

Graham County, Arizona  
Single Audit Reporting Package  
June 30, 2007

Graham County  
Single Audit Reporting Package  
June 30, 2007

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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 financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County, Arizona (County) as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

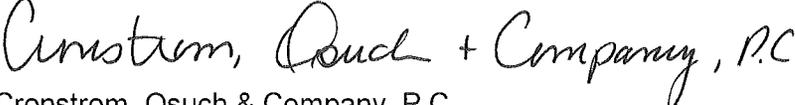
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County, Arizona as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the County retroactively reported all major general infrastructure assets as part of the phased implementation requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The Management's Discussion and Analysis on pages 3 through 9, the Schedule of Agent Retirement Plans' Funding Progress on pages 40 and 41 and the Budgetary Comparison Schedules on pages 42 through 45, are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2008, 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.

  
Cronstrom, Osuch & Company, P.C.

July 7, 2008

Graham County  
Management's Discussion and Analysis  
June 30, 2007

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, 2007.

### Financial Highlights

- The assets of Graham County exceeded its liabilities at the close of the most recent fiscal year by \$31,933,793 (net assets).
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balance of \$6,180,579, a decrease of \$410,411 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,229,356 or 8% of total General Fund expenditures.
- Graham County's capital assets decreased by \$92,937 during the current fiscal year. The key factor in this decrease was increased depreciation for the County infrastructure due to the adjustment to the beginning balance to retroactively report infrastructure assets acquired prior to July 1, 2002 that were previously not required to be reported on the capital assets listing.

### Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Notes to the financial statements.** The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 – 38 of this report.

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Management's Discussion and Analysis  
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**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Graham County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the General Fund and major special revenue funds. Required supplementary information can be found on pages 40 - 45 of this report.

**Government-wide Financial Analysis**

The Condensed Statement of Net Assets (presented below) and the Condensed Statement of Revenues, Expenses and Changes in Net Assets were restated to retroactively report the County's phased implementation of GASB Statement No. 34.

**Statement of Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Graham County, assets exceeded liabilities by \$31.9 million at the close of the most recent fiscal year.

**Condensed Statement of Net Assets**  
As of June 30, 2007 and 2006

	Governmental Activities	
	2007	2006 (restated)
Current and other assets	\$ 8,329,046	\$ 9,613,047
Capital assets	29,350,787	29,443,724
Total assets	37,679,833	39,056,771
Long-term liabilities outstanding	3,714,014	3,017,789
Other liabilities	2,032,026	2,887,417
Total liabilities	5,746,040	5,905,206
Net assets:		
Invested in capital assets, net of related debt	29,162,190	29,173,194
Restricted	4,608,504	4,312,279
Unrestricted	(1,836,901)	(333,908)
Total net assets	\$ 31,933,793	\$ 33,151,565

The largest portion of Graham County's net asset (91%) reflects its investment in capital assets (e.g. land, buildings, machinery and equipment), less any related debt and accumulated depreciation used to acquire those assets that are still outstanding. Graham County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Graham County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was reduced further from a deficit of \$333,908 at June 30, 2006 to a deficit of \$1,836,901 at the end of the fiscal year ended June 30, 2007.

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Management's Discussion and Analysis  
June 30, 2007

The deficit in unrestricted net assets arose primarily because of two factors. First, the County is currently incurring costs to care for the landfill. The County had not implemented changes to recover these costs because the County expected the care of the landfill to have transferred to the City of Safford. The deficit increased significantly in the current year due to increased expenses related to the landfill. Second, the County did not establish a funding policy for unused vacation and sick days incurred during the year.

The decrease in total current assets, related to governmental activities, is due primarily to a decrease in cash. Growth in the County has brought an increase in the use of services, requiring additional personnel while much of the growth in the related revenue lags behind. A more robust economy in the County due to the preparation of opening the new Freeport MCMoran mines north of Safford and sales of property have reduced property tax receivables to historic lows. Capital assets at June 30, 2006 have been adjusted for purchases of infrastructure from July 1, 1980 through June 30, 2002. Depreciation expense during the current fiscal year slightly exceeded additions to capital assets. Long-term liabilities increased largely due to a significant increase in the landfill closure and post closure care costs incurred during the current fiscal year. Other liabilities decreased largely due to a decrease in deferred revenue.

**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 \$1.2 million, with all of the decrease coming from governmental activities. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes whose primary purpose is for the operation of the County.

**Condensed Statement of Revenues,  
Expenses and Changes in Net Assets**  
Years Ended June 30, 2007 and 2006

	Governmental Activities	
	2007	2006 (restated)
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 3,201,236	\$ 3,010,793
Operating grants and contributions	13,058,659	13,253,427
General revenues:		
Property taxes	2,294,384	2,238,004
Sales taxes	5,388,952	4,875,607
Vehicle license tax	822,581	717,643
Miscellaneous	1,475,826	1,370,090
<b>Total revenues</b>	26,241,638	25,465,564
<b>Expenses</b>		
General government	7,095,200	6,464,416
Public safety	9,155,916	7,638,968
Highways and streets	4,354,876	3,779,974
Sanitation	796,341	453,871
Health	1,171,695	1,068,869
Welfare	2,065,546	2,054,238
Culture and recreation	635,665	516,087
Education	2,184,171	2,189,420
<b>Total expenses</b>	27,459,410	24,165,843
<b>Increase in net assets</b>	(1,217,772)	1,299,721
Net assets, July 1, 2006 (as restated)	33,151,565	31,851,844
<b>Net assets, June 30, 2007</b>	\$ 31,933,793	\$ 33,151,565

Graham County  
Management's Discussion and Analysis  
June 30, 2007

**Governmental activities.**

Governmental activities revenues totaled \$26.2 million for fiscal year 2007. The following are highlights of County revenues:

- Operating grants decreased by \$194,768 over the prior fiscal year. Decreases in activity surrounding the Eighth Avenue bridge over the Gila River reflected a decrease of \$420,000 in revenue. Emphasis of the Homeland Security funding went to other counties in the eastern region reflecting a \$570,000 decrease in operating grant revenue. Highway users funding increased \$200,000, license fee revenue increased \$140,000 and other federal revenue for flood repair grants exceeded the bridge funding decrease by nearly \$200,000. A grant used to fund operations of the elections increased \$200,000, LTAF II funding increased \$100,000.
- Sales taxes are comprised of state shared-sales tax and a .5% County excise tax. Overall sales tax revenue increased by \$513 thousand, approximately 11% in the current fiscal year. The state-shared sales tax, the largest component of sales tax, increased at a rate one fourth that of the County excise tax reflecting improved economic conditions inside Graham County. Based upon the Arizona State Department of Revenue projections, it is expected that State-shared sales tax will continue to increase in fiscal year 2007/08.
- Property taxes increased nominally between fiscal years, which reflects the amounts levied in both fiscal years.

Expenses:

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services, with the exception of Sanitation. Sanitation expenses increased approximately \$300,000 because of accelerated use of the Regional Landfill based upon the figures submitted by the City of Safford. The Regional Landfill was taken over by the City of Safford on July 1, 2003; however, the responsibility for the closure and postclosure care costs remained with the County as of June 30, 2007 and are reflected as a liability in the statement of net assets.

Public safety expenses increased \$1.5 million due to a market adjustment for all public safety personnel as a result of the County being well below median wage range for the State and due to increased personnel to account for the construction projects at the new Freeport McMoran, Inc. Safford Mine. Highways and Street expenses increased due to a market adjustment similar to public safety and increased costs of supplies and equipment, as well as increased depreciation expense due to the retroactively added infrastructure.

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

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

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

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June 30, 2007

The General Fund is the chief operating fund of Graham County. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,229,356, which was \$767,537 less than the previous fiscal year. There was an excess of expenditures over revenues in the General Fund of \$823,696 (prior to any other financing sources or uses), which was primarily due to an increase in costs overall. Revenue increases are currently not keeping pace with the expenditures. As previously mentioned, the pressure related to increasing demand for service from the mining sector has exceeded the revenue being generated.

The highway road fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the care of the County. There is a project to build a new major bridge in the County. The bridge is in the engineering and environmental review stage at the present time. Most of the funding will come from federal grants but will require a substantial local match. A conscious effort has been made to increase the highway road fund balance, which increased by \$307,041.

The other governmental fund balance increased by \$50,085. This is a combination of many non-major funds of the County, most funded by various grants. The largest decrease in the fund balance occurred in the parks and recreation funds decreasing nearly \$120,000 due to increasing labor costs. The remaining increase of \$170,000 was spread over several funds.

**General Fund Budgetary Highlights**

The General Fund expenditure budget of \$18,028,403 did not change during the year.

The \$169,969 variance for budgeted revenue for charges for services was due to demand for services not meeting expectations. While fees for services, (Court, Recorder and Assessor) increased, the increase was less than anticipated. Treasurer, Public Fiduciary and Sanitation Inspection fees decreased from the prior year.

The \$154,609 variance for the expenditures budgeted for the Attorney's Office was primarily due to one vacancy all year in an attorney position. The additional \$65,000 in savings was generated by less than budgeted expenditures for psychiatric/psychological expenses, and travel expenses.

The \$119,072 variance for the expenditures budgeted for the Superior Court was due to higher than expected attorney fees, related costs and recording transcription costs.

The \$1,052,411 variance for the expenditures budgeted for contingency was due to very little contingency funds actually required to be spent.

The \$279,848 variance for the expenditures budgeted for miscellaneous was due to insurance premiums being lower than budgeted and several services not utilized as budgeted.

The \$205,472 variance for the expenditures budgeted for information technology was due primarily to capital expenditures being budgeted at the department level, but the actual costs being recorded in general fund capital expenditures. In addition, one technical clerk position was vacant much of the year and phone communication costs were less than budgeted.

Capital outlay expenses were \$565,519 below budget due to unspent budgets for major repairs and replacements.

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Management's Discussion and Analysis  
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Public safety exceeded the budget by \$273,645, largely due to excess expenditures over budget in the Sheriff's department of \$297,492. The increase was due to unbudgeted grants and an increase in officers in the sheriff's department.

**Capital Asset and Debt Administration**

**Capital Assets.** Graham County's capital assets for its governmental activities as of June 30, 2007, amounts to \$29.4 million (net of accumulated depreciation). The capital assets includes land, buildings, infrastructure, machinery and equipment. In the current year, roads and highways constructed prior to July 1, 2002, were retroactively added to the beginning balance. The net decrease in Graham County's capital assets for the current fiscal year was less than 1%, all of which is attributed to governmental activities. The decrease was largely due to an increase in depreciation expense as a result of retroactively adding assets from prior years.

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

**Long-term debt.** At the end of the current fiscal year, the County had total debt outstanding of \$188,597. The County did not have any outstanding bonded debt.

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

State statutes limit the amount of general obligation debt a county may issue to 6 percent of its total assessed valuation. The current debt limitation for the County is \$8,107,054. Since the County has no general obligation debt, this amount equals the debt capacity.

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

- The unemployment rate for Graham County is currently 4.2 percent, which is a decrease from a rate of 5.7 percent a year ago. This compares more favorably to the state's average unemployment rate of 3.7 percent. The City of Safford's unemployment rate is 2.7 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2007/08 fiscal year. The unreserved ending fund balance in the General Fund of \$1,229,356 was appropriated for spending in the 2007/08 fiscal year budget. This use of available fund balance in conjunction with realistic revenue projections and a conservative expenditure plan avoided the need to raise the General Fund property tax rate for the 2007/08 fiscal year.

**Requests for Information**

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

## Basic Financial Statements

Graham County  
Statement of Net Assets  
June 30, 2007

	Primary Government
	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 6,333,659
Property taxes receivable	156,153
Due from other governments	1,355,328
Inventories	483,906
Capital assets, not being depreciated	3,702,020
Capital assets, being depreciated, net	25,648,767
Total Assets	37,679,833
<b>Liabilities</b>	
Accounts payable	373,956
Deposits held for others	170,101
Deferred revenues	1,487,969
Noncurrent liabilities	
Due within one year	588,683
Due in more than one year	3,125,331
Total Liabilities	5,746,040
<b>Net Assets</b>	
Invested in capital assets, net of related debt	29,162,190
Restricted for:	
Highway and streets	2,014,494
Other purposes	2,558,283
Capital projects	35,727
Unrestricted	(1,836,901)
Total Net Assets	\$ 31,933,793

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

Graham County  
Statement of Activities  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net(Expenses)
		Charges for Services	Operating Grants & Contributions	Revenue & Changes in Net Assets
				<u>Primary Government</u>
				<u>Governmental</u>
				<u>Activities</u>
Primary Government:				
Governmental Activities				
General government	\$ 7,095,200	\$ 1,846,199	\$ 1,034,740	\$ (4,214,261)
Public safety	9,155,916	416,939	5,518,583	(3,220,394)
Highways and streets	4,354,876	-	4,286,931	(67,945)
Sanitation	796,341	97,563	60,981	(637,797)
Health	1,171,695	39,977	878,638	(253,080)
Welfare	2,065,546	-	-	(2,065,546)
Culture and recreation	635,665	91,732	-	(543,933)
Education	2,184,171	708,826	1,278,786	(196,559)
Total governmental activities	<u>\$ 27,459,410</u>	<u>\$ 3,201,236</u>	<u>\$ 13,058,659</u>	<u>(11,199,515)</u>

General revenues

Property taxes, levied for general purposes	2,294,384
State shared revenues:	
Sales taxes	5,388,952
Vehicle license tax	822,581
State shared lottery	550,035
Gain on sale of capital assets	3,777
Interest on investments	338,741
Miscellaneous	583,273
Total general revenues	<u>9,981,743</u>
Change in net assets	<u>(1,217,772)</u>
Net assets - July 1, 2006 (as restated)	33,151,565
Net assets - June 30, 2007	<u>\$ 31,933,793</u>

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

Graham County  
Balance Sheet  
Governmental Funds  
June 30, 2007

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 2,304,737	\$ 1,333,500	\$ 2,695,422	\$ 6,333,659
Property taxes receivable	150,785	-	5,368	156,153
Due from other governments	780,287	349,387	225,654	1,355,328
Inventories	-	483,906	-	483,906
Total Assets	<u>\$ 3,235,809</u>	<u>\$ 2,166,793</u>	<u>\$ 2,926,444</u>	<u>\$ 8,329,046</u>
<b>Liabilities</b>				
Accounts payable	\$ 235,834	\$ 73,524	\$ 64,598	\$ 373,956
Deposits held for others	170,101	-	-	170,101
Deferred revenues	1,600,518	-	3,892	1,604,410
Total Liabilities	<u>2,006,453</u>	<u>73,524</u>	<u>68,490</u>	<u>2,148,467</u>
<b>Fund Balances</b>				
Reserved for inventories	-	483,906	-	483,906
Unreserved, reported in:				
General fund	1,229,356	-	-	1,229,356
Special revenue funds	-	1,609,363	2,822,227	4,431,590
Capital projects funds	-	-	35,727	35,727
Total Fund Balances	<u>1,229,356</u>	<u>2,093,269</u>	<u>2,857,954</u>	<u>6,180,579</u>
Total liabilities and fund balances	<u>\$ 3,235,809</u>	<u>\$ 2,166,793</u>	<u>\$ 2,926,444</u>	<u>\$ 8,329,046</u>

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

Graham County  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
June 30, 2007

Fund balances - total governmental funds	\$ 6,180,579
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.	29,350,787
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	116,441
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,714,014)</u>
Net assets of governmental activities	<u><u>\$ 31,933,793</u></u>

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

Graham County  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2007

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Property taxes	\$ 2,248,875	\$ -	\$ 70,232	\$ 2,319,107
Licenses and permits	67,748	-	-	67,748
Intergovernmental	11,488,691	3,839,280	5,127,106	20,455,077
Charges for services	703,531	60,588	1,262,929	2,027,048
Fines and forfeits	314,529	-	7,926	322,455
Investment income	122,568	70,142	146,032	338,742
Rents	24,000	-	125,134	149,134
Miscellaneous	162,287	81,877	357,377	601,541
Total revenues	<u>15,132,229</u>	<u>4,051,887</u>	<u>7,096,736</u>	<u>26,280,852</u>
<b>Expenditures:</b>				
Current				
General government	6,128,045	-	687,852	6,815,897
Public safety	6,667,024	-	1,866,409	8,533,433
Highways and streets	-	3,280,267	419,940	3,700,207
Sanitation	95,584	-	61,216	156,800
Health	223,616	-	868,104	1,091,720
Welfare	2,065,546	-	-	2,065,546
Culture and recreation	211,678	-	380,495	592,173
Education	189,951	-	1,888,985	2,078,936
Capital Outlay	374,481	599,204	812,991	1,786,676
Total expenditures	<u>15,955,925</u>	<u>3,879,471</u>	<u>6,985,992</u>	<u>26,821,388</u>
Excess (deficiency) of revenues over expenditures	<u>(823,696)</u>	<u>172,416</u>	<u>110,744</u>	<u>(540,536)</u>
<b>Other financing sources (uses):</b>				
Transfers in	56,159	4,500	-	60,659
Transfers out	-	-	(60,659)	(60,659)
Total other financing sources (uses)	<u>56,159</u>	<u>4,500</u>	<u>(60,659)</u>	<u>-</u>
Net change in fund balances	(767,537)	176,916	50,085	(540,536)
Fund balances, July 1, 2006	1,996,893	1,786,228	2,807,869	6,590,990
Increase in reserve for inventories	-	130,125	-	130,125
Fund balances, June 30, 2007	<u>\$ 1,229,356</u>	<u>\$ 2,093,269</u>	<u>\$ 2,857,954</u>	<u>\$ 6,180,579</u>

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

Graham County  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances to the Statement of Activities  
 Governmental Funds  
 For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds \$ (540,536)

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

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

Expenditures for capital assets	1,780,154	
Less current year depreciation	(1,858,598)	(78,444)

The Statement of Activities reports only the gain/loss arising from the disposal of existing capital assets. Conversely, governmental funds do not report any gain or loss on disposals of capital assets but the proceeds from the sale increased financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold. (14,493)

Some revenues reported in governmental funds that did not provide current financial resources in prior years have been recognized previously in the statement of activities and therefore are not reported as revenues in the statement of activities. (18,199)

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

Principal payments on long-term debt		81,933
--------------------------------------	--	--------

The purchase of inventory is recorded as a net change in fund balance in the governmental funds, but is reflected as an expense when consumed in the governmental activities. 130,125

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

Increase in compensated absences	(140,390)	
Increase in landfill closure and postclosure care costs	(637,768)	(778,158)

Changes in net assets of governmental activities \$ (1,217,772)

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

Graham County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

	Investment Trust Fund	Agency Fund
<b>Assets</b>		
Cash and cash equivalents	\$ 33,660,482	\$ 33,334
Accrued interest receivable	69,339	
Total assets	33,729,821	\$ 33,334
<b>Liabilities</b>		
Deposits held for others	-	\$ 33,334
Total liabilities	-	\$ 33,334
<b>Net Assets</b>		
Held in trust for investment participants	\$ 33,729,821	

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

**Graham County**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**Year Ended June 30, 2007**

	<u>Investment Trust Fund</u>
Additions:	
Contributions from participants	\$ 55,573,060
Investment earnings	<u>1,677,131</u>
Total additions	<u>57,250,191</u>
Deductions:	
Distributions to participants	<u>57,685,741</u>
Total deductions	<u>57,685,741</u>
Change in net assets	(435,550)
Net assets, July 1, 2006	<u>34,165,371</u>
Net assets, June 30, 2007	<u><u>\$ 33,729,821</u></u>

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

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

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

For the fiscal year ended June 30, 2007, the County implemented the provisions of GASB Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analyses – for State and Local Governments* that requires at the applicable transition date the retroactive capitalization and reporting of all major general infrastructure assets.

**A. Reporting Entity**

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County’s operations. Therefore, data from these units are 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 County has no component units.

**B. Basis of Presentation**

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

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

**Graham County**  
Notes to Financial Statements  
Year Ended June 30, 2007

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 and
- operating grants and contributions

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

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

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

The County reports the following major governmental funds:

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

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

The County reports the following fund types:

*The Investment Trust Fund* accounts for pooled assets held and invested by the County Treasurer on behalf of County departments and other governmental entities.

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

**Graham County**  
Notes to Financial Statements  
Year Ended June 30, 2007

**C. Basis of Accounting**

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

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

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

**D. Cash and Investments**

All investments are stated at fair value.

**E. Inventories**

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

Inventories in the government-wide financial statements are recorded as assets when purchased and expensed when consumed.

**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
Vehicles	\$5,000	Straight-line	5 years
Infrastructure	\$10,000	Straight-line	40 years

**H. Investment Income**

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

**I. Compensated Absences**

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

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

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

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

**Note 2 - Individual Fund Deficit**

The Racing Commission Parks Fund which is an Other Governmental Fund had a fund deficit of \$195,273 at June 30, 2007. The deficit is expected to be corrected through normal operations.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

**Note 3 - Deposits and Investments**

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

*Credit risk*

Statutes have the following requirements for credit risk:

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

*Custodial credit risk*

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

*Concentration of credit risk*

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

*Interest rate risk*

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

*Foreign currency risk*

Statutes do not allow foreign investments.

**Deposits** – At June 30, 2007, the carrying amount of the County's deposits was \$1,483,872, and the bank balance was \$1,602,016. The County does not have a policy related to custodial credit risk.

**Graham County**  
Notes to Financial Statements  
Year Ended June 30, 2007

**Investments** – The County’s investments at June 30, 2007, were as follows:

Investment Type	Amount
State Treasurer’s investment pool 7	\$ 11,526,990
State Treasurer’s investment pool 5	2,688,106
U.S. agency securities	17,770,759
U.S. Treasury securities	6,446,450
Total	<u>\$ 38,432,305</u>

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

**Credit Risk** – The County does not have a formal investment policy with respect to credit risk. At June 30, 2007, 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	\$11,526,990
State Treasurer’s investment pool 5	Unrated	Not applicable	2,688,106
U.S. agency securities	AAA	Standard + Poor’s	17,770,759
Total			<u>\$31,985,855</u>

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

**Concentration of credit risk** – The County does not have a formal investment policy with respect to concentration of credit risk. The County had investments at June 30, 2007, of 5 percent or more in the Federal National Mortgage Association, the Federal Home Loan Bank and the Federal Farm Credit Bank. These investments were 12.29 percent, 26.12 percent and 5.41 percent, respectively, of the County’s total investments.

**Graham County**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

**Interest rate risk** – The County does not have a formal investment policy with respect to interest rate risk. At June 30, 2007, the County had the following investments in debt securities.

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (In Years)</u>
State Treasurer's investment pool 7	\$ 11,526,990	0.14
State Treasurer's investment pool 5	2,688,106	0.21
U.S. agency securities	17,770,759	1.30
U.S. Treasury securities	6,446,450	1.73
<b>Total</b>	<b><u>\$ 38,432,305</u></b>	

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

Cash, deposits, and investments:

Cash on hand	\$ 111,298
Amount of deposits	1,483,872
Amount of investments	<u>38,432,305</u>
<b>Total</b>	<b><u>\$ 40,027,475</u></b>

Statements of Net Assets and Fiduciary Net Assets:

	Governmental Activities	Investment Trust Fund	Agency Fund	Total
Cash and cash equivalents	<u>\$ 6,333,659</u>	<u>\$33,660,482</u>	<u>\$ 33,334</u>	<u>\$ 40,027,475</u>

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

**Note 4 - Due From Other Governments**

Amounts due from other governments at June 30, 2007, include \$208,891 in state-shared revenue from sales tax, \$190,661 in county excise tax distributions due from the State Treasurer, \$84,055 in state motor vehicle license taxes from the Arizona Department of Transportation, \$205,719 in prisoner detention fees from the U.S. Department of Justice, and \$90,961 in other fees from federal, state, and local governments recorded in the General Fund; \$260,112 in state-shared revenue from highway user taxes, \$77,055 in state motor vehicle license taxes from the Arizona Department of Transportation and \$12,220 in fees from other local governments recorded in the Highway Road Fund; and \$225,654 in other fees and grants from federal, state and local governments recorded in the Other Governmental Funds.

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

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Delinquent property taxes receivable	\$ 112,549	\$ -0-
Unearned grant revenue	-0-	1,487,969
Other Governmental Funds		
Delinquent property taxes receivable	3,892	-0-
	<u>\$ 116,441</u>	<u>\$ 1,487,969</u>

**Graham County**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

**Note 5 - Capital Assets**

Capital assets activity for the year ended June 30, 2007, was as follows:

	Balance July 1, 2006 (Restated)	Increases	Decreases	Balance June 30, 2007
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,720,646	\$ -	\$ -	\$ 2,720,646
Construction in progress	754,833	244,452	17,911	981,374
Total capital assets not being depreciated	<u>3,475,479</u>	<u>244,452</u>	<u>17,911</u>	<u>3,702,020</u>
Capital assets being depreciated:				
Buildings	13,790,712	16,785	-	13,807,497
Machinery and equipment	9,570,817	1,293,117	151,771	10,712,163
Infrastructure	16,491,200	243,711	-	16,734,911
Total	<u>39,852,729</u>	<u>1,553,613</u>	<u>151,771</u>	<u>41,254,571</u>
Less accumulated depreciation for:				
Buildings	3,899,414	336,012	-	4,235,426
Machinery and equipment	5,587,445	1,106,403	137,278	6,556,570
Infrastructure	4,397,625	416,183	-	4,813,808
Total	<u>13,884,484</u>	<u>1,858,598</u>	<u>137,278</u>	<u>15,605,804</u>
Total capital assets being depreciated, net	<u>25,968,245</u>	<u>(304,985)</u>	<u>14,493</u>	<u>25,648,767</u>
Governmental activities capital assets, net	<u>\$ 29,443,724</u>	<u>\$ (60,533)</u>	<u>\$ 32,404</u>	<u>\$ 29,350,787</u>

The beginning balance of the capital assets was restated by \$7,760,887 to retroactively record infrastructure acquired prior to July 1, 2002, that was not previously required to be reported on the County's financial statements. See Note 11 for a reconciliation of the prior year ending net assets to the current year beginning net assets.

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	\$ 315,390
Public safety	546,062
Highways and streets	776,531
Sanitation	1,773
Health	73,915
Culture and recreation	40,225
Education	104,702
Total governmental activities depreciation expense	<u>\$1,858,598</u>

**Graham County**  
Notes to Financial Statements  
Year Ended June 30, 2007

**Note 6 - Capital Leases**

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

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Assets:	
Equipment	\$ 331,222
Less: accumulated depreciation	<u>115,928</u>
Total	<u>\$ 215,294</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

	<u>Governmental Activities</u>
Year ending June 30,	
2008	\$ 90,829
2009	90,829
2010	<u>15,138</u>
Total minimum lease payments	196,796
Less: amount representing interest	<u>(8,199)</u>
Present value of net minimum lease payments	<u>\$ 188,597</u>

**Note 7 - Long-term Liabilities**

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2007.

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due within 1 year</u>
<b>Governmental activities:</b>					
Compensated absences payable	\$ 647,363	\$ 622,988	\$ (482,598)	\$ 787,753	\$ 501,902
Leases payable	270,530	-0-	(81,933)	188,597	85,113
Landfill closure and postclosure care costs payable	2,099,896	639,393	(1,625)	2,737,664	1,668
				<u>2,737,664</u>	<u>1,668</u>
Governmental activities long-term liabilities	<u>\$ 3,017,789</u>	<u>\$ 1,262,381</u>	<u>\$ (566,156)</u>	<u>\$ 3,714,014</u>	<u>\$ 588,683</u>

**Graham County**  
Notes to Financial Statements  
Year Ended June 30, 2007

**Note 8 - Compensated Absences**

Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2007, the County paid for compensated absences as follows: 56 percent from the General Fund, 10 percent from other major funds, and 34 percent from other funds.

**Note 9 - Landfill Closure and Postclosure Care Costs**

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

The amount recognized each year is based on landfill capacity used at the end of each fiscal year. The \$2,737,664 reported as landfill closure and postclosure care liability at June 30, 2007, represents the cumulative amount reported to date for postclosure care of the Central Landfill (\$80,423), as well as closure (\$2,045,928) and postclosure costs (\$611,313) for the Regional Landfill, which represent the estimated current costs to maintain and monitor the landfill. The amount is based on the use of 100 and 91 percent, respectively, of the estimated capacity of the two landfills. The estimated remaining landfill life for the Regional Landfill is 13 years and the remaining liability to be recognized for the landfill closure and postclosure care costs, based on current year costs is \$262,804 and will be recognized as the remaining capacity is filled. These funds are expected to be adequate for the 30 years of monitoring currently required by Arizona Revised Statutes. The County closed the Central Landfill during the 2003 fiscal year and although it surrendered the Regional Landfill operations to the city of Safford on July 1, 2003, the County is still working with the Arizona Department of Environmental Quality to transfer the financial liability. The actual costs 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  
Year Ended June 30, 2007

**Note 10 - Interfund Balances and Activity**

Interfund transfers for the year ended June 30, 2007, were as follows:

	Transfer to		
	General Fund	Highway Road Fund	Total
<b>Transfer from</b>			
Other Governmental Funds	<u>\$ 56,159</u>	<u>\$ 4,500</u>	<u>\$ 60,659</u>

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

**Note 11 - Beginning Balances Restated**

During the fiscal year ended June 30, 2007, the County retroactively recorded all infrastructure assets acquired prior to July 1, 2002, that were not previously required to be reported on the County's financial statements. The following reconciliation is necessary to reconcile the beginning net assets of the governmental activities to the prior year audited financial statements:

	Governmental Activities
Beginning net assets, June 30, 2006 (as previously stated)	\$ 25,390,678
General infrastructure assets, net of accumulated depreciation	7,760,887
Beginning net assets, July 1, 2006 (as restated)	\$ 33,151,565

**Note 12 - Risk Management**

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

**Graham County**  
Notes to Financial Statements  
Year Ended June 30, 2007

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. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A County must participate in the pool for 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 every five years. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

**Note 13 - Condensed Financial Statements of the County Treasurer's Investment Pool**

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

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

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

Details of each major investment classification follow.

Investment Type	Principal	Interest Rates	Maturities	Fair Value
State Treasurer's investment pool 7	\$ 11,526,990	4.98%	None stated	\$ 11,526,990
State Treasurer's investment pool 5	2,688,106	5.26%	None stated	2,688,106
U.S. agency securities	17,847,149	3.39 – 5.61%	7/07 – 9/10	17,770,759
U.S. Treasury securities	6,091,905	2.44 – 5.75%	8/07 – 11/10	6,446,450
	<u>\$ 38,154,150</u>			<u>\$ 38,432,305</u>

**Graham County**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

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

**Statement of Net Assets**

Assets	\$ 39,845,230
Liabilities	-0-
Net assets	<u>\$ 39,845,230</u>

Net assets held in trust for:	
Internal participants	\$ 6,115,409
External participants	33,729,821
Total net assets held in trust	<u>\$ 39,845,230</u>

**Statement of Changes in Net Assets**

Total additions	\$ 84,921,542
Total deductions	86,351,455
Net decrease	<u>(1,429,913)</u>

Net assets held in trust:	
July 1, 2006	41,275,143
June 30, 2007	<u>\$ 39,845,230</u>

**Note 14 - Retirement Plans**

**Arizona State Retirement System**

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

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

**Funding Policy** - The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rate. For the year ended June 30, 2007, active plan members and the County were each required by statute to contribute at the actuarially determined rate of 9.10 percent (8.60 percent retirement and .50 percent long-term disability) of the members' annual covered payroll. The County's contributions to the System for the years ended June 30, 2007, 2006, and 2005 were \$615,523, \$470,763, and \$359,230, respectively, which were equal to the required contributions for the year.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

**Public Safety Personnel Retirement System (PSPRS)**

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

**Funding Policy** - Covered employees are required to contribute 7.65 percent of their annual salary to the PSPRS for the Graham County Sheriffs and Graham County Attorney Investigators. The County is required to contribute the remaining amounts necessary to fund the PSPRS, as determined by the actuarial basis specified by statute. The current rate is 10.99 percent and 5.00 percent of annual covered payroll for the Graham County Sheriffs and Graham County Attorney Investigators, respectively.

**Annual Pension Cost** - During the year ended June 30, 2007, the County's annual pension cost of \$95,612 for Graham County Investigators and \$2,737 for Graham County Attorney Investigators was equal to the County's required and actual contributions.

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the projected unit credit actuarial cost method. Significant actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.50% per year compounded annually, and (b) projected salary increases ranging from 5.50 percent to 8.50 percent (including inflation at 5.00%) per year compounded annually.

The actuarial value of the County's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005, was 30 years.

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

**Corrections Officer Retirement Plan (CORP)**

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

**Funding Policy** - Covered employees are required to contribute 8.50 percent of their annual salary to the CORP for the Graham County Dispatchers and Graham County Corrections Officers. The County is required to contribute the remaining amounts necessary to fund the CORP, as determined by the actuarial basis specified by statute. The current rate is 5.00 and 11.22 percent of annual covered payroll for the Graham County Dispatchers and Graham County Corrections Officers.

**Annual Pension Cost** - During the year ended June 30, 2007, the County's annual pension cost of \$15,482 for Graham County Dispatchers and \$85,818 for Graham County Corrections Officers was equal to the County's required and actual contributions.

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the projected unit credit actuarial cost method. Significant actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.50% per year compounded annually, and (b) projected salary increases ranging from 5.50 percent to 8.50 percent (including inflation at 5.00%) per year compounded annually.

The actuarial value of the County's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a seven-year period. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005, was 30 years.

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

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

**Elected Officials Retirement Plan (EORP)**

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

**Funding Policy** - Covered employees are required to contribute 7.00 percent of their annual salary to the EORP. The County is required to contribute the remaining amounts necessary to fund the EORP, as determined by the actuarial basis specified by statute. The current rate is 11.00 percent of annual covered payroll.

During the years ended June 30, 2007, 2006, and 2005 the County’s contributions to the plan were \$95,262, \$114,315 and \$-0- respectively, which were equal to the County’s required contributions for the year.

Graham County  
Notes to Financial Statements  
Year Ended June 30, 2007

**Three-Year Trend Information**

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

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 74,752	100%	\$ -0-
2006	84,267	100%	-0-
2007	95,612	100%	-0-

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

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ 2,948	100%	\$ -0-
2006	3,977	100%	-0-
2007	2,737	100%	-0-

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

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ -0-	100%	\$ -0-
2006	4,582	100%	-0-
2007	15,482	100%	-0-

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

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2005	\$ -0-	100%	\$ -0-
2006	62,979	100%	-0-
2007	85,818	100%	-0-

Required Supplementary Information

**Graham County**  
**Required Supplementary Information**  
**Schedule of Agent Retirement Plans' Funding Progress**  
**June 30, 2007**

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage Of Covered Payroll ([a-b]/c)
6/30/05	\$ 1,556,555	\$ 1,969,286	\$ (412,731)	79.0%	\$ 689,645	59.8%
6/30/06	1,403,732	2,009,275	(605,543)	69.9%	641,033	94.5%
6/30/07	1,386,772	2,619,386	(1,232,614)	52.9%	905,717	136.1%

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage Of Covered Payroll ([a-b]/c)
6/30/05	\$ 178,289	\$ 119,911	\$ 58,378	148.7%	\$ 43,640	N/A %
6/30/06	195,840	148,463	47,377	131.9%	47,693	N/A %
6/30/07	205,329	204,958	371	100.2%	54,743	N/A %

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage Of Covered Payroll ([a-b]/c)
6/30/05	\$ -	\$ 66,061	\$ (66,061)	0%	\$ 225,628	29.3%
6/30/06	93,997	87,695	6,302	107.2%	35,812	N/A %
6/30/07	144,773	114,920	29,853	126.0%	371,264	N/A %

Graham County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2007

**Corrections Officer Retirement Plan – Graham County Corrections Officers**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage Of Covered Payroll ([a-b]/c)
6/30/05*	\$ -	\$ -	\$ -	- %	\$ -	N/A %
6/30/06	963,450	911,808	51,642	105.7%	667,910	N/A %
6/30/07	1,075,195	1,078,322	(3,127)	99.7%	713,554	0.4 %

\* The County did not adopt the Corrections Officer Retirement Plan for the Graham County Corrections Officer until the fiscal year ended June 30, 2006.

Graham County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 2,189,361	\$ 2,189,361	\$ 2,248,875	\$ 59,514
Licences and permits	120,000	120,000	67,748	(52,252)
intergovernmental	11,491,825	11,491,825	11,488,691	(3,134)
Charges for services	873,500	873,500	703,531	(169,969)
Fines and forfeits	400,000	400,000	314,529	(85,471)
Investment income	50,000	50,000	122,568	72,568
Rents	36,000	36,000	24,000	(12,000)
Miscellaneous	103,000	103,000	162,287	59,287
Total revenues	15,263,686	15,263,686	15,132,229	(131,457)
<b>Expenditures:</b>				
Current:				
General Government				
Board of Supervisors	609,272	609,272	595,462	13,810
Treasurer	297,232	297,232	295,568	1,664
Assessor	471,296	471,296	433,030	38,266
Recorder	241,808	241,808	207,344	34,464
Elections	158,224	158,224	138,579	19,645
Attorney	969,982	969,982	815,373	154,609
Clerk of the Court	514,463	514,463	508,107	6,356
Superior Court	486,186	486,186	605,258	(119,072)
Justice of the Peace No.1	299,892	299,892	303,002	(3,110)
Justice of the Peace No.2	232,601	232,601	221,190	11,411
Victim Witness	29,640	29,640	16,204	13,436
Public Fiduciary	97,525	97,525	95,511	2,014
Planning and Zoning	245,058	245,058	222,610	22,448
Building Maintenance	187,625	187,625	186,328	1,297
Electrical Maintenance	72,604	72,604	70,494	2,110
Overtime	13,850	13,850	969	12,881
General Services	267,450	267,450	304,688	(37,238)
Contingency	1,070,000	1,070,000	17,589	1,052,411
Miscellaneous	721,891	721,891	442,043	279,848
Medical Examiner	30,000	30,000	32,040	(2,040)
Information Technology	822,128	822,128	616,656	205,472
Total general government	7,838,727	7,838,727	6,128,045	1,710,682
Public Safety				
Probation	84,707	84,707	81,893	2,814
Sheriff	4,079,068	4,079,068	4,376,560	(297,492)
Search and Rescue	32,300	32,300	28,760	3,540
Juvenile Detention Center	1,965,285	1,965,285	1,966,038	(753)
Animal Shelter	232,019	232,019	213,773	18,246
Total public safety	6,393,379	6,393,379	6,667,024	(273,645)

See accompanying notes to budgetary comparison schedules.

(Continued)

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2007

(Concluded)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Sanitation				
Sanitary Landfill	111,600	111,600	95,584	16,016
Total sanitation	111,600	111,600	95,584	16,016
Health				
Health Services	236,813	236,813	223,616	13,197
Total health	236,813	236,813	223,616	13,197
Welfare				
Attorney for the Indigent	500,000	500,000	470,666	29,334
Indigent Medical	1,620,140	1,620,140	1,594,880	25,260
Total Welfare	2,120,140	2,120,140	2,065,546	54,594
Cultural and recreation				
Parks and Recreation	193,671	193,671	211,678	(18,007)
Total culture and recreation	193,671	193,671	211,678	(18,007)
Education				
School Superintendent	181,533	181,533	179,227	2,306
Employment and Training	12,540	12,540	10,724	1,816
Total education	194,073	194,073	189,951	4,122
Capital Outlay	940,000	940,000	374,481	565,519
Total expenditures	18,028,403	18,028,403	15,955,925	2,072,478
Excess (deficiency) of revenues over expenditures	(2,764,717)	(2,764,717)	(823,696)	1,941,021
Other financing sources (uses):				
Transfer in	-	-	56,159	56,159
Total other financing sources (uses)	-	-	56,159	56,159
Net change in fund balances	(2,764,717)	(2,764,717)	(767,537)	1,997,180
Fund balance, July 1, 2006	2,764,717	2,764,717	1,996,893	(767,824)
Fund balance, June 30, 2007	\$ -	\$ -	\$ 1,229,356	\$ 1,229,356

See accompanying notes to budgetary comparison schedules.

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
Highway Road Fund  
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues:				
Intergovernmental	\$ 3,765,482	\$ 3,765,482	\$ 3,839,280	\$ 73,798
Charges for services	95,000	95,000	60,588	(34,412)
Investment income	43,265	43,265	70,142	26,877
Miscellaneous	15,913	15,913	81,877	65,964
Total revenues	<u>3,919,660</u>	<u>3,919,660</u>	<u>4,051,887</u>	<u>132,227</u>
Expenditures				
Current:				
Highways and Streets				
General Road	4,107,346	4,107,346	2,925,769	1,181,577
Engineering	315,465	315,465	289,077	26,388
Safety Department	73,622	73,622	65,421	8,201
Total highways and streets	<u>4,496,433</u>	<u>4,496,433</u>	<u>3,280,267</u>	<u>1,216,166</u>
Capital Outlay	<u>569,216</u>	<u>569,216</u>	<u>599,204</u>	<u>(29,988)</u>
Total expenditures	<u>5,065,649</u>	<u>5,065,649</u>	<u>3,879,471</u>	<u>1,186,178</u>
Excess (deficiency) of revenues over expenditures	<u>(1,145,989)</u>	<u>(1,145,989)</u>	<u>172,416</u>	<u>1,318,405</u>
Other financing sources and uses:				
Transfer in	-	-	4,500	4,500
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>4,500</u>	<u>4,500</u>
Net change in fund balances	(1,145,989)	(1,145,989)	176,916	1,322,905
Fund balance, July 1, 2006	1,145,989	1,145,989	1,786,228	640,239
Increase in reserve for inventories	-	-	130,125	130,125
Fund balance, June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,093,269</u>	<u>\$ 2,093,269</u>

See accompanying notes to budgetary comparison schedules.

Graham County  
 Required Supplementary Information  
 Notes to Budgetary Comparison Schedules  
 June 30, 2007

**Note 1 - Budgeting and Budgetary Control**

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

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

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

**Note 2 - Expenditures in Excess of Appropriations**

For the year ended June 30, 2007, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) for the General Fund in the departments. Budgets in these departments have been increased for the next fiscal year and discussions are ongoing with Department Supervisors/Elected Officials to change procedure, including adding new financial software to give departments' greater access to data for making financial decisions.

<u>Department</u>	<u>Excess</u>
Superior Court	\$ 119,072
Justice of the Peace No. 1	3,110
General Services	37,238
Medical Examiner	2,040
Sheriff	297,492
Juvenile Detention Center	753
Parks and Recreation	18,007

## Supplementary Information

**Graham County**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2007

<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 (WIC)	10.557	HG361073	\$ 180,245
Arizona State Treasurer Schools and Roads – Grants to States	10.665	None	79,820
Two National Resource Conservation Service Grants	10.Unknown	None	<u>251,128</u>
Total U.S. Department of Agriculture			<u>511,193</u>
<b>U.S. Department of the Interior</b>			
Direct grants:			
Payments in Lieu of Taxes	15.226		1,519,665
BLM – Undocumented Immigrants Environmental Mitigation & Coordination	15.Unknown		6,019
BLM – Patrol Grant	15.Unknown		<u>12,448</u>
Total U.S. Department of the Interior			<u>1,538,132</u>
<b>U.S. Department of Justice</b>			
Direct grants:			
Methamphetamine Interdiction Grant	16.710		21,019
Pass-through programs from:			
Arizona Criminal Justice Commission Byrne Formula Grant Program	16.579	AC-130-03	24,488
Crime Victim Assistance/Discretionary Grants	16.582	VA03021	<u>33,473</u>
Total U.S. Department of Justice			<u>78,980</u>
<b>U.S. Department of Labor</b>			
Pass-through programs from:			
Arizona Department of Economic Security WIA Cluster:			
WIA Administrative Costs	17.259	E5704005	5,138
WIA Youth Activities	17.259	E5703005	66,520
WIA Adult Program	17.258	E5703005	<u>109,619</u>
Total U.S. Department of Labor			<u>181,277</u>
<b>U.S. Department of Education</b>			
Pass-through programs from:			
Arizona Department of Education			
Title I – LEA School Improvement	84.010	SO10A020003	19,118
Title I Program for Neglected and Delinquent Children	84.013	SO13A020003	23,612
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	HO27A000007	401,108
Special Education - Preschool Grants	84.173	H143A010003	<u>23,620</u>
Total Special Education Cluster			<u>424,728</u>
Eisenhower Professional Development State Grants	84.281	S281A000003	2,708
Innovative Education Program Strategies	84.298	S298A020003	254
Education Technology State Grants	84.318	S318X030003	138,180
Improving Teacher Quality State Grants	84.367	S367A020003	43,740
Secure Care	84.027	HO27A0500007	16,698
Jail Resource Officer	84.Unknown	Unknown	<u>36,239</u>
Total U.S. Department of Education			<u>705,277</u>

(Continued)

**Graham County**  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2007

<u>Federal Grantor/Pass-Through Grantor/Program Title (Concluded)</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			
Immunization Grants	93.268	15-2041	\$ 44,371
Breast and Cervical Cancer Early Detection	93.919	253014	59,278
Healthy Start Initiative	93.926	HG361270	14,417
HIV Prevention Activities: Health Department Based	93.940	15-2013	6,283
Maternal and Child Health Services Block Grant to the States	93.994	76-1105	46,704
Bioterrorism Grant Training and Curriculum Development Program	93.996	252044	<u>239,564</u>
Total U.S. Department of Health and Human Services			<u>410,617</u>
<b>U.S. Department of Homeland Security</b>			
<b>Homeland Security Grant Cluster:</b>			
Pass-through programs from:			
Arizona Department of Emergency and Military Affairs			
Emergency Management – Performance Grants	97.042	Unknown	72,231
Homeland Security Grant Program	97.067	2006-TE-CX-0196	<u>269,511</u>
Total U.S. Department of Homeland Security			<u>341,742</u>
Total Expenditures of Federal Awards			<u>\$ 3,767,218</u>

Graham County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2007

**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 2007 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to the program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" was used.

**Note 3 - Subrecipients**

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

Program Title	CFDA Number	Amount
Education Technology State Grants	84.318	\$ 138,180

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

The Auditor General of the State of Arizona

The Board of Supervisors of  
Graham County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County, Arizona (County) as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 7, 2008. Our report was modified to include an emphasis of a matter for the retroactive reporting of general infrastructure assets as part of the implementation of Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

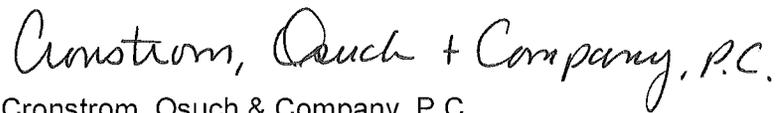
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

### **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*. We noted certain matters that we reported to management of Graham County in a separate letter dated July 7, 2008.

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



Cronstrom, Osuch & Company, P.C.

July 7, 2008

**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, Arizona (County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 of 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompany schedule of findings and questioned costs as items 07-1 and 07-2.

## 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, 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 would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in the County's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 07-1 and 07-2 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 Auditor General of the State of Arizona, the Board of Supervisors, federal awarding agencies, and pass-through entities. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

  
Cronstrom, Osuch & Company, P.C.

July 7, 2008

Graham County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2007

**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 _____
Significant deficiency identified not considered to be a material weakness?	_____	_____ X _____ (None reported)
Noncompliance material to the financial statements noted?	_____	_____ X _____

**Federal Awards**

Material weakness identified in internal control over major programs?	_____	_____ X _____
Significant deficiencies identified not considered to be material weaknesses?	_____ X _____	_____

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

**Unqualified**

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

CFDA Number	Name of Federal Program or Cluster
15.226	Payments in Lieu of Taxes
97.042 and 97.067	Homeland Security Grant Cluster
84.027 and 84.173	Special Education Cluster
93.996	Bioterrorism Training and Curriculum Development Program

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

Auditee qualified as low-risk auditee?	_____	_____ X _____
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**Other Matters**

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (Section .315[b])?	_____ X _____	_____
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Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007

**Section II - Financial Statement Findings**

No matters reported.

Graham County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2007

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

**Financial Statements**

U.S. Department of Homeland Security  
 Homeland Security Grant Cluster  
 CFDA Nos.: 97.042 and 97.067  
 Award year: 2007  
 Award Number: 2006-TE-CX-0196  
 Passed through the Arizona Department of  
 Emergency and Military Affairs

U.S. Department of the Interior  
 Payments in Lieu of Taxes  
 CFDA No.: 15.226  
 Award year: 2007  
 Award Number: N/A

U.S. Department of Health and Human Services  
 Bioterrorism Grant Training and Curriculum  
 Development Program  
 CFDA No.: 93.996  
 Award year: 2007  
 Award No.: 252044  
 Passed through the Arizona Department of  
 Health Services

U.S. Department of Education  
 Special Education Cluster  
 CFDA Nos.: 84.027 and 84.173  
 Award year: 2007  
 Award Nos.: H027A000007 and  
 H143A010003  
 Passed through the Arizona Department  
 of Education

07-1	<i>Condition/ Context</i>	The annual financial statement audit and compliance audit of the County's federal grants was not completed within nine months of the end of the fiscal year.
	<i>Criteria</i>	OMB Circular A-133 §.320 (a).
	<i>Effect</i>	Noncompliance with OMB Circular A-133 §.320 (a).
	<i>Cause</i>	The fiscal year ended June 30, 2007 financial statements were not prepared timely to allow sufficient time to complete the audit within nine months of the end of the fiscal year.
	<i>Recommendation</i>	In order to comply with OMB Circular A-133, the County should ensure the financial statements are prepared to allow sufficient time to complete and issue the audit within nine months of the fiscal year end.
	<i>Corrective Action Plan</i>	The County concurs with this recommendation and has significantly increased its efficiency and will ensure the fiscal year ended June 30, 2008 financial statements are prepared more timely to allow sufficient time to complete the audit by March 31, 2009.
	<i>Contact Person</i>	Clel Flake, Chief Financial Officer

**Graham County**  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2007

**Cash Management Reports**

U.S. Department of Education  
 Special Education Cluster  
 CFDA Nos.: 84.027 and 84.173  
 Award year: 2007  
 Award Nos.: H027A000007 and H143A010003  
 Passed through the Arizona Department of Education

07-2	<i>Condition</i>	Cash balances as reported on cash management reports did not always agree to the general ledger.
	<i>Context</i>	Four of nineteen cash management reports tested.
	<i>Criteria</i>	Arizona Department of Education (ADE) reporting requirements.
	<i>Effect</i>	Noncompliance with ADE reporting requirements; however, no questioned cost was determined.
	<i>Cause</i>	Clerical oversight as documentation was not maintained to support the balances and any variance could not be determined.
	<i>Recommendation</i>	In order to comply with ADE reporting requirements, cash balances as reported on cash management reports should agree to the general ledger.
	<i>Corrective Action Plan</i>	The County concurs with this recommendation and will ensure cash balances as reported on cash management reports agree to the general ledger.
	<i>Contact Person</i>	Bekki Mattice, Director

**Section IV – Summary Schedule of Prior Year Audit Findings**

06-1	<i>Condition/ Context</i>	The annual financial statement audit and compliance audit of the County's federal grants was not completed within nine of months of the end of the fiscal year.
	<i>Status</i>	Similar condition noted as item 07-1.