

Graham County, Arizona  
Single Audit Reporting Package  
June 30, 2001

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**Independent Auditor's Report**

The Auditor General of the State of Arizona

The Board of Supervisors of  
Graham County, Arizona

We have audited the accompanying general purpose financial statements of Graham County as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Graham County as of June 30, 2001, and the results of its operations, and the net assets and changes in net assets of its investment trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of Graham County taken as a whole. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by 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 general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2002, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Miller, Allen & Co., P.C.*

January 17, 2002

Graham County  
Combined Balance Sheet- All Fund Types and Account Groups  
June 30, 2001

	Governmental Fund Types			Fiduciary Fund Types	Account Groups	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt
<b>Assets</b>						
Cash and cash equivalents	\$ 869,833	\$ 5,426,920	\$ 225,870	\$ 61,629,495	\$ -	\$ -
Receivables:						
Property taxes	282,992	7,745	-	-	-	-
Accrued interest	-	-	-	202,447	-	-
Due from:						
Other funds	-	45,587	-	-	-	-
Other governments	701,643	382,069	-	-	-	-
Inventories	-	216,057	-	-	-	-
Fixed assets:						
Land	-	-	-	-	2,444,215	-
Buildings	-	-	-	-	10,368,987	-
Machinery and equipment	-	-	-	-	5,479,405	-
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	1,796,965
<b>Total assets</b>	<b>\$ 1,854,468</b>	<b>\$ 6,078,378</b>	<b>\$ 225,870</b>	<b>\$ 61,831,942</b>	<b>\$ 18,292,607</b>	<b>\$ 1,796,965</b>

See accompanying notes to financial statements.

Graham County  
Combined Balance Sheet- All Fund Types and Account Groups  
June 30, 2001  
(Continued)

	Governmental Fund Types			Fiduciary Fund Types	Account Groups	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long- Term Debt
<b>Liabilities and Fund Equity</b>						
Liabilities:						
Accounts payable	\$ 154,791	\$ 57,206	\$ -	\$ -	\$ -	\$ -
Accrued payroll and employee benefits	126,366	67,644	-	-	-	-
Due to:						
Other funds	12,996	32,591	-	-	-	-
Other governments	-	54,161	-	-	-	-
Compensated absences payable	-	-	-	-	-	427,036
Deposits held for others	51,852	-	-	528,578	-	-
Landfill closure and postclosure care costs payable	-	-	-	-	-	1,369,929
Deferred revenues	258,168	81,424	-	-	-	-
Total liabilities	604,173	293,026	-	528,578	-	1,796,965
Fund equity:						
Investment in general fixed assets	-	-	-	-	18,292,607	-
Fund balances:						
Reserved for inventories	-	216,057	-	-	-	-
Reserved for investment trust participants	-	-	-	61,303,364	-	-
Unreserved	1,250,295	5,569,295	225,870	-	-	-
Total fund equity	1,250,295	5,785,352	225,870	61,303,364	18,292,607	-
Total liabilities and fund equity	\$ 1,854,468	\$ 6,078,378	\$ 225,870	\$ 61,831,942	\$ 18,292,607	\$ 1,796,965

See accompanying notes to financial statements.

Graham County  
Combined Statement of Revenues, Expenditures,  
and Changes in Fund Balances- All Governmental Fund Types  
Year Ended June 30, 2001

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Revenues:			
Taxes	\$ 1,798,230	\$ 51,375	\$ -
Licenses and permits	17,237	-	-
Intergovernmental	7,108,088	5,315,494	-
Charges for services	456,783	364,620	-
Fines and forfeits	266,616	1,990	-
Investment income	120,611	276,806	40,419
Rents	12,000	47,693	-
Miscellaneous	90,358	335,362	-
Total revenues	9,869,923	6,393,340	40,419
Expenditures			
Current:			
General government	4,254,681	441,323	-
Public safety	3,297,418	1,187,951	-
Highways and streets	-	1,992,438	-
Sanitation	290,203	323,212	-
Health	196,755	482,125	-
Welfare	1,795,655	-	-
Culture and recreation	142,445	243,960	-
Education	138,042	573,248	-
Capital outlay	420,897	341,160	88,002
Total expenditures	10,536,096	5,585,417	88,002
Excess of revenues over (under) expenditures	(666,173)	807,923	(47,583)
Other financing sources (uses):			
Operating transfers in	200,000	272,035	132,347
Operating transfers out	(132,647)	(271,735)	(200,000)
Total other financing sources (uses)	67,353	300	(67,653)
Excess of revenues and other sources over (under) expenditures and other uses	(598,820)	808,223	(115,236)
Fund balances, July 1, 2000, as restated	1,849,115	4,946,019	341,106
Increase in reserve for inventories	-	31,110	-
Fund balances, June 30, 2001	\$ 1,250,295	\$ 5,785,352	\$ 225,870

See accompanying notes to financial statements.

Graham County  
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual- General and Special Revenue Fund Types  
Year Ended June 30, 2001

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Annually Budgeted Actual	Variance
Revenues:						
Taxes	\$ 1,745,958	\$ 1,798,230	\$ 52,272	\$ 60,546	\$ 51,375	\$ (9,171)
Licenses and permits	25,000	17,237	(7,763)	-	-	-
Intergovernmental	8,349,955	7,108,088	(1,241,867)	5,019,653	4,636,589	(383,064)
Charges for services	662,418	456,783	(205,635)	230,730	328,401	97,671
Fines and forfeits	350,000	266,616	(83,384)	1,500	1,990	490
Investment income	192,011	120,611	(71,400)	134,932	202,825	67,893
Rents	13,000	12,000	(1,000)	-	-	-
Miscellaneous	180,000	90,358	(89,642)	265,540	133,436	(132,104)
Total revenues	11,518,342	9,869,923	(1,648,419)	5,712,901	5,354,616	(358,285)
Expenditures:						
Current:						
General government:						
Board of Supervisors	448,568	444,111	4,457	-	-	-
Treasurer	226,564	206,642	19,922	12,365	-	12,365
Assessor	315,807	300,191	15,616	-	-	-
Recorder	166,091	163,051	3,040	46,875	20,104	26,771
Elections	99,490	99,671	(181)	-	-	-
Attorney	482,278	430,612	51,666	27,697	7,942	19,755
Clerk of the Court	277,702	269,807	7,895	42,821	14,543	28,278
Superior Court	367,362	423,139	(55,777)	296,351	185,287	111,064
Justice of the Peace No. 1	198,013	189,568	8,445	32,564	1,250	31,314
Justice of the Peace No. 2	109,002	106,045	2,957	7,500	-	7,500
Victim witness	48,665	47,051	1,614	74,680	71,108	3,572
Public Fiduciary	67,209	66,647	562	-	-	-
Planning and zoning	140,009	123,960	16,049	-	-	-
Engineering	-	-	-	18,682	-	18,682
Building maintenance	142,385	127,361	15,024	-	-	-
Electrical maintenance	52,806	49,247	3,559	-	-	-
Overtime	12,137	12,795	(658)	-	-	-
General services	231,482	212,230	19,252	-	-	-
Contingency	625,000	154,663	470,337	-	-	-
Miscellaneous	589,206	334,870	254,336	-	-	-

See accompanying notes to financial statements.

Graham County  
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual- General and Special Revenue Fund Types  
Year Ended June 30, 2001  
(Continued)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Annually Budgeted Actual	Variance
Medical Examiner	\$ 21,500	\$ 10,480	\$ 11,020	\$ -	\$ -	\$ -
Information Technology	491,449	482,540	8,909	-	-	-
Total general government	5,112,725	4,254,681	858,044	559,535	300,234	259,301
Public safety:						
Probation	50,064	48,922	1,142	908,987	921,753	(12,766)
Sheriff	2,466,875	2,458,201	8,674	403,121	235,169	167,952
Search and rescue	13,870	7,468	6,402	-	-	-
Juvenile detention center	1,070,920	782,827	288,093	-	-	-
Total public safety	3,601,729	3,297,418	304,311	1,312,108	1,156,922	155,186
Highways and streets:						
Roads	-	-	-	2,947,254	1,926,333	1,020,921
Flood control	-	-	-	312,561	66,105	246,456
Total highway and streets	-	-	-	3,259,815	1,992,438	1,267,377
Sanitation:						
Sanitary landfill	338,738	290,203	48,535	447,574	274,382	173,192
Waste tire facility	-	-	-	45,000	48,830	(3,830)
Total sanitation	338,738	290,203	48,535	492,574	323,212	169,362
Health:						
Health services	195,173	196,755	(1,582)	733,263	474,771	258,492
Total health	195,173	196,755	(1,582)	733,263	474,771	258,492
Welfare:						
Attorney for the indigent	350,000	237,017	112,983	-	-	-
Indigent medical	1,770,609	1,558,638	211,971	-	-	-
Total welfare	2,120,609	1,795,655	324,954	-	-	-

See accompanying notes to financial statements.



Graham County  
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual- General and Special Revenue Fund Types  
Year Ended June 30, 2001  
(Continued)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Annually Budgeted Actual	Variance
Culture and recreation:						
Parks and recreation	\$ 168,868	\$ 142,445	\$ 26,423	\$ -	\$ -	\$ -
Total culture and recreation	168,868	142,445	26,423	-	-	-
Education:						
School superintendent	132,152	129,527	2,625	-	-	-
Employment and training	8,829	8,515	314	-	-	-
Total education	140,981	138,042	2,939	-	-	-
Capital outlay	1,236,286	420,897	815,389	2,994,672	326,086	2,668,586
Total expenditures	12,915,109	10,536,096	2,379,013	9,351,967	4,573,663	4,778,304
Excess of revenues over (under) expenditures	(1,396,767)	(666,173)	730,594	(3,639,066)	780,953	4,420,019
Other financing sources (uses):						
Operating transfers in	-	200,000	200,000	-	239,895	239,895
Operating transfers out	-	(132,647)	(132,647)	-	(36,250)	(36,250)
Total other financing sources (uses)	-	67,353	67,353	-	203,645	203,645
Excess of revenues and other sources over (under) expenditures and other uses	(1,396,767)	(598,820)	797,947	(3,639,066)	984,598	4,623,664
Fund balances, July 1, 2000, as restated	1,396,767	1,849,115	452,348	3,639,066	3,840,228	201,162
Increase in reserve for inventories	-	-	-	-	31,110	31,110
Fund balances, June 30, 2001	\$ -	\$ 1,250,295	\$ 1,250,295	\$ -	\$ 4,855,936	\$ 4,855,936

See accompanying notes to financial statements.

Graham County  
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances  
Budget and Actual- Capital Projects Fund Type  
Year Ended June 30, 2001

	Capital Projects Funds		
	Budget	Actual	Variance
Revenues:			
Investment income	\$ 42,000	\$ 40,419	\$ (1,581)
Total revenues	42,000	40,419	(1,581)
Expenditures:			
Capital outlay	509,319	88,002	421,317
Total expenditures	509,319	88,002	421,317
Excess of revenue over (under) expenditures	(467,319)	(47,583)	419,736
Other financing sources (uses):			
Operating transfers in	-	132,347	132,347
Operating transfers out	-	(200,000)	(200,000)
Total other financing sources (uses)	-	(67,653)	(67,653)
Excess of revenues and other sources over (under) expenditures and other uses	(467,319)	(115,236)	352,083
Fund balances, July 1, 2000	467,319	341,106	(126,213)
Fund balances, June 30, 2001	\$ -	\$ 225,870	\$ 225,870

See accompanying notes to financial statements.

Graham County  
Combining Statement of Net Assets  
Investment Trust Funds  
June 30, 2001

	Treasurer's Investment Pool	Individual Investment Accounts	Total
Assets			
Cash and cash equivalents	\$ 33,885,353	\$ 27,215,564	\$ 61,100,917
Interest and dividends receivable	<u>81,822</u>	<u>120,625</u>	<u>202,447</u>
Total assets	<u>33,967,175</u>	<u>27,336,189</u>	<u>61,303,364</u>
Liabilities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net assets held in trust	<u>\$ 33,967,175</u>	<u>\$ 27,336,189</u>	<u>\$ 61,303,364</u>

See accompanying notes to financial statements.

Graham County  
Combining Statement of Changes in Net Assets  
Investment Trust Funds  
Year Ended June 30, 2001

	Treasurer's Investment Pool	Individual Investment Accounts	Total
Additions:			
Contributions from participants	\$ 41,148,356	\$ 14,579,896	\$ 55,728,252
Investment income	2,140,070	1,706,701	3,846,771
Total additions	<u>43,288,426</u>	<u>16,286,597</u>	<u>59,575,023</u>
Deductions:			
Distributions to participants	40,023,629	12,043,000	52,066,629
Total deductions	<u>40,023,629</u>	<u>12,043,000</u>	<u>52,066,629</u>
Net increase in net assets	3,264,797	4,243,597	7,508,394
Net assets held in trust:			
July 1, 2000, as restated	<u>30,702,378</u>	<u>23,092,592</u>	<u>53,794,970</u>
June 30, 2001	<u>\$ 33,967,175</u>	<u>\$ 27,336,189</u>	<u>\$ 61,303,364</u>

See accompanying notes to financial statements.

**Graham County**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Graham County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the County's more significant accounting policies follows.

The County's major operations include general government, public safety, highway and street maintenance and construction, sanitation, health, welfare, education, and culture and recreation.

**A. Reporting Entity**

The County is a general purpose local government that is governed by a separately elected board of three county supervisors. These general purpose financial statements present all the fund types and account groups of the County (a primary government) and its component units.

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

**B. Fund Accounting**

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund

Graham County  
Notes to Financial Statements  
June 30, 2001

categories. A description of the County's fund categories, types, and account groups follows.

**1. Governmental Funds** account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types.

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

The *Special Revenue Funds* account for specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes.

The *Capital Projects Funds* account for resources to be used for acquiring or constructing major capital facilities.

**2. Fiduciary Funds** account for assets the County holds on behalf of others, and include the following fund types.

The *Investment Trust Funds* account for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

**3. Account Groups** are used to establish control and accountability for certain County assets and liabilities that are not recorded in the funds and include the following two groups.

The *General Fixed Assets Account Group* accounts for all fixed assets of the County.

The *General Long-Term Debt Account Group* accounts for all long-term obligations of the County.

**C. Basis of Accounting**

The financial statements of the Governmental and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred.

**Graham County**  
**Notes to Financial Statements**  
**June 30, 2001**

Revenues susceptible to accrual are property taxes; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the County's behalf. Fines and forfeits, rents, contributions, and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the Investment Trust Funds are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

**D. Budgeting and Budgetary Control**

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

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The County has adopted budgets in accordance with the A.R.S. requirements for the General, some Special Revenue Funds as explained in Note 11, and Capital Projects Funds.

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 approval of the Board of Supervisors. With the exception of the General Fund, each fund includes only one department.

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

**Graham County**  
**Notes to Financial Statements**  
**June 30, 2001**

**E. Cash and Investments**

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

**F. Inventories**

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

**G. Fixed Assets**

Purchased fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as expenditures in the funds from which the expenditures were made. Such assets are capitalized at cost, or estimated cost if historical records are not available. At June 30, 2001, 7% of total fixed assets were estimated at historical cost calculated by backtrending the current cost to the date of acquisition using the appropriate price index. Donated fixed assets are capitalized at their estimated fair market value at the time received.

Depreciation on general fixed assets is not recorded, and interest incurred during construction is not capitalized. Also, public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks, and drainage and lighting systems, are not capitalized.

**H. Compensated Absences**

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

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



**Graham County**  
**Notes to Financial Statements**  
**June 30, 2001**

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. However, for employees with sick leave in excess of 360 hours, sick leave benefits do vest and, therefore, are accrued.

The liability for vested compensated absences of the Governmental Funds is recorded in the General Long Term Debt Account Group since the amount expected to be paid from current financial resources is not significant.

**I. Investment Income**

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

**J. Property Taxes**

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues.

**K. Intergovernmental Grants and Aid**

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenues.

**Note 2 - Individual Fund Deficits**

The Special Revenue listed below had individual fund deficits at June 30, 2001, which resulted from operations during the year. The deficits are expected to be corrected through normal operations in fiscal year 2001-2002.

**Special Revenue Funds**

Fort Thomas Resource Officer	\$ 4,484
ACJC Drug Grant	3,291
Juvenile Standard Probation	2,878
Adult Intensive Probation Services	2,603
Adult Probation State Aid Enhancement	3,546

Graham County  
Notes to Financial Statements  
June 30, 2001

**Note 3 - Deposits and Investments**

Arizona Revised Statutes authorize the County to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

**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 (see Note 13). Those monies are pooled with County monies for investment purposes.

*Deposits* – The investment pool deposits at June 30, 2001, were entirely covered by federal depository insurance or by collateral held by the County's custodial bank in the County's name.

*Investments* - At June 30, 2001, the investments in the County Treasurer's investment pool consisted of the following.

	Fair Value
Investment in State Treasurer's investment pool	\$ 19,807,339
U.S. government securities	20,038,047
Total	<u>\$ 39,845,386</u>

The State Board of Deposit provides oversight for the State Treasurer's pools, and the local Government investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of the participant's pool shares. Those shares are not identified with specific investments and are not subject to custodial credit risk. All other investments were insured or registered in the County's name, or were held by the County or its agent in the County's name.

The investment pool's investments at June 30, 2001 are categorized below to give an indication of the level of risk assumed by the County at year-end.

Category 1 - insured or registered in the County's name, or securities held by the County or its agent in the County's name.

Category 2 - uninsured and unregistered with securities held by the counterparty's trust department or agent in the County's name.

**Graham County**  
**Notes to Financial Statements**  
**June 30, 2001**

Category 3 - uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the County's name.

	Category			Fair Value
	1	2	3	
U.S. government securities		\$ 20,038,047		\$ 20,038,047
Investments not subject to categorization:				
State Treasurer's investment pool				19,807,339
Total				<u>\$ 39,845,386</u>

**Other Deposits** - At June 30, 2001, the carrying amount of the County's total nonpooled cash in bank was \$608,278, and the bank balance was \$677,573. Of the bank balance, \$517,718 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name; \$125,678 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name; and \$34,177 was uninsured and uncollateralized.

**Other Investments** - At June 30, 2001, the County's nonpooled investments consisted of the following.

	Fair Value
Investment in State Treasurer's investment pool	\$ 27,215,564
Total	<u>\$ 27,215,564</u>

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

A reconciliation of cash and investments to amounts shown on the combined balance sheet follows.

Cash and investments:

	County Treasurer's Investment Pool	Other	Total
Cash on hand	\$ 263,295		\$ 263,295
Carrying amount of deposits	219,595	\$ 608,278	827,873
Reported amount of investments	39,845,386	27,215,564	67,060,950
Total	<u>\$ 40,328,276</u>	<u>\$ 27,823,842</u>	<u>\$ 68,152,118</u>

Combined balance sheet:

Cash and cash equivalents	<u>\$ 68,152,118</u>
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**Graham County**  
Notes to Financial Statements  
June 30, 2001

**Note 4 - Property Taxes Receivable**

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

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

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

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2001, were as follows:

Fiscal Year	General Fund	Special Revenue Funds
2000-2001	\$ 169,233	\$ 6,135
Prior	113,759	1,610
Total	<u>\$ 282,992</u>	<u>\$ 7,745</u>

That portion of property taxes receivable not collected within 60 days after June 30, 2001, has been deferred and, consequently, is not included in current-year revenues.

**Note 5 - Due From Other Governments**

Amounts due from other governments at June 30, 2001, include \$134,412 in state-shared revenue from sales tax, \$207,800 in auto lieu tax, \$99,288 in county excise tax distributions due from the State Treasurer, \$46,504 in state motor vehicle license taxes from the Arizona Department of Transportation, \$202,089 in prisoner detention fees from the U.S. Department of Justice, and \$11,550 in other fees from federal, state, and local governments recorded in the General Fund; \$236,459 in state-shared revenue from highway user taxes, and \$145,610 in grants and other fees from federal, state, and local governments recorded in the Special Revenue Funds.

**Note 6 - Interfund Receivables and Payables**

The composition of interfund balances as of June 30, 2001 follows:

**Graham County**  
**Notes to Financial Statements**  
**June 30, 2001**

Receivable Fund	Payable Fund	Amount
Special Revenue – Highway Road Fund	General	\$ 12,996
Special Revenue – Highway Road Fund	Special Revenue-Regional Solid Waste	9,615
Special Revenue – Adult Probation Fees	Special Revenue – Adult Intensive Probation Services	8,559
Special Revenue – Adult Probation Fees	Special Revenue – Adult Probation State Aid Enhancement	14,417
		<u>\$ 45,587</u>

**Note 7 - Changes in General Fixed Assets**

A summary of the changes in general fixed assets follows.

	Balance July 1, 2000	Additions	Deletions	Balance June 30, 2001
Land	\$ 2,427,750	\$ 16,465		\$ 2,444,215
Buildings	10,746,051	6,930	\$ 383,994	10,368,987
Machinery and equipment	5,706,644	361,150	588,389	5,479,405
Total	<u>\$ 18,880,445</u>	<u>\$ 384,545</u>	<u>\$ 972,383</u>	<u>\$ 18,292,607</u>

**Note 8 - Landfill Closure and Postclosure Care Costs**

State and federal laws and regulations require the County to place final covers on its two landfill sites (Central and Regional) when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as an addition to the General Long Term Debt Account Group in each period based on the landfill capacity used as of each balance sheet date. The \$1,369,929 reported as landfill closure and postclosure care liability at June 30, 2001, represents the cumulative amount reported to date on the use of 100.00 and 27.16 percent respectively of the estimated capacity of the two landfills. The County will recognize the remaining estimated cost of closure and postclosure care of \$1,834,486 as the remaining estimated capacity is filled. These cumulative amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2001, and have been adjusted for changes in estimates during the fiscal year. The County expects to close the Central landfill in the year 2004 and the Regional landfill in the year 2019, and the actual cost may be higher due to inflation, changes in technology, or changes in regulations.

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

**Graham County**  
**Notes to Financial Statements**  
**June 30, 2001**

**Note 9 - Risk Management**

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and deductibles of \$5,000 for each occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. A County must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

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

The County provides health benefits to its employees and their dependents through the Graham Combined Trust, currently composed of three member Counties. The Trust provides benefits through a self-funding agreement with its participants and administers the program. The County is responsible for paying the premium and may require its employees to contribute a portion of that premium. The County is not liable for claims in excess of coverage limits and cannot be assessed retroactive premium adjustments. If it withdraws from the Trust, the County would be

**Graham County**  
**Notes to Financial Statements**  
June 30, 2001

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

**Note 10 - Changes in Long-Term Liabilities**

A summary of changes in the liabilities reported in the General Long-Term Debt Account Group follows.

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
Compensated absences payable	\$ 341,552	\$ 85,484		\$ 427,036
Landfill closure and postclosure care costs payable	2,593,949		\$1,224,020	1,369,929
Total	<u>\$2,935,501</u>	<u>\$ 85,484</u>	<u>\$1,224,020</u>	<u>\$ 1,796,965</u>

During the current fiscal year the County changed the estimated capacity used for one of its landfills and the estimated closure dates for both County landfills. The change in estimates has resulted in a reduction in the current period of the liability for the landfill closure and postclosure care costs payable.

**Note 11 -Budgetary Basis of Accounting**

The County's adopted budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America, except for the following. Of the 120 Special Revenue Funds, only 80 are budgeted. The remaining Special Revenue Funds were not budgeted. Consequently, the following adjustments are necessary to present only those Special Revenue Funds budgeted for the year ended June 30, 2001, in order to provide a meaningful comparison.

	Special Revenue Funds				
	Total Revenues	Total Expenditures	Total Other Financing Sources (Uses)	Fund Balances, June 30, 2000, As restated	Fund Balances, June 30, 2001
Combined Statement of Revenues, Expenditures and Changes in Fund Balance	\$ 6,393,340	\$5,585,417	\$300	\$4,946,019	\$5,785,352
Funds not budgeted	<u>(1,038,724)</u>	<u>(1,011,754)</u>	<u>203,345</u>	<u>(1,105,791)</u>	<u>(929,416)</u>
Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	<u>\$5,354,616</u>	<u>\$4,573,663</u>	<u>\$203,645</u>	<u>\$3,840,228</u>	<u>\$4,855,936</u>

Graham County  
Notes to Financial Statements  
June 30, 2001

**Note 12 - Retirement Plans**

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

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

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 189 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Each plan issues a publicly available annual 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 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or (800) 621-3778

**PSPRS**

1020 E. Missouri Ave.  
Phoenix, AZ 85014  
(602) 255-5575

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

*Cost-sharing plan* - For the year ended June 30 2001, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2001, 2000, and 1999 were \$132,288, \$115,519, and \$102,834, respectively, which were equal to the required contributions for the year.

*Agent plan* - For the year ended June 30, 2001, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered



Graham County  
Notes to Financial Statements  
June 30, 2001

payroll, and the County was required to contribute at the actuarially determined rate of 12.33 percent.

**Annual Pension Cost** - The County's pension cost for the agent plan for the year ended June 30, 2001, and related information follow.

	<u><b>PSPRS</b></u>
Contribution rates:	
County	12.33%
Plan members	7.65%
Annual pension cost	\$69,471
Contributions made	\$69,471

The current-year annual required contributions for the PSPRS was determined as part of their June 30, 1999, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 1999, was 20 years.

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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2001	\$ 69,471	100%	\$ -0-
	2000	46,096	100%	-0-
	1999	47,744	100%	-0-

**Analysis of Funding Progress** - The following information was obtained from the three most recent actuarial valuations of the agent plan.

**Graham County**  
Notes to Financial Statements  
June 30, 2001

**PSPRS**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/01	\$ 1,315,876	\$ 1,239,251	\$ 76,625	106.2%	\$ 563,028	- %
6/30/00	1,106,151	1,243,942	(137,791)	88.9%	533,797	25.8%
6/30/99	913,542	1,112,679	(199,137)	82.1%	509,541	39.1%

**Note 13 - County Treasurer's Investment Pool**

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

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

Details of each major investment classification follow.

Investment Type	Principal	Interest Rate(s)	Maturities	Fair Value
U.S. Government securities	\$19,542,042	4.59-6.75%	8/01-5/04	\$20,038,047
Investment in State				
Treasurer's investment pool	19,807,339	6.06%		19,807,339

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

**Statement of Net Assets**

Assets	\$ 40,410,098
Liabilities	-0-
Net assets	<u>\$ 40,410,098</u>

**Graham County**  
**Notes to Financial Statements**  
June 30, 2001

Net assets held in trust for:	
Internal participants	\$ 6,442,923
External participants	33,967,175
Total net assets held in trust	<u>\$ 40,410,098</u>

**Statement of Changes in Net Assets**

Total additions	\$ 60,725,514
Total deductions	57,433,704
Net increase	<u>3,291,810</u>

Net assets held in trust:	
July 1, 2000	37,118,288
June 30, 2001	<u>\$ 40,410,098</u>

**Note 14 - Implementation of GASB Statement No. 34**

Beginning with fiscal year 2002, the County will prepare its external financial reports following the requirements of GASB Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis-for State and Local Governments. Implementing this standard will significantly change the accounting principles and reporting format used by the County in future financial reports.

**Note 15 - Restatement of Beginning Fund Balance/Net Assets**

Beginning fund balance of the special revenue funds has been restated to correct for the accumulated net errors of recording, in prior years, the operating activities of special revenue funds within a trust fund.

	Special Revenue Funds	Investment Trust Funds
Fund balance/net assets, June 30, 2000, as previously reported	\$4,552,049	\$54,188,940
Correction of error	393,970	(393,970)
Fund balance/net assets, July 1, 2000, as restated	<u>\$4,946,019</u>	<u>\$53,794,970</u>

## **Supplementary Information**

**Graham County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2001**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Pass-through programs from:			
Arizona Department of Health Services			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	76-1092	\$ 123,650
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	76-1092	52,533
Arizona State Treasurer			
Schools and Roads – Grants to States	10.665	None	39,097
Total U.S. Department of Agriculture			<u>215,280</u>
<b>U.S. Department of the Interior</b>			
Direct grants			
Payment in Lieu of Taxes	15.226		<u>817,881</u>
<b>U.S. Department of Justice</b>			
Direct grants			
Local Law Enforcement Block Grants Program	16.592		11,687
Local Law Enforcement Block Grants Program	16.592		12,460
Local Law Enforcement Block Grants Program	16.592		3,248
Public Safety Partnership and Community Policing Grants	16.710		35,161
Pass-through programs from:			
Arizona Governor's Office of Community Policy			
Juvenile Accountability Incentive Block Grant	16.523	99JAIBG-03	4,894
Juvenile Accountability Incentive Block Grant	16.523	00JAIBG-06	4,756
Arizona Criminal Justice Commission			
Crime Victim Assistance/Discretionary Grants	16.582	2001-005	31,015
Byrne Formula Grant Program	16.579	AC-130-01	29,182
Total U.S. Department of Justice			<u>132,403</u>
<b>U.S. Federal Emergency Management Agency</b>			
Pass-through programs from:			
Arizona Department of Emergency and Military Affairs			
Emergency Management – State and Local Assistance	83.534	None	<u>21,088</u>
<b>U.S. Department of Labor</b>			
Pass-through programs from:			
Arizona Department of Economic Security			
WIA Administration	17.255	E5701021	29,897
WIA Youth Activities	17.255	E5701021	116,454
WIA Adult Program	17.255	E5701021	84,976
Total U.S. Department of Labor			<u>231,327</u>

See accompanying notes to schedule.

**Graham County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2001**  
**(Continued)**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<b>U.S. Department of Health and Human Services</b>			
Pass-through programs from:			
Arizona Department of Health Services			
Maternal and Child Health Services Block Grant to the States	93.994	76-1105	\$ 16,912
Maternal and Child Health Services Block Grant to the States	93.994	76-1105	20,233
HIV Prevention Program	93.940	852019	4,288
Immunization Grants	93.268	30-4061	8,668
Total U.S. Department of Health and Human Services			<u>50,101</u>
<b>U.S. Department of Education</b>			
Pass-through programs from:			
Arizona Department Education			
Eisenhower Professional Development State Grant	84.281	99-006ED	<u>27,295</u>
Total Expenditures of Federal Awards			<u><u>\$ 1,495,375</u></u>

See accompanying notes to schedule.

Graham County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2001

**Note 1 - Basis of Accounting**

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2001 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the federal contract number was used.

**Note 3 - Subrecipients**

The County did not provide federal awards to subrecipients during the year ended June 30, 2001.

**MILLER, ALLEN & CO., P.C.**

*Certified Public Accountants*

5333 NORTH 7TH STREET, SUITE 205  
PHOENIX, ARIZONA 85014  
TEL (602) 264-3888  
FAX (602) 230-0348

MARK L. LANDY, C.P.A.  
STEPHEN T. HARRIS, C.P.A.

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

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

The Auditor General of the State of Arizona

The Board of Supervisors of  
Graham County, Arizona

We have audited the general purpose financial statements of Graham County as of and for the year ended June 30, 2001, and have issued our report thereon dated January 17, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose 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 instance of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-1 through 01-5.



A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the County's management, in a separate letter dated January 17, 2002.

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

Miller, Allen & Co., P.C.

January 17, 2002

MARK L. LANDY, C.P.A.  
STEPHEN T. HARRIS, C.P.A.

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

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

The Auditor General of the State of Arizona

The Board of Supervisors of  
Graham County, Arizona

**Compliance**

We have audited the compliance of Graham County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Graham County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

## Internal Control over Compliance

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

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

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

*Miller, Allen & Co., P.C.*

January 17, 2002

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2001

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued:

**Unqualified**

YES    NO

Material weakness identified in internal control over financing reporting?

\_\_\_    X

Reportable conditions identified not considered to be material weaknesses?

X    \_\_\_

Noncompliance material to the financial statements noted?

\_\_\_    X

***Federal Awards***

Material weakness identified in internal control over major programs?

\_\_\_    X

Reportable conditions identified not considered to be material weaknesses?

\_\_\_    X (none reported)

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

**Unqualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?

X

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
15.226	Payment of Lieu of Taxes

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X    \_\_\_

***Other Matters***

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section. 315[b])?

\_\_\_    X

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2001

**Section II - Financial Statement Findings**

**Item: 01-1**

*Subject:* Payroll

*Condition:* The payroll department maintains the employee personnel records.

*Recommendation:* To help reduce the risk of fictitious employees, the Human Resources Department should maintain original employee records and periodically compare that information to information used to prepare payroll.

**Item: 01-2**

*Subject:* Payroll

*Condition:* Payroll is not subject to a final review and approval before payment.

*Recommendation:* To help ensure that payroll is proper and to make corrections on a timely basis, a final review and approval of payroll should be performed by an individual independent of the payroll function.

**Item: 01-3**

*Subject:* Payroll

*Condition:* The County does not use Personnel Action Forms to document changes in employment status.

*Recommendation:* To help ensure that all changes in employment status are properly documented, a Personnel Action Form should be used. The form would document salary increases, promotions, and changes in salary funding sources.

**Item: 01-4**

*Subject:* Segregation of Duties

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

- a. The same individual responsible for preparing accounts payable has access to signed checks and also mails them.
- b. The same individual responsible for preparing payroll has access to signed checks, distributes signed checks and receives unclaimed checks.

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2001

- c. The same individual that performs the accounts payable function also maintains the general fixed asset listing.
- d. The same individual performed all accounting duties of the Public Fiduciary, except for the review and signature of checks written to vendors, however, the individual that performs the accounting duties also prepares and signs checks written to trustees.

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

**Item: 01-5**

*Subject:* Journal Entries

*Condition:* One individual, in a management position, has the ability to initiate, approve and record journal entries.

*Recommendation:* To strengthen controls over journal entries, we recommend an authorized employee other than the preparer should review and approve all journal entries prior to posting them to the general ledger.

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

## County Responses



Graham County  
Corrective Action Plan  
Year Ended September 30, 2001

**Financial Statement Findings**

***Item: 01-1***

*Subject:* Payroll

*Contract Person:* Dorthelia Lee, Finance Officer

*Anticipated Completion Date:* Ongoing

*Corrective Action:* The Board of Supervisors will review budget capacity to determine if it is feasible to establish a position in the Human Resources Department to maintain personnel files.

***Item: 01-2***

*Subject:* Payroll

*Contract Person:* Dorthelia Lee, Finance Officer

*Anticipated Completion Date:* Present

*Corrective Action:* A final review and approval of payroll is now performed prior to payment by the County Finance Officer.

***Item: 01-3***

*Subject:* Payroll

*Contract Person:* Dorthelia Lee, Finance Officer

*Anticipated Completion Date:* Present

*Corrective Action:* Personnel Action Forms are now being utilized.

***Item: 01-4***

*Subject:* Segregation of Duties

*Contract Person:* Dorthelia Lee, Finance Officer

*Anticipated Completion Date:* Ongoing

Graham County  
Corrective Action Plan  
Year Ended September 30, 2001

*Corrective Action:* The County is in the process of reviewing its internal controls over accounts payable, payroll, general fixed assets, and the Public Fiduciary. An employee has been assigned to review and approve the activities that are performed by a single employee.

***Item: 01-5***

*Subject:* Journal Entries

*Contract Person:* Dorthia Lee, Finance Officer

*Anticipated Completion Date:* Present

*Corrective Action:* A final review and approval is now performed by the County Manager subsequent to journal entries being posted in the general ledger.