

Graham County, Arizona

Single Audit Reporting Package

June 30, 2006

Graham County
Single Audit Reporting Package
June 30, 2006

TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditor's Report	1
Required Supplementary Information - Management's Discussion and Analysis	3

BASIC FINANCIAL STATEMENTS:

Governmental-Wide Financial Statements:

Statement of Net Assets	11
Statement of Activities	12

Fund Statements:

Governmental Funds

Balance Sheet	13
Reconciliation of the Balance Sheet to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	16

Fiduciary Funds

Statement of Fiduciary Net Assets	17
Statement of Changes in Fiduciary Net Assets	18

Notes to the Financial Statements	19
--	----

OTHER REQUIRED SUPPLEMENTARY INFORMATION:

Schedule of Agent Retirement Plans' Funding Progress	39
Budgetary Comparison Schedules –	
General Fund	40
Highway Road Fund	42
Notes to Budgetary Comparison Schedules	43

SUPPLEMENTARY INFORMATION:

Schedule of Expenditures of Federal Awards	45
Notes to Schedule of Expenditures of Federal Awards	47

Graham County
Single Audit Reporting Package
June 30, 2006

TABLE OF CONTENTS

SINGLE AUDIT SECTION:

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.....	50
Schedule of Findings and Questioned Costs	
Summary of Auditor's Results.....	52
Financial Statement Findings.....	53
Federal Award Findings and Questioned Costs	53
Summary Schedule of Prior Audit Findings	54

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 (County) as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9, the Schedule of Agent Retirement Plans' Funding Progress on page 39, and the Budgetary Comparison Schedules on pages 40 through 43, 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 18, 2007, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

September 18, 2007

Graham County
Management Discussion and Analysis
June 30, 2006

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, 2006.

Financial Highlights

- The assets of Graham County exceeded its liabilities at the close of the most recent fiscal year by \$25,390,678 (net assets).
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balance of \$6,590,990, an increase of \$99,845 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,996,893 or 14% of total General Fund expenditures.
- Graham County's capital assets increased by \$2,236,348 during the current fiscal year. The key factors in this increase were increases in capital assets being depreciated. The changes in capital assets being depreciated were the result of major investments in communication equipment and road projects added in this fiscal year.

Overview of the Financial Statements

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

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

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

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

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

Graham County
Management Discussion and Analysis
June 30, 2006

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

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

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

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

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on 19 – 37 of this report.

Graham County
Management Discussion and Analysis
June 30, 2006

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Graham County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the General Fund and major special revenue funds. Required supplementary information can be found on pages 39 - 43 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 \$25.4 million at the close of the most recent fiscal year.

Condensed Statement of Net Assets
As of June 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Current and other assets	\$ 9,613,047	\$ 9,418,549
Capital assets	21,682,837	19,446,489
Total assets	31,295,884	28,865,038
Long-term liabilities outstanding	3,017,789	2,338,938
Other liabilities	2,887,417	2,732,610
Total liabilities	5,905,206	5,071,548
Net assets:		
Invest in capital assets, net of related debt	21,412,307	19,446,489
Restricted	4,312,279	4,403,280
Unrestricted	(333,908)	(56,279)
Total net assets	\$ 25,390,678	\$ 23,793,490

The largest portion of Graham County's net asset (84%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt and accumulated depreciation used to acquire those assets that are still outstanding. Graham County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Graham County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was reduced further from a deficit of \$56,279 at June 30, 2005 to a deficit of \$333,908 at the end of the fiscal year ended June 30, 2006.

Graham County
Management Discussion and Analysis
June 30, 2006

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 include these amounts in future years' budgets as they come due.

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 juvenile detention facility, and for the bio-terrorism program. Capital assets increased, primarily for increases in communications equipment. The increase in long-term liabilities results from inflation factors related to closure and post-closure costs of landfill sites and adding a lease payable.

Statement of Activities. Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during the most recent fiscal year. For the fiscal year, net assets increased \$1.6 million, with all of the increase coming from governmental activities. The increase in assets in governmental activities is related in large part to construction of assets, rather than accumulation of cash or other liquid assets. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes whose primary purpose is for the operation of the County.

**Condensed Statement of Revenues,
Expenses and Changes in Net Assets**
Years Ended June 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Revenues		
Program revenues:		
Charges for services	\$ 3,010,793	\$ 2,526,324
Operating grants and contributions	13,253,427	11,503,709
Capital Grants and contributions	-0-	-0-
General revenues:		
Property taxes	2,238,004	2,079,274
Sales taxes	4,875,607	3,957,531
Vehicle license tax	717,643	630,877
Miscellaneous	1,370,090	1,874,543
Total revenues	<u>25,465,564</u>	<u>22,572,258</u>
Expenses		
General government	6,464,416	6,502,502
Public safety	7,638,968	6,551,427
Highways and streets	3,482,507	3,099,835
Sanitation	453,871	795,773
Health	1,068,869	1,059,895
Welfare	2,054,238	1,916,967
Culture and recreation	516,087	472,309
Education	2,189,420	1,989,987
Total expenses	<u>23,868,376</u>	<u>22,388,695</u>
Increase in net assets	1,597,188	183,563
Net assets, July 1, 2005	23,793,490	23,609,927
Net assets, June 30, 2006	<u>\$ 25,390,678</u>	<u>\$ 23,793,490</u>

Graham County
Management Discussion and Analysis
June 30, 2006

Governmental activities.

Governmental activities revenues totaled \$25.5 million for fiscal year 2006. The following are highlights of County revenues:

- Operating grants increased \$1.7 million, a jump of 15% over the prior year. The largest increase was funds for rebuilding the Eighth Avenue Bridge over the Gila River, nearly \$550,000. Homeland Security Funding increased by \$350,000. \$300,000 of the increase was for housing Federal Prisoners at the Adult Detention Facility, \$250,000 of the increase was for Bioterrorism Grants and the remaining \$250,000 was from Highway Users Revenue Funding.
- Sales taxes are comprised of state shared-sales tax and a .5% County excise tax. Overall sales tax revenue increased by \$918 thousand approximately (23%) in the current fiscal year. The state-shared sales tax, the largest component of sales tax, increased at a rate two thirds that of the County excise tax reflecting improved economic conditions inside 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 2006/07.
- Property taxes increased nominally between fiscal years, which reflects the amounts levied in both fiscal years.

Expenses:

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services with the exception of Sanitation. Sanitation expenses decreased over the prior fiscal year by approximately \$300,000 because the prior fiscal year included distributions of funds to the partners in the Regional Landfill held by the County. The Regional Landfill was taken over by the City of Safford July 1, 2003. The largest increase was recorded in the public safety function due primarily to increased wages to bring deputies, detention officers and sergeants more in line with local prevailing wages and out of county prisoner detention charges.

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.

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 \$1,996,893, which was \$75,303 more than the previous fiscal year. There was an excess of expenditures over revenues in the General Fund of \$262,388 (prior to any other financing sources or uses), which was primarily due to an increase in spending for public safety and capital outlay, but proceeds of \$324,598 for capital leases offset the excess. Otherwise both revenues and expenditures for the current fiscal year closely followed estimates.

Graham County
Management Discussion and Analysis
June 30, 2006

The highway road fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the care of the County. There is a project to build a new major bridge in the County. The bridge is in the engineering and environmental review stage at the present time. Most of the funding will come from federal grants but will require a substantial local match. A conscious effort has been made to increase the highway road fund balance, which increased by \$398,314.

The other governmental fund balance decreased by \$365,338. This is a combination of many non-major funds of the County, most funded by various grants. The largest decrease in the fund balance occurred in the law enforcement grant funds decreasing over \$160,000 because of increased use of grant funds to pay for new employees and new equipment for the adult detention facility. The next largest change in the balance occurred in the parks and recreation funds decreasing nearly \$125,000 due to repairs necessitated by storm damage and increasing labor costs. The various education funds decreased slightly over \$100,000 as new equipment and a small parcel of land were purchased by the County Accommodation School. The balance, \$24,000, of the decrease was spread over several funds.

General Fund Budgetary Highlights

The General Fund expenditure budget of \$16,790,566 did not change during the year.

The \$173,964 variance for the revenues budgeted for property taxes was due to the unexpected increase in the sale of tax liens resulting in an increase in collections of delinquent taxes and receipt of interest on delinquent taxes.

The \$537,752 variance for the revenues budgeted for intergovernmental revenue was due primarily to the County ½ cent sales tax collections exceeding budget by \$266,000 and the receipt of \$234,000 from the state for Medicaid reimbursement budgeted.

The \$101,671 variance for budgeted revenue for charges for services was due to a significant increase in Treasurers and Records fees received. Land sales, refinancing, treasurer's deeds and the aforementioned tax lien sales were the reasons for the increases.

The \$196,519 variance for the expenditures budgeted for Elections was due to expenses for the year being much lower than expected.

The \$118,440 variance for the expenditures budgeted for the Attorney's Office was primarily due to one vacancy all year in an attorney position. The additional \$23,000 in savings was generated by less than budgeted expenses for psychiatric/psychological expenses, office supplies, and travel expenses.

The \$1,071,007 variance for the expenditures budgeted for contingency was due to very little contingency funds actually required to be spent.

The \$198,158 variance for the expenditures budgeted for miscellaneous was due to insurance premiums being lower than budgeted and several services not utilized as budgeted.

Graham County
Management Discussion and Analysis
June 30, 2006

Capital Asset and Debt Administration

Capital Assets. Graham County's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$21.7 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment. In addition, roads and highways constructed in the fiscal years ended June 30, 2003, 2004, 2005 and 2006, or in progress at that date, are included in capital assets. In accordance with GASB Statement No. 34, the County will retroactively value all infrastructure assets back to fiscal year 1981 by June 30, 2007. The total increase in Graham County's investment in capital assets for the current fiscal year was 12%, all of which is attributed to governmental activities.

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

Long-term debt. At the end of the current fiscal year, the County had total debt outstanding of \$270,530.

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

State statutes limit the amount of general obligation debt a county may issue to 6 percent of its total assessed valuation. The current debt limitation for the County is \$6,951,970. Since the County has no general obligation debt, this amount equals the debt capacity.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Graham County is currently 5.7 percent, which is a slight decrease from a rate of 6.2 percent a year ago. This does not compare favorably to the state's average unemployment rate of 4.2 percent. The City of Safford's unemployment rate is 3.7percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2006/07 fiscal year. The unreserved ending fund balance in the General Fund of \$1,996,893 was appropriated for spending in the 2006/07 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 2006/07 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, 2006

	Primary Government
	Governmental Activities
Assets	
Cash and cash equivalents	\$ 7,477,028
Property taxes receivable	176,465
Due from other governments	1,605,773
Inventories	353,781
Capital assets, not being depreciated	3,475,479
Capital assets, being depreciated, net	18,207,358
Total Assets	31,295,884
Liabilities	
Accounts payable	751,438
Deposits held for others	140,801
Deferred revenues	1,995,178
Noncurrent liabilities	
Due within one year	601,344
Due in more than one year	2,416,445
Total Liabilities	5,905,206
Net Assets	
Invested in capital assets	21,412,307
Restricted for:	
Highway and streets	1,721,492
Other purposes	2,438,295
Capital projects	152,492
Unrestricted net assets	(333,908)
Total Net Assets	\$ 25,390,678

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

Graham County
Statement of Activities
Year Ended June 30, 2006

Function/Programs	Expenses	Program Revenues		Net(Expenses) Revenue & Changes in Net Assets
		Charges for Services	Operating Grants & Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities				
General government	\$ 6,464,416	\$ 1,700,337	\$ 676,377	\$ (4,087,702)
Public safety	7,638,968	377,136	6,055,604	(1,206,228)
Highway and streets	3,482,507		4,099,453	616,946
Sanitation	453,871	108,528	35,053	(310,290)
Health	1,068,869	55,983	1,070,479	57,593
Welfare	2,054,238			(2,054,238)
Culture and recreation	516,087	74,776		(441,311)
Education	2,189,420	694,033	1,316,461	(178,926)
Total governmental activities	<u>\$ 23,868,376</u>	<u>\$ 3,010,793</u>	<u>\$ 13,253,427</u>	<u>(7,604,156)</u>
General revenues				
Property taxes, levied for general purposes				2,238,004
State shared revenues:				
Sales taxes				4,875,607
Vehicle license tax				717,643
State shared lottery				550,035
Gain on sale of assets				76,818
Interest on Investments				227,335
Miscellaneous				515,902
Total general revenues				<u>9,201,344</u>
Change in net assets				1,597,188
Net assets - July 1, 2005				23,793,490
Net assets - June 30, 2006				<u>\$ 25,390,678</u>

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

Graham County
Balance Sheet
Governmental Funds
June 30, 2006

	General	Highway Road	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 2,956,105	\$ 1,311,585	\$ 3,209,338	\$ 7,477,028
Property taxes receivable	171,989	-	4,476	176,465
Due from other governments	849,498	314,418	441,857	1,605,773
Inventories	-	353,781	-	353,781
Total Assets	<u>\$ 3,977,592</u>	<u>\$ 1,979,784</u>	<u>\$ 3,655,671</u>	<u>\$ 9,613,047</u>
Liabilities				
Accounts payable	188,615	193,556	369,267	751,438
Deposits held for others	140,801	-	-	140,801
Deferred revenues	1,651,283	-	478,535	2,129,818
Total Liabilities	<u>1,980,699</u>	<u>193,556</u>	<u>847,802</u>	<u>3,022,057</u>
Fund Balances				
Reserved for inventories	-	353,781	-	353,781
Unreserved reported in:				
General fund	1,996,893	-	-	1,996,893
Special revenue funds	-	1,432,447	2,655,377	4,087,824
Capital projects funds	-	-	152,492	152,492
Total Fund Balances	<u>1,996,893</u>	<u>1,786,228</u>	<u>2,807,869</u>	<u>6,590,990</u>
Total liabilities and fund balances	<u>\$ 3,977,592</u>	<u>\$ 1,979,784</u>	<u>\$ 3,655,671</u>	<u>\$ 9,613,047</u>

The notes to the basic 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, 2006

Fund balances - total governmental funds	\$ 6,590,990
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.	21,682,837
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	134,640
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,017,789)</u>
Net assets of governmental activities	<u><u>\$ 25,390,678</u></u>

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

Graham County
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Highway Road	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 2,233,113	\$ -	\$ 65,045	\$ 2,298,158
Licenses and permits	26,316	-	-	26,316
Intergovernmental	10,917,787	3,519,133	5,525,923	19,962,843
Charges for services	731,671	65,553	1,167,862	1,965,086
Fines and forfeits	326,452	-	10,402	336,854
Investment income	98,197	40,256	88,882	227,335
Rents	37,630	-	78,776	116,406
Miscellaneous	151,867	245,303	291,342	688,512
Total revenues	<u>14,523,033</u>	<u>3,870,245</u>	<u>7,228,232</u>	<u>25,621,510</u>
Expenditures:				
Current				
General government	5,605,042	-	593,897	6,198,939
Public safety	5,554,219	-	1,632,355	7,186,574
Highways and streets	-	2,870,573	63,423	2,933,996
Sanitation	93,998	-	46,313	140,311
Health	209,031	-	796,196	1,005,227
Welfare	2,054,238	-	-	2,054,238
Culture and recreation	169,118	-	303,639	472,757
Education	174,855	-	1,926,174	2,101,029
Capital Outlay	924,920	609,032	2,217,430	3,751,382
Total expenditures	<u>14,785,421</u>	<u>3,479,605</u>	<u>7,579,427</u>	<u>25,844,453</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(262,388)</u>	<u>390,640</u>	<u>(351,195)</u>	<u>(222,943)</u>
Other financing sources (uses):				
Transfers in	15,193	1,800	450	17,443
Transfers out	(2,100)	(750)	(14,593)	(17,443)
Capital leases	324,598	6,624	-	331,222
Total other financing sources (uses)	<u>337,691</u>	<u>7,674</u>	<u>(14,143)</u>	<u>331,222</u>
Net change in fund balances	75,303	398,314	(365,338)	108,279
Fund balances, July 1, 2005	1,921,590	1,396,348	3,173,207	6,491,145
Decrease in reserve for inventories	-	(8,434)	-	(8,434)
Fund balances, June 30, 2006	<u>\$ 1,996,893</u>	<u>\$ 1,786,228</u>	<u>\$ 2,807,869</u>	<u>\$ 6,590,990</u>

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

Graham County
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 108,279

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

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

Expenditures for capital assets	3,898,580	
Less current year depreciation	<u>(1,419,242)</u>	2,479,338

The Statement of Activities reports only the gain/loss arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets but the proceeds from the sale increased financial resources. (242,990)

Some revenues reported in governmental funds that did not provide current financial resources in prior years have been recognized previously in the statement of activities and therefore are not reported as revenues in the statement of activities. (60,154)

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

Principal payments on long-term debt	60,692	
Lease purchase proceeds	<u>(331,222)</u>	(270,530)

The purchase of inventory is recorded as a net change in fund balance in the governmental funds, but is reflected as an expense when consumed in the governmental activities. (8,434)

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

Increase in compensated absences	(97,374)	
Increase in landfill closure and postclosure care costs	<u>(310,947)</u>	(408,321)

Changes in net assets of governmental activities \$ 1,597,188

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

Graham County
 Statement of Fiduciary Net Assets
 Fiduciary Funds
 June 30, 2006

	Investment Trust Fund	Agency Fund
Assets		
Cash and cash equivalents	\$ 34,106,735	\$ 421,219
Accrued interest receivable	58,636	
Total assets	34,165,371	\$ 421,219
Liabilities		
Deposits held for others	-	\$ 421,219
Total liabilities	-	\$ 421,219
Net Assets		
Held in trust for investment participants	\$ 34,165,371	

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

Graham County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2006

	<u>Investment Trust Funds</u>
Additions: Contributions from participants Investment earnings	\$ 48,065,002 1,125,610 <u> </u>
Total additions	<u>49,190,612</u>
Deductions: Distributions to participants	<u>51,887,823</u>
Total deductions	<u>51,887,823</u>
Change in net assets	(2,697,211)
Net assets, July 1, 2005	<u>36,862,582</u>
Net assets, June 30, 2006	<u><u>\$ 34,165,371</u></u>

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

Graham County
Notes to Financial Statements
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

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

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 in part of the County's operations. Therefore, data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the 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.

Graham County
Notes to Financial Statements
June 30, 2006

Program revenues include:

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

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

Graham County
Notes to Financial Statements
June 30, 2006

C. Basis of Accounting

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

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

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

D. Cash and Investments

All investments are stated at fair value.

E. Inventories

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

Graham County
Notes to Financial Statements
June 30, 2006

F. Property Tax Calendar

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

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

G. Capital Assets

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

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

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

H. Investment Income

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

Graham County
Notes to Financial Statements
June 30, 2006

I. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at calendar year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate up to 1500 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but for employees with less than 500 hours of accumulated sick leave, these hours are forfeited upon termination of employment. Pursuant to ARS 38-615, upon separation for the purpose of retirement, employees with at least 500 hours of accrued sick leave will receive a set percentage of the employee's final hourly rate for each hour of accumulated sick leave, in accordance with the schedule identified below. However, the maximum that is payable to an employee or officer under this provision shall not exceed \$30,000.

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

Note 2 - Individual Fund Deficit

The Racing Commission – Parks Fund which is an Other Governmental Fund had a fund deficit of \$115,578 at June 30, 2006. 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.

Graham County
Notes to Financial Statements
June 30, 2006

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow foreign investments.

Deposits – At June 30, 2006, the carrying amount of the County's deposits was \$566,933, and the bank balance was \$825,448. The County does not have a policy related to custodial credit risk.

Graham County
Notes to Financial Statements
June 30, 2006

Investments – The County’s investments at June 30, 2006, were as follows:

Investment Type	Amount
State Treasurer’s investment pool 7	\$ 13,145,585
State Treasurer’s investment pool 5	1,907,504
U.S. agency securities	19,935,488
U.S. Treasury securities	6,227,930
Total	<u>\$ 41,216,507</u>

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

Credit Risk – The County does not have a formal investment policy with respect to credit risk. At June 30, 2006, credit risk for the County’s investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer’s investment pool 7	Unrated	Not applicable	\$13,145,585
State Treasurer’s investment pool 5	Unrated	Not applicable	1,907,504
U.S. agency securities	AAA	Standard + Poor’s	19,935,488
Total			<u>34,988,577</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, 2006, 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 9.24 percent, 30.19 percent and 6.95 percent, respectively, of the County’s total investments.

Graham County
Notes to Financial Statements
June 30, 2006

Interest rate risk – The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2006, the County had the following investments in debt securities.

Investment Type	Amount	Weighted Average Maturity (In Years)
State Treasurer's investment pool 7	\$ 13,145,585	0.10
State Treasurer's investment pool 5	1,907,504	0.14
U.S. agency securities	19,935,488	0.67
U.S. Treasury securities	6,227,930	1.72
Total	<u>\$ 41,216,507</u>	

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

Cash, deposits, and investments:

Cash on hand	\$ 221,542
Amount of deposits	566,933
Amount of investments	<u>41,216,507</u>
Total	<u>\$ 42,004,982</u>

Statement of Net Assets:

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and cash equivalents	<u>\$7,477,028</u>	<u>\$34,106,735</u>	<u>\$421,219</u>	<u>\$ 42,004,982</u>

Graham County
Notes to Financial Statements
June 30, 2006

Note 4 - Due From Other Governments

Amounts due from other governments at June 30, 2006, include \$191,700 in state-shared revenue from sales tax, \$155,896 in county excise tax distributions due from the State Treasurer, \$77,518 in state motor vehicle license taxes from the Arizona Department of Transportation, \$335,910 in prisoner detention fees from the U.S. Department of Justice, and \$88,474 in other fees from federal, state, and local governments recorded in the General Fund; \$234,090 in state-shared revenue from highway user taxes Highway Road Funds and \$80,328 in state motor vehicle license taxes from the Arizona Department of Transportation recorded in the Highway Funds; \$441,857 in other fees and grants from federal, state and local governments recorded in the Other Governmental Funds.

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

	Unavailable	Unearned
General Fund		
Delinquent property taxes receivable	\$ 131,618	\$ -0-
Unearned grant revenue	-0-	1,519,665
Other Governmental Funds		
Unearned grant revenues	-0-	475,513
Delinquent property taxes receivable	3,022	-0-
	\$ 134,640	\$ 1,995,178

Graham County
Notes to Financial Statements
June 30, 2006

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,526,279	\$ 194,367	\$ -	\$ 2,720,646
Construction in progress (estimated cost to complete \$122,223)	134,131	669,672	48,970	754,833
Total capital assets not being depreciated	2,660,410	864,039	48,970	3,475,479
Capital assets being depreciated:				
Buildings	13,574,514	216,198	-	13,790,712
Machinery and equipment	7,936,485	2,412,047	777,715	9,570,817
Infrastructure	4,137,275	455,266	-	4,592,541
Total	25,648,274	3,083,511	777,715	27,954,070
Less accumulated depreciation for:				
Buildings	3,568,819	330,595	-	3,899,414
Machinery and equipment	5,143,595	978,575	534,725	5,587,445
Infrastructure	149,781	110,072	-	259,853
Total	8,862,195	1,419,242	534,725	9,746,712
Total capital assets being depreciated, net	16,786,079	1,664,269	242,990	18,207,358
Governmental activities capital assets, net	\$ 19,446,489	\$ 2,528,308	\$ 291,960	\$ 21,682,837

Infrastructure assets reported include assets that construction was started and/or completed during the year ended June 30, 2006. Infrastructure assets for which construction was completed prior to June 30, 2002 are not included and will be retroactively added to the County's capital assets listing during the fiscal year ended June 30, 2007.

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 276,357
Public safety	425,853
Highway and streets	529,212
Sanitation	2,613
Health	57,947
Culture and recreation	37,764
Education	89,496
Total governmental activities depreciation expense	<u>\$1,419,242</u>

Graham County
Notes to Financial Statements
June 30, 2006

Note 6 - Capital Leases

The County has entered into a lease agreement as lessee for financing the acquisition of a phone system. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of its future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Assets:	
Equipment	\$ 331,222
Less: accumulated depreciation	<u>(49,683)</u>
Total	<u>\$ 281,539</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2006, were as follows:

	<u>Governmental Activities</u>
Year ending June 30,	
2007	\$ 90,829
2008	90,829
2009	90,829
2010	<u>15,138</u>
Total minimum lease payments	287,625
Less: amount representing interest	<u>(17,095)</u>
Present value of minimum lease payments	<u>\$ 270,530</u>

Note 7 - Long-term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within 1 year
Governmental activities:					
Compensated absences payable	\$ 549,989	\$ 575,486	\$ (478,112)	\$ 647,363	\$ 517,890
Leases payable	-	331,222	(60,692)	270,530	81,933
Landfill closure and postclosure care costs payable	1,788,949	312,427	(1,480)	2,099,896	1,521
	<u>2,338,938</u>	<u>1,219,135</u>	<u>(540,284)</u>	<u>3,017,789</u>	<u>601,344</u>
Governmental activities long-term liabilities	<u>\$ 2,338,938</u>	<u>\$ 1,219,135</u>	<u>\$ (540,284)</u>	<u>\$ 3,017,789</u>	<u>\$ 601,344</u>

Graham County
Notes to Financial Statements
June 30, 2006

Note 8 - Compensated Absences

Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2006, the County paid for compensated absences as follows: 56 percent from the General Fund, 10 percent from major funds, and 34 percent from other funds.

Note 9 - Landfill Closure and Postclosure Care Costs

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

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$2,099,896 reported as landfill closure and postclosure care liability at June 30, 2006, represents the cumulative amount reported to date for postclosure care of the Central Landfill (\$79,914), as well as closure (\$1,555,427) and postclosure costs (\$464,555) for the Regional Landfill, which represent the estimated current costs to maintain and monitor the landfill. The amount is based on the use of 100 and 71 percent, respectively, of the estimated capacity of the two landfills. The estimated remaining landfill life for the Regional Landfill is 13 years and the remaining liability to be recognized for the landfill closure and postclosure care costs, based on current year costs is \$825,063 and will be recognized as the remaining capacity is filled. These funds are expected to be adequate for the 30 years of monitoring currently required by the Arizona Statutes. The County closed the Central landfill during the 2003 fiscal year and although it surrendered the Regional landfill operations to the city of Safford on July 1, 2003, the County is still working with the Arizona Department of Environmental Quality to transfer the financial liability. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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

Graham County
Notes to Financial Statements
June 30, 2006

Note 10 - Interfund Balances and Activity

Interfund transfers for the year ended June 30, 2006, were as follows:

	Transfer To			
	General Fund	Highway Road Fund	Nonmajor Governmental Funds	Total
Transfer from				
General Fund	\$ -	\$ 1,800	\$ 300	\$ 2,100
Highway Funds	600	-	150	750
Other Governmental Funds	14,593	-	-	14,593
Total governmental	\$ 15,193	\$ 1,800	\$ 450	\$ 17,443

Transfers are used to move revenues from the fund that statute or budget requires funds to be collected to the fund that statute or budget requires funds to be expended.

Note 11 - Risk Management

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

The Arizona Counties Insurance 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 \$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 three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

Graham County
Notes to Financial Statements
June 30, 2006

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

The County provides health benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust, currently composed of six member counties. The Trust provides benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and may require its employees to contribute a portion of that premium. The County is not liable for claims in excess of coverage limits due to reinsurance and stop loss agreements, and cannot be assessed retroactive premium adjustments. If it withdraws from the Trust, the County would be responsible for its proportional share of claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any Trust deficit.

Note 12 - Condensed Financial Statements of the County Treasurer's Investment Pool

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

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

Graham County
Notes to Financial Statements
June 30, 2006

The fair value of investments held by the State Treasurer in the Local Government Investment Pool at June 30, 2006 was reduced in the fiscal year 2003 due to a drop in the value of securities held in the NPF XII trust serviced by National Century Financial Enterprises. The total reduction attributable to the County Treasurer's investment pool was \$1,069,096 of which \$950,187, or 89%, represented a reduction in the fair value of investments held in trust for external participants. During fiscal year 2006, \$12,564 was recovered.

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 the same as the County's deposit and investment risks. See Note 3 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow.

Investment Type	Principal	Interest Rates	Maturities	Fair Value
State Treasurer's Investment Pool 7	\$ 13,145,585	4.54%	None stated	\$ 13,145,585
State Treasurer's Investment Pool 5	1,907,504	4.83%	None stated	1,907,504
U.S. agency securities	19,935,488	1.98 – 5.14%	7/06 – 6/08	19,935,488
U.S. Treasury securities	6,227,930	1.98 – 4.94%	8/06 – 11/09	6,227,930
	<u>\$ 41,216,507</u>			<u>\$ 41,216,507</u>

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

Statement of Net Assets

Assets	\$ 41,275,143
Liabilities	-0-
Net assets	<u>\$ 41,275,143</u>

Net assets held in trust for:	
Internal participants	\$ 7,109,772
External participants	34,165,371
Total net assets held in trust	<u>\$ 41,275,143</u>

Statement of Changes in Net Assets

Total additions	\$ 77,057,067
Total deductions	79,941,223
Net decrease	<u>(2,884,156)</u>

Net assets held in trust:	
July 1, 2005	44,159,299
June 30, 2006	<u>\$ 41,275,143</u>

Graham County
Notes to Financial Statements
June 30, 2006

Note 13 - Retirement Plans

Arizona State Retirement System

Plan Description - The County contributes to a cost-sharing multiple-employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The system is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy - The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rate. For the year ended June 30, 2006, active plan members and the County were each required by statute to contribute at the actuarially determined rate of 7.40 percent (6.90 percent retirement and .50 percent long-term disability) of the members' annual covered payroll. The County's contributions to the System for the years ended June 30, 2006, 2005, and 2004 were \$470,763, \$359,230, and \$342,406, respectively, which were equal to the required contributions for the year.

Public Safety Personnel Retirement System (PSPRS)

Plan Description - The County contributes to the Public Safety Personnel Retirement System (PSPRS), an agent multiple-employer defined benefit pension plan. The public employee retirement system acts as a common investment and administrative agent to provide retirement and death benefits for public safety personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Public Safety Personnel Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for PSPRS. That report may be obtained by writing to Public Safety Personnel, 3010 E. Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS for the Graham County Sheriffs and Graham County Attorney Investigators. The County is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 11.97 percent and 8.00 percent of annual covered payroll for the Graham County Sheriffs and Graham County Attorney Investigators, respectively.

Graham County
Notes to Financial Statements
June 30, 2006

Annual Pension Cost - During the year ended June 30, 2006, the County's annual pension cost of \$84,267 for Graham County Investigators and \$3,977 for Graham County Attorney Investigator was equal to the County's required and actual contributions.

The required contribution was determined as part of the June 30, 2004 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.75% per year compounded annually, (b) projected salary increases of 6.25% (including inflation at 5.25%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the County's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The County's 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, 2004, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Arizona Corrections Officer Retirement Plan (ACORP)

Plan Description - The County contributes to the Arizona Corrections Officer Retirement Plan (ACORP), an agent multiple-employer defined benefit pension plan. The public employee retirement system acts as a common investment and administrative agent to provide retirement and death and disability benefits for corrections officer personnel who are regularly assigned hazardous duty in the employ of the State of Arizona or a political subdivision thereof. All benefit provisions and other requirements are established by State statute. The Arizona Corrections Officer Retirement Plan issues a publicly available financial report that includes financial statements and required supplementary information for ACORP. That report may be obtained by writing to Public Safety Personnel, 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 8.5 percent of their annual salary to the ACORP for the Graham County Dispatchers. The County is required to contribute the remaining amounts necessary to fund the ACORP, as determined by the actuarial basis specified by statute. The current rate is 8.5 percent of annual covered payroll.

Annual Pension Cost - During the year ended June 30, 2006, the County's annual pension cost of \$4,582 was equal to the County's required and actual contributions.

Graham County
Notes to Financial Statements
June 30, 2006

The required contribution was determined as part of the June 30, 2004 actuarial valuation using an entry age actuarial funding method. Significant actuarial assumptions used in determining the entry age actuarial accrued liability include (a) a rate of return on the investment of present and future assets of 8.75% per year compounded annually, (b) projected salary increases of 6.25% (including inflation at 5.25%) per year compounded annually, and (c) additional projected salary increases of 0.0% to 3.0% per year attributable to seniority/merit.

The actuarial value of the County's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The County's 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, 2004, was 20 years.

The preceding methods comply with the financial reporting standards established by the Governmental Accounting Standards Board.

Elected Officials Retirement Plan (EORP)

Plan Description – The County's elected officials and judges participate in the Elected Officials Retirement Plan (EORP), a cost sharing multiple-employer defined benefit public employee retirement pension plan. The fund manager of the PSPRS is the administrator for the EORP, which was established by Title 38, Chapter 5, Article 3 of the Arizona Revised Statutes to provide pension benefits for elected officials and judges of certain state, county and local governments. The EORP provides retirement and death and disability benefits for elected officials. The Elected Officials Retirement Plan issues a publicly available financial report that includes financial statements and required supplementary information for EORP. That report may be obtained by writing to Elected Officials Retirement Plan, 3010 East Camelback Road, Suite 200, Phoenix, AZ 85016 or by calling (602) 255-5575.

Funding Policy - Covered employees are required to contribute 7.0 percent of their annual salary to the EORP. The County is required to contribute the remaining amounts necessary to fund the EORP, as determined by the actuarial basis specified by statute. The current rate is 13 percent of annual covered payroll.

Annual Pension Cost - During the year ended June 30, 2006, the County's annual pension cost of \$114,315 was equal to the County's required and actual contributions.

Graham County
Notes to Financial Statements
June 30, 2006

Three-Year Trend Information

**Arizona Public Safety Personnel Retirement System –
Graham County Sheriffs**

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 74,080	100%	\$ -0-
2005	74,752	100%	-0-
2006	84,267	100%	-0-

**Arizona Public Safety Personnel Retirement System –
Graham County Attorney Investigators**

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ -0-	100%	\$ -0-
2005	2,948	100%	-0-
2006	3,977	100%	-0-

**Arizona Corrections Officer Retirement Plan –
Graham County Dispatchers**

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ -0-	100%	\$ -0-
2005	-0-	100%	-0-
2006	4,582	100%	-0-

Arizona Elected Officials Retirement Plan

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ -0-	100%	\$ -0-
2005	-0-	100%	-0-
2006	114,315	100%	-0-

Required Supplementary Information

Graham County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2006

Public Safety Personnel Retirement System – Graham County Sheriffs

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage Of Covered Payroll ((a-b)/c)
6/30/04	\$ 1,555,459	\$ 1,767,387	\$ (211,928)	88.0%	\$ 644,118	32.9%
6/30/05	1,556,555	1,969,286	(412,731)	79.0%	412,731	25.3%
6/30/06	1,403,732	2,009,275	(605,543)	69.9%	641,033	94.5%

Public Safety Personnel Retirement System – Graham County Attorney Investigators

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage Of Covered Payroll ((a-b)/c)
6/30/04	\$ -	\$ -	\$ -	- %	\$ -	- %
6/30/05	178,289	119,911	58,378	148.7%	43,640	N/A %
6/30/06	195,840	148,463	47,377	131.9%	47,693	N/A %

Arizona Correction Officer Retirement Plan – Graham County Dispatchers

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage Of Covered Payroll ((a-b)/c)
6/30/04	\$ -	\$ -	\$ -	- %	\$ -	- %
6/30/05	-	66,061	(66,061)	- %	225,628	29.3%
6/30/06	93,997	87,695	6,302	107.2%	35,812	N/A %

* The County did not adopt the Public Safety Retirement System for Graham County Attorney Investigator or the Arizona Corrections Officer Retirement Plan for the Graham County Dispatchers until the fiscal year ended June 30, 2005.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Property taxes	\$ 2,059,149	\$ 2,059,149	\$ 2,233,113	\$ 173,964
Licences and permits	12,000	12,000	26,316	14,316
intergovernmental	10,380,035	10,380,035	10,917,787	537,752
Charges for services	630,000	630,000	731,671	101,671
Fines and forfeits	390,000	390,000	326,452	(63,548)
Investment income	50,000	50,000	98,197	48,197
Rents	24,000	24,000	37,630	13,630
Miscellaneous	142,000	142,000	151,867	9,867
Total revenues	13,687,184	13,687,184	14,523,033	835,849
Expenditures:				
Current:				
General Government				
Board of Supervisors	589,544	589,544	573,834	15,710
Treasurer	289,773	289,773	277,441	12,332
Assessor	420,581	420,581	407,607	12,974
Recorder	237,561	237,561	217,630	19,931
Elections	242,409	242,409	45,890	196,519
Attorney	828,555	828,555	710,115	118,440
Clerk of the Court	441,713	441,713	424,990	16,723
Superior Court	563,670	563,670	494,477	69,193
Justice of the Peace No.1	296,854	296,854	272,945	23,909
Justice of the Peace No.2	218,485	218,485	207,863	10,622
Victim Witness	72,880	72,880	53,336	19,544
Public Fiduciary	86,149	86,149	87,500	(1,351)
Planning and Zoning	150,726	150,726	141,225	9,501
Building Maintenance	171,606	171,606	169,726	1,880
Electrical Maintenance	66,632	66,632	51,463	15,169
Overtime	13,800	13,800	5,288	8,512
General Services	253,000	253,000	286,380	(33,380)
Contingency	1,080,000	1,080,000	8,993	1,071,007
Miscellaneous	724,039	724,039	525,881	198,158
Medical Examiner	31,500	31,500	21,622	9,878
Information Technology	698,051	698,051	620,836	77,215
Total general government	7,477,528	7,477,528	5,605,042	1,872,486
Public Safety				
Probation	79,838	79,838	69,763	10,075
Sheriff	3,572,002	3,572,002	3,644,831	(72,829)
Search and Rescue	21,900	21,900	11,066	10,834
Juvenile Detention Center	1,750,564	1,750,564	1,666,331	84,233
Animal Shelter	185,653	185,653	162,228	23,425
Total public safety	5,609,957	5,609,957	5,554,219	55,738

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Sanitation				
Sanitary Landfill	117,302	117,302	93,998	23,304
Total sanitation	117,302	117,302	93,998	23,304
Health				
Health Services	215,502	215,502	209,031	6,471
Total health	215,502	215,502	209,031	6,471
Welfare				
Attorney for the Indigent	433,000	433,000	449,300	(16,300)
Indigent Medical	1,633,423	1,633,423	1,604,938	28,485
Total Welfare	2,066,423	2,066,423	2,054,238	12,185
Cultural and recreation				
Parks and Recreation	168,621	168,621	169,118	(497)
Total culture and recreation	168,621	168,621	169,118	(497)
Education				
School Superintendent	175,117	175,117	164,984	10,133
Employment and Training	11,679	11,679	9,871	1,808
Total education	186,796	186,796	174,855	11,941
Capital Outlay	948,437	948,437	924,920	23,517
Total expenditures	16,790,566	16,790,566	14,785,421	2,005,145
Excess of (deficiency) of revenues over (under) expenditures	(3,103,382)	(3,103,382)	(262,388)	2,840,994
Other financing sources(uses):				
Transfer in	-	-	15,193	15,193
Transfer out	-	-	(2,100)	(2,100)
Capital lease	-	-	324,598	324,598
Total other financing sources (uses)	-	-	337,691	337,691
Net change in fund balances	3,103,382	3,103,382	75,303	3,178,685
Fund balance, July 1, 2005	3,103,382	3,103,382	1,921,590	(1,181,792)
Fund balance, June 30, 2006	\$ -	\$ -	\$ 1,996,893	\$ 1,996,893

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
Highway Road Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 3,487,024	\$ 3,487,024	\$ 3,519,133	\$ 32,109
Charges for services	97,834	97,834	65,553	(32,281)
Investment income	15,000	15,000	40,256	25,256
Miscellaneous	50,000	50,000	245,303	195,303
Total revenues	3,649,858	3,649,858	3,870,245	220,387
Expenditures				
Current:				
Highway and Streets				
General Road	3,560,205	3,560,205	2,652,790	907,415
Engineering	218,965	218,965	202,889	16,076
Safety Department	-	-	14,894	(14,894)
Total highway and streets	3,779,170	3,779,170	2,870,573	908,597
Capital Outlay	561,017	561,017	609,032	(48,015)
Total expenditures	4,340,187	4,340,187	3,479,605	860,582
Excess of (deficiency) of revenues over (under) expenditures	(690,329)	(690,329)	390,640	1,080,969
Other financing sources and uses:				
Transfer in	-	-	1,800	1,800
Transfer out	-	-	(750)	(750)
Capital lease	-	-	6,624	6,624
Total other financing sources and uses	-	-	7,674	7,674
Net change in fund balances	(690,329)	(690,329)	398,314	1,088,643
Fund balance, July 1, 2005	690,329	690,329	1,396,348	706,019
Decrease in reserve for inventories	-	-	(8,434)	(8,434)
Fund balance, June 30, 2006	\$ -	\$ -	\$ 1,786,228	\$ 1,786,228

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2006

Note 1 - Budgeting and Budgetary Control

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

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

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2006, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) for the General Fund in the departments. These over expenditures were funded by greater than anticipated revenues.

<u>Department</u>	<u>Excess</u>
Public Fiduciary	\$ 1,351
General Services	33,380
Sheriff	72,829
Attorney for the Indigent	16,300
Parks and Recreation	497

Supplementary Information

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<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	\$ 185,945
Arizona State Treasurer Schools and Roads – Grants to States	10.665	None	<u>79,030</u>
Total U.S. Department of Agriculture			<u>264,975</u>
U.S. Department of the Interior			
Direct grants:			
Payments in Lieu of Taxes	15.226		1,492,061
BLM – Undocumented Immigrants Environmental Mitigation & Coordination	15.Unknown		6,019
BLM – Patrol Grant	15.Unknown		<u>4,818</u>
Total U.S. Department of Interior			<u>1,502,898</u>
U.S. Department of Justice			
Pass-through programs from:			
Arizona Criminal Justice Commission Byrne Formula Grant Program	16.579	AC-130-03	25,227
Crime Victim Assistance/Discretionary Grants	16.582	VA03021	<u>29,075</u>
Total U.S. Department of Justice			<u>54,302</u>
U.S. Department of Labor			
Pass-through programs from:			
Arizona Department of Economic Security WIA Cluster:			
WIA Administrative Costs	17.259	E5704005	25,083
WIA Youth Activities	17.259	E5702005	92,551
WIA Adult Program	17.258	E5702005	<u>111,693</u>
Total U.S. Department of Labor			<u>229,327</u>
U.S. Department of Education			
Passed-through programs from:			
Arizona Department of Education			
Title I – LEA School Improvement	84.010	SO10A020003	24,211
Title I Program for Neglected and Delinquent Children	84.013	SO13A020003	24,260
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	HO27A000007	414,144
Special Education - Grants to Preschool Grants	84.173	H143A010003	<u>23,999</u>
Total Special Education Cluster			<u>438,143</u>
Safe and Drug-Free Schools and Communities State Grants	84.186	S186A020003	228
Eisenhower Professional Development State Grants	84.281	S281A000003	2,656
Innovative Education Program Strategies	84.298	S298A020003	1,079
Education Technology State Grants	84.318	S318X030003	194,651
Reading First Tech Assistance	84.357	05FSARS-570673-03A	13,131
Title IV REAP	84.358		11,421
Improving Teacher Quality State Grants	84.367	S367A020003	45,521
Secure Care	84.027	H027A0500007	5,874
Jail Resource Officer	84.Unknown	Unknown	<u>43,493</u>
Total U.S. Department of Education			<u>804,668</u>

(Continued)

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	
U.S. Department of Health and Human Services			
Pass-through programs from:			
Arizona Department of Health Services			
Immunization Grants	93.268	15-2041	\$ 57,196
Breast and Cervical Cancer Early Detection	93.919	253014	64,864
Healthy Start Initiative	93.926	HG361270	13,252
HIV Prevention Activities: Health Department Based	93.940	15-2013	11,639
Maternal and Child Health Services Block Grant to the States	93.994	76-1105	41,868
Bioterrorism Grant Training and Curriculum Development Program	93.996	252044	<u>329,091</u>
Total U.S. Department of Health and Human Services			<u>517,910</u>
U.S. Department of Homeland Security			
Homeland Security Grant Cluster			
Pass-through programs from:			
Arizona Department of Emergency and Military Affairs			
Emergency Management – State and Local Assistance	97.042	Unknown	19,553
Arizona Division of Emergency Management			
Homeland Security Grant Program	97.067	2006-GE-T4-0051	<u>978,235</u>
Total U.S. Department of Homeland Security			<u>997,788</u>
Total Expenditures of Federal Awards			<u>\$ 4,371,868</u>

Graham County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

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 2006 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to the program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" was used.

Note 3 - Subrecipients

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount</u>
Education Technology State Grants	84.318	\$ 194,651



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

The Auditor General of the State of Arizona

The Board of Supervisors of
Graham County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County, Arizona (County) as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 18, 2007. 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the 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 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. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's 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. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

September 18, 2007

**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

We have audited the compliance of Graham County, Arizona (County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompany schedule of findings and questioned costs as 06-1.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the 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 the internal control over compliance and its operation that we consider to be material weaknesses.

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

Cronstrom, Osuch + Company, P.C.

Cronstrom, Osuch & Company, P.C.

September 18, 2007

Graham County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2006

Section II - Financial Statement Findings

No matters reported.

Section III – Federal Award Findings and Questioned Costs

FINANCIAL STATEMENTS

U.S. Department of Homeland Security
 Homeland Security Grant Cluster
 CFDA No's. : 97.042 and 97.067
 Award year: 2006
 Award Numbers: Unknown and 2006-GE-T4-0051
 Passed through the Arizona Department of Emergency and Military Affairs and
 Arizona Division of Emergency Management

U.S. Department of Interior
 Payments in Lieu of Taxes
 CFDA No: 15.226
 Award Year: 2006
 Award Number: None
 Direct Grant

06-1	<i>Condition/ Context</i>	The annual financial statement audit and compliance audit of the County's federal grants was not completed within nine months of the end of the fiscal year.
	<i>Criteria</i>	OMB Circular A-133§ ____.320(a).
	<i>Effect</i>	Noncompliance with OMB Circular A-133§ ____.320(a).
	<i>Questioned Cost</i>	None.
	<i>Cause</i>	The June 30, 2005 audit was completed subsequent to March 31, 2007; therefore, the current year audit could not be issued until subsequent to March 31, 2007.
	<i>Recommendation</i>	In order to comply with OMB Circular A-133, the County should ensure the audit is scheduled to allow sufficient time to complete and issue the audit within nine months of the fiscal year end.
	<i>Corrective Action Plan</i>	The County concurs with this recommendation and has scheduled its fiscal year ended June 30, 2007 audit to ensure sufficient time is available to issue the audit by March 31, 2008.
	<i>Contact Person</i>	Clel Flake, Chief Financial Officer

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Section IV – Summary of Prior Year Audit Findings

No matters reported