarially determined rate of 61.43 percent of all active EORP members’ annual covered payroll. Also, statute required the County to contribute 49.49 percent to EORP of the annual covered payroll of elected officials and judges who were ASRS members and 55.43 percent to EORP of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the County’s required contributions to ASRS and EODCRS for these elected officials and judges. The County’s contributions to the pension plan for the year ended June 30, 2020, were \$513,957.

Graham County
Notes to financial statements
June 30, 2020

During fiscal year 2020, the County paid for EORP pension contributions as follows: 100 percent from the General Fund.

Pension liability—At June 30, 2020, the County reported a liability for its proportionate share of the EORP’s net pension liability that reflected a reduction for the County’s proportionate share of the State’s appropriation for EORP. The amount the County recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the County were as follows:

County’s proportionate share of the EORP net pension liability	\$7,434,177
State’s proportionate share of the EORP net pension liability associated with the County	<u>698,736</u>
Total	<u>\$8,132,913</u>

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The total liabilities as of June 30, 2019, reflect changes of actuarial assumptions to decrease the investment rate of return from 7.4 percent to 7.3 percent and update the mortality rates.

The County’s proportion of the net pension liability was based on the County’s required contributions to the plan relative to the total of all participating employers’ required contributions for the year ended June 30, 2019. The County’s proportion measured as of June 30, 2019, was 1.12099 percent, which was a decrease of 0.37891 from its proportion measured as of June 30, 2018.

Pension expense—For the year ended June 30, 2020, the County recognized negative pension expense for EORP of \$1,360,840 and negative revenue of \$48,576 for the County’s proportionate share of the State’s appropriation to EORP and the designated court fees.

Deferred outflows/inflows of resources—At June 30, 2020, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

EORP	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$165,747	\$ 7,050
Changes of assumptions or other inputs	23,371	211,260
Net difference between projected and actual earnings on pension plan investments	50,578	
Changes in proportion and differences between County contributions and proportionate share of contributions	201,196	1,691,657
County contributions subsequent to the measurement date	<u>513,957</u>	
Total	<u>\$954,849</u>	<u>\$1,909,967</u>

Graham County
Notes to financial statements
June 30, 2020

The \$513,957 reported as deferred outflows of resources related to EORP pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ending June 30	
2021	\$(1,483,407)
2022	(12,898)
2023	14,124
2024	13,106

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

EORP pension

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age normal
Investment rate of return	7.3%
Wage inflation	3.75%
Price inflation	2.5%
Cost-of-living adjustment	1.75%
Mortality rates	PubG-2010 tables

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2016.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.3 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

EORP	Target	Long-term expected
Asset class	allocation	geometric real rate
	of return	
Short term investments	2%	0.25%
Risk parity	4%	4.01%
Fixed income	5%	3.00%
Real assets	9%	6.75%
GTS	12%	4.01%
Private credit	16%	5.36%
Real estate	10%	4.50%
Private equity	12%	8.40%
Non-U.S. equity	14%	5.00%
U.S. equity	16%	4.75%
Total	<u>100%</u>	

Graham County
Notes to financial statements
June 30, 2020

Discount rate—At June 30, 2019, the discount rate used to measure the EORP total pension liability was 7.3 percent, which was a decrease of 0.1 from the discount rate used as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributions will be made at the actuarially determined rates, and State contributions will be made as currently required by statute. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the County’s proportionate share of the EORP net pension liability to changes in the discount rate—The following table presents the County’s proportionate share of the net pension liability calculated using the discount rate of 7.3 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.3 percent) or 1 percentage point higher (8.3 percent) than the current rate:

EORP	1% decrease (6.3%)	Current discount rate (7.3%)	1% increase (8.3%)
County’s proportionate share of the net pension liability	\$8,513,251	\$7,434,177	\$6,515,097

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

EODCRS plan—Elected officials and judges who are not members of EORP or ASRS participate in the EODCRS. The EODCRS is a defined contribution pension plan. The PSPRS Board of Trustees governs the EODCRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.1. Benefit terms, including contribution requirements, are established by State statute.

For the year ended June 30, 2020, active EODCRS members were required by statute to contribute 8 percent of the members’ annual covered payroll, and the County was required by statute to contribute 6 percent of active members’ annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the County’s contributions to the individual employee account and the earnings on those contributions. For the year ended June 30, 2020, the County recognized pension expense of \$8,089.

Note 10 – Interfund activity

Interfund transfers—Interfund transfers for the year ended June 30, 2020, were as follows:

Transfer from	Transfer to			Total
	General Fund	Jail District Operations Fund	Other governmental funds	
General Fund		\$3,029,355	\$55,545	\$3,084,900
Highway Road Fund			11,650	11,650
Other governmental funds	\$83,586		2,207	85,793
Total	<u>\$83,586</u>	<u>\$3,029,355</u>	<u>\$69,402</u>	<u>\$3,182,343</u>

Graham County
Notes to financial statements
June 30, 2020

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. \$3,029,355, which represents the majority of the \$3,084,900 transfers from the general fund was to fund statutorily required maintenance of effort payments to the jail district operations fund.

Other required supplementary information

Graham County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2020

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 5,897,854	\$ 5,897,854	\$ 5,901,368	\$ 3,514
County sales taxes	2,150,000	2,150,000	2,430,278	280,278
Licenses and permits	56,500	56,500	75,281	18,781
Intergovernmental	9,886,409	9,886,409	11,166,551	1,280,142
Charges for services	1,275,139	1,275,139	1,382,835	107,696
Fines and forfeits	230,000	230,000	219,165	(10,835)
Investment earnings	6,000	6,000	77,849	71,849
Rents	20,000	20,000	20,613	613
Miscellaneous	64,250	64,250	43,622	(20,628)
Donations	35,000	35,000		(35,000)
Total revenues	<u>19,621,152</u>	<u>19,621,152</u>	<u>21,317,562</u>	<u>1,696,410</u>
Expenditures:				
Current				
General government				
Board of supervisors	851,758	851,758	699,182	152,576
Treasurer	371,524	371,524	339,111	32,413
Assessor	718,259	718,259	585,396	132,863
Recorder	306,542	306,542	271,020	35,522
Elections	129,785	129,785	90,757	39,028
Attorney	937,587	937,587	804,949	132,638
Human resources	104,742	104,742	89,757	14,985
Clerk of the court	575,648	575,648	493,002	82,646
Superior court	949,083	949,083	740,754	208,329
Justice of the peace No.1	419,401	419,401	366,507	52,894
Justice of the peace No.2	257,219	257,219	223,396	33,823
Victim witness	11,806	11,806	7,305	4,501
Public fiduciary	90,033	91,033	81,407	9,626
Planning and zoning	302,397	302,397	222,616	79,781
Building maintenance	266,475	266,475	219,297	47,178
Electrical maintenance	11,144	11,144	4,197	6,947
General services	226,000	226,000	143,956	82,044
Contingency	3,247,345	2,776,617		2,776,617
Miscellaneous	379,800	379,800	273,346	106,454
Medical examiner	60,600	71,100	63,111	7,989
Information technology	1,300,680	1,300,680	1,151,763	148,917
Total general government	<u>11,517,828</u>	<u>11,058,600</u>	<u>6,870,829</u>	<u>4,187,771</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2020
(Continued)

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Probation	\$ 208,365	\$ 353,493	\$ 348,758	\$ 4,735
Sheriff	3,325,485	3,625,485	3,428,871	196,614
Search and rescue	17,389	17,389	11,996	5,393
Juvenile detention center	576,951	576,951	302,817	274,134
Animal shelter	222,500	222,500	201,342	21,158
Total public safety	<u>4,350,690</u>	<u>4,795,818</u>	<u>4,293,784</u>	<u>502,034</u>
Sanitation				
Sanitary landfill	<u>113,715</u>	<u>113,715</u>	<u>88,123</u>	<u>25,592</u>
Health				
Health services	<u>200,586</u>	<u>200,586</u>	<u>185,906</u>	<u>14,680</u>
Welfare				
Attorney for the indigent	513,000	519,100	519,033	67
Indigent medical	<u>2,303,800</u>	<u>2,311,800</u>	<u>2,311,067</u>	<u>733</u>
Total welfare	<u>2,816,800</u>	<u>2,830,900</u>	<u>2,830,100</u>	<u>800</u>
Cultural and recreation				
Parks and recreation	<u>401,884</u>	<u>401,884</u>	<u>385,088</u>	<u>16,796</u>
Education				
School superintendent	<u>247,485</u>	<u>247,485</u>	<u>246,010</u>	<u>1,475</u>
Capital outlay	<u>505,214</u>	<u>505,214</u>	<u>399,866</u>	<u>105,348</u>
Total expenditures	<u>20,154,202</u>	<u>20,154,202</u>	<u>15,299,706</u>	<u>4,854,496</u>
Excess of revenues over expenditures	<u>(533,050)</u>	<u>(533,050)</u>	<u>6,017,856</u>	<u>6,550,906</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Budgetary comparison schedule
General Fund
Year ended June 30, 2020
(Continued)

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Proceeds from sale of capital assets			\$ 851	\$ (851)
Transfers in	\$ 892,685	\$ 892,685	83,586	809,099
Transfers out	<u>(3,082,104)</u>	<u>(3,082,104)</u>	<u>(3,084,900)</u>	<u>2,796</u>
Total other financing uses	<u>(2,189,419)</u>	<u>(2,189,419)</u>	<u>(3,000,463)</u>	<u>(811,044)</u>
Net change in fund balances	(2,722,469)	(2,722,469)	3,017,393	5,739,862
Fund balances, July 1, 2019	<u>2,722,469</u>	<u>2,722,469</u>	<u>4,056,279</u>	<u>1,333,810</u>
Fund balances, June 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,073,672</u>	<u>\$ 7,073,672</u>

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Budgetary comparison schedule
Highway Road Fund
Year ended June 30, 2020

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 4,288,171	\$ 4,288,171	\$ 4,399,976	\$ 111,805
Charges for services	130,000	130,000	44,041	(85,959)
Investment earnings	90,000	90,000	131,879	41,879
Miscellaneous	<u>113,000</u>	<u>113,000</u>	<u>168,893</u>	<u>55,893</u>
Total revenues	<u>4,621,171</u>	<u>4,621,171</u>	<u>4,744,789</u>	<u>123,618</u>
Expenditures:				
Current:				
Highways and streets				
General road	8,265,510	8,265,510	4,093,697	4,171,813
Engineering	<u>485,818</u>	<u>485,818</u>	<u>253,752</u>	<u>232,066</u>
Total highways and streets	<u>8,751,328</u>	<u>8,751,328</u>	<u>4,347,449</u>	<u>4,403,879</u>
Capital outlay	<u>765,411</u>	<u>765,411</u>	<u>412,472</u>	<u>352,939</u>
Total expenditures	<u>9,516,739</u>	<u>9,516,739</u>	<u>4,759,921</u>	<u>4,756,818</u>
Excess (deficiency) of revenues over expenditures	<u>(4,895,568)</u>	<u>(4,895,568)</u>	<u>(15,132)</u>	<u>4,880,436</u>
Other financing sources (uses):				
Proceeds from sale of capital assets			540	540
Transfers out	<u>(432,426)</u>	<u>(432,426)</u>	<u>(11,650)</u>	<u>420,776</u>
Total other financing uses	<u>(432,426)</u>	<u>(432,426)</u>	<u>(11,110)</u>	<u>421,316</u>
Net change in fund balances	(5,327,994)	(5,327,994)	(26,242)	5,301,752
Fund balances, July 1, 2019	5,327,994	5,327,994	5,908,534	580,540
Changes in nonspendable resources:				
Decrease in inventories			(25,269)	(25,269)
Fund balances, June 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,857,023</u>	<u>\$ 5,857,023</u>

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Budgetary comparison schedule
Jail District Operations Fund
Year ended June 30, 2020

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 1,205,000	\$ 1,205,000	\$ 648,024	\$ (556,976)
Charges for services	41,000	41,000	54,830	13,830
Investment earnings	2,000	2,000	3,551	1,551
Miscellaneous	5,000	5,000	2,199	(2,801)
Total revenues	<u>1,253,000</u>	<u>1,253,000</u>	<u>708,604</u>	<u>(544,396)</u>
Expenditures:				
Current:				
Public safety	<u>4,168,466</u>	<u>4,168,466</u>	<u>3,734,003</u>	<u>434,463</u>
Capital outlay	<u>45,000</u>	<u>45,000</u>	<u>30,198</u>	<u>14,802</u>
Total expenditures	<u>4,213,466</u>	<u>4,213,466</u>	<u>3,764,201</u>	<u>449,265</u>
Excess of deficiency of revenues over (under) expenditures	<u>(2,960,466)</u>	<u>(2,960,466)</u>	<u>(3,055,597)</u>	<u>(95,131)</u>
Other financing sources (uses):				
Transfers in	3,029,355	3,029,355	3,029,355	
Transfers out	<u>(242,424)</u>	<u>(242,424)</u>	<u></u>	<u>242,424</u>
Total other financing sources	<u>2,786,931</u>	<u>2,786,931</u>	<u>3,029,355</u>	<u>242,424</u>
Net change in fund balances	(173,535)	(173,535)	(26,242)	147,293
Fund balances, July 1, 2019	<u>173,535</u>	<u>173,535</u>	<u>117,411</u>	<u>(56,124)</u>
Fund balances, June 30, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,169</u>	<u>\$ 91,169</u>

See accompanying notes to budgetary comparison schedules.

Graham County
Required supplementary information
Notes to budgetary comparison schedules
June 30, 2020

Note 1 – Budgeting and budgetary control

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

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

Graham County
Required supplementary information
Schedule of the County's proportionate share of the net pension liability
Cost-sharing pension plans
June 30, 2020

Arizona State Retirement System

	Reporting fiscal year (Measurement date)						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
County's proportion of the net pension liability	0.064730%	0.067400%	0.069800%	0.073220%	0.074090%	0.071692%	
County's proportionate share of the net pension liability	\$ 9,418,968	\$ 9,399,928	\$ 10,873,479	\$ 11,818,443	\$ 11,540,653	\$ 10,607,990	
County's covered payroll	\$ 6,829,380	\$ 6,707,392	\$ 7,074,003	\$ 6,869,957	\$ 6,847,161	\$ 6,476,618	Information not available
County's proportionate share of the net pension liability as a percentage of its covered payroll	137.92%	140.14%	153.71%	172.03%	168.55%	163.79%	
Plan fiduciary net position as a percentage of the total pension liability	73.24%	73.40%	69.92%	67.06%	68.35%	69.49%	

**Corrections Officer Retirement Plan—
Administrative Office of the Courts**

	Reporting fiscal year (Measurement date)						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
County's proportion of the net pension liability	0.711276%	1.090015%	1.173175%	1.203620%	1.321665%	1.232231%	
County's proportionate share of the net pension liability	\$ 3,001,162	\$ 3,923,763	\$ 4,707,005	\$ 3,396,055	\$ 3,213,105	\$ 2,765,040	
County's covered payroll	\$ 878,776	\$ 1,272,621	\$ 1,376,650	\$ 1,391,108	\$ 1,394,172	\$ 1,372,002	Information not available
County's proportionate share of the net pension liability as a percentage of its covered payroll	341.52%	308.32%	341.92%	244.13%	230.47%	201.53%	
Plan fiduciary net position as a percentage of the total pension liability	51.99%	53.72%	49.21%	54.81%	57.89%	58.59%	

Elected Officials Retirement Plan

	Reporting fiscal year (Measurement date)						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
County's proportion of the net pension liability	1.120994%	1.499906%	1.03997%	1.0560888%	0.9676842%	0.9420437%	
County's proportionate share of the net pension liability	\$ 7,434,177	\$ 9,451,475	\$ 12,672,683	\$ 9,977,428	\$ 7,561,981	\$ 6,317,081	
State's proportionate share of the net pension liability associated with the County	\$ 698,736	\$ 1,619,449	\$ 2,630,160	\$ 2,060,080	\$ 2,357,511	\$ 1,935,486	Information not available
Total	\$ 8,132,913	\$ 11,070,924	\$ 15,302,843	\$ 12,037,508	\$ 9,919,492	\$ 8,252,567	
County's covered payroll	\$ 876,826	\$ 878,739	\$ 871,498	\$ 861,210	\$ 866,869	\$ 865,822	
County's proportionate share of the net pension liability as a percentage of its covered payroll	847.85%	1075.57%	1454.13%	1158.54%	872.33%	729.61%	
Plan fiduciary net position as a percentage of the total pension liability	30.14%	30.36%	19.66%	23.42%	28.32%	31.91%	

Graham County
Required supplementary information
Schedule of changes in the County's
net pension liability (asset) and related ratios
Agent pension plans
June 30, 2020

PSPRS	Reporting fiscal year (Measurement date)						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability							
Service cost	\$ 214,770	\$ 216,213	\$ 224,725	\$ 161,447	\$ 160,546	\$ 192,299	
Interest on the total pension liability	627,960	594,532	554,223	486,999	459,771	407,274	
Changes of benefit terms			110,368	262,914		108,018	
Differences between expected and actual experience in the measurement of pension liability	(20,846)	33,814	(6,699)	212,998	(29,096)	(396,687)	
Changes of assumptions or other inputs	172,001		196,027	285,576		606,963	
Benefit payments, including refunds of employee contributions	(445,313)	(553,668)	(305,962)	(205,520)	(284,120)	(182,340)	
Net changes in total pension liability	548,572	290,891	772,682	1,204,414	307,101	735,527	
Total pension liability—beginning	8,493,834	8,202,943	7,430,261	6,225,847	5,918,746	5,183,219	
Total pension liability—ending (a)	<u>\$9,042,406</u>	<u>\$8,493,834</u>	<u>\$8,202,943</u>	<u>\$7,430,261</u>	<u>\$6,225,847</u>	<u>\$5,918,746</u>	
Plan fiduciary net position							
Contributions—employer	\$ 323,440	\$ 383,852	\$ 387,287	\$ 350,828	\$ 193,270	\$ 195,845	
Contributions—employee	83,079	96,079	114,060	120,677	101,878	98,297	
Net investment income	265,479	312,773	471,427	21,393	125,056	414,968	Information not available
Benefit payments, including refunds of employee contributions	(445,313)	(553,668)	(305,962)	(205,520)	(284,120)	(182,340)	
Administrative expense	(5,611)	(5,460)	(4,571)	(3,478)	(3,429)	(3,342)	
Other changes		2,840	44,995	43,422	(15,746)	(89,584)	
Net changes in plan fiduciary net position	221,074	236,416	707,236	327,322	116,909	433,844	
Plan fiduciary net position—beginning	4,807,601	4,573,972	3,866,736	3,539,414	3,422,505	2,988,661	
Plan fiduciary net position—ending (b)	<u>\$5,028,675</u>	<u>\$4,810,388</u>	<u>\$4,573,972</u>	<u>\$3,866,736</u>	<u>\$3,539,414</u>	<u>\$3,422,505</u>	
County's net pension liability—ending (a) – (b)	<u>\$4,013,731</u>	<u>\$3,683,446</u>	<u>\$3,628,971</u>	<u>\$3,563,525</u>	<u>\$2,686,433</u>	<u>\$2,496,241</u>	
Plan fiduciary net position as a percentage of the total pension liability	55.61%	56.60%	55.76%	52.04%	56.85%	57.82%	
Covered payroll	\$1,070,552	\$1,127,941	\$1,075,201	\$1,034,588	\$ 935,210	\$1,006,178	
County's net pension liability as a percentage of covered payroll	374.92%	326.81%	337.52%	344.44%	287.25%	248.09%	

Graham County
Required supplementary information
Schedule of changes in the County's
net pension liability (asset) and related ratios
Agent pension plans
June 30, 2020

CORP-Detention	Reporting fiscal year (Measurement date)						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability							
Service cost	\$ 172,423	\$ 203,644	\$ 185,996	\$ 167,701	\$ 179,080	\$ 159,853	
Interest on the total pension liability	212,465	213,815	183,953	186,579	181,379	169,277	
Changes of benefit terms		(81,792)	283,832	(39,923)		37,587	
Differences between expected and actual experience in the measurement of pension liability	(7,230)	(139,068)	(62,978)	(131,219)	(86,107)	(171,643)	
Changes of assumptions or other inputs	52,309		76,221	94,493		196,121	
Benefit payments, including refunds of employee contributions	(297,901)	(272,984)	(205,339)	(216,397)	(188,456)	(304,826)	
Net changes in total pension liability	132,066	(76,385)	461,685	61,234	85,896	86,369	
Total pension liability—beginning	<u>2,847,681</u>	<u>2,924,066</u>	<u>2,462,381</u>	<u>2,401,147</u>	<u>2,315,251</u>	<u>2,228,882</u>	
Total pension liability—ending (a)	<u>\$2,979,747</u>	<u>\$2,847,681</u>	<u>\$2,924,066</u>	<u>\$2,462,381</u>	<u>\$2,401,147</u>	<u>\$2,315,251</u>	
Plan fiduciary net position							
Contributions—employer	\$ 113,877	\$ 120,374	\$ 103,251	\$ 107,149	\$ 74,587	\$ 104,148	
Contributions—employee	80,173	111,107	104,932	104,762	122,500	93,360	
Net investment income	117,297	153,706	226,659	11,695	67,673	230,025	Information not available
Benefit payments, including refunds of employee contributions	(297,901)	(272,984)	(205,339)	(216,397)	(188,456)	(304,826)	
Administrative expense	(2,793)	(3,025)	(2,383)	(2,054)	(2,059)	(1,809)	
Other changes		(42)	(11)	(1,373)	(33,057)		
Net changes in plan fiduciary net position	10,653	109,136	227,109	3,782	41,188	120,898	
Plan fiduciary net position—beginning	<u>2,245,901</u>	<u>2,136,765</u>	<u>1,909,656</u>	<u>1,905,874</u>	<u>1,864,686</u>	<u>1,743,788</u>	
Plan fiduciary net position—ending (b)	<u>\$2,256,554</u>	<u>\$2,245,901</u>	<u>\$2,136,765</u>	<u>\$1,909,656</u>	<u>\$1,905,874</u>	<u>\$1,864,686</u>	
County's net pension liability—ending (a) – (b)	<u>\$ 723,193</u>	<u>\$ 601,780</u>	<u>\$ 787,301</u>	<u>\$ 552,725</u>	<u>\$ 495,273</u>	<u>\$ 450,565</u>	
Plan fiduciary net position as a percentage of the total pension liability	75.73%	78.87%	73.08%	77.55%	79.37%	80.54%	
Covered payroll	\$1,578,323	\$1,312,576	\$1,347,959	\$1,244,657	\$1,202,220	\$1,107,018	
County's net pension liability as a percentage of covered payroll	45.82%	45.85%	58.41%	44.41%	41.20%	40.70%	

Graham County
Required supplementary information
Schedule of changes in the County's
net pension liability (asset) and related ratios
Agent pension plans
June 30, 2020

CORP-Dispatchers	Reporting fiscal year (Measurement date)						2014 through 2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability							
Service cost	\$ 22,951	\$ 25,228	\$ 23,154	\$ 22,530	\$ 29,562	\$ 34,365	
Interest on the total pension liability	46,409	45,702	35,865	34,979	33,166	31,045	
Changes of benefit terms		(35,339)	98,268	1,892			
Differences between expected and actual experience in the measurement of pension liability	35,705	(6,865)	(11,358)	(16,635)	(21,537)	(29,030)	
Changes of assumptions or other inputs	16,768		(7,195)	4,101		1,695	
Benefit payments, including refunds of employee contributions	(58,266)	(751)		(29,158)		(17,295)	
Net changes in total pension liability	63,567	27,975	138,734	17,709	41,191	20,780	
Total pension liability—beginning	633,328	605,353	466,619	448,910	407,719	386,939	
Total pension liability—ending (a)	<u>\$ 696,895</u>	<u>\$ 633,328</u>	<u>\$ 605,353</u>	<u>\$ 466,619</u>	<u>\$ 448,910</u>	<u>\$ 407,719</u>	
Plan fiduciary net position							
Contributions—employer	\$ 11,455	\$ 10,176	\$ 9,753	\$ 10,904	\$ 10,664	\$ 14,898	
Contributions—employee	11,355	12,559	12,436	14,206	14,585	16,679	
Net investment income	35,029	44,368	63,027	3,221	18,096	56,641	Information not available
Benefit payments, including refunds of employee contributions	(58,266)	(751)		(29,158)		(17,295)	
Administrative expense	(1,325)	(1,371)	(951)	(856)	(835)	(444)	
Other changes		(12)	(3)	(3)	(380)		
Net changes in plan fiduciary net position	(1,752)	64,969	84,262	(1,686)	42,130	70,479	
Plan fiduciary net position—beginning	669,138	604,169	519,907	521,593	479,463	408,984	
Plan fiduciary net position—ending (b)	<u>\$ 667,386</u>	<u>\$ 669,138</u>	<u>\$ 604,169</u>	<u>\$ 519,907</u>	<u>\$ 521,593</u>	<u>\$ 479,463</u>	
County's net pension liability (asset)—ending (a) – (b)	<u>\$ 29,509</u>	<u>\$ (35,810)</u>	<u>\$ 1,184</u>	<u>\$ (53,288)</u>	<u>\$ (72,683)</u>	<u>\$ (71,744)</u>	
Plan fiduciary net position as a percentage of the total pension liability	95.77%	105.65%	99.80%	111.42%	116.19%	117.60%	
Covered payroll	\$ 136,542	\$ 157,771	\$ 162,159	\$ 179,580	\$ 183,226	\$ 209,895	
County's net pension liability (asset) as a percentage of covered payroll	21.61%	(22.7)%	0.73%	(29.67)%	(39.67)%	(34.18)%	

Graham County
Required supplementary information
Schedule of County pension contributions
June 30, 2020

	Reporting fiscal year							2013 through 2011
	2020	2019	2018	2017	2016	2015	2014	
Arizona State Retirement System								
Statutorily required contribution	\$ 796,803	\$ 762,285	\$ 728,371	\$ 760,067	\$ 743,113	\$ 743,150	\$ 691,491	
County's contributions in relation to statutorily required contribution	<u>796,803</u>	<u>762,285</u>	<u>728,371</u>	<u>760,067</u>	<u>743,113</u>	<u>743,150</u>	<u>691,491</u>	
County's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Information not available
County's covered payroll	\$6,974,466	\$6,829,380	\$6,707,529	\$7,074,003	\$6,869,957	\$6,847,161	\$6,476,618	
County's contributions as a percentage of covered payroll	11.42%	11.16%	10.86%	10.74%	10.82%	10.85%	10.68%	

	Reporting fiscal year							2013 through 2011
	2020	2019	2018	2017	2016	2015	2014	
Corrections Officer Retirement Plan—Administrative Office of the Courts								
Statutorily required contribution	\$ 251,199	\$ 282,147	\$ 283,788	\$ 273,560	\$ 256,909	\$ 218,876	\$ 191,632	
County's contributions in relation to statutorily required contribution	<u>251,199</u>	<u>282,147</u>	<u>283,788</u>	<u>273,560</u>	<u>256,909</u>	<u>218,876</u>	<u>191,632</u>	
County's contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	Information not available
County's covered payroll	\$ 830,745	\$ 878,776	\$1,272,621	\$1,376,650	\$1,391,108	\$1,394,172	\$1,372,002	
County's contributions as a percentage of covered payroll	30.24%	32.11%	22.30%	19.87%	18.47%	15.70%	13.97%	

	Reporting fiscal year							2013 through 2011
	2020	2019	2018	2017	2016	2015	2014	
Elected Officials Retirement Plan								
Statutorily required contribution	\$ 513,957	\$ 512,858	\$ 202,056	\$ 200,420	\$ 199,399	\$ 203,451	\$ 200,725	
County's contributions in relation to statutorily required contribution	<u>513,957</u>	<u>388,433</u>	<u>41,337</u>	<u>200,420</u>	<u>199,399</u>	<u>203,451</u>	<u>200,725</u>	
County's contribution deficiency (excess)	\$ -	\$ 124,425	\$ 160,719	\$ -	\$ -	\$ -	\$ -	Information not available
County's covered payroll	\$ 873,092	\$ 876,826	\$ 878,739	\$ 871,498	\$ 861,210	\$ 866,869	\$ 865,822	
County's contributions as a percentage of covered payroll	58.87%	44.30%	4.70%	23.00%	23.15%	23.47%	23.18%	

Graham County
Required supplementary information
Schedule of County pension contributions
June 30, 2020

	Reporting fiscal year							2013 through 2011
	2020	2019	2018	2017	2016	2015	2014	
PSPRS								
Actuarially determined contribution	\$ 276,303	\$ 315,334	\$ 384,786	\$ 344,554	\$ 302,705	\$ 193,270	\$ 195,845	
County's contributions in relation to actuarially determined contribution	<u>576,303</u>	<u>615,334</u>	<u>384,786</u>	<u>399,787</u>	<u>348,370</u>	<u>193,270</u>	<u>195,845</u>	
County's contribution deficiency (excess)	<u>\$ (300,000)</u>	<u>\$ (300,000)</u>	<u>\$ -</u>	<u>\$ (55,233)</u>	<u>\$ (45,665)</u>	<u>\$ -</u>	<u>\$ -</u>	Information not available
County's covered payroll	\$1,082,791	\$1,070,552	\$1,127,941	\$1,075,201	\$1,034,588	\$ 935,210	\$1,006,178	
County's contributions as a percentage of covered payroll	53.22%	57.48%	34.11%	37.18%	33.67%	20.67%	19.46%	
CORP—Detention								
Actuarially determined contribution	\$ 98,289	\$ 130,118	\$ 111,044	\$ 107,785	\$ 101,224	\$ 74,587	\$ 104,148	
County's contributions in relation to actuarially determined contribution	<u>148,289</u>	<u>280,118</u>	<u>111,044</u>	<u>107,785</u>	<u>101,224</u>	<u>74,587</u>	<u>104,148</u>	
County's contribution deficiency (excess)	<u>\$ (50,000)</u>	<u>\$ (150,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	Information not available
County's covered payroll	\$1,375,440	\$1,578,323	\$1,312,576	\$1,347,959	\$1,244,657	\$1,202,220	\$1,107,018	
County's contributions as a percentage of covered payroll	10.78%	17.75%	8.46%	8.00%	8.13%	6.20%	9.41%	
CORP—Dispatchers								
Actuarially determined contribution	\$ 6,615	\$ 10,964	\$ 10,176	\$ 10,127	\$ 10,952	\$ 10,664	\$ 14,898	
County's contributions in relation to actuarially determined contribution	<u>6,615</u>	<u>10,964</u>	<u>10,176</u>	<u>10,127</u>	<u>10,952</u>	<u>10,664</u>	<u>14,898</u>	
County's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	Information not available
County's covered payroll	\$ 90,003	\$ 136,542	\$ 157,771	\$ 162,159	\$ 179,580	\$ 183,226	\$ 209,895	
County's contributions as a percentage of covered payroll	7.35%	8.03%	6.45%	6.25%	6.10%	5.82%	7.10%	

Graham County
Required supplementary information
Notes to pension plan schedules
June 30, 2020

Note 1 – Actuarially determined contribution rates

Actuarial determined contribution rates for PSPRS and CORP are calculated as of June 30 two years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent-of-pay, closed
Remaining amortization period as of the 2018 actuarial valuation	28 years for PSPRS and 18 years for CORP
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2017 actuarial valuation, the investment rate of return was decreased from 7.5% to 7.4%. In the 2016 actuarial valuation, the investment rate of return was decreased from 7.85% to 7.5%. In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%.
Projected salary increases	In the 2017 actuarial valuation, projected salary increases were decreased from 4.0%-8.0% to 3.5%-7.5% for PSPRS and from 4.0%-7.25% to 3.5%-6.5% for CORP. In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0% for PSPRS and from 4.5%-7.75% to 4.0%-7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5% for PSPRS and from 5.0%-8.25% to 4.5%-7.75% for CORP.
Wage growth	In the 2017 actuarial valuation, wage growth was decreased from 4% to 3.5% for PSPRS and CORP. In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP.
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006 – June 30, 2011.
Mortality	In the 2017 actuarial valuation, changed to RP-2014 tables, with 75% of MP-2016 fully generational projection scales. RP-2000 mortality table (adjusted by 105% for both males and females)

Note 2 – Factors that affect trends

Arizona courts have ruled that provisions of a 2011 law that changed the mechanism for funding permanent pension benefit increases and increased employee pension contribution rates were unconstitutional or a breach of contract because those provisions apply to individuals who were members as of the law's effective date. As a result, the PSPRS, CORP, CORP-AOC, and EORP changed benefit terms to reflect the prior

Graham County

Required supplementary information

Notes to pension plan schedules

June 30, 2020

mechanism for funding permanent benefit increases for those members and revised actuarial assumptions to explicitly value future permanent benefit increases. PSPRS and EORP also reduced those members' employee contribution rates. These changes are reflected in the plans' pension liabilities for fiscal year 2015 (measurement date 2014) for members who were retired as of the law's effective date and fiscal year 2018 (measurement date 2017) for members who retired or will retire after the law's effective date. These changes increased the PSPRS-, CORP-, and CORP-AOC-required pension contributions beginning in fiscal year 2016 for members who were retired as of the law's effective date. These changes increased the PSPRS-, CORP-, and CORP-AOC-required contributions beginning in fiscal year 2019 for members who retired or will retire after the law's effective date. EORP-required contributions are not based on actuarial valuations, and therefore, these changes did not affect them. Also, the County refunded excess employee contributions to PSPRS and EORP members. EORP allowed the County to reduce its actual employer contributions for the refund amounts. As a result, the County's pension contributions were less than the statutorily required contributions for 2018 and 2019.

The fiscal year 2019 (measurement date 2018) pension liabilities for EORP and CORP reflect the replacement of the permanent benefit increase (PBI) for retirees based on investment returns with a cost of living adjustment based on inflation. Also, the EORP liability and required pension contributions for fiscal year 2019 reflect a statutory change that requires the employer contribution rate to be actuarially determined. This change increased the discount rate used to calculate the liability thereby reducing the total pension liability.

SINGLE AUDIT REPORT



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 18, 2021.

Internal control over financial reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-01 and 2020-02, that we consider to be significant deficiencies.

Compliance and other matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

County response to findings

The County's responses to the findings identified in our audit are presented in its corrective action plan at the end of this report. The County is responsible for preparing a corrective action plan to address each finding. The County's responses and corrective action plan were not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on them.

Purpose of this report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindsey A. Perry, CPA, CFE
Auditor General

March 18, 2021



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent auditors' report on compliance for each major federal program and report on internal control over compliance

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Report on compliance for each major federal program

We have audited Graham County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on each major federal program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on internal control over compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Lindsey A. Perry, CPA, CFE
Auditor General

March 18, 2021



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of auditors' results

Financial statements

Type of auditors' report issued on whether the financial statements audited were prepared in accordance with generally accepted accounting principles **Unmodified**

Internal control over financial reporting

Material weaknesses identified? **No**

Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal awards

Internal control over major programs

Material weaknesses identified? **No**

Significant deficiencies identified? **None reported**

Type of auditors' report issued on compliance for major programs **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR §200.516(a)? **No**

Identification of major programs

Assistance Listings number	Name of federal program or cluster
10.665	Forest Service Schools and Roads Cluster
21.019	Coronavirus Relief Fund

Dollar threshold used to distinguish between Type A and Type B programs **\$750,000**

Auditee qualified as low-risk auditee? **No**

Financial statement findings

2020-01

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk

Condition—The County's process for managing and documenting its risks did not include identifying, classifying, and inventorying sensitive information that might need stronger access and security controls.

Effect—Without correcting this deficiency, the County's administration and IT management may put the County's operations and IT systems and data at unintended and unnecessary risk.

Cause—The County lacked documented policies and procedures over the sensitive information it maintains.

Criteria—The County should follow a credible industry source such as the National Institute of Standards and Technology to help effectively manage risk at the County. The process of managing risks should address the risk of unauthorized access and use, modification, or loss of sensitive information.

Recommendations—The County should:

1. Ask responsible administrative officials and management to design and implement policies around the sensitive information the County maintains and to work with IT management to design and implement procedures for managing the associated risks.
2. Evaluate and manage the risks of holding sensitive information by identifying, classifying, and inventorying the information the County holds to assess where stronger access and security controls may be needed to protect data in accordance with State statutes and federal regulations.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2019-02.

2020-02

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data

Condition—The County's control procedures were not sufficiently developed, documented, and implemented to respond to risks associated with its IT systems and data. The County lacked sufficient procedures over the following:

- **Restricting access**—Procedures did not consistently help prevent or detect unauthorized or inappropriate access to its IT systems and data.
- **Managing system configurations and changes**—Procedures did not ensure configuration settings were securely maintained and all IT system changes were adequately managed.

- **Securing systems and data**—IT security policies and procedures lacked controls to prevent unauthorized or inappropriate access or use, manipulation, damage, or loss.

Effect—There is an increased risk that the County may not adequately protect its IT systems and data, which could result in unauthorized or inappropriate access and/or the loss of confidentiality or integrity of systems and data.

Cause—The County has not prioritized developing, documenting, and implementing its IT policies and procedures.

Criteria—The County should follow a credible industry source such as the National Institute of Standards and Technology to implement effective internal controls that protect its IT systems and help ensure the integrity and accuracy of the data it maintains, as follows:

- **Restricting access through logical access controls**—Help to ensure systems and data are accessed by users who have a need, and key systems and data access is monitored and reviewed.
- **Managing system configurations and changes through well-defined, documented configuration management process**—Ensures the County’s IT system configurations are documented and that changes to the systems are identified, documented, evaluated for security implications, tested, and approved prior to implementation. This helps limit the possibility of an adverse impact on the system’s security or operation. Separating responsibilities is an important control for system changes; the same person who has authority to make system changes should not put the change into production. If those responsibilities cannot be separated, a post-implementation review should be performed to ensure the change was implemented as designed and approved.
- **Securing systems and data through IT security internal control policies and procedures**—Help prevent, detect, and respond to instances of unauthorized or inappropriate access or use, manipulation, damage, or loss to its IT systems and data.

Recommendations—The County should:

1. Make it a priority to develop and document comprehensive IT policies and procedures and develop a process to ensure the procedures are being consistently followed.

Restricting access—To restrict access to its IT systems and data, implement processes to:

2. Enhance authentication requirements for IT systems.

Managing system configurations and changes—To configure IT systems securely and manage system changes, develop, document, and implement processes to:

3. Establish and follow a documented change management process.
4. Review proposed changes for appropriateness, justification, and security impact.
5. Document changes, testing procedures and results, change approvals, and post-change review.
6. Develop and document a plan to roll back changes in the event of a negative impact to IT systems.
7. Test changes prior to implementation.
8. Separate responsibilities for the change management process or, if impractical, perform a post-implementation review to ensure the change was implemented as approved.
9. Maintain configurations for all system services, assets, and infrastructure; manage configuration changes; and monitor the system for unauthorized or unintended configuration changes.

Securing systems and data—To secure IT systems and data, develop, document, and implement processes to:

10. Perform proactive key user and system activity logging and log monitoring, particularly for users with administrative access privileges.
11. Prepare and implement a security incident response plan clearly stating how to report and handle such incidents.

The County's responsible officials' views and planned corrective action are in its corrective action plan at the end of this report.

This finding is similar to prior-year finding 2019-03.

Federal award findings and questioned costs

None reported.

COUNTY SECTION

GRAHAM COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2019 - 6/30/2020

<i>Federal Awarding Agency/Program Title</i>	<i>Federal CFDA Number</i>	<i>Additional Award Identification (Optional)</i>	<i>Name of Funder Pass-Through Entity</i>	<i>Identifying Number Assigned By Funder Pass-Through Entity</i>	<i>Federal Expenditures</i>	<i>Federal Program Total</i>	<i>Cluster Name</i>	<i>Cluster Total</i>
DEPARTMENT OF AGRICULTURE								
WIC SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN	10.557		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS19-207424	\$132,136	\$132,136	N/A	\$0
SCHOOLS AND ROADS - GRANTS TO STATES	10.665				\$445,593	\$445,593	FOREST SERVICE SCHOOLS AND ROADS CLUSTER	\$445,593
LAW ENFORCEMENT AGREEMENTS	10.704		FOREST SERVICE	18-LE-11030500-004	\$10,254	\$10,254	N/A	\$0
TOTAL DEPARTMENT OF AGRICULTURE					\$587,983			
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT								
COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII	14.228		ARIZONA DEPARTMENT OF HOUSING	129-18	\$59,762	\$59,762	N/A	\$0
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					\$59,762			
DEPARTMENT OF JUSTICE								
CRIME VICTIM ASSISTANCE	16.575		ARIZONA DEPARTMENT OF PUBLIC SAFETY	2018-283	\$47,490	\$47,490	N/A	\$0
STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	16.606				\$2,612	\$2,612	N/A	\$0
BULLETPROOF VEST PARTNERSHIP PROGRAM	16.607				\$12,234	\$12,234	N/A	\$0
EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM	16.738		ARIZONA CRIMINAL JUSTICE COMMISSION	DC-20-024 DC-20-005	\$22,340	\$22,340	N/A	\$0
TOTAL DEPARTMENT OF JUSTICE					\$84,676			
DEPARTMENT OF TRANSPORTATION								
HIGHWAY PLANNING AND CONSTRUCTION (FEDERAL-AID HIGHWAY PROGRAM)	20.205		ARIZONA DEPARTMENT OF TRANSPORTATION	19-0007589-1	\$135	\$135	HIGHWAY PLANNING AND CONSTRUCTION CLUSTER	\$135
STATE AND COMMUNITY HIGHWAY SAFETY	20.600		GOVERNOR'S OFFICE OF HIGHWAY SAFETY	2019-AL-041 2020-AL-018 2019-PTS-074 2020-PTS-025	\$17,321	\$17,321	HIGHWAY SAFETY CLUSTER	\$17,321
TOTAL DEPARTMENT OF TRANSPORTATION					\$17,456			
DEPARTMENT OF TREASURY								
CORONAVIRUS RELIEF FUND	21.019	COVID-19	GOVERNOR'S OFFICE	ERMT-20-045	\$918,557	\$918,557	N/A	\$0
TOTAL DEPARTMENT OF TREASURY					\$918,557			
DEPARTMENT OF EDUCATION								
RURAL EDUCATION	84.358				\$5,045	\$5,045	N/A	\$0
TOTAL DEPARTMENT OF EDUCATION					\$5,045			
ELECTION ASSISTANCE COMMISSION								
2018 HAVA ELECTION SECURITY GRANT	90.404		ARIZONA SECRETARY OF STATE	AZ18101001	\$69,330	\$69,330	N/A	\$0
TOTAL DELTA REGIONAL AUTHORITY or DENALI COMMISSION or ELECTION ASSISTANCE COMMISSION or JAPAN U.S. FRIENDSHIP COMMISSION					\$69,330			
DEPARTMENT OF HEALTH AND HUMAN SERVICES								
PUBLIC HEALTH EMERGENCY PREPAREDNESS	93.069		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS17-133191	\$205,001	\$205,001	N/A	\$0
EPIDEMIOLOGY AND LABORATORY CAPACITY FOR INFECTIOUS DISEASES (ELC)	93.323		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS17-133191	\$27	\$27	N/A	\$0
PUBLIC HEALTH EMERGENCY RESPONSE: COOPERATIVE AGREEMENT FOR EMERGENCY RESPONSE: PUBLIC HEALTH CRISIS RESPONSE	93.354	COVID-19	ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS17-133191	\$47,043	\$47,043	N/A	\$0
PPHF CAPACITY BUILDING ASSISTANCE TO STRENGTHEN PUBLIC HEALTH IMMUNIZATION INFRASTRUCTURE AND PERFORMANCE FINANCED IN PART BY PREVENTION AND PUBLIC HEALTH FUNDS	93.539		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS18-177679	\$82,196	\$82,196	N/A	\$0
FOSTER CARE TITLE IV-E	93.658		ARIZONA DEPARTMENT OF CHILD SAFETY AND ARIZONA SUPREME COURT, ADMINISTRATIVE OFFICE OF THE COURTS	None	\$8,321	\$8,321	N/A	\$0
HIV PREVENTION ACTIVITIES HEALTH DEPARTMENT BASED PREVENTIVE HEALTH SERVICES, SEXUALLY TRANSMITTED DISEASES CONTROL GRANTS	93.940		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS18-188828	\$8,387	\$8,387	N/A	\$0
	93.977		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS14-068669 CTR040477	\$15,084	\$15,084	N/A	\$0
PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT TO THE STATES	93.991		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS16-098358	\$48,733	\$48,733	N/A	\$0
	93.994		ARIZONA DEPARTMENT OF HEALTH SERVICES	ADHS16-098358	\$91,688	\$91,688	N/A	\$0
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES					\$506,480			
DEPARTMENT OF HOMELAND SECURITY								
EMERGENCY MANAGEMENT PERFORMANCE GRANTS	97.042		ARIZONA DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS	EMF-2019-EP-00010 180304-01	\$17,696	\$17,696	N/A	\$0
HOMELAND SECURITY GRANT PROGRAM	97.067		ARIZONA DEPARTMENT OF EMERGENCY AND MILITARY AFFAIRS	190306-01 180415-01 190413-01	\$150,580	\$150,580	N/A	\$0
TOTAL DEPARTMENT OF HOMELAND SECURITY					\$168,276			
TOTAL EXPENDITURE OF FEDERAL AWARDS					\$2,417,565			

Please Note:

Italicized award lines indicate pass-through funding

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of the schedule.

GRAHAM COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Period 7/1/2019 - 6/30/2020

Significant Accounting Policies Used in Preparing the SEFA

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

10% De Minimis Cost Rate

The auditee did not use the de minimis cost rate.

Basis of presentation

The accompanying schedule of expenditures of federal awards (schedule) includes Graham County's federal grant activity for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Federal Assistance Listings number

The program titles and Federal Assistance Listings numbers were obtained from the federal or pass-through grantor or the 2020 Federal Assistance Listings.

COUNTY RESPONSE



Graham County Board of Supervisors

921 W. Thatcher Blvd.
Safford, AZ 85546
Phone: (928) 428-3250
Fax: (928) 428-5951

Danny Smith, Chairman
Paul R. David, Vice Chairman
John Howard, Member

Dustin Welker, County Manager/Clerk

March 18, 2021

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying corrective action plan as required by the standards applicable to financial audits contained in *Government Auditing Standards* and by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, for each finding, we are providing you with our responsible officials' views, the names of the contact people responsible for corrective action, the corrective action planned, and the anticipated completion date.

Sincerely,

Julie Rodriguez
Chief Financial Officer

Graham County
Corrective action plan
Year ended June 30, 2020

Financial statement findings

2020-01

The County's deficiencies in its process for managing and documenting its risks may put its operations and IT systems and data at unintended and unnecessary risk

McCoy Hawkins, IT Director

Anticipated completion date: June 2022

Response: Concur

Corrective action:

We will perform a County-wide IT risk-assessment to identify, analyze, and respond to risks that may impact our IT resources. Policies and procedures for risk management and categorization of sensitive information are in process, along with various other policies being drafted based on best practices.

2020-02

The County's control procedures over IT systems and data were not sufficient, which increases the risk that the County may not adequately protect those systems and data.

McCoy Hawkins, IT Director

Anticipated completion date: June 2022

Response: Concur

Corrective action:

As of January 27, 2020, dual factor authentication is being used for remote users to gain access to County resources and is being tested for access to all County resources. We are currently drafting information management and related policies and procedures. These policies will include all aspects of information security and change management from justification review to configuring, testing, and post-implementation review based upon current IT standards and best practices. A comprehensive security incident response and contingency plan to ensure business operations can recover from a compromise or disaster is currently being developed.



Graham County Board of Supervisors

921 W. Thatcher Blvd.
Safford, AZ 85546
Phone: (928) 428-3250
Fax: (928) 428-5951

Danny Smith, Chairman
Paul R. David, Vice Chairman
John Howard, Member

Dustin Welker, County Manager/Clerk

March 18, 2021

Lindsey Perry
Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

We have prepared the accompanying summary schedule of prior audit findings as required by the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs. This schedule also includes the status of audit findings reported in the prior audit's summary schedule of prior audit findings that were not corrected.

Sincerely,

Julie Rodriguez
Chief Financial Officer

Graham County
Summary schedule of prior audit findings
Year ended June 30, 2020

Status of financial statement findings

Financial statement preparation

Finding number: 2019-01. This finding initially occurred in fiscal year 2016.

Status: Fully corrected

Managing risk

Finding number: 2019-02. This finding initially occurred in fiscal year 2016.

Status: partially corrected

- Drafted policies and procedures for risk management and categorization of sensitive information are being reviewed in order to perform a County-wide IT risk-assessment to identify, analyze, and respond to risks that may impact our IT resources.
- Various other procedures are also being drafted based on best practices.

Information technology (IT) controls—access, configuration and change management, and security

Finding number: 2019-03. This finding initially occurred in fiscal year 2016.

Status: partially corrected

- Dual-factor authentication for remote users was implemented January 27, 2020 and is currently being tested for access to all County resources.
- Other policies and procedures for information access and management are being drafted. These policies include all aspects of information security and change management from justification review to configuring, testing, and post-implementation review based upon current IT standards and best practices.
- Comprehensive security incident response and contingency plans to ensure business operations can recover from a compromise or disaster are currently being developed.

Status of federal award findings and questioned costs

CFDA number and program name: 93.069 Public Health Emergency Preparedness

Finding number: 2019-101

Status: Fully corrected

