

Graham County
Single Audit Reporting Package
Year Ended June 30, 2005

Graham County
Single Audit Reporting Package
June 30, 2005

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(1931 - 1992)

Independent Auditor's Report

The Auditor General of the State of Arizona

The Board of Supervisors of
Graham County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, for the year ended June 30, 2005, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages 3 through 9, the Schedule of Agent Retirement Plan's Funding Progress on page 34, and the Budgetary Comparison Schedules on pages 35 through 38 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2006, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Miller, Allen & Co., P.C.

September 30, 2006

Graham County
Management's Discussion and Analysis
June 30, 2005

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, 2005.

Financial Highlights

- The assets of Graham County exceeded its liabilities at the close of the most recent fiscal year by \$23,793,490 (net assets).
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balance of \$6,491,145, a decrease of \$288,182 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,921,590 or 15% of total general fund expenditures.
- Graham County's total assets increased by \$1,110,667 during the current fiscal year. The key factors in this increase were increases in capital assets being depreciated and amounts due from other governments. The changes in capital assets being depreciated were the result of major investments in road projects added in this fiscal year. Due from other governments increased because payments for housing federal prisoners in the jail and the juvenile detention facility are being received less timely than in previous fiscal years.

Overview of the Financial Statements

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

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

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

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

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

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

The government-wide financial statements can be found on pages 11 - 12 of this report.

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

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

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

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

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

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

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

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Management's Discussion and Analysis
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Notes to the financial statements. The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 – 32 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Graham County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the general fund and major special revenue fund. Other required supplementary information can be found on pages 34 - 38 of this report.

Government-wide Financial Analysis

Statement of Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Graham County, assets exceeded liabilities by \$23,793,490 million at the close of the most recent fiscal year.

Condensed Statement of Net Assets		
As of June 30, 2005 and 2004		
Governmental		
Activities		
	2005	2004
Current and other assets	\$ 9,418,549	\$ 9,168,957
Capital assets	19,446,489	18,585,414
Total assets	<u>28,865,038</u>	<u>27,754,371</u>
Long-term liabilities outstanding	2,338,938	1,975,107
Other liabilities	2,732,610	2,169,337
Total liabilities	<u>5,071,548</u>	<u>4,144,444</u>
Net assets:		
Investment in capital assets	19,446,489	18,585,414
Restricted	4,403,280	4,393,174
Unrestricted	(56,279)	631,339
Total net assets	<u>\$ 23,793,490</u>	<u>\$ 23,609,927</u>

By far the largest portion of Graham County's net assets (82%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less accumulated depreciation. Graham County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements changed from \$631,339 at June 30, 2004 to a \$56,279 deficit at the end of the fiscal year ended June 30, 2005.

The deficit in unrestricted net assets arose primarily because of two factors. First, the County did not include in past annual budgets the amounts needed to fully finance the liability arising from landfill closure and postclosure care costs. The County also did not include in past budgets amounts needed to pay unused employee vacation and sick days. The County will need to

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Management's Discussion and Analysis
June 30, 2005

include these amounts in future year's budgets as they come due. Finally, the County's expenditures exceeded revenues in the general fund. This factor is discussed in greater detail below.

The increase in total net assets, related to governmental activities, is due primarily to increased investments in capital assets. Current and other assets increased slightly as a result of delays in the receipt of funds for housing federal prisoners in the jail and the juvenile detention facility. Capital assets increased, primarily by major road improvement projects. The increase in long-term liabilities results from inflation factors related to closure and postclosure costs of landfill sites.

Statement of Activities. Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during the most recent fiscal year. A chart of changes in net assets follows. For the fiscal year, net assets increased \$183 thousand, with all of the increase coming from governmental activities. The increase in assets in governmental activities is related in large part to construction of assets, rather than accumulation of cash or other liquid assets. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes whose primary purpose is for the operation of the County.

	Condensed Statement of Revenues, Expenses and Changes in Net Assets	
	Years Ended June 30, 2005 and 2004	
	Governmental Activities	
	<u>2005</u>	<u>2004</u>
Revenues		
Program revenues:		
Charges for services	\$ 2,526,324	\$ 2,507,401
Operating grants and contributions	11,503,709	10,625,651
Capital grants and contributions	0	354,970
General revenues:		
Property taxes	2,079,274	1,996,996
Sales taxes	3,957,531	3,580,188
Vehicle license tax	630,877	638,789
Schools facility board capital contributions	0	1,646,407
Miscellaneous	1,874,543	1,585,977
Total revenues	<u>22,572,258</u>	<u>22,936,379</u>
Expenses		
General government	6,502,502	5,742,635
Public safety	6,551,427	6,201,603
Highways and streets	3,099,835	2,938,382
Sanitation	795,773	535,219
Health	1,059,895	964,177
Welfare	1,916,967	1,769,534
Culture and recreation	472,309	460,467
Education	1,989,987	2,093,676
Total expenses	<u>22,388,695</u>	<u>20,705,693</u>
Increase in net assets	<u>183,563</u>	<u>2,230,686</u>
Net assets, beginning of year	23,609,927	21,379,241
Net assets, end of year	<u>\$ 23,793,490</u>	<u>\$ 23,609,927</u>

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Governmental activities.

Governmental activities revenues totaled \$22.6 million for fiscal year 2005. The following are highlights of County revenues:

- Sales taxes are comprised of state shared-sales tax and a .5% County excise tax. Overall sales tax revenue increased by \$377 thousand (approximately 11%) in the current fiscal year. The state-shared sales tax, the largest component of sales tax, increased at a rate twice that of the County excise tax reflecting better economic conditions outside Graham County. Based upon the Arizona State Department of Revenue projections, it is expected that State-shared sales tax will continue to increase in fiscal year 2005/06.
- Miscellaneous income increased \$186 thousand with most of the increase due to distribution of surplus landfill funds.
- Property taxes increased nominally between fiscal years, which reflects the amounts levied in both fiscal years.
- Operating grants and contributions increased due in part to increased highway user funds revenue and increases in funding from the U.S. Department of Justice.

Expenses

For the most part, increases in expenses closely parallel inflation and growth in the demand for services. The largest dollar increases were in the general government function due primarily to increased costs for psychiatric evaluations and care, outside attorney costs and grant funded expenditures for review of local earthen retention dams. Additional positions and needed equipment were added to the Sheriff's Office and the Regional Juvenile Detention Center. The largest percentage increase was for sanitation expenses. Costs increased because the Engineer's calculation of capacity used at the Regional Landfill in the fiscal year increased 11%, thereby increasing the liability for closure and postclosure costs.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of \$6,491,145, a decrease of \$288,182 in comparison with the prior year. This change is primarily attributable to the decrease in the fund balance of the general fund. There was an excess of expenditures over revenues in the general fund of \$314,478, which was primarily due to an increase in spending for general government and

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public safety. The fund balance of all governmental funds is unreserved other than the reserve for inventories of \$362,215.

The general fund is the chief operating fund of Graham County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,921,590, which was \$314,478 less than the previous fiscal year. The primary reason for this decrease was that expenditures increased at a greater rate than did revenues. Otherwise both revenues and expenditures for the current fiscal year closely followed estimates.

General Fund Budgetary Highlights

The general fund expenditure budget of \$15,771,906 did not change during the year.

The \$235,643 variance for the revenues budgeted for intergovernmental revenues was due to payments received from the Federal Government for the Medicaid Program reimbursement which was not budgeted.

The \$125,036 variance for the expenditures budgeted for Elections was due to expenses for the year being much lower than expected.

The (\$126,986) variance for the revenues budgeted for fines and forfeitures was due to lower than expected receipts from the Courts. The State has been preparing a collections program to help the counties collect outstanding fines, which it expects to implement in the coming fiscal year.

The \$982,043 variance for the expenditures budgeted for contingency was due to very little contingency funds actually required to be spent.

The \$294,031 variance for the expenditures budgeted for miscellaneous was due to insurance premiums being lower than budgeted and several services not utilized as budgeted.

The \$423,271 variance for the expenditures budgeted for Public Safety was because wage and related benefit expenses were lower due to turnover of employees.

The \$781,572 variance for the expenditures budgeted for capital outlay was due to efforts to accumulate funds for future projects such as an adult detention facility and matching funds for the eighth avenue bridge.

Capital Assets and Debt Administration

Capital Assets. Graham County's investment in capital assets for its governmental activities as of June 30, 2005 was \$19.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment and infrastructure. In addition, roads and highways constructed in the fiscal years ended June 30, 2003 or later, or in progress at that date, are included in capital assets. In accordance with GASB Statement No. 34, the County will retroactively value all infrastructure assets back to fiscal year 1981 by June 30, 2007. The total

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increase in Graham County's investment in capital assets for the current fiscal year was 5%, all of which is attributed to governmental activities.

Additional information on Graham County's capital assets can be found in Note 5 on page 26 of this report.

Long-term liabilities. At the end of the current fiscal year, the County had total long-term liabilities outstanding of \$2,338,938.

Additional information on the County's long-term liabilities can be found in Notes 6 through 8 to the financial statements on pages 27-28.

State statutes limit the amount of general obligation debt a county may issue to 6 percent of its total assessed valuation. The current debt limitation for the County is \$6,115,963. Since the County has no general obligation debt, this amount equals the debt capacity.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Graham County is currently 6.2 percent, which is a slight decrease from a rate of 6.8 percent a year ago. This does not compare favorably to the state's average unemployment rate of 3.6 percent. The City of Safford's unemployment rate is 5.6 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2005/06 fiscal year. The unreserved ending fund balance in the general fund of \$1,921,590 was appropriated for spending in the 2005/06 fiscal year budget. This use of available fund balance in conjunction with realistic revenue projections and a conservative expenditure plan avoided the need to raise the general fund property tax rate for the 2005/06 fiscal year.

Requests for Information

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

Basic Financial Statements

Graham County
Statement of Net Assets
June 30, 2005

	Primary Governmental Activities
Assets	
Cash and cash equivalents	\$ 7,600,910
Property taxes receivable	238,320
Due from other governments	1,217,104
Inventories	362,215
Capital assets, not being depreciated	2,660,410
Capital assets, being depreciated, net	16,786,079
Total assets	28,865,038
Liabilities	
Accounts payable	790,003
Accrued payroll and employee benefits	339,438
Deposits held for others	111,108
Deferred revenue	1,492,061
Noncurrent liabilities	
Due within one year	442,648
Due in more than one year	1,896,290
Total liabilities	5,071,548
Net Assets	
Invested in capital assets	19,446,489
Restricted for:	
Highway and streets	1,335,850
Other purposes	2,913,474
Capital projects	153,956
Unrestricted	(56,279)
Total net assets	\$ 23,793,490

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

Graham County
Statement of Activities
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges For Services	Operating Grants & Contributions	Revenue & Changes in Net Assets
				Primary Government Governmental Activities *
Primary Government:				
Governmental activities:				
General government	\$ 6,502,502	\$ 1,339,089	\$ 1,263,004	\$ (3,900,409)
Public safety	6,551,427	341,927	4,750,699	(1,458,801)
Highways and streets	3,099,835		3,319,078	219,243
Sanitation	795,773	113,491	58,808	(623,474)
Health	1,059,895	38,980	776,626	(244,289)
Welfare	1,916,967			(1,916,967)
Culture and recreation	472,309	88,444		(383,865)
Education	1,989,987	604,393	1,335,494	(50,100)
Total governmental activities	<u>\$ 22,388,695</u>	<u>\$ 2,526,324</u>	<u>\$ 11,503,709</u>	<u>(8,358,662)</u>

General revenues:

Property taxes, levied for general purposes	2,079,274
Shared revenue –state sales taxes	3,957,531
Shared revenue – state vehicle license tax	630,877
Shared revenue - state lottery	550,035
Gain on disposal of capital assets	257,526
Investment earnings	183,334
Miscellaneous	883,648
Total general revenues	<u>8,542,225</u>
Change in net assets	183,563
Net assets – July 1, 2004	23,609,927
Net assets – June 30, 2005	<u>\$ 23,793,490</u>

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

Graham County
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,252,594	\$ 1,150,722	\$ 3,197,594	\$ 7,600,910
Property taxes receivable	232,468	-	5,852	238,320
Due from other governments	629,355	396,247	191,502	1,217,104
Inventories	-	362,215	-	362,215
Total assets	\$ 4,114,417	\$ 1,909,184	\$ 3,394,948	\$ 9,418,549
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	172,178	475,942	141,883	790,003
Accrued payroll and employee benefits	226,907	36,894	75,637	339,438
Deposits held for others	111,108	-	-	111,108
Deferred revenue	1,682,634	-	4,221	1,686,855
Total liabilities	2,192,827	512,836	221,741	2,927,404
Fund Balances:				
Reserved for inventories	-	362,215	-	362,215
Unreserved, reported in:				
General fund	1,921,590	-	-	1,921,590
Special revenue funds	-	1,034,133	3,019,251	4,053,384
Capital projects funds	-	-	153,956	153,956
Total fund balances	1,921,590	1,396,348	3,173,207	6,491,145
Total liabilities and fund balances	\$ 4,114,417	\$ 1,909,184	\$ 3,394,948	\$ 9,418,549

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

Graham County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2005

Fund balances – total governmental funds	\$ 6,491,145
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	19,446,489
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	194,794
Some liabilities, such as compensated absences and landfill closure and postclosure care costs, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(2,338,938)</u>
Net assets of governmental activities	<u>\$ 23,793,490</u>

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

Graham County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2005

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 2,042,548	\$ -	\$ 62,227	\$ 2,104,775
Licenses and permits	11,866	-	-	11,866
Intergovernmental	9,530,093	3,351,679	4,574,269	17,456,041
Charges for services	582,011	77,667	996,517	1,656,195
Fines and forfeits	223,014	-	14,368	237,382
Investment earnings	64,246	44,656	74,432	183,334
Rents	15,129	-	94,444	109,573
Miscellaneous	245,524	378,503	272,103	896,130
Total revenues	12,714,431	3,852,505	6,088,360	22,655,296
Expenditures				
Current				
General government	5,431,084	-	796,765	6,227,849
Public safety	4,829,967	-	1,403,503	6,233,470
Highways and streets	-	2,481,015	59,820	2,540,835
Sanitation	93,255	-	366,548	459,803
Health	200,859	-	808,733	1,009,592
Welfare	1,916,967	-	-	1,916,967
Culture and recreation	156,992	-	279,298	436,290
Education	150,117	-	1,756,718	1,906,835
Capital outlay	258,662	1,279,225	673,572	2,211,459
Total expenditures	13,037,903	3,760,240	6,144,957	22,943,100
Excess (deficiency) of revenues over (under) expenditures	(323,472)	92,265	(56,597)	(287,804)
Other financing sources (uses):				
Transfers in	8,994	-	-	8,994
Transfers out	-	-	(8,994)	(8,994)
Total other financing sources and uses	8,994	-	(8,994)	-
Net change in fund balances	(314,478)	92,265	(65,591)	(287,804)
Fund balances, July 1, 2004	2,236,068	1,304,461	3,238,798	6,779,327
Decrease in reserve for inventories	-	(378)	-	(378)
Fund balances, June 30, 2005	\$ 1,921,590	\$ 1,396,348	\$ 3,173,207	\$ 6,491,145

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

Graham County
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2005

Net change in fund balances – total governmental funds \$ (287,804)

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

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

Capital outlay	2,161,361	
Depreciation expense	<u>(1,228,358)</u>	933,003

In the Statement of Activities, only the gain/loss on the sale of capital assets is reported whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital assets sold. (71,928)

Collections of deferred revenues in the governmental funds exceeded revenues reported in the Statement of Activities. (25,499)

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

Increase in compensated absences	(31,313)	
Increase in landfill closure and postclosure care costs	<u>(332,518)</u>	(363,831)

Purchases of inventories are reported as expenditures in the governmental funds when purchased. However, in the Statement of Activities they are reported as expenses when consumed. (378)

Change in net assets of governmental activities \$ 183,563

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

Graham County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 36,812,210	\$ 346,228
Interest receivable	50,372	
Total assets	<u>36,862,582</u>	<u>\$ 346,228</u>
Liabilities		
Deposits held for others	-	\$ 346,228
Total liabilities	<u>-</u>	<u>\$ 346,228</u>
Net Assets		
Held in trust for investment trust participants	<u>\$ 36,862,582</u>	

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

Graham County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2005

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 55,393,889
Investment earnings	1,277,175
	56,671,064
Total additions	
Deductions:	
Distributions to participants	48,008,274
	48,008,274
Total deductions	
Change in net assets	8,662,790
Net assets, July 1, 2004	28,199,792
Net assets, June 30, 2005	\$ 36,862,582

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

Graham County
Notes to Financial Statements
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Graham County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). During the year ended June 30, 2005, the County implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the County's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. The County has no component units.

B. Basis of Presentation

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

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

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

Graham County
Notes to Financial Statements
June 30, 2005

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

Revenues that are not classified as program revenues, including internally dedicated resources and all taxes, are reported as general revenues.

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

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

The County reports the following major governmental funds:

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

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

The County reports the following fund types:

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

The agency funds account for assets held by the County as an agent for individuals, the State and various local governments.

C. Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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Notes to Financial Statements
June 30, 2005

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 measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

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

D. Cash and Investments

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

E. Inventories

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

F. Property Tax Calendar

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

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

Graham County
Notes to Financial Statements
 June 30, 2005

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

G. Capital Assets

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

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

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

H. Investment Earnings

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

I. Compensated Absences

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

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

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

Graham County
Notes to Financial Statements
June 30, 2005

Note 2 - Deficit Fund Balances

The Racing Commission – Parks Fund which is an Other Governmental Fund had a fund deficit of \$61,155 at June 30, 2005. The deficit is expected to be corrected through normal operations.

Note 3 - Deposits and Investments

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

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

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Notes to Financial Statements
June 30, 2005

Foreign currency risk
Statutes do not allow foreign investments.

Deposits – At June 30, 2005, the carrying amount of the County's deposits was \$493,412 and the bank balance was \$1,495,773. The County does not have a policy related to custodial credit risk.

Investments – The County's investments at June 30, 2005, were as follows:

<u>Investment Type</u>	<u>Amount</u>
State Treasurer's investment pool 7	\$ 13,538,919
State Treasurer's investment pool 5	2,094,501
U.S. agency securities	21,336,668
U.S. Treasury securities	7,024,390
Total	<u>\$ 43,994,478</u>

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

Credit Risk – The County does not have a formal investment policy with respect to credit risk. As of June 30, 2005, credit risk for the County's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Amount</u>
State Treasurer's investment pool 7	Unrated	Not applicable	\$ 13,538,919
State Treasurer's investment pool 5	Unrated	Not applicable	2,094,501
U.S. agency securities	AAA	Standard & Poor's	21,336,668
			<u>\$ 36,970,088</u>

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

Concentration of credit risk – The County does not have a formal investment policy with respect to concentration of credit risk. The County had investments at June 30, 2005, of 5 percent or more in the Federal National Mortgage Association, the Federal Home Loan Bank and the Federal Farm Credit Banks. These investments were 5.61 percent, 36.10 percent and 6.78 percent, respectively, of the County's total investments.

Graham County
Notes to Financial Statements
June 30, 2005

Interest rate risk – The County does not have a formal investment policy with respect to interest rate risk. As of June 30, 2005, the County had the following investments in debt securities:

Investment	Amount	Weighted Average Maturity (In Years)
State Treasurer's investment pool 7	\$ 13,538,919	.41
State Treasurer's investment pool 5	2,094,501	.22
U.S. agency securities	21,336,668	.95
U.S. Treasury securities	7,024,390	1.83
Total	<u>\$ 43,994,478</u>	

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

Cash, deposits, and investments:

Cash on hand	\$ 271,458
Amount of deposits	493,412
Amount of investments	43,994,478
Total	<u>\$ 44,759,348</u>

Statement of Net Assets:

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and cash equivalents	<u>\$ 7,600,910</u>	<u>\$ 36,812,210</u>	<u>\$ 346,228</u>	<u>\$ 44,759,348</u>

Note 4 - Due From Other Governments

Amounts due from other governments at June 30, 2005, include \$153,293 in state-shared revenue from sales tax, \$105,703 in county excise tax distributions due from the State Treasurer, \$68,625 in state motor vehicle license taxes from the Arizona Department of Transportation, \$263,588 in prisoner detention fees from the U.S. Department of Justice, and \$38,146 in other fees from federal, state, and local governments recorded in the general fund; \$238,927 in state-shared revenue from highway user taxes from the Highway User Revenue Funds, \$78,967 in state motor vehicle license tax distributions due from the State Treasurer, and \$78,353 in other fees from state and local governments recorded in the Highway Road Fund; and \$191,502 in other fees from state and local governments recorded in the Other Governmental Funds.

Graham County
Notes to Financial Statements
June 30, 2005

Note 5 - Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,499,575	\$ 26,704	\$ -	\$ 2,526,279
Construction in progress (estimated cost to complete \$210,330)	198,618	23,025	87,512	134,131
Total capital assets not being depreciated	<u>2,698,193</u>	<u>49,729</u>	<u>87,512</u>	<u>2,660,410</u>
Capital assets being depreciated:				
Buildings	13,421,978	169,652	17,116	13,574,514
Machinery and equipment	7,511,631	1,335,475	910,621	7,936,485
Infrastructure	3,443,258	694,017	-	4,137,275
Total	<u>24,376,867</u>	<u>2,199,144</u>	<u>927,737</u>	<u>25,648,274</u>
Less accumulated depreciation for:				
Buildings	3,244,836	329,938	5,955	3,568,819
Machinery and equipment	5,191,405	802,044	849,854	5,143,595
Infrastructure	53,405	96,376	-	149,781
Total	<u>8,489,646</u>	<u>1,228,358</u>	<u>855,809</u>	<u>8,862,195</u>
Total capital assets being depreciated, net	<u>15,887,221</u>	<u>970,786</u>	<u>71,928</u>	<u>16,786,079</u>
Governmental activities capital assets, net	<u>\$ 18,585,414</u>	<u>\$ 1,020,515</u>	<u>\$ 159,440</u>	<u>\$ 19,446,489</u>

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

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 274,938
Public safety	298,303
Highway and streets	480,820
Sanitation	3,452
Health	51,407
Culture and recreation	38,198
Education	81,240
Total governmental activities depreciation expense	<u>\$1,228,358</u>

Graham County
Notes to Financial Statements
June 30, 2005

Note 6 - Long-term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2005.

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 518,676	\$ 455,941	\$ 424,628	\$ 549,989	\$ 439,991
Landfill closure and postclosure care costs payable	1,456,431	333,838	1,320	1,788,949	2,657
Governmental activities long-term liabilities	<u>\$ 1,975,107</u>	<u>\$ 789,779</u>	<u>\$ 425,948</u>	<u>\$ 2,338,938</u>	<u>\$ 442,648</u>

Note 7 - Compensated Absences

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2005, the County paid for compensated absences as follows: 69 percent from the general fund, 11 percent from major funds, and 20 percent from other funds.

Note 8 - Landfill Closure and Postclosure Care Costs

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

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$1,788,949 reported as landfill closure and postclosure care liability at June 30, 2005, represents the cumulative amount reported to date for postclosure care of the Central Landfill as well as closure and postclosure costs for the Regional Landfill. The amount is based on the use of 100 and 62 percent, respectively, of the estimated capacity of the two landfills. These funds are expected to be adequate for the 30 years of monitoring currently required by the Arizona Statutes. The County closed the Central landfill in fiscal year 2003 and although it surrendered the Regional landfill operations to the city of Safford on July 1, 2003, the County is still working with the Arizona Department of Environmental Quality to transfer the financial liability. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Graham County
Notes to Financial Statements
June 30, 2005

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

Note 9 - Risk Management

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

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

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

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance triennially. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

The County provides life, health and disability benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust, currently composed of six member counties. The Trust provides benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and may require its employees to

Graham County
Notes to Financial Statements
June 30, 2005

contribute a portion of that premium. The County is not liable for claims in excess of coverage limits and cannot be assessed retroactive premium adjustments. If it withdraws from the Trust, the County would be responsible for its proportional share of claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

Note 10 - Retirement Plans

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

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

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

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

<u>ASRS</u>	<u>PSPRS</u>
3300 N. Central Ave.	3010 East Camelback Road
P.O. Box 33910	Suite 200
Phoenix, AZ 85012	Phoenix, AZ 85016-4416
(602) 240-2000 or (800) 621-3778	(602) 255-5575

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

Cost-sharing plan - For the year ended June 30, 2005, active ASRS members and the County were each required by statute to contribute at the actuarially determined

Graham County
Notes to Financial Statements
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rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2005, 2004, and 2003 were \$359,230, \$342,406, and \$146,761, respectively, which were equal to the required contributions for the year.

Agent plan - For the year ended June 30, 2005, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 14.16 percent.

Annual Pension Cost - The County's pension cost for the PSPRS for the year ended June 30, 2005, and related information follow.

Contribution rates:	
County	14.16%
Plan members	7.65%
Annual pension cost	\$74,752
Contributions made	\$74,752

The current-year annual required contributions for the PSPRS was determined as part of the June 30, 2003, actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2003, was 20 years.

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

Plan PSPRS	Year Ended	Annual Pension	Percentage of	Net Pension
	<u>June 30</u>	<u>Cost (APC)</u>	<u>APC</u> <u>Contributed</u>	<u>Obligation</u>
	2005	\$ 74,752	100%	\$ -0-
	2004	74,080	100%	-0-
	2003	58,592	100%	-0-

Graham County
Notes to Financial Statements
June 30, 2005

Note 11 - Interfund Activity

Interfund transfers for the year ended June 30, 2005, were as follows:

	Transfer In
	General Fund
Transfer out	
Nonmajor governmental funds	\$8,994

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

Note 12 - Condensed Financial Statements of 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.

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

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Amount
U.S. government sponsored entity bonds and U.S. government securities	\$ 28,224,100	1.54-5.0%	7/28/05- 2/15/09	\$ 28,361,058
State Treasurer's investment pool	15,633,420	Not stated	N/A	15,633,420

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

Statement of Net Assets

Assets	\$ 44,159,299
Liabilities	-
Net assets	<u>\$ 44,159,299</u>

Net assets held in trust for:

Internal participants	\$ 7,453,726
External participants	<u>36,705,573</u>
Total net assets held in trust	<u>\$ 44,159,299</u>

Statement of Changes in Net Assets

Total additions	\$ 77,739,032
Total deductions	<u>69,171,613</u>
Net increase	8,567,419
Net assets held in trust:	
July 1, 2004	<u>35,591,880</u>
June 30, 2005	<u>\$ 44,159,299</u>

Other Required Supplementary Information

Graham County
 Required Supplementary Information
 Schedule of Agent Retirement Plan's Funding Progress
 June 30, 2005

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/05	\$ 1,556,555	\$ 2,047,254	\$ (490,699)	76.0%	\$ 689,645	71.2%
6/30/04	1,555,459	1,767,387	(211,928)	88.0%	644,118	32.9%
6/30/03	1,528,000	1,679,010	(151,010)	91.0%	596,761	25.3%

Graham County
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 1,975,819	\$ 1,975,819	\$ 2,042,548	\$ 66,729
Licenses and permits	10,000	10,000	11,866	1,866
Intergovernmental	9,294,450	9,294,450	9,530,093	235,643
Charges for services	590,100	590,100	582,011	(8,089)
Fines and forfeits	350,000	350,000	223,014	(126,986)
Investment earnings	60,000	60,000	64,246	4,246
Rents	24,000	24,000	15,129	(8,871)
Miscellaneous	67,000	67,000	245,524	178,524
Total revenues	<u>12,371,369</u>	<u>12,371,369</u>	<u>12,714,431</u>	<u>343,062</u>
Expenditures				
Current:				
General government:				
Board of Supervisors	527,841	527,841	524,628	3,213
Treasurer	266,942	266,942	233,333	33,609
Assessor	370,462	370,462	340,137	30,325
Recorder	212,875	212,875	204,919	7,956
Elections	243,350	243,350	118,314	125,036
Attorney	638,755	638,755	660,846	(22,091)
Clerk of the Court	410,908	410,908	402,957	7,951
Superior Court	510,693	510,693	602,242	(91,549)
Justice of the Peace No.1	248,048	248,048	230,753	17,295
Justice of the Peace No.2	175,809	175,809	178,984	(3,175)
Victim witness	70,062	70,062	65,152	4,910
Public Fiduciary	79,858	79,858	79,469	389
Planning and zoning	136,842	136,842	134,172	2,670
Building Maintenance	160,131	160,131	158,850	1,281
Electrical Maintenance	62,240	62,240	52,941	9,299
Overtime	13,602	13,602	4,164	9,438
General services	253,000	253,000	225,988	27,012
Contingency	1,045,000	1,045,000	62,957	982,043
Miscellaneous	776,883	776,883	482,852	294,031
Medical Examiner	31,500	31,500	19,166	12,334
Information Technology	720,601	720,601	648,260	72,341
Total general government	<u>6,955,402</u>	<u>6,955,402</u>	<u>5,431,084</u>	<u>1,524,318</u>
Public safety				
Probation	81,338	81,338	78,552	2,786
Sheriff	3,382,351	3,382,351	3,183,806	198,545
Search and rescue	21,700	21,700	6,835	14,865
Juvenile detention center	1,673,309	1,673,309	1,484,759	188,550
Animal shelter	94,540	94,540	76,015	18,525
Total public safety	<u>5,253,238</u>	<u>5,253,238</u>	<u>4,829,967</u>	<u>423,271</u>

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Sanitation				
Sanitary Landfill	109,783	109,783	93,255	16,528
Total sanitation	109,783	109,783	93,255	16,528
Health				
Health Services	200,687	200,687	200,859	(172)
Total health	200,687	200,687	200,859	(172)
Welfare				
Attorney for the indigent	346,000	346,000	369,666	(23,666)
Indigent medical	1,536,984	1,536,984	1,547,301	(10,317)
Total welfare	1,882,984	1,882,984	1,916,967	(33,983)
Culture and recreation				
Parks and recreation	154,870	154,870	156,992	(2,122)
Total culture and recreation	154,870	154,870	156,992	(2,122)
Education				
School superintendent	163,783	163,783	140,853	22,930
Employment and training	10,925	10,925	9,264	1,661
Total education	174,708	174,708	150,117	24,591
Capital outlay	1,040,234	1,040,234	258,662	781,572
Total expenditures	15,771,906	15,771,906	13,037,903	2,734,003
Excess (deficiency) of revenues over expenditures	(3,400,537)	(3,400,537)	(323,472)	3,077,065
Other financing sources:				
Transfer in	-	-	8,994	8,994
Total other financing sources	-	-	8,994	8,994
Net change in fund balances	(3,400,537)	(3,400,537)	(314,478)	3,086,059
Fund balance, July 1, 2004	3,400,537	3,400,537	2,236,068	(1,164,469)
Fund balance, June 30, 2005	\$ -	\$ -	\$ 1,921,590	\$ 1,921,590

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
Highway Road Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 3,137,956	\$ 3,137,956	\$ 3,351,679	\$ 213,723
Charges for services	215,203	215,203	77,667	(137,536)
Investment earnings	65,000	65,000	44,656	(20,344)
Miscellaneous	108,000	108,000	378,503	270,503
Total revenues	<u>3,526,159</u>	<u>3,526,159</u>	<u>3,852,505</u>	<u>326,346</u>
Expenditures				
Current:				
Highway and streets				
General road	2,915,204	2,915,204	2,276,424	638,780
Engineering	201,878	201,878	196,953	4,925
Safety department	-	-	7,638	(7,638)
Total highway and streets	<u>3,117,082</u>	<u>3,117,082</u>	<u>2,481,015</u>	<u>636,067</u>
Capital outlay	<u>1,178,647</u>	<u>1,178,647</u>	<u>1,279,225</u>	<u>(100,578)</u>
Total expenditures	<u>4,295,729</u>	<u>4,295,729</u>	<u>3,760,240</u>	<u>535,489</u>
Net change in fund balances	(769,570)	(769,570)	92,265	861,835
Fund balance, July 1, 2004	769,570	769,570	1,304,461	534,891
Increase in reserve for inventories	-	-	(378)	(378)
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,396,348</u>	<u>\$ 1,396,348</u>

See accompanying notes to budgetary comparison schedules.

Graham County
 Required Supplementary Information
 Notes to Budgetary Comparison Schedules
 Year Ended June 30, 2005

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2005, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) for the general fund and Highway Road Fund as follows.

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Attorney	\$ 22,091
Superior Court	91,549
Justice of the Peace No.2	3,175
Health	172
Attorney for the Indigent	23,666
Indigent Medical	10,317
Parks and recreation	2,122
Highway Road Fund:	
Safety Department	7,638
Capital Outlay	100,578

These overexpenditures were funded by greater than anticipated revenues. In the future excesses will be corrected by revising budgets upon Board approval.

Supplementary Information

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Pass-through programs from:			
Arizona Department of Health Services Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	HG361073	\$ 201,027
Arizona State Treasurer Schools and Roads – Grants to States	10.665	None	77,253
Direct grants Watershed Protection and Flood Prevention	10.904		89,964
Total U.S. Department of Agriculture			<u>368,244</u>
U.S. Department of the Interior			
Direct grants			
Payments in Lieu of Taxes	15.226		1,461,333
BLM –Undocumented Immigrants Environmental Mitigation and Coordination	15.Unknown		13,084
Total U.S. Department of the Interior			<u>1,474,417</u>
U.S. Department of Justice			
Pass-through programs from:			
Arizona Governor's Office of Community Policy Juvenile Accountability Incentive Block Grants	16.523	JA-GRA-02-4182-05	5,974
Arizona Criminal Justice Commission Edward Byrne Memorial Formula Grant Program	16.579	AC-130-05	22,232
Local Law Enforcement Block Grant Program	16.592	LLBG-04-134	5,847
Local Law Enforcement Block Grant Program	16.592	LLBG-05-134	2,435
Total Local Law Enforcement Block Grant Programs			<u>8,282</u>
Total U.S. Department of Justice			<u>36,488</u>
U.S. Department of Labor			
Pass-through programs from:			
Arizona Department of Economic Security			
WIA Cluster:			
WIA Adult Program	17.258	E5704005	4,270
WIA Adult Program	17.258	E5705005	110,351
WIA Youth Activities	17.259	E5705005	150,842
WIA Dislocated Workers	17.260	E5704005	307
WIA Dislocated Workers	17.260	E5705005	1,299
Total U.S. Department of Labor			<u>267,069</u>

(Continued)

See accompanying notes to schedules.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Transportation			
Pass-through programs from:			
Governor's Office of Highway Safety State and Community Highway Safety	20.600	None	25,000
U.S. Department of Education			
Direct grants			
Rural Education	84.358		9,965
Pass-through programs from:			
Arizona Department of Education			
Title I Grants to Local Educational Agencies	84.010	SO10A040003	15,762
Title I Program for Neglected and Delinquent Children	84.013	05FAANAD-570887-03A	23,191
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	HO27A030007	401,960
Special Education - Grants to States	84.027	05FESCBG-570887-05A	3,547
Total Special Education - Grants to States			405,507
Special Education - Preschool Grants	84.173	H173A040003	25,095
Total Special Education Cluster (IDEA)			430,602
Safe and Drug-Free Schools and Communities State Grants	84.186	05FBPIVB-570887-07A	521
State Grants for Innovative Programs	84.298	S298A020003	215
State Grants for Innovative Programs	84.298	05FAATVA-570887-02A	1,234
Total State Grants for Innovative Programs			1,449
Education Technology State Grants	84.318	S318X040003	185,508
Education Technology State Grants	84.318	05FAAEFT-570887-04A	579
Total Education Technology State Grants			186,087
Reading First State Grants	84.357	S357A020003	18,388
Improving Teacher Quality State Grants	84.367	S367A040049	36,438
Improving Teacher Quality State Grants	84.367	05FAATII-570887-01A	8,683
Improving Teacher Quality State Grants	84.367	S281A030003	2,286
Total Improving Teacher Quality State Grants			47,407
Total U.S. Department of Education			733,372
U.S. Department of Health and Human Services			
Pass-through programs from:			
Arizona Department of Health Services			
Immunization Grants	93.268	15-2041	48,186
Breast and Cervical Cancer Early Detection	93.919	HG361204	65,214
Healthy Start Initiative	93.926	HG361270	5,160

(Continued)

See accompanying notes to schedules.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
HIV Prevention Activities - Health Department Based	93.940	H6352260	11,140
Maternal and Child Health Services Block Grant to the States	93.994	HG361137	40,112
Bioterrorism Training and Curriculum Development Program	93.996	252044	247,383
Total U.S. Department of Health and Human Services			<u>417,195</u>
 Homeland Security Grant Program Cluster			
U.S. Department of Justice			
Pass-through programs from:			
Arizona Department of Emergency and Military Affairs			
State Domestic Preparedness Equipment Support Program	16.007	2002-TE-CX-0142	6,768
State Domestic Preparedness Equipment Support Program	16.007	2003-TE-CX-0196	176,207
State Domestic Preparedness Equipment Support Program	16.007	2003-MU-T3-0034	206,241
State Domestic Preparedness Equipment Support Program	16.007	2004-GE-T4-0051	967
Total U.S. Department of Justice			390,183
 Department of Homeland Security			
Pass-through programs from:			
Arizona Department of Emergency and Military Affairs			
Homeland Security Grant Program	97.067	None	56,972
Total Homeland Security Grant Program Cluster			<u>447,155</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,768,940</u></u>

Graham County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2005 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

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

Program Title	CFDA Number	Amount
Education Technology State Grants	84.318	\$ 185,508

MARK L. LANDY, C.P.A.
STEPHEN T. HARRIS, C.P.A.
THOMAS L. FRIEND, C.P.A.
ROBERT N. SNYDER, C.P.A.

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

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Graham County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 30, 2006. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 40. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on internal control over financial reporting. However, we noted a certain matter involving internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item **05-1**.

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

Compliance and Other Matters

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

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

Miller, Allen & Co., P.C.

September 30, 2006

MARK L. LANDY, C.P.A.
STEPHEN T. HARRIS, C.P.A.
THOMAS L. FRIEND, C.P.A.
ROBERT N. SNYDER, C.P.A.

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

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

The Auditor General of the State of Arizona

The Board of Supervisors of
Graham County, Arizona

Compliance

We have audited the compliance of Graham County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Graham County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control over Compliance

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

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

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

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

Miller Allen & Co., P.C.

September 30, 2006

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

	YES	NO
Material weakness identified in internal control over financing reporting?	_____	_____ <u>X</u> _____
Reportable condition identified not considered to be a material weakness?	_____ <u>X</u> _____	_____
Noncompliance material to the financial statements noted?	_____	_____ <u>X</u> _____

Federal Awards

Material weakness identified in internal control over major programs?	_____	_____ <u>X</u> _____
Reportable conditions identified not considered to be material weaknesses?	_____	_____ <u>X</u> _____ (None reported)

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

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	_____	_____ <u>X</u> _____
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Homeland Security Grant Program Cluster	
16.007	State Domestic Preparedness Equipment Support Program
97.067	Homeland Security Grant Program
Special Education Cluster (IDEA)	
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	_____ <u>X</u> _____	_____
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Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (Section .315[b])?	_____	_____ <u>X</u> _____
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Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section II - Financial Statement Findings

Item: 05-1 (Repeat Finding)

Subject: Segregation of Duties

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

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

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

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings and Questioned Costs

No matters reported.

County Responses

Graham County
Corrective Action Plan
Year Ended June 30, 2005

Financial Statement Findings

Item: 05-1

Subject: Segregation of Duties

Contact Person: Terry Cooper, Manager/Board Clerk

Anticipated Completion Date: Ongoing

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

Graham County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

Federal Award Findings and Questioned Costs

No prior year federal audit findings were reported.