



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Graham County

Year Ended June 30, 2012

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**Debra K. Davenport**  
Auditor General

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Graham County  
Single Audit Reporting Package  
Year Ended June 30, 2012

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Graham County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through vii, the Budgetary Comparison Schedules on pages 30 through 34, and the Schedule of Agent Retirement Plans' Funding Progress on pages 35 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2013, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, and others within the County and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Jay Zsorey, CPA  
Financial Audit Director

July 30, 2013

# Graham County Management's Discussion and Analysis June 30, 2012

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, 2012. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

## Financial Highlights

- The assets of Graham County exceeded its liabilities at the close of the current fiscal year by \$34,259,112 (net assets). Of this amount, \$460,000 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of \$6,912,564, an increase of \$339,013 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,673,573 or 9.7 percent of total General Fund expenditures.
- Graham County's capital assets decreased by \$783,466 during the current fiscal year. The key factor in this decrease is spending for capital assets was again reduced to only what was absolutely necessary and purchases provided by grant funding. The largest expenditure was for two road graders purchased with a capital lease. Two other major additions were the Assessors Software package and an upgrade for the Justice of the Peace #1 Courtroom and Office space in the Courthouse. A few vehicles, law enforcement safety equipment and office equipment round out the majority of capital asset additions.

## Overview of the Financial Statements

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

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

The *Statement of Net 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 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 result in cash flows in only future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Graham County  
Management's Discussion and Analysis  
June 30, 2012

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

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

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

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

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

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

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

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

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

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

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

Graham County  
 Management's Discussion and Analysis  
 June 30, 2012

The notes to the financial statements can be found on pages 9 through 27 of this report.

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

Required supplementary information can be found on pages 30 through 37 of this report.

**Government-wide Financial Analysis**

**Statement of net assets**—As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Graham County's assets exceeded liabilities by \$34,259,112.

Condensed Statement of Net Assets  
 As of June 30, 2012 and 2011

	Governmental Activities	
	2012	2011
Current and other assets	\$ 8,566,097	\$ 8,348,937
Capital assets	<u>28,408,251</u>	<u>29,191,717</u>
Total assets	<u>36,974,348</u>	<u>37,540,654</u>
Long-term liabilities outstanding	1,832,846	1,455,675
Other liabilities	<u>882,390</u>	<u>790,881</u>
Total liabilities	<u>2,715,236</u>	<u>2,246,556</u>
Net assets:		
Invested in capital assets, net of related debt	27,704,400	28,814,612
Restricted	6,094,712	5,144,728
Unrestricted	<u>460,000</u>	<u>1,334,758</u>
Total net assets	<u>\$34,259,112</u>	<u>\$35,294,098</u>

The largest portion of Graham County's net assets (81 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure). This amount is presented less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Graham County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Graham County  
Management's Discussion and Analysis  
June 30, 2012

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from \$1,334,758 at June 30, 2011 to \$460,000 at June 30, 2012. The decrease is reflective of the current economic climate coupled with the increases in costs associated with the requirements of mandated services to Graham County's citizens.

Current assets, related to governmental activities, increased as compared to the previous fiscal year, primarily because cash increased. Property taxes receivable decreased because a major taxpayer, settled a claim against Graham County to reduce its assessed value, and began making payments for current and back taxes including interest owed. Decreases in due from other governments, property tax receivable and inventories did not offset the increases in cash. Capital assets decreased this fiscal year as depreciation exceeded the cost of new assets. The liability for compensated absences increased modestly reflecting employees' increased carryover of vacation and sick leave hours. One new capital lease was added this year, and the liability for postclosure costs for landfills remained almost unchanged.

**Statement of activities**—Already noted was the statement of activities' purpose in presenting information in how the government's net assets changed during the most recent fiscal year. For the fiscal year, net assets decreased \$1,034,986 because the County dealt with increased cost shifts and decreased revenue streams from the State. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes whose primary purpose is for the County's operation.

Condensed Statement of Revenues,  
Expenses, and Changes in Net Assets  
Years Ended June 30, 2012 and 2011

	Governmental Activities	
	2012	2011
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 3,795,415	\$ 3,599,354
Operating grants and contributions	8,685,721	10,050,888
Capital grants and contributions	158,360	189,223
General revenues:		
Property taxes	4,348,844	3,874,911
Shared revenue—state sales taxes	5,422,581	4,909,043
Shared revenue—state vehicle license tax	1,408,672	1,428,805
Grants and contributions not restricted to specific programs	2,782,358	2,789,352
Miscellaneous	788,264	909,201
Total revenues	27,390,215	27,750,777

Graham County  
Management's Discussion and Analysis  
June 30, 2012

	Governmental Activities	
	2012	2011
<b>Expenses</b>		
General government	\$ 7,725,246	\$ 7,340,268
Public safety	9,725,007	9,465,117
Highways and streets	4,128,150	4,249,546
Sanitation	121,638	139,091
Health	1,361,684	1,475,138
Welfare	2,503,270	2,152,453
Culture and recreation	523,972	545,027
Education	<u>2,336,234</u>	<u>2,257,014</u>
Total expenses	<u>28,425,201</u>	<u>27,623,654</u>
 Increase (decrease) in net assets	 (1,034,986)	 127,123
Net assets—beginning	<u>35,294,098</u>	<u>35,166,975</u>
Net assets—ending	<u>\$34,259,112</u>	<u>\$35,294,098</u>

**Governmental activities**

Governmental activities revenues totaled \$27,390,215 for fiscal year 2012. The following are highlights of county revenues.

- Operating grants and contributions decreased by \$1,365,167 or 13.6 percent as less federal grants were received and cuts were made in remaining grants.
- Charges for services increased by \$196,061 over the prior fiscal year.
- Shared revenue – state sales tax increased \$513,538 or 10.5 percent as the statewide collection of sales and income taxes has been strong.
- Property tax revenues increased by \$473,933, or 12.2 percent this fiscal year because local taxpayers continued to pay their property taxes in spite of tough economic conditions. There was also new construction added to the tax rolls.
- Miscellaneous revenues decreased this fiscal year by \$120,937, or 13.3 percent.

Expenses:

Overall expenses in governmental activities increased by \$801,547, or 2.9 percent. Spending for one half of the functions increased during this fiscal year. Legal fees, welfare costs and the cost of housing inmates were the major driving forces behind the expense increases. The highway and streets, sanitation, health and culture and recreation functions decreased as vacancies were not filled during the fiscal year, the distribution of Forest Fees to the local school districts was significantly reduced and several federal grants have been reduced.

**Financial Analysis of the Government's Funds**

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

Graham County  
Management's Discussion and Analysis  
June 30, 2012

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

The General Fund is the chief operating fund of Graham County. At June 30, 2012, the General Fund's unassigned fund balance was \$1,673,573, which was an increase of \$22,471 over the prior fiscal year. There was an excess of expenditures over revenues in the General Fund of \$21,902 (prior to any other financing sources or uses), which was primarily due to a decrease in overall revenues. Revenues are not keeping pace with the expenditures, as the State has continued reducing some revenues traditionally passed down to the County (i.e., JP Salary reimbursement, County Assistance, Hold Harmless, etc.).

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. The fund balance for the Highway Road Fund increased \$147,007 this fiscal year. Management made a conscious effort to increase the fund balance as the Arizona State Legislature continued to reduce funding for this fiscal year in order to help balance the State's budget.

The other governmental fund balance increased by \$169,535. This is a combination of many non-major funds of the County, most funded by various grants. Funding for some programs is being cut or reduced as the economy continues to struggle, but additional funding from the state for increased personnel and programs for Probation was received and careful use of various fees collected has helped.

### **General Fund Budgetary Highlights**

There were no amendments to the original revenue budget for the General Fund. General Fund revenues received compared favorably with budgeted revenues except for miscellaneous revenue, which was \$424,000 or 77.8 percent below budget. Various miscellaneous revenues anticipated by the County did not occur and represents approximately 75 percent of the difference. The General Fund expenditure budget of \$19,220,684 was not amended this fiscal year. General Fund expenditures were less than the final budget by \$1,996,877, or 10.4 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of \$1,140,632. These savings were a result of conservative budgeting practices and reduced spending due to declining economic conditions that resulted in spending less than anticipated from the contingency, attorney, and information technology departments.

### **Capital Asset and Debt Administration**

**Capital assets**—The County's capital assets for its governmental activities as of June 30, 2012, amounts to \$28,408,251 (net of accumulated depreciation). The decrease of \$783,466 is due primarily to depreciation for the current fiscal year. Due to economic conditions, few assets were purchased during the fiscal year. Funding for capital assets in almost all programs except from the Homeland Security Grant and the CDBG Grant has been eliminated by the funding agencies.

Graham County  
Management's Discussion and Analysis  
June 30, 2012

Additional information on Graham County's capital assets can be found in Note 4 on page 17 of this report.

**Long-term Debt**—At the end of the current fiscal year, the County had total long-term liabilities outstanding of \$1,832,846. Included in long-term liabilities is \$1,049,297 for the future payment of compensated absences for unused employee vacation and sick leave. The remainder of the long-term liabilities consists of capital leases of \$703,851 and postclosure care costs of \$79,698. The County did not have any outstanding bonded debt.

Additional information on the County's long-term debt can be found in Note 6 to the financial statements on pages 18 through 19.

**Economic Factors and Next Year's Budget and Rates**

- The unemployment rate for Graham County is currently 9.2 percent. While it is an improvement of 2.0 percent from a rate of 11.2 percent a year ago, it is still greater than the State rate of 8.4 percent. This reflects continued difficult economic conditions in Graham County at the current time.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2012/13 fiscal year. The unassigned ending fund balance in the General Fund of \$1,673,573 was appropriated for spending in the 2012/13 fiscal year budget. Even with the use of available fund balances in conjunction with realistic revenue projections and a conservative expenditure plan the County still needed to raise the General Fund property tax rate to the Truth in Taxation Rate of 1.8556 for the 2012/13 fiscal year to 2.0874.

**Requests for Information**

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

Graham County  
Statement of Net Assets  
June 30, 2012

	<u>Primary Government Governmental Activities</u>
<b>Assets</b>	
Cash, cash equivalents, and investments	\$ 5,931,735
Property taxes receivables	889,907
Interest receivable	38,296
Due from other governments	1,171,346
Inventories	534,813
Capital assets, not being depreciated	6,633,426
Capital assets, being depreciated, net	<u>21,774,825</u>
Total assets	<u>36,974,348</u>
<b>Liabilities</b>	
Accounts payable	367,947
Accrued payroll and employee benefits	514,443
Noncurrent liabilities	
Due within 1 year	766,731
Due in more than 1 year	<u>1,066,115</u>
Total liabilities	<u>2,715,236</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	27,704,400
Restricted for:	
Highways and streets	2,649,950
Other purposes	3,444,762
Unrestricted	<u>460,000</u>
Total net assets	<u>\$ 34,259,112</u>

See accompanying notes to financial statements.

Graham County  
Statement of Activities  
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 7,725,246	\$ 2,566,110	\$ 1,742,593		\$ (3,416,543)
Public safety	9,725,007	210,949	2,031,021		(7,483,037)
Highways and streets	4,128,150	15,473	2,747,274		(1,365,403)
Sanitation	121,638		51,514		(70,124)
Health	1,361,684	50,919	885,042		(425,723)
Welfare	2,503,270				(2,503,270)
Culture and recreation	523,972	167,452		\$ 158,360	(198,160)
Education	2,336,234	784,512	1,228,277		(323,445)
Total governmental activities	\$ 28,425,201	\$ 3,795,415	\$ 8,685,721	\$ 158,360	(15,785,705)
General revenues:					
					4,348,844
					5,422,581
					1,408,672
					2,782,358
					38,502
					749,762
Total general revenues					14,750,719
Change in net assets					(1,034,986)
Net assets, July 1, 2011					35,294,098
Net assets, June 30, 2012					\$ 34,259,112

See accompanying notes to financial statements.

Graham County  
Balance Sheet  
Governmental Funds  
June 30, 2012

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash, cash equivalents, and investments	\$ 1,561,800	\$ 1,956,967	\$ 2,412,968	\$ 5,931,735
Property taxes receivables	848,988		40,919	889,907
Interest receivable	38,296			38,296
Due from other governments	498,262	241,826	431,258	1,171,346
Inventories		534,813		534,813
Total assets	<u>\$ 2,947,346</u>	<u>\$ 2,733,606</u>	<u>\$ 2,885,145</u>	<u>\$ 8,566,097</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 165,677	\$ 37,778	\$ 164,492	\$ 367,947
Accrued payroll and employee benefits	372,324	45,878	96,241	514,443
Deferred revenue	<u>735,772</u>		<u>35,371</u>	<u>771,143</u>
Total liabilities	<u>1,273,773</u>	<u>83,656</u>	<u>296,104</u>	<u>1,653,533</u>
Fund balances:				
Nonspendable		534,813		534,813
Restricted		2,115,137	913,623	3,028,760
Committed			1,137,757	1,137,757
Assigned			1,362,070	1,362,070
Unassigned	<u>1,673,573</u>		<u>(824,409)</u>	<u>849,164</u>
Total fund balances	<u>1,673,573</u>	<u>2,649,950</u>	<u>2,589,041</u>	<u>6,912,564</u>
Total liabilities and fund balances	<u>\$ 2,947,346</u>	<u>\$ 2,733,606</u>	<u>\$ 2,885,145</u>	<u>\$ 8,566,097</u>

See accompanying notes to financial statements.

Graham County  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
June 30, 2012

Fund balances—total governmental funds	\$ 6,912,564
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.	28,408,251
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	771,143
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,832,846)</u>
Net assets of governmental activities	<u>\$ 34,259,112</u>

See accompanying notes to financial statements.

Graham County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 4,395,971		\$ 166,235	\$ 4,562,206
Licenses and permits	43,591			43,591
Intergovernmental	10,438,813	\$ 3,391,189	4,627,690	18,457,692
Charges for services	1,927,615	15,473	1,374,898	3,317,986
Fines and forfeits	229,271		63,498	292,769
Investment earnings	3,627	14,377	20,498	38,502
Rents	42,265		98,804	141,069
Miscellaneous	<u>120,752</u>	<u>9,226</u>	<u>619,784</u>	<u>749,762</u>
Total revenues	<u>17,201,905</u>	<u>3,430,265</u>	<u>6,971,407</u>	<u>27,603,577</u>
Expenditures:				
Current:				
General government	6,733,300		606,810	7,340,110
Public safety	6,967,581		2,236,595	9,204,176
Highways and streets		3,189,084	102,841	3,291,925
Sanitation	70,224		51,553	121,777
Health	237,675		1,050,876	1,288,551
Welfare	2,503,270			2,503,270
Culture and recreation	309,726		152,655	462,381
Education	215,503		1,997,642	2,213,145
Capital outlay	<u>186,528</u>	<u>381,845</u>	<u>558,527</u>	<u>1,126,900</u>
Total expenditures	<u>17,223,807</u>	<u>3,570,929</u>	<u>6,757,499</u>	<u>27,552,235</u>
Excess (deficiency) of revenues over expenditures	<u>(21,902)</u>	<u>(140,664)</u>	<u>213,908</u>	<u>51,342</u>
Other financing sources (uses):				
Capital lease agreement		353,841		353,841
Transfers in	117,145		72,772	189,917
Transfers out	<u>(72,772)</u>		<u>(117,145)</u>	<u>(189,917)</u>
Total other financing sources (uses)	<u>44,373</u>	<u>353,841</u>	<u>(44,373)</u>	<u>353,841</u>
Net change in fund balances	<u>22,471</u>	<u>213,177</u>	<u>169,535</u>	<u>405,183</u>
Fund balances, July 1, 2011	1,651,102	2,502,943	2,419,506	6,573,551
Changes in nonspendable resources:				
Decrease in inventories		<u>(66,170)</u>		<u>(66,170)</u>
Fund balances, June 30, 2012	<u>\$ 1,673,573</u>	<u>\$ 2,649,950</u>	<u>\$ 2,589,041</u>	<u>\$ 6,912,564</u>

See accompanying notes to financial statements.

Graham County  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances to the Statement of Activities  
 Governmental Funds  
 Year Ended June 30, 2012

Net change in fund balances—total governmental funds \$ 405,183

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

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

Capital outlay	\$ 1,126,900	
Depreciation expense	<u>(1,910,366)</u>	(783,466)

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities.		(213,362)
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Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Capital lease incurred	(353,841)	
Principal Payments on long-term debt	<u>27,095</u>	(326,746)

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

Increase in compensated absences	(50,564)	
Decrease in landfill and postclosure care costs	<u>139</u>	(50,425)

Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.

Decrease in inventories		<u>(66,170)</u>
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Change in net assets of governmental activities		<u>\$ (1,034,986)</u>
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See accompanying notes to financial statements.

Graham County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2012

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash, cash equivalents, and investments	\$ 54,806,626	\$ 473,536
Accrued interest receivable	31,799	
Total assets	54,838,425	\$ 473,536
<b>Liabilities</b>		
Due to other governments		\$ 473,536
Total liabilities		\$ 473,536
<b>Net Assets</b>		
Held in trust for investment trust participants	\$ 54,838,425	

See accompanying notes to financial statements.

Graham County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2012

	<b>Investment Trust Funds</b>
Additions:	
Contributions from participants	\$ 68,903,825
Investment earnings	<u>580,685</u>
Total additions	<u>69,484,510</u>
 Deductions:	
Distributions to participants	<u>72,016,260</u>
Total deductions	<u>72,016,260</u>
 Change in net assets	 (2,531,750)
 Net assets, July 1, 2011	 <u>57,370,175</u>
 Net assets, June 30, 2012	 <u><u>\$ 54,838,425</u></u>

See accompanying notes to financial statements.

Graham County  
Notes to Financial Statements  
June 30, 2012

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

The County is a general purpose local government that is governed by a separately elected board of 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 so intertwined with the County that they are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. The blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

The following table describes the County's component unit:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Graham County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available

B. Basis of Presentation

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

Graham County  
Notes to Financial Statements  
June 30, 2012

**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 overall government's financial activities, except for fiduciary activities. Governmental activities generally are financed through taxes and intergovernmental revenues.

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

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

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

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

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

The County reports the following major governmental funds:

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

The *Highway Road Fund* accounts for road construction and maintenance of major regional roads, and is funded by Highway User Revenue Funds (HURF) and vehicle license taxes.

The County reports the following fund types:

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

Graham County  
Notes to Financial Statements  
June 30, 2012

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

### C. Basis of Accounting

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

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.

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

### D. Cash and Investments

All investments are stated at fair value.

### E. Inventories

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

Graham County  
Notes to Financial Statements  
June 30, 2012

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

### F. Property Tax Calendar

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

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

### G. Capital Assets

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

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

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

### H. Fund Balance Classifications

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

Graham County  
Notes to Financial Statements  
June 30, 2012

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

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

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

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

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

## I. Investment Earnings

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

## J. Compensated Absences

Compensated absences payable consists 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 terminating employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Graham County  
Notes to Financial Statements  
June 30, 2012

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

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

## Note 2 - Deposits and Investments

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

### Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Corporate bonds, debentures, and notes must be rated within the top three ratings by a nationally recognized rating agency.
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 deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance.

Graham County  
Notes to Financial Statements  
June 30, 2012

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. 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, 2012, the carrying amount of the County's deposits was \$13,241,055, and the bank balance was \$12,129,483. The County does not have a formal policy with respect to custodial credit risk.

**Investments**—The County's investments at June 30, 2012, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$25,016,061
State Treasurer's investment pool 5	3,536,010
Negotiable certificates of deposit	10,246,370
U.S. agency securities	<u>9,162,252</u>
Total	<u>\$47,960,693</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**—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal policy with respect to credit risk. At June 30, 2012, 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	\$25,016,061
State Treasurer's investment pool 5	AAAf/S1+	Standard & Poor's	3,536,010
Negotiable certificates of deposit	Unrated	Not applicable	10,246,370
U.S. agency securities	AAA	Moody's	<u>9,162,252</u>
Total			<u>\$47,960,693</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 an outside party's possession. The County does not have a formal policy with respect to custodial credit risk.

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

Graham County  
Notes to Financial Statements  
June 30, 2012

The County had investments at June 30, 2012, of 5 percent or more in the Federal Home Loan Mortgage Corporation and the Federal Farm Credit Bank. These investments were 6.56 percent and 6.26 percent, respectively, of the County's total investments.

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

At June 30, 2012, the County had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity (In Years)
State Treasurer's investment pool 7	\$25,016,061	.08
State Treasurer's Investment pool 5	3,536,010	.07
Negotiable certificates of deposit	10,246,370	1.51
U.S. agency securities	<u>9,162,252</u>	2.20
Total	<u>\$47,960,693</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	\$ 10,149
Amount of deposits	13,241,055
Amount of investments	<u>47,960,693</u>
Total	<u>\$61,211,897</u>

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Statement of Net Assets:				
Cash, cash equivalents, and investments	<u>\$5,931,735</u>	<u>\$54,806,626</u>	<u>\$473,536</u>	<u>\$61,211,897</u>

### Note 3 - Due from Other Governments

Amounts due from other governments at June 30, 2012, include \$192,061 in state-shared revenue from sales tax, \$156,809 in county excise tax distributions from the State Treasurer, \$32,483 in state motor vehicle license taxes from the Arizona Department of Transportation, \$47,380 in prisoner detention fees from the U.S. Department of Justice, and \$69,529 in other fees from federal, state, and local governments recorded in the General Fund; \$210,683 in state-shared revenue from highway user taxes, \$23,452 in state motor vehicle license taxes from the Arizona Department of Transportation, and \$7,691 in other fees from local governments recorded in the Highway Road Fund; and \$196,526 in homeland security grants from the Arizona Department of Homeland Security and \$234,732 in other fees and grants from federal, state, and local governments recorded in the other governmental funds.

Graham County  
Notes to Financial Statements  
June 30, 2012

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2012, was as follows:

	<b>Balance July 1, 2011</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2012</b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,709,871			\$ 2,709,871
Construction in progress	<u>3,574,824</u>	<u>\$ 419,507</u>	<u>\$ 70,776</u>	<u>3,923,555</u>
Total capital assets not being depreciated	<u>6,284,695</u>	<u>419,507</u>	<u>70,776</u>	<u>6,633,426</u>
Capital assets being depreciated:				
Buildings	14,329,303	24,774		14,354,077
Equipment	12,206,914	753,395	428,947	12,531,362
Infrastructure	<u>17,895,641</u>	<u>                    </u>	<u>                    </u>	<u>17,895,641</u>
Total	<u>44,431,858</u>	<u>778,169</u>	<u>428,947</u>	<u>44,781,080</u>
Less accumulated depreciation for:				
Buildings	5,568,146	345,082		5,913,228
Equipment	9,407,243	1,118,155	428,947	10,096,451
Infrastructure	<u>6,549,447</u>	<u>447,129</u>	<u>                    </u>	<u>6,996,576</u>
Total	<u>21,524,836</u>	<u>1,910,366</u>	<u>428,947</u>	<u>23,006,255</u>
Total capital assets being depreciated, net	<u>22,907,022</u>	<u>(1,132,197)</u>	<u>                    </u>	<u>21,774,825</u>
Governmental activities capital assets, net	<u>\$29,191,717</u>	<u>\$ (712,690)</u>	<u>\$ 70,776</u>	<u>\$28,408,251</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 377,790
Public safety	490,946
Highways and streets	779,535
Health	71,047
Culture and recreation	67,769
Education	<u>123,279</u>
Total governmental activities depreciation expense	<u>\$1,910,366</u>

As of June 30, 2012, the County was involved in only one significant construction project, the Eighth Avenue and Airport Road intersection project. The estimated cost to complete the construction project is \$2,656,804, of which the County's estimated share is \$26,018. The remaining amount will be paid from federal grants.

Graham County  
Notes to Financial Statements  
June 30, 2012

Note 5 - Short-Term Loans

The County maintains a line of credit with Wells Fargo Bank to cover timing differences in the receipt of revenue and the payment of obligations during the year. At June 30, 2012, the County had an outstanding balance of \$0. The activity for the year ended June 30, 2012, was as follows:

Beginning balance	\$ 0
Total borrowings	5,092,443
Total payments	<u>5,092,443</u>
Ending balance	<u>\$ 0</u>

Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2012:

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2012</b>	<b>Due within 1 year</b>
<b>Governmental activities</b>					
Compensated absences payable	\$ 998,733	\$ 721,749	\$671,185	\$1,049,297	\$734,508
Capital leases payable	377,105	353,841	27,095	703,851	30,343
Landfill closure and post-closure care costs payable	<u>79,837</u>	<u>1,701</u>	<u>1,840</u>	<u>79,698</u>	<u>1,880</u>
Total governmental activities long-term liabilities	<u>\$1,455,675</u>	<u>\$1,077,291</u>	<u>\$700,120</u>	<u>\$1,832,846</u>	<u>\$766,731</u>

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

The assets acquired through capital leases are as follows:

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equipment	\$353,841
Building	417,288
Less: accumulated depreciation	<u>121,567</u>
Carrying value	<u>\$649,562</u>

Graham County  
Notes to Financial Statements  
June 30, 2012

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2012:

<b>Year ending June 30</b>	<b>Governmental Activities</b>
2013	\$ 41,118
2014	41,118
2015	41,118
2016	41,118
2017	41,118
2018	<u>569,992</u>
Total minimum lease payments	775,582
Less amount representing interest	<u>71,731</u>
Present value of net minimum lease payments	<u><b>\$703,851</b></u>

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

The County closed the landfill in 2003. The \$79,698 reported as landfill postclosure care costs payable at June 30, 2012, is based on what it would cost to perform all remaining postclosure care in fiscal year 2012. These costs will be paid from the General Fund. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

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

**Insurance claims**—The County provides life, health, and disability benefits to its employees and their dependents through the Arizona Local Government Employee Benefit Trust (Trust), currently composed of six member counties. The Trust provides the benefits through a self-funding agreement with its participants and administers the program, and the County is responsible for paying the premium and requires its employees to contribute a portion of that premium. If it withdraws from the Trust, the County is responsible for any claims run-out costs, including claims reported but not settled, claims incurred but not reported, and administrative costs. If the Trust were to terminate, the County would be responsible for its proportional share of any trust deficit.

Graham County  
Notes to Financial Statements  
June 30, 2012

**Compensated Absences**—Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2012, the County paid for compensated absences as follows: 72 percent from the General Fund, 10 percent from the Highway Road Fund, and 18 percent from other governmental funds.

Note 7 - Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2012, were as follows:

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
<b>Fund balances:</b>				
Nonspendable:				
Inventories		\$ 534,813		\$ 534,813
Total nonspendable		<u>534,813</u>		<u>534,813</u>
<b>Restricted for:</b>				
Social services			\$ 644,799	644,799
Law enforcement			92,894	92,894
Highways and streets		2,115,137	152,927	2,268,064
Health			12,282	12,282
Education			10,721	10,721
Total restricted		<u>2,115,137</u>	<u>913,623</u>	<u>3,028,760</u>
<b>Committed to:</b>				
General government			115,431	115,431
Law enforcement			556,111	556,111
Health			140,384	140,384
Education			325,831	325,831
Total committed			<u>1,137,757</u>	<u>1,137,757</u>
<b>Assigned to:</b>				
Social services			\$ 799,532	\$ 799,532
Law enforcement			2,039	2,039
Highways and streets			237	237
Education			560,262	560,262
Total assigned			<u>1,362,070</u>	<u>1,362,070</u>
<b>Unassigned</b>	<b><u>\$1,673,573</u></b>		<b><u>(824,409)</u></b>	<b><u>849,164</u></b>
Total fund balances	<b><u>\$1,673,573</u></b>	<b><u>\$2,649,950</u></b>	<b><u>\$2,589,041</u></b>	<b><u>\$6,912,564</u></b>

Note 8 - Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For these risks of loss, the County joined and is covered by three public entity risk pools: the

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Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool, which are described below, and the Arizona Local Government Employee Benefit Trust, which is described on page 19.

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$5,000 per occurrence for property claims and \$5,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$300 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

## Note 9 - Pensions and Other Postemployment Benefits

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

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

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disability plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

The *Corrections Officer Retirement Plan* (CORP) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers state, county, and local correction officers; dispatchers; and probation, surveillance, and juvenile detention officers. The CORP is governed by The Board of Trustees of PSPRS and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

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

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

**ASRS**

3300 North Central Avenue  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or 1-800-621-3778

**PSPRS, CORP, and EORP**

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

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

*Cost-sharing plans*—For the year ended June 30, 2012, active ASRS members were required by statute to contribute at the actuarially determined rate of 10.74 percent (10.5 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll

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and the County was required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent for retirement, 0.63 percent for health insurance premium, and 0.24 percent for long-term disability) of the members' annual covered payroll.

The County's contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2012	\$545,794	\$34,838	\$13,272
2011	485,099	31,766	13,460
2010	462,909	36,633	22,202

*Agent Plans*—For the year ended June 30, 2012, active PSPRS members were required by statute to contribute 8.65 percent of the members' annual covered payroll and the County was required to contribute 18.43 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.53 percent of covered payroll. Active CORP members were required by statute to contribute 8.41 percent of the nondispatcher members' and 7.96 percent of the dispatchers' annual covered payroll. In addition, the County was required to contribute 4.05 percent for CORP corrections officers, 13.13 percent for AOC CORP employees, and 2.86 percent for CORP dispatchers. The aggregate of the members' and the County's contributions is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.71 percent for CORP corrections officers, 1.43 percent for AOC CORP employees, and 0.49 percent for CORP dispatchers of covered payroll. Active EORP members were required by statute to contribute 10 percent of the members' annual covered payroll, and the County was required to remit a designated portion of certain court fees plus additional contributions at the actuarially determined rate of 17.96 percent of the members' annual covered payroll. The health insurance premium portion of the contribution rate was actuarially set at 1.79 percent of covered payroll.

**Actuarial methods and assumptions**—The contribution requirements for the year ended June 30, 2012, were established by the June 30, 2010, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

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Projections of benefits are based on (1) the plans as understood by the County and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2012 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	26 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.5%
Projected salary increases	5.5%–8.50% for PSPRS and CORP; 5% for EORP
includes inflation at	5.5% for PSPRS and CORP; 5% for EORP

**Annual Pension/OPEB Cost**—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2012, and related information follows:

	PSPRS		CORP						EORP	
	Pension	Health Insurance	Corrections		AOC		Dispatchers		Pension	Health Insurance
			Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance		
Annual pension/OPEB cost Contributions made	\$185,277	\$16,774	\$56,514	\$12,013	\$166,855	\$20,393	\$14,987	\$3,009	\$140,045	\$15,503
	185,277	16,774	56,514	12,013	166,855	20,393	14,987	3,009	140,045	15,503

**Trend Information**—Annual pension and OPEB cost information for the current and 2 preceding years follows for each of the agent plans.

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
<b>PSPRS</b>				
Pension	2012	\$185,277	100%	\$0
Health insurance	2012	16,744	100%	0
Pension	2011	194,208	100%	0
Health insurance	2011	16,003	100%	0
Pension	2010	173,005	100%	0
Health insurance	2010	13,635	100%	0

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June 30, 2012

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
<b>CORP</b>				
Corrections				
Pension	2012	56,514	100%	0
Health insurance	2012	12,013	100%	0
Pension	2011	50,273	100%	0
Health insurance	2011	11,999	100%	0
Pension	2010	60,878	100%	0
Health insurance	2010	6,960	100%	0
AOC				
Pension	2012	166,855	100%	0
Health insurance	2012	20,393	100%	0
Pension	2011	144,369	100%	0
Health insurance	2011	16,496	100%	0
Pension	2010	81,095	100%	0
Health insurance	2010	3,379	100%	0
Dispatchers				
Pension	2012	14,987	100%	0
Health insurance	2012	309	100%	0
Pension	2011	15,125	100%	0
Health insurance	2011	3,910	100%	0
Pension	2010	17,946	100%	0
Health insurance	2010	1,105	100%	0
<b>EORP</b>				
Pension	2012	140,045	100%	0
Health insurance	2012	15,503	100%	0
Pension	2011	137,573	100%	0
Health insurance	2011	13,978	100%	0
Pension	2010	113,215	100%	0
Health insurance	2010	17,312	100%	0

**Funded Status**—The funded status of the plans as of the most recent valuation date, June 30, 2012, along with the actuarial assumptions and methods used in those valuations follow. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Board of Trustees obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan, and therefore, actuarial information for the County, as a participating government, is not available.

Graham County  
Notes to Financial Statements  
June 30, 2012

	PSPRS		CORP					
	Pension	Health insurance	Corrections		AOC*		Dispatchers	
			Pension	Health insurance	Pension	Health insurance	Pension	Health insurance
Actuarial value of assets (a)	\$3,171,870	\$ 0	\$1,903,185	\$ 0	N/A	N/A	\$452,760	\$ 0
Actuarial accrued liability (b)	4,932,639	174,003	2,281,821	81,880	N/A	N/A	429,490	17,643
Unfunded actuarial accrued liability (funding excess) (b) – (a)	1,760,769	174,003	378,636	81,880	N/A	N/A	(23,170)	17,643
Funded ratio (a)/(b)	64.3%	0.0%	83.4%	0.0%	N/A	N/A	105.4%	0.0%
Annual covered payroll (c)	\$1,206,971	\$1,206,971	\$1,203,742	\$1,203,742	N/A	N/A	\$307,905	\$307,905
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((b) – (a))/(c)	145.9%	14.4%	31.5%	6.8%	N/A	N/A	(7.5)%	5.7%

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

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

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	24 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases includes inflation at	5%–9% for PSPRS; 5%-8.25% for CORP; 4.75% for EORP 5% for PSPRS and CORP; 4.5% for EORP

## Note 10 - County Treasurer's Investment Pool

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

Graham County  
Notes to Financial Statements  
June 30, 2012

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

The Treasurer allocates interest earnings to each of the pool's participants. However, for the County's monies in the pool, \$862 of interest earned in certain other funds was transferred to the General Fund.

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$491,888 of deposits and \$61,872 of investments in the State Treasurer's investment pools. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 2 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Amount
State Treasurer's investment pool 7	\$25,016,061	None stated	None stated	\$25,016,061
State Treasurer's investment pool 5	3,474,138	None stated	None stated	3,474,138
Negotiable certificates of deposit	10,194,000	.3-2.00%	7/12 – 5/16	10,246,370
U.S. agency securities	<u>9,129,275</u>	.35-1.25%	11/12 – 12/15	<u>9,162,252</u>
	<u>\$47,813,474</u>			<u>\$47,898,821</u>

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

**Statement of Net Assets**

Assets	\$ 60,689,936
Net assets	<u>\$ 60,689,936</u>

Net assets held in trust for:

Internal participants	\$ 5,885,274
External participants	<u>54,804,662</u>
Total net assets held in trust	<u>\$ 60,689,936</u>

**Statement of Changes in Net Assets**

Total additions	\$103,232,517
Total deductions	<u>105,169,793</u>
Net increase	<u>(1,937,276)</u>
Net assets held in trust:	
July 1, 2011	<u>62,627,212</u>
June 30, 2012	<u>\$ 60,689,936</u>

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## Other Required Supplementary Information

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 4,350,204	\$ 4,350,204	\$ 4,395,971	\$ 45,767
Licenses and permits	77,000	77,000	43,591	(33,409)
Fines and forfeits	240,000	240,000	229,271	(10,729)
Intergovernmental	10,337,505	10,337,505	10,438,813	101,308
Charges for services	1,846,801	1,846,801	1,927,615	80,814
Investment earnings	15,000	15,000	3,627	(11,373)
Rents	50,000	50,000	42,265	(7,735)
Miscellaneous	544,752	544,752	120,752	(424,000)
Total revenues	<u>17,461,262</u>	<u>17,461,262</u>	<u>17,201,905</u>	<u>(259,357)</u>
Expenditures:				
General government				
Board of supervisors	733,834	733,834	719,892	13,942
Treasurer	273,523	273,523	274,302	(779)
Assessor	473,806	473,806	475,728	(1,922)
Recorder	254,766	254,766	229,532	25,234
Elections	101,805	101,805	67,826	33,979
Attorney	1,070,562	1,070,562	935,556	135,006
Clerk of the court	479,740	479,740	476,365	3,375
Superior court	655,227	655,227	1,057,234	(402,007)
Justice of the peace No.1	339,473	339,473	326,033	13,440
Justice of the peace No.2	229,539	229,539	226,963	2,576
Victim witness	24,207	24,207	(810)	25,017
Public fiduciary	89,008	89,008	92,091	(3,083)
Planning and zoning	246,485	246,485	245,567	918
Building maintenance	122,865	122,865	127,950	(5,085)
Electrical maintenance	32,100	32,100		32,100
Overtime	14,155	14,155		14,155
General services	362,000	362,000	258,844	103,156
Contingency	870,000	870,000	51,943	818,057
Miscellaneous	478,244	478,244	373,087	105,157
Medical examiner	38,000	38,000	43,083	(5,083)
Information technology	984,593	984,593	752,114	232,479
Total general government	<u>7,873,932</u>	<u>7,873,932</u>	<u>6,733,300</u>	<u>1,140,632</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2012  
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Probation	\$ 182,708	\$ 182,708	\$ 138,447	\$ 44,261
Sheriff	4,934,865	4,934,865	4,835,469	99,396
Search and rescue	17,600	17,600	12,372	5,228
Detention health services	450,483	450,483	424,597	25,886
Juvenile detention center	1,349,502	1,349,502	1,315,721	33,781
Animal shelter	246,175	246,175	240,975	5,200
Total public safety	<u>7,181,333</u>	<u>7,181,333</u>	<u>6,967,581</u>	<u>213,752</u>
Sanitation				
Sanitary landfill	70,000	70,000	70,224	(224)
Health				
Health services	260,462	260,462	237,675	22,787
Welfare				
Attorney for the indigent	434,000	434,000	426,500	7,500
Indigent medical	2,095,283	2,095,283	2,076,770	18,513
Total welfare	<u>2,529,283</u>	<u>2,529,283</u>	<u>2,503,270</u>	<u>26,013</u>
Cultural and recreation				
Parks and recreation	309,870	309,870	309,726	144
Education				
School superintendent	205,661	205,661	206,317	(656)
Employment and training	9,843	9,843	9,186	657
Total education	<u>215,504</u>	<u>215,504</u>	<u>215,503</u>	<u>1</u>
Capital outlay	780,300	780,300	186,528	593,772
Total expenditures	<u>19,220,684</u>	<u>19,220,684</u>	<u>17,223,807</u>	<u>1,996,877</u>
Excess (deficiency) of revenues over expenditures	<u>(1,759,422)</u>	<u>(1,759,422)</u>	<u>(21,902)</u>	<u>1,737,520</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2012  
 (Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Transfers in	\$ 400,000	\$ 400,000	\$ 117,145	\$ (282,855)
Transfers out			(72,772)	(72,772)
Total other financing sources and (uses)	<u>400,000</u>	<u>400,000</u>	<u>44,373</u>	<u>(355,627)</u>
Net change in fund balances	(1,359,422)	(1,359,422)	22,471	1,381,893
Fund balances, July 1, 2011	<u>1,359,422</u>	<u>1,359,422</u>	<u>1,651,102</u>	<u>291,680</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,673,573</u>	<u>\$ 1,673,573</u>

See accompanying notes to budgetary comparison schedules.

Graham County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Highway Road Fund  
 Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 3,600,739	\$ 3,600,739	\$ 3,391,189	\$ (209,550)
Charges for services	117,500	117,500	15,473	(102,027)
Investment earnings	20,000	20,000	14,377	(5,623)
Rents	1,500	1,500		(1,500)
Miscellaneous	60,500	60,500	9,226	(51,274)
Total revenues	<u>3,800,239</u>	<u>3,800,239</u>	<u>3,430,265</u>	<u>(369,974)</u>
Expenditures:				
Highways and streets				
General road	4,416,664	4,416,664	2,922,154	1,494,510
Engineering	365,550	365,550	246,181	119,369
Safety department	24,125	24,125	20,749	3,376
Total highways and streets	<u>4,806,339</u>	<u>4,806,339</u>	<u>3,189,084</u>	<u>1,617,255</u>
Capital outlay	<u>718,921</u>	<u>718,921</u>	<u>381,845</u>	<u>337,076</u>
Total expenditures	<u>5,525,260</u>	<u>5,525,260</u>	<u>3,570,929</u>	<u>1,954,331</u>
Excess (deficiency) of revenues over expenditures	<u>(1,725,021)</u>	<u>(1,725,021)</u>	<u>(140,664)</u>	<u>1,584,357</u>
Other financing sources:				
Capital lease agreement			353,841	353,841
Transfers in	<u>25,000</u>	<u>25,000</u>		<u>(25,000)</u>
Total other financing sources	<u>25,000</u>	<u>25,000</u>	<u>353,841</u>	<u>328,841</u>
Net change in fund balances	(1,700,021)	(1,700,021)	213,177	1,913,198
Fund balances, July 1, 2011	1,700,021	1,700,021	2,502,943	802,922
Changes in nonspendable resources:				
Decrease in inventories			<u>(66,170)</u>	<u>(66,170)</u>
Fund balances, June 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,649,950</u>	<u>\$ 2,649,950</u>

See accompanying notes to budgetary comparison schedules.

Graham County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2012

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2012, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<b>Fund/Department</b>	<b>Excess</b>
General Fund	
Assessor	\$ 1,922
Courts	385,991
Public fiduciary	3,083
Sanitary landfill	224
Treasurer	779

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

Graham County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2012

**Public Safety Personnel Retirement System**

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
Pension 6/30/12	\$3,171,870	\$4,932,639	\$1,760,769	64.3%	\$1,206,971	145.9%
Health insurance 6/30/12	0	174,003	174,003	0.0%	1,206,971	14.4%
Pension 6/30/11	2,839,609	4,221,313	1,381,704	67.3%	1,041,162	132.7%
Health insurance 6/30/11	0	170,655	170,655	0.0%	1,041,162	16.4%
Pension 6/30/10	2,456,214	3,752,237	1,296,023	65.5%	1,158,489	111.9%
Health insurance 6/30/10	0	152,680	152,680	0.0%	1,158,489	13.2%

**Corrections Officer Retirement Plan**

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
<u>Corrections Officers</u> Pension 6/30/12	\$1,903,185	\$2,281,821	\$378,636	83.4%	\$1,203,742	31.5%
Health insurance 6/30/12	0	81,880	81,880	0.0%	1,203,742	6.8%
Pension 6/30/11	1,663,130	1,747,311	84,181	95.2%	1,068,695	7.9%
Health insurance 6/30/11	0	59,346	59,346	0.0%	1,068,695	5.5%
Pension 6/30/10	1,486,737	1,417,835	(68,902)	104.9%	1,108,719	(6.2)%
Health insurance 6/30/10	0	58,664	58,664	0.0%	1,108,719	5.3%

Graham County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2012

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
<u>Dispatchers</u>						
Pension 6/30/12	\$452,760	\$429,590	(23,170)	105.4%	\$307,905	(7.5)%
Health insurance 6/30/12	0	17,643	17,643	0.0%	307,905	5.7%
Pension 6/30/11	532,831	411,300	(121,531)	129.5%	382,877	(31.7)%
Health insurance 6/30/11	0	21,449	21,449	0.0%	382,877	5.6%
Pension 6/30/10	454,604	271,001	(183,603)	167.7%	373,831	(49.1)%
Health insurance 6/30/10	0	9,172	9,172	0	373,831	2.5%

Graham County  
Required Supplementary Information  
Notes to Schedule of Agent Retirement Plans' Funding Progress  
June 30, 2012

Note - Actuarial Information Available

The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Board of Trustees obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government, is not available.

All participating employers in the CORP Administrative Office of the Courts (AOC) are accounted for as one group within the Corrections Officer Retirement Plan and, as such, an actuarial valuation of CORP—AOC is only performed for the group as a whole. Therefore, actuarial information for the County, as a participating government is not available.

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## Supplementary Information

Graham County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>U.S. Department of Agriculture</b>			
Child Nutrition Cluster:			
National School Lunch Program, passed through the Arizona Department of Education	10.555	None	\$ 41,998
Total Child Nutrition Cluster			<u>41,998</u>
Forest Service Schools and Roads Cluster:			
Schools and Roads—Grants to States, passed through the Arizona State Treasurer	10.665	None	633,536
Total Forest Service Schools and Roads Cluster			<u>633,536</u>
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	ADHS11004551	231,713
Total U.S. Department of Agriculture			<u>907,247</u>
<b>U.S. Department of Housing and Urban Development</b>			
CDBG—State-Administered CDBG Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	123-10	168,890
Total CDBG—State-Administered CDBG Cluster			<u>168,890</u>
Total U.S. Department of Housing and Urban Development			<u>168,890</u>
<b>U.S. Department of the Interior</b>			
Payments in Lieu of Taxes	15.226		2,700,447
BLM-Patrol Grant	15.unknown		4,532
Total U.S. Department of the Interior			<u>2,704,979</u>
<b>U.S. Department of Justice</b>			
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		4,714
Edward Byrne Memorial Justice Assistance Grant Program, passed through the Arizona Criminal Justice Commission	16.738	DC-12-052	54,284
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, passed through the Arizona Criminal Justice Commission	16.803	DC-12-043	26,868
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804		20,038
Total JAG Program Cluster			<u>105,904</u>
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-12-053	3,127
State Criminal Alien Assistance Program	16.606		7,234
Bulletproof Vest Partnership Program	16.607		12,492
Total U.S. Department of Justice			<u>128,757</u>
<b>U.S. Department of Labor</b>			
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE101046001, DE111007001	97,460
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE111007001	135,838

(Continued)

See accompanying notes to schedule of expenditures of federal awards.

Graham County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012  
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.278	DE101046001	\$ 40,711
Total WIA Cluster			<u>274,009</u>
Total U.S. Department of Labor			<u>274,009</u>
<b>U.S. Department of Transportation</b>			
Highway Planning and Construction Cluster:			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	JPA 08-781, JPA 04-120	<u>7,667</u>
Total Highway Planning and Construction Cluster			<u>7,667</u>
Highway Safety Cluster:			
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2010-PT-052	<u>674</u>
Total Highway Safety Cluster			<u>674</u>
Total U.S. Department of Transportation			<u>8,341</u>
<b>U.S. Department of Education</b>			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	S010A110003	<u>15,941</u>
Total Title 1, Part A Cluster			<u>15,941</u>
Special Education Cluster (IDEA):			
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	H027A050007, H027A0110007	481,867
Special Education—Grants to States, passed through the Arizona Supreme Court	84.027	KR11-0112	27,534
Special Education—Grants to States, passed through Greenlee County	84.027	KR11-0113	<u>6,094</u>
Total Special Education--Grants to States			<u>515,495</u>
Special Education—Preschool Grants, passed through the Arizona Department of Education	84.173	H173A110003	<u>20,790</u>
Total Special Education Cluster (IDEA)			<u>536,285</u>
Educational Technology State Grants Cluster:			
Education Technology State Grants, passed through Pima County	84.318	S318X090005	<u>58,409</u>
Total Educational Technology State Grants Cluster			<u>58,409</u>
State Fiscal Stabilization Fund Cluster:			
ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act, passed through the Arizona Governor's Office of Economic Recovery	84.397	OER-11-IGA-GS-146	<u>5,792</u>
Total State Fiscal Stabilization Cluster			<u>5,792</u>
Title I State Agency Program for Neglected and Delinquent Children, passed through the Arizona Supreme Court	84.013	S013A090003	32,934
Title I State Agency Program for Neglected and Delinquent Children, passed through Greenlee County	84.013	S013A090003	<u>17,304</u>
Total Title I State Agency Program for Neglected and Delinquent Children			<u>50,238</u>
Rural Education	84.358		10,405

(Continued)

See accompanying notes to schedule of expenditures of federal awards.

Graham County  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012  
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	S367A110049, S281A030003	\$ 50,208
Improving Teacher Quality State Grants, passed through the Arizona Supreme Court	84.367	S281A030003	2,109
Improving Teacher Quality State Grants, passed through Greenlee County	84.367	S281A030003	<u>8,881</u>
Total Improving Teacher Quality State Grants			<u>61,198</u>
Total U.S. Department of Education			<u>738,268</u>
 <b>U.S. Department of Health and Human Services</b>			
Immunization Cluster:			
Immunization Cooperative Agreements, passed through the Arizona Department of Health Services	93.268	HG854285	<u>53,465</u>
Total Immunization Cluster			<u>53,465</u>
Public Health Emergency Preparedness, passed through the Arizona Department of Health Services	93.069	HG754196, ADHS12-007888	196,097
Centers for Disease Control and Prevention—Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	HG761264	73,450
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	HG852276	6,014
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG854247	<u>61,206</u>
Total U.S. Department of Health and Human Services			<u>390,232</u>
 <b>U.S. Department of Homeland Security</b>			
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	EMW-2011-EP-APP-00006	166,093
Homeland Security Grant Program, passed through the Arizona Department of Homeland Security	97.067	555301-02, 777306-02 777306-03, 777316-01 777316-02, 888301-01 888312-01, 888312-02	<u>378,196</u>
Total U.S. Department of Homeland Security			<u>544,289</u>
 Total Expenditures of Federal Awards			 <u>\$5,865,012</u>

See accompanying notes to schedule of expenditures of federal awards.

Graham County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2012

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) Number

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2012 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

Graham County did not have any subrecipients for the year ended June 30, 2012.

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**DEBRA K. DAVENPORT, CPA**  
AUDITOR GENERAL

**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of  
Graham County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 30, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

The County's management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 12-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Compliance and Other Matters**

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

Graham County's response to the finding identified in our audit is presented on page 58. We did not audit the County's response, and accordingly, we express no opinion on it.

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

Jay Zsorey, CPA  
Financial Audit Director

July 30, 2013



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control over Compliance in Accordance with OMB Circular A-133**

Members of the Arizona State Legislature

The Board of Supervisors of  
Graham County, Arizona

**Compliance**

We have audited Graham County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

As described in the following table, the County did not comply with certain compliance requirements that are applicable to the following major programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

<b><u>Program Title (CFDA Number)</u></b>	<b><u>Compliance Requirement</u></b>	<b><u>Finding Number</u></b>
Special Education Cluster (84.027, 84.173)	Procurement	12-102
Homeland Security Grant Program (97.067)	Equipment and Real Property Management, Procurement, Suspension and Debarment	12-103, 12-104

In our opinion, except for the noncompliance described in the preceding table, Graham County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying Schedule of Findings and Questioned Costs as item 12-101.

### **Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 12-102, 12-103, and 12-104 to be material weaknesses.

Graham County's responses to the findings identified in our audit are presented on pages 58 through 59. We did not audit the County's responses, and accordingly, we express no opinion on them.

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

Jay Zsorey, CPA  
Financial Audit Director

July 30, 2013

Graham County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2012

**Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unqualified
	Yes      No
Internal control over financial reporting:	
Material weakness identified?	___ <u>X</u>
Significant deficiency identified?	<u>X</u> ___
Noncompliance material to the financial statements noted?	___ <u>X</u>

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	<u>X</u> ___
Significant deficiency identified?	___ <u>X</u>
Type of auditors' report issued on compliance for major programs:	
Unqualified for all major programs except for the Special Education Cluster (IDEA) and Homeland Security Grant Program, which were qualified.	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u> ___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Forest Service Schools and Roads Cluster
15.226	Payments in Lieu of Taxes
84.027, 84.173	Special Education Cluster (IDEA)
93.069	Public Health Emergency Preparedness
97.067	Homeland Security Grant Program

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

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

**Yes**      **No**

Auditee qualified as low-risk auditee?

\_\_\_       X

**Other Matters**

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

X       \_\_\_

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

## Financial Statement Findings

12-01

The County should develop, implement, and test a disaster recovery plan

Criteria: To help ensure the continuity of operations and that electronic data files are not lost in the event of a system or equipment failure or other interruption, the County should have a documented and tested disaster recovery plan for its significant computer systems.

Condition and context: The County did not have a written and tested disaster recovery plan for its financial systems.

Effect: The disruption of services, in the event of a system or equipment failure or other interruption, could result in significant harm or inconvenience to the County and its citizens. In addition, inadequate disaster recovery controls subject the County to risks that can result in inaccurate or incomplete financial or management information, expensive recovery efforts, and financial losses.

Cause: The County is in the process of developing its disaster recovery plan.

Recommendation: The County should develop a disaster recovery plan for its financial systems. At a minimum, the County's plan for computer disaster recovery should include the following:

- A risk analysis identifying and prioritizing critical applications to determine which applications should be recovered first.
- A listing of current employees, including telephone numbers, assigned to disaster teams.
- Employee assignments and responsibilities.
- A designated alternative computer facility or arrangements with vendors to support hardware and software requirements.
- Details of off-site storage locations and availability of information stored at these locations.
- A list of procedures for processing critical transactions, including forms or other documents to use.
- Restoration procedures for backup media such as tapes and servers.
- Documentation of overall testing strategies, testing frequencies, and disaster plan test results.

This finding is similar to a prior-year finding.

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

Federal Award Findings and Questioned Costs

12-101

CFDA No.: Not applicable

Questioned Cost: N/A

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

Condition and context: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2013; however, the County did not issue its Single Audit Reporting Package until July 2013.

Effect: Late single audit reporting inhibits the ability of federal agencies and pass-through entities to monitor the accountability of federal programs. In addition, continued late reporting could result in the suspension of federal funding.

Cause: The County was late submitting its prior year reports and, therefore, it delayed preparation of its fiscal year 2012 reports.

Recommendation: The County should submit its Single Audit Reporting Package to the federal clearinghouse by the required deadline.

This finding is similar to a prior-year finding.

12-102

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**

84.173 **Special Education—Preschool Grants**

**U.S. Department of Education**

Passed through the Arizona Department of Education, Arizona Supreme Court, and Greenlee County

Award Periods: July 1, 2011 through June 30, 2012

October 1, 2011 through September 30, 2012

Award Numbers: H027A0110007, H027A050007, H173A110003, KR11-0112, and KR11-0113

Procurement and Suspension and Debarment

Questioned Cost: \$60,075

Criteria: In accordance with 34 Code of Federal Regulations (CFR) §80.36, the County should follow its procedures for procuring goods and services.

Condition and context: The County School Superintendent's Office did not always follow its procurement policies and procedures to issue requests for proposals and obtain statements of qualifications from vendors and did not perform and document due-diligence procedures for contracts used from a purchasing cooperative. Specifically, for two of four purchases tested, auditors noted the Office paid for

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

services totaling \$32,688 without obtaining a statement of qualifications from the vendor or documenting why other statements of qualifications could not be obtained. In addition, for one of four purchases tested, the County paid for services totaling \$27,387 but did not perform due-diligence procedures to ensure that the purchasing cooperative's contract was bid in accordance with the County's policies.

Effect: The Office could enter into a contract that is not the most advantageous to the County.

Cause: The Office did not follow its procurement policies and procedures.

Recommendation: The Office should follow its policies and procedures to obtain required statements of qualifications or to document why statements of qualifications could not be obtained, and perform and document due-diligence procedures when using contracts from purchasing cooperatives to ensure bids are in accordance with county policies.

This finding is similar to a prior-year finding.

12-103

CFDA No.: 97.067 **Homeland Security Grant Program**

**U.S. Department of Homeland Security**

Passed through the Arizona Department of Homeland Security

Award Periods: October 1, 2009 through March 31, 2012

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

October 1, 2011 through March 31, 2013

January 1, 2012 through December 31, 2012

Award Numbers: 555301-02, 777306-02, 777306-03, 777316-01, 777316-02, 888301-01, 888312-01, and 888312-02

Equipment and Real Property Management

Questioned Cost: None

Criteria: In accordance with 44 CFR §13.32(d)(1), the County should maintain property records that identify property purchased with federal program monies, including serial numbers or other identification numbers.

Condition and context: The County maintained a capital assets listing for all equipment; however, the listing did not identify federal program monies used to purchase equipment. Additionally, a separate listing was not maintained identifying all equipment purchased from Homeland Security Grant Program monies. As a result, auditors were unable to identify equipment purchased in prior fiscal years with program monies.

Effect: Failure to maintain control over equipment purchased with federal program monies can result in equipment being lost, stolen, or misused and causes noncompliance with federal regulations. In addition, this finding could potentially affect other federal programs the County administers.

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

Cause: The County's capital assets system does not include fields to identify federally purchased equipment, and there was no county policy to maintain a separate listing.

Recommendation: The County should update its capital assets system to include identification of federally purchased equipment, or alternatively, develop a policy to maintain separate comprehensive listings, by federal program, of equipment purchased with federal program monies.

This finding is similar to a prior-year finding.

12-104

CFDA No.: 97.067 **Homeland Security Grant Program**

**U.S. Department of Homeland Security**

Passed through the Arizona Department of Homeland Security

Award Periods: October 1, 2009 through March 31, 2012

October 1, 2010 through September 30, 2011

October 1, 2011 through September 30, 2012

October 1, 2011 through March 31, 2013

January 1, 2012 through December 31, 2012

Award Numbers: 555301-02, 777306-02, 777306-03, 777316-01, 777316-02, 888301-01, 888312-01, and 888312-02

Procurement and Suspension and Debarment

Questioned Cost: \$20,054

Criteria: In accordance with 44 CFR §13.36, the County should follow its procedures for procuring goods or services. Further, in accordance with 44 CFR §13.35, the County should verify that contracts over \$25,000 are not awarded to an entity that has been suspended or debarred from doing business with the federal government.

Condition and context: The County did not always follow its procurement policies and procedures to issue requests for proposals. Specifically, for one of four purchases tested subject to procurement requirements during the fiscal year, auditors noted the County did not competitively bid the purchase totaling \$20,054. In addition, the County indicated it had verified that the vendors providing goods and services had not been suspended or debarred from doing business with the federal government; however, it did not retain documentation of its verification. Auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred vendors.

Effect: The County could enter into a contract that is not advantageous to the County. Also, payments could be made to suspended or debarred vendors.

Cause: The County did not follow its procurement policies and procedures and was unaware of the need to retain documentation of the verification process.

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012

Recommendation: The County should follow its procurement policies and procedures to help ensure the County enters into contracts that are the most advantageous to the County. In addition, the County should document its determination that vendors being paid over \$25,000 in federal monies have not been suspended or debarred from doing business with the federal government. This may be accomplished by checking the System for Award Management, obtaining a certification from the vendor, or adding a contract clause or condition to the contract.

This finding is similar to a prior-year finding.

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

**Drew John, Chairman**  
**Danny Smith, Vice Chairman**  
**James A. Palmer, Member**

**Terry Cooper, County Manager/Clerk**

July 30, 2013

**Debbie Davenport**  
**Auditor General**  
**2910 North 44<sup>th</sup> Street, Suite 410**  
**Phoenix, AZ 85018**

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by the standards applicable to financial audits contained in Government Auditing Standards, and by the U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the corrective action planned for the financial reporting findings and the names of the contact persons responsible for the corrective action, the corrective action planned, and the anticipated completion date for each federal award finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

**Clel L Flake**  
**Chief Financial Officer**

Graham County  
Corrective Action Plan  
Year Ended June 30, 2012

## Financial Statement Findings

12-01

The County should develop, implement, and test a disaster recovery plan  
Contact person: John Lucas, Information Technology Director  
Anticipated completion date: September 30, 2013

Response: Concur

Corrective Action Plan: The Graham County Information Technology Department is actively involved in converting our informal disaster recovery plan to a formal plan. We are currently working with other counties to discuss their procedures and guidelines to obtain a working model to structure our plan after. We are also working to extend our current system backup from local backups to out of area backups. Our goal is not only to have a local relocation plan in place but to relocate County operations to any location in Arizona. This increases our ability to gain access to equipment and manpower resources in the event of a major disaster. Our goal is to have this plan formalized and a regional resource/disaster plan in place and operational by the August-September 2013 time frame.

## Federal Award Findings and Questioned Costs

12-101

CFDA No.: Not applicable  
Contact person: Clel Flake, Chief Financial Officer  
Anticipated completion date: March 31, 2014

Response: Concur

Corrective Action Plan: The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package. Changes have been made to procedures helping to expedite the audit. To help improve the timeliness of preparing its reports the Department has hired an employee.

12-102

**Special Education Cluster (IDEA):**

CFDA No.: 84.027 **Special Education—Grants to States**  
84.173 **Special Education—Preschool Grants**

Contact persons: Jill Davis, Chief Deputy School Superintendent and Bekki Mattice, Business Manager  
Completion date: July 1, 2013

Response: Concur

Corrective Action Plan: To address the issues of not following the county purchasing procedures we will refine procedures to ensure that requests for proposals are issued, statements of qualifications are obtained from offerors, and due diligence procedures for contracts used from a purchasing cooperative are performed and documented.

Graham County  
Corrective Action Plan  
Year Ended June 30, 2012

12-103

CFDA No.: 97.067 **Homeland Security Grant Program**

Contact person: Clel Flake, Chief Financial Officer

Completion date: October 31, 2013

Response: Concur

Corrective Action Plan: The County will update all equipment purchased with federal funding that is on the capital asset system using an unused user defined field. Then a master list of all equipment will be compiled to ensure that noncapitalized equipment is also included and identified.

12-104

CFDA No.: 97.067 **Homeland Security Grant Program**

Contact person: Brian Douglas, Deputy Director for Emergency Management

Completion date: July 1, 2013

Response: Concur

Corrective Action Plan: The County will ensure policies and procedures are followed and will adjust their procurement processes to ensure any expenditure over \$25,000 will be properly documented to show that staff checked the System for Award Management. This verification will then be filed in order to verify the vendors are eligible to do business with government entities according to federal regulations.

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July 30, 2013

**Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018**

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by the U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

**Clel L Flake  
Chief Financial Officer**

Graham County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2012

Status of Federal Award Findings and Questioned Costs

09-101

CFDA No.: Not applicable

Status: Not corrected

The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package. Changes have been made to procedures helping to expedite the audit. To help improve the timeliness of preparing its reports the Department has hired an employee.

09-105

**WIA Cluster:**

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

Status: Not warranting further action

This finding warrants no further action as the program ended on June 30, 2012.

10-101

CFDA No.: Not applicable

Status: Not corrected

The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package. Changes have been made to procedures helping to expedite the audit. To help improve the timeliness of preparing its reports the Department has hired an employee.

10-102

**WIA Cluster:**

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.260 **ARRA—WIA Dislocated Workers**

Status: Not warranting further action

This finding warrants no further action as the program ended on June 30, 2012.

Graham County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2012

10-103

**WIA Cluster:**

CFDA No.: 17.258 **WIA Adult Program**  
17.259 **WIA Youth Activities**  
17.259 **ARRA—WIA Youth Activities**  
17.260 **WIA Dislocated Workers**  
17.260 **ARRA—WIA Dislocated Workers**

Status: Not warranting further action

This finding warrants no further action as the program ended on June 30, 2012.

10-104

**Special Education Cluster:**

CFDA No.: 84.027 **Special Education-Grants to States**  
84.173 **Special Education-Preschool Grants**  
84.391 **ARRA—Special Education-Grants to States, Recovery Act**  
84.392 **ARRA—Special Education-Preschool Grants, Recovery Act**

Status: Partially corrected

To address the issues of not following the county purchasing procedures we will refine procedures to ensure that requests for proposals are issued, statements of qualifications are obtained from offerors, and due diligence procedures for contracts used from a purchasing cooperative are performed and documented.

10-105

CFDA No.: 93.069 **Public Health Emergency Preparedness Program**

Status: Fully corrected

10-106

CFDA No.: 93.069 **Public Health Emergency Preparedness Program**

Status: Fully corrected

11-101

CFDA No.: Not applicable

Status: Not corrected

The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package. Changes have been made to procedures helping to expedite the audit. To help improve the timeliness of preparing its reports the Department has hired an employee.

Graham County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2012

11-102

**WIA Cluster:**

- CFDA No.: 17.258 **WIA Adult Program**
- 17.259 **WIA Youth Activities**
- 17.259 **ARRA—WIA Youth Activities**
- 17.260 **WIA Dislocated Workers**
- 17.278 **WIA Dislocated Worker Formula Grants**

Status: Not warranting further action

This finding warrants no further action as the program ended on June 30, 2012.

11-103

**WIA Cluster:**

- CFDA No.: 17.258 **WIA Adult Program**
- 17.259 **WIA Youth Activities**
- 17.259 **ARRA—WIA Youth Activities**
- 17.260 **WIA Dislocated Workers**
- 17.278 **WIA Dislocated Worker Formula Grants**

Status: Not warranting further action

This finding warrants no further action as the program ended on June 30, 2012.

11-104

CFDA No.: 81.128 **ARRA—Energy Efficiency and Conservation Block Grant Program**

**Homeland Security Cluster:**

CFDA No.: 97.067 **Homeland Security Grant Program**

Status: Not corrected

The County will adjust their procurement processes to ensure any expenditure over \$25,000 will be properly documented to show that staff checked the System for Award Management. This verification will then be filed in order to verify the vendors are eligible to do business with government entities according to federal regulations.

11-105

**Special Education Cluster:**

- CFDA No.: 84.027 **Special Education—Grants to States**
- 84.173 **Special Education—Preschool Grants**
- 84.391 **ARRA—Special Education-Grants to States, Recovery Act**

Status: Partially corrected

To address the issues of not following the county purchasing procedures we will refine procedures to ensure that requests for proposals are issued, statements of qualifications are obtained from offerors, and due diligence procedures for contracts used from a purchasing cooperative are performed and documented.

Graham County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2012

11-106

**Homeland Security Cluster:**

CFDA No.: 97.067 **Homeland Security Grant Program**

Status: Not corrected

The County will update all equipment purchased with federal funding that is on the capital asset system using an unused user defined field. Then a master list of all equipment will be compiled to ensure that non-capitalized equipment is also included and identified. Any equipment not tagged will be tagged and matched to the master list.