



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Single Audit

# Graham County

Year Ended June 30, 2013

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**Debra K. Davenport**  
Auditor General

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Graham County  
Single Audit Reporting Package  
Year Ended June 30, 2013

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

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Graham County, Arizona

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Required Supplementary Information*

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

### *Supplementary Information—Schedule of Expenditures of Federal Awards*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

### *Compliance Over the Use of Highway User Revenue Fund and Other Dedicated State Transportation Revenue Monies*

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies the County received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the County received solely for the authorized transportation purposes, insofar as they relate to accounting matters. However,

our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

The communication related to compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies in the preceding paragraph is intended solely for the information and use of the members of the Arizona State Legislature, the Board of Supervisors, management, and other responsible parties within the County and is not intended to be and should not be used by anyone other than these specified parties.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2014, 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* in considering the County's internal control over financial reporting and compliance.

Debbie Davenport  
Auditor General

May 28, 2014

# Graham County Management's Discussion and Analysis June 30, 2013

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, 2013. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

## Financial Highlights

- Graham County's assets exceeded its liabilities at the close of the current fiscal year by \$43,569,718 (net position). Of this amount, \$424,649 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of \$8,186,896, an increase of \$1,274,332 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,496,359 or 8.4 percent of total General Fund expenditures.
- Graham County's capital assets increased by \$8,498,350 during the current fiscal year. The key factors in this increase were the capitalization of the Eighth Avenue Bridge and the Peterson Wash Culvert Extension, both of which were multi-year projects of which the majority of funding was provided by federal funds passed through the Arizona Department of Transportation (ADOT). In addition, the completion of playground equipment and related items as part of a CDBG grant at the Fairgrounds and an addition to the adult detention facility were the major capital additions. Computer equipment and a few vehicle purchases round out the majority of capital asset additions.

## Overview of the Financial Statements

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

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

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

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

Both of these government-wide financial statements distinguish county functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are

Graham County  
Management's Discussion and Analysis  
June 30, 2013

intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Graham County did not have any business-type activities during the fiscal year.

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

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

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

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

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

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

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

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

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

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

The notes to the financial statements can be found on pages 9 through 28 of this report.

Graham County  
Management's Discussion and Analysis  
June 30, 2013

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

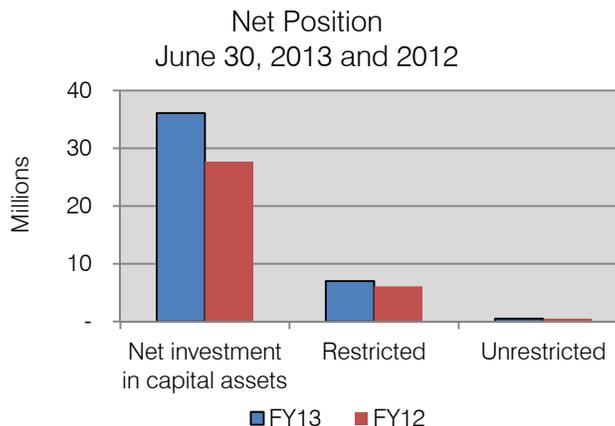
Required supplementary information can be found on pages 30 through 37 of this report.

**Government-wide Financial Analysis**

Statement of net position—As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Graham County's assets exceeded liabilities by \$43,569,718.

Condensed Statement of Net Position  
As of June 30, 2013 and 2012

	Governmental Activities	
	2013	2012
Current and other assets	\$ 9,853,407	\$ 8,566,097
Capital assets	<u>36,906,601</u>	<u>28,408,251</u>
Total assets	<u>46,760,008</u>	<u>36,974,348</u>
Long-term liabilities outstanding	1,928,615	1,832,846
Other liabilities	<u>1,261,675</u>	<u>882,390</u>
Total liabilities	<u>3,190,290</u>	<u>2,715,236</u>
Net position:		
Net investment in capital assets	36,112,862	27,704,400
Restricted	7,032,207	6,094,712
Unrestricted	<u>424,649</u>	<u>460,000</u>
Total net position	<u>\$43,569,718</u>	<u>\$34,259,112</u>



Graham County  
Management's Discussion and Analysis  
June 30, 2013

The largest portion of Graham County's net position (83 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure). This amount is presented less accumulated depreciation and any related debt still outstanding that was used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Graham County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased slightly from \$460,000 at June 30, 2012, to \$424,649 at June 30, 2013.

Current assets, related to governmental activities, increased as compared to the previous fiscal year, primarily because cash increased. Property taxes receivable decreased because a major taxpayer settled a claim against Graham County in 2012 to reduce its assessed value and began making payments for current and back taxes, including interest owed in 2013. Decreases in due from other governments, property tax receivable, and inventories did not offset the increases in cash. Capital assets increased this fiscal year as assets placed in service exceeded depreciation of all assets.

Long-term liabilities increased only 5 percent as the liability for compensated absences increased modestly, reflecting employees' increased carryover of vacation and sick leave hours. Other liabilities increased \$379,285, or 43 percent, mainly because of an increase in accounts payable. \$450,172 was due to the City of Safford for revenues related to the Colonia Water CDBG grant, which are received by Graham County and then passed through to the City of Safford, the subrecipient of the grant.

**Statement of activities**—Already noted was the statement of activities' purpose in presenting information in how the government's net position changed during the most recent fiscal year. For the fiscal year, net position increased \$9,310,606 because of two federally funded road projects of which ADOT paid the majority of costs. The basis of accounting used in the government-wide statement of activities excludes capital expenditures, while its revenues include taxes whose primary purpose is for the County's operation.

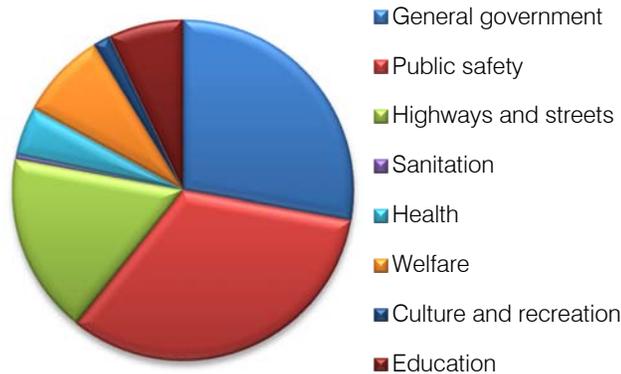
Graham County  
Management's Discussion and Analysis  
June 30, 2013

Condensed Statement of Revenues,  
Expenses, and Changes in Net Position  
Years Ended June 30, 2013 and 2012

	Governmental Activities	
	2013	2012
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 4,103,740	\$ 3,795,415
Operating grants and contributions	8,255,290	8,685,721
Capital grants and contributions	10,872,518	158,360
General revenues:		
Property taxes	5,257,550	4,348,844
Shared revenue—state sales taxes	5,687,630	5,422,581
Shared revenue—state vehicle license tax	1,463,665	1,408,672
Grants and contributions not restricted to specific programs	2,732,542	2,782,358
Miscellaneous	<u>888,383</u>	<u>788,264</u>
Total revenues	<u>39,261,318</u>	<u>27,390,215</u>
<b>Expenses</b>		
General government	\$ 8,340,876	\$ 7,725,246
Public safety	9,846,337	9,725,007
Highways and streets	5,144,105	4,128,150
Sanitation	116,913	121,638
Health	1,388,164	1,361,684
Welfare	2,499,323	2,503,270
Culture and recreation	481,786	523,972
Education	<u>2,133,208</u>	<u>2,336,234</u>
Total expenses	<u>29,950,712</u>	<u>28,425,201</u>
Change in net position	9,310,606	(1,034,986)
Net position—beginning	<u>34,259,112</u>	<u>35,294,098</u>
Net position—ending	<u>\$43,569,718</u>	<u>\$34,259,112</u>

Graham County  
Management's Discussion and Analysis  
June 30, 2013

2013 Expenses



**Governmental activities**

Governmental activities revenues totaled \$39,261,318 for fiscal year 2013. The following are highlights of county revenues.

- Capital grants and contributions increased by \$10,714,158 because of two federally funded road projects for which ADOT paid the majority of costs and because of \$562,000 received from local businesses to assist with upcoming construction projects.
- Operating grants and contributions decreased by \$430,431, or 5 percent, as less federal grants were received and cuts were made in remaining grants.
- Charges for services increased by \$308,325, or 8.1 percent, over the prior fiscal year. The County completed a large chip seal project for a neighboring town for over \$300,000.
- Shared revenue—state sales tax increased \$265,049, or 4.9 percent, as the state-wide collection of sales and income taxes has been strong.
- Property tax revenues increased by \$908,706, or 20.9 percent, this fiscal year because local taxpayers continued to pay their property taxes in spite of tough economic conditions. New construction was also added to the tax rolls.
- Miscellaneous revenues increased this fiscal year by \$100,119, or 12.7 percent, mainly attributable to a \$54,796 reimbursement for a school security officer and a large receipt of \$43,351 from inmate telephone services.

**Expenses:**

Overall expenses in governmental activities increased by \$1,525,511, or 5.4 percent. Spending for one-half of the functions increased during this fiscal year. Highways and streets increased \$1,015,955 or 24.6 percent, because of two road projects. The general government, public safety, and health functions increased and sanitation, welfare, cultural and recreation, and education functions decreased although none of the changes were significant.

# Graham County Management's Discussion and Analysis June 30, 2013

## 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 the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Graham County. At June 30, 2013, the General Fund's unassigned fund balance was \$1,496,359, which was a decrease of \$177,214 from the prior fiscal year. There was a small excess of expenditures over revenues in the General Fund of \$32,851 (prior to any other financing sources or uses). Revenues are not keeping pace with the expenditures, as the State has continued reducing some revenues traditionally passed down to the County (i.e., JP Salary reimbursement, County Assistance, Hold Harmless, etc.).

The Highway Road Fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the County's care. The fund balance for the Highway Road Fund increased \$395,965 this fiscal year. Management made a conscious effort to increase the fund balance as the Arizona State Legislature continued to reduce funding for this fiscal year in order to help balance the State's budget.

The other governmental fund balance increased by \$795,171. This is a combination of many nonmajor funds of the County, most funded by various grants. Funding for some programs is being cut or reduced as the economy continues to struggle, but additional funding from the State for increased personnel and programs for probation was received, and careful use of various fees collected has helped.

## General Fund Budgetary Highlights

There were no amendments to the original revenue budget for the General Fund. General Fund revenues received were \$734,726 or 4.0 percent under the adopted budget. Intergovernmental revenue was \$938,214, or 8.7 percent, below budget because federal funding and shared revenues were less than expected. The total General Fund expenditure budget of \$20,309,658 was not amended this fiscal year. General Fund Expenditures were less than the final budget by \$2,581,659, or 12.7 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of \$1,871,135. These savings were a result of conservative budgeting practices and reduced spending due to declining economic conditions that resulted in spending less than anticipated from the contingency, attorney, miscellaneous, and information technology funds.

## Capital Asset and Debt Administration

**Capital assets**—The County's capital assets for its governmental activities as of June 30, 2013, amounts to \$36,906,601 (net of accumulated depreciation). The increase of \$8,498,350 is due primarily to capitalization of infrastructure projects, including the Eighth Avenue Bridge and Peterson Wash Culvert

Graham County  
Management's Discussion and Analysis  
June 30, 2013

Extension, during the current fiscal year. Funding for capital assets in almost all programs except from the Homeland Security Grant and the CDBG Grant has been decreased by the funding agencies.

Additional information on Graham County's capital assets can be found in Note 4 on pages 17 through 18 of this report.

**Long-term Debt**—At the end of the current fiscal year, the County had total long-term liabilities outstanding of \$1,928,615. Included in long-term liabilities is \$1,055,681 for the future payment of compensated absences for unused employee vacation and sick leave. The remainder of the long-term liabilities consists of capital leases of \$793,739 and post-closure care costs of \$79,195. The County did not have any outstanding bonded debt.

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

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

- The unemployment rate for Graham County is currently 7.0 percent. This is an improvement of 1.7 percent from a rate of 8.7 percent a year ago and is less than the state rate of 7.3 percent. This rate reflects an improvement from the difficult economic conditions Graham County has faced for the past several years.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2014 fiscal year. The unassigned ending fund balance in the General Fund of \$1,496,359 was appropriated for spending in the 2013/14 fiscal year budget. Even with the use of available fund balances in conjunction with realistic revenue projections and a conservative expenditure plan, the County still needed to raise the General Fund property tax rate above the Truth in Taxation Rate of 2.0874 for the 2014 fiscal year to 2.3711.

#### **Requests for Information**

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

Graham County  
Statement of Net Position  
June 30, 2013

	<u>Primary Government Governmental Activities</u>
<b>Assets</b>	
Cash, cash equivalents, and investments	\$ 7,775,781
Property taxes receivables	434,783
Interest receivable	34,399
Due from other governments	1,137,157
Inventories	471,287
Capital assets, not being depreciated	3,466,678
Capital assets, being depreciated, net	<u>33,439,923</u>
Total assets	<u>46,760,008</u>
<b>Liabilities</b>	
Accounts payable	720,815
Accrued payroll and employee benefits	540,860
Noncurrent liabilities	
Due within 1 year	830,780
Due in more than 1 year	<u>1,097,835</u>
Total liabilities	<u>3,190,290</u>
<b>Net Position</b>	
Net investment in capital assets	36,112,862
Restricted for:	
Highways and streets	3,045,915
Other purposes	3,986,292
Unrestricted	<u>424,649</u>
Total net position	<u>\$ 43,569,718</u>

See accompanying notes to financial statements.

Graham County  
Statement of Activities  
Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
					<u>Primary</u>
					<u>Government</u>
					<u>Governmental</u>
					<u>Activities</u>
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 8,340,876	\$ 2,613,460	\$ 1,604,283		\$ (4,123,133)
Public safety	9,846,337	229,908	1,854,653		(7,761,776)
Highways and streets	5,144,105	274,250	2,796,265	\$ 10,725,505	8,651,915
Sanitation	116,913		62,380		(54,533)
Health	1,388,164	49,415	963,344		(375,405)
Welfare	2,499,323				(2,499,323)
Culture and recreation	481,786	79,148	60,000	147,013	(195,625)
Education	2,133,208	857,559	914,365		(361,284)
Total governmental activities	<u>\$ 29,950,712</u>	<u>\$ 4,103,740</u>	<u>\$ 8,255,290</u>	<u>\$ 10,872,518</u>	<u>(6,719,164)</u>
General revenues:					
					5,257,550
					5,687,630
					1,463,665
					2,732,542
					42,379
					846,004
					<u>16,029,770</u>
					9,310,606
					<u>34,259,112</u>
					<u>\$ 43,569,718</u>

See accompanying notes to financial statements.

Graham County  
Balance Sheet  
Governmental Funds  
June 30, 2013

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash, cash equivalents, and investments	\$ 2,033,538	\$ 2,364,092	\$ 3,378,151	\$ 7,775,781
Receivables:				
Property taxes receivables	416,582		18,201	434,783
Interest			34,399	34,399
Due from other governments	599,198	294,503	243,456	1,137,157
Inventories		<u>471,287</u>		<u>471,287</u>
Total assets	<u>\$ 3,049,318</u>	<u>\$ 3,129,882</u>	<u>\$ 3,674,207</u>	<u>\$ 9,853,407</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 123,595	\$ 43,934	\$ 553,286	\$ 720,815
Accrued payroll and employee benefits	382,019	40,033	118,808	540,860
Deferred revenue	<u>387,991</u>		<u>16,845</u>	<u>404,836</u>
Total liabilities	<u>893,605</u>	<u>83,967</u>	<u>688,939</u>	<u>1,666,511</u>
Fund balances:				
Nonspendable		471,287		471,287
Restricted		2,574,628	2,071,914	4,646,542
Committed			415,777	415,777
Assigned	659,354		839,247	1,498,601
Unassigned	<u>1,496,359</u>		<u>(341,670)</u>	<u>1,154,689</u>
Total fund balances	<u>2,155,713</u>	<u>3,045,915</u>	<u>2,985,268</u>	<u>8,186,896</u>
Total liabilities and fund balances	<u>\$ 3,049,318</u>	<u>\$ 3,129,882</u>	<u>\$ 3,674,207</u>	<u>\$ 9,853,407</u>

See accompanying notes to financial statements.

Graham County  
 Reconciliation of the Balance Sheet to the Statement of Net Position  
 Governmental Funds  
 June 30, 2013

Fund balances—total governmental funds		\$ 8,186,896
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Governmental capital assets	\$ 62,580,624	
Less accumulated depreciation	<u>(25,674,023)</u>	36,906,601
<p>Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds</p>		
		404,836
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>		
Compensated absences	(1,055,681)	
Leases payable	(793,739)	
Landfill liability	<u>(79,195)</u>	(1,928,615)
Net position of governmental activities		<u>\$ 43,569,718</u>

See accompanying notes to financial statements.

Graham County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2013

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 5,462,462		\$ 161,395	\$ 5,623,857
Licenses and permits	49,984			49,984
Intergovernmental	9,833,786	\$ 3,443,925	4,946,429	18,224,140
Charges for services	1,994,907	325,453	1,344,492	3,664,852
Fines and forfeits	201,491		53,452	254,943
Investment income	25,678	6,495	10,206	42,379
Rents	19,287		114,674	133,961
Miscellaneous	100,553	32,813	497,430	630,796
Donations	7,000		765,174	772,174
Total revenues	<u>17,695,148</u>	<u>3,808,686</u>	<u>7,893,252</u>	<u>29,397,086</u>
Expenditures:				
Current:				
General government	6,790,186		1,296,703	8,086,889
Public safety	7,251,477		2,233,316	9,484,793
Highways and streets		3,213,656	97,461	3,311,117
Sanitation	59,109		58,307	117,416
Health	269,195		1,042,441	1,311,636
Welfare	2,499,323			2,499,323
Culture and recreation	309,518		87,068	396,586
Education	218,403		1,790,301	2,008,704
Capital outlay	<u>330,788</u>	<u>51,619</u>	<u>651,341</u>	<u>1,033,748</u>
Total expenditures	<u>17,727,999</u>	<u>3,265,275</u>	<u>7,256,938</u>	<u>28,250,212</u>
Excess (deficiency) of revenues over expenditures	<u>(32,851)</u>	<u>543,411</u>	<u>636,314</u>	<u>1,146,874</u>
Other financing sources (uses):				
Capital lease agreement	182,389			182,389
Proceeds from sale of capital assets	8,595			8,595
Transfers in	73,758		236,562	310,320
Transfers out	<u>(148,695)</u>	<u>(83,920)</u>	<u>(77,705)</u>	<u>(310,320)</u>
Total other financing sources (uses)	<u>116,047</u>	<u>(83,920)</u>	<u>158,857</u>	<u>190,984</u>
Net change in fund balances	<u>83,196</u>	<u>459,491</u>	<u>795,171</u>	<u>1,337,858</u>
Fund balances, July 1, 2012, as restated	2,072,517	2,649,950	2,190,097	6,912,564
Changes in nonspendable resources:				
Increase in inventories	<u>                    </u>	<u>(63,526)</u>	<u>                    </u>	<u>(63,526)</u>
Fund balances, June 30, 2013	<u>\$ 2,155,713</u>	<u>\$ 3,045,915</u>	<u>\$ 2,985,268</u>	<u>\$ 8,186,896</u>

See accompanying notes to financial statements.

Graham County  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances to the Statement of Activities  
 Governmental Funds  
 Year Ended June 30, 2013

Net change in fund balances—total governmental funds \$ 1,337,858

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

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

Capital outlay	\$ 1,033,748	
Depreciation expense	<u>(2,757,342)</u>	(1,723,594)

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

(3,561)

Revenues reported in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

9,859,198

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Capital lease incurred	(182,389)	
Principal payments on long-term debt	<u>92,501</u>	(89,888)

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

Increase in compensated absences	(6,384)	
Decrease in landfill and postclosure care costs	<u>503</u>	(5,881)

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

Decrease in inventories		<u>(63,526)</u>
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Change in net position of governmental activities \$ 9,310,606

See accompanying notes to financial statements.

Graham County  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2013

	<b>Investment Trust Funds</b>	<b>Agency Funds</b>
<b>Assets</b>		
Cash, cash equivalents, and investments	\$ 57,669,229	\$ 706,514
Accrued interest receivable	35,205	
Total assets	57,704,434	\$ 706,514
<b>Liabilities</b>		
Due to other governments		\$ 706,514
Total liabilities		\$ 706,514
<b>Net Position</b>		
Held in trust for investment trust participants	\$ 57,704,434	

See accompanying notes to financial statements.

Graham County  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year Ended June 30, 2013

	<b>Investment Trust Funds</b>
Additions:	
Contributions from participants	\$ 71,285,343
Investment earnings	<u>257,767</u>
Total additions	<u>71,543,110</u>
Deductions:	
Distributions to participants	<u>68,677,101</u>
Total deductions	<u>68,677,101</u>
Change in net position	2,866,009
Net position, July 1, 2012	<u>54,838,425</u>
Net position, June 30, 2013	<u><u>\$ 57,704,434</u></u>

See accompanying notes to financial statements.

Graham County  
Notes to Financial Statements  
June 30, 2013

Note 1 - Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are so intertwined with the County that they are in substance part of the County's operations. Component units should be blended in the County's financial statements when the component unit's governing body is substantively the same as the County's governing body and there is either a financial benefit or burden relationship between the County and the component unit or county management has operational responsibility for it; the component unit provides services entirely, or almost entirely, to the County; or the component unit's total debt outstanding is expected to be repaid entirely or almost entirely with the County's resources. Therefore, data from these units is combined with the primary government's data. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. The blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

The following table describes the County's component unit.

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

B. Basis of Presentation

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

Graham County  
Notes to Financial Statements  
June 30, 2013

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

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

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

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

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

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

The County reports the following major governmental funds:

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

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

The County reports the following fund types:

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

Graham County  
Notes to Financial Statements  
June 30, 2013

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

### C. Basis of Accounting

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

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

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

### D. Cash and Investments

All investments are stated at fair value.

### E. Inventories

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

Graham County  
Notes to Financial Statements  
June 30, 2013

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

### F. Property Tax Calendar

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

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

### G. Capital Assets

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

Capitalization thresholds (the dollar value 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. Fund Balance Classifications

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

Graham County  
Notes to Financial Statements  
June 30, 2013

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

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

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

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

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

## I. Investment Earnings

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

## J. Compensated Absences

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

Graham County  
Notes to Financial Statements  
June 30, 2013

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

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

## Note 2 - Deposits and Investments

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

### Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Corporate bonds, debentures, and notes must be rated within the top three ratings by a nationally recognized rating agency.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Graham County  
Notes to Financial Statements  
June 30, 2013

Custodial credit risk

Statutes require collateral for deposits and certificates of deposit 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. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments.

**Deposits**—At June 30, 2013, the carrying amount of the County's deposits was \$18,256,442, and the bank balance was \$18,508,726. The County does not have a formal policy with respect to custodial credit risk.

**Investments**—The County's investments at June 30, 2013, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$18,932,084
State Treasurer's investment pool 5	5,201,244
Negotiable certificates of deposit	8,662,879
U.S. agency securities	<u>15,083,147</u>
Total	<u>\$47,879,354</u>

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

**Credit risk**—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal policy with respect to credit risk. At June 30, 2013, 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	\$18,932,084
State Treasurer's investment pool 5	AAAf/S1+	Standard & Poor's	5,201,244
Negotiable certificates of deposit	Unrated	Not applicable	8,662,879
U.S. agency securities	AAA	Moody's	<u>15,083,147</u>
Total			<u>\$47,879,354</u>

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

Graham County  
Notes to Financial Statements  
June 30, 2013

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

The County had investments at June 30, 2013, of 5 percent or more in the Federal National Mortgage Association and the Federal Farm Credit Bank. These investments were 10.41 percent and 14.56 percent, respectively, of the County's total investments.

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

At June 30, 2013, the County had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity (In Years)
State Treasurer's investment pool 7	\$18,932,084	.05
State Treasurer's investment pool 5	5,201,244	.06
Negotiable certificates of deposit	8,662,879	1.11
U.S. agency securities	<u>15,083,147</u>	2.53
Total	<u>\$47,879,354</u>	

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

Cash, deposits, and investments:

Cash on hand	\$ 15,728
Amount of deposits	18,256,442
Amount of investments	<u>47,879,354</u>
Total	<u>\$66,151,524</u>

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Statement of Net Position:				
Cash, cash equivalents, and investments	<u>\$7,775,781</u>	<u>\$57,669,229</u>	<u>\$706,514</u>	<u>\$66,151,524</u>

### Note 3 - Due from Other Governments

Amounts due from other governments at June 30, 2013, include \$345,363 in state-shared revenue from sales tax, \$175,404 in county sales tax distributions from the State Treasurer, \$34,872 in state motor vehicle license taxes from the Arizona Department of Transportation, \$20,700 in prisoner detention fees from the U.S. Department of Justice, and \$22,859 in other fees from federal, state, and local governments recorded in the General Fund; \$205,800 in

Graham County  
Notes to Financial Statements  
June 30, 2013

state-shared revenue from highway user taxes, \$28,835 in state motor vehicle license taxes from the Arizona Department of Transportation, \$34,822 for road construction from the Arizona Department of Transportation, and \$25,046 in other fees from local governments recorded in the Highway Road Fund; and \$110,569 in health grants from the Arizona Department of Health Services, \$34,545 in homeland security grants from the Arizona Department of Homeland Security, and \$98,342 in other fees and grants from federal, state, and local governments recorded in the other governmental funds.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,709,871			\$ 2,709,871
Construction in progress	3,923,555	\$ 645,656	\$3,812,404	756,807
Total capital assets not being depreciated	<u>6,633,426</u>	<u>645,656</u>	<u>3,812,404</u>	<u>3,466,678</u>
Capital assets being depreciated:				
Buildings	14,354,077	538,140		14,892,217
Equipment	12,531,362	469,651	93,135	12,907,878
Infrastructure	17,895,641	13,418,210		31,313,851
Total	<u>44,781,080</u>	<u>14,426,001</u>	<u>93,135</u>	<u>59,113,946</u>
Less accumulated depreciation for:				
Buildings	5,913,228	357,821		6,271,049
Equipment	10,096,451	904,995	89,574	10,911,872
Infrastructure	6,996,576	1,494,526		8,491,102
Total	<u>23,006,255</u>	<u>2,757,342</u>	<u>89,574</u>	<u>25,674,023</u>
Total capital assets being depreciated, net	<u>21,774,825</u>	<u>11,668,659</u>	<u>3,561</u>	<u>33,439,923</u>
Governmental activities capital assets, net	<u>\$28,408,251</u>	<u>\$12,314,315</u>	<u>\$3,815,965</u>	<u>\$36,906,601</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 241,168
Public safety	469,685
Highways and streets	1,768,925
Health	69,294
Culture and recreation	86,194
Education	<u>122,076</u>
Total governmental activities depreciation expense	<u>\$2,757,342</u>

Graham County  
Notes to Financial Statements  
June 30, 2013

As of June 30, 2013, the County had begun construction of a front addition to the Adult Detention Facility. Costs to date were \$31,115, and the estimated cost to complete the project is approximately \$57,000. These projects are being financed by county monies.

Note 5 - Short-Term Loans

The County maintains a line of credit with Wells Fargo Bank to cover timing differences in the receipt of revenue and the payment of obligations during the year. At June 30, 2013, the County had an outstanding balance of \$0. The activity for the year ended June 30, 2013, was as follows:

Beginning balance	\$ 0
Total borrowings	6,745,196
Total payments	<u>6,745,196</u>
Ending balance	<u>\$ 0</u>

Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2013:

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due within 1 year
<b>Governmental activities</b>					
Compensated absences payable	\$1,049,297	\$769,041	\$762,657	\$1,055,681	\$738,977
Capital leases payable	703,851	182,389	92,501	793,739	89,903
Landfill closure and post-closure care costs payable	<u>79,698</u>	<u>1,387</u>	<u>1,890</u>	<u>79,195</u>	<u>1,900</u>
Total governmental activities long-term liabilities	<u>\$1,832,846</u>	<u>\$952,817</u>	<u>\$857,048</u>	<u>\$1,928,615</u>	<u>\$830,780</u>

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

The assets acquired through capital leases are as follows:

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equipment	\$536,230
Building	417,288
Less: accumulated depreciation	<u>219,279</u>
Carrying value	<u>\$734,239</u>

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The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2013:

Year ending June 30	Governmental Activities
2014	\$103,362
2015	103,362
2016	41,118
2017	41,118
2018	<u>559,834</u>
Total minimum lease payments	848,794
Less amount representing interest	<u>55,055</u>
Present value of net minimum lease payments	<u>\$793,739</u>

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

The County closed the landfill in 2003. The \$79,195 reported as landfill postclosure care costs payable at June 30, 2013, is based on what it would cost to perform all remaining postclosure care in fiscal year 2013. These costs will be paid from the General Fund. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

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

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

**Compensated Absences**—Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2013, the County paid for compensated absences as follows: 73 percent from General Fund, 9 percent from the Highway Road Fund, and 18 percent from other governmental funds.

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Note 7 - Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2013, were as follows:

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
<b>Fund balances:</b>				
Nonspendable:				
Inventories		\$ 471,287		\$ 471,287
Total nonspendable		<u>471,287</u>		<u>471,287</u>
<b>Restricted for:</b>				
General government			\$ 407,633	407,633
Social services			629,377	629,377
Law enforcement			408,684	408,684
Highways and streets		2,574,628	217,399	2,792,027
Health			32,871	32,871
Education			<u>375,950</u>	<u>375,950</u>
Total restricted		<u>2,574,628</u>	<u>2,071,914</u>	<u>4,646,542</u>
<b>Committed to:</b>				
General government			33,742	33,742
Law enforcement			258,523	258,523
Health			72,448	72,448
Education			5,803	5,803
Capital outlay			<u>45,261</u>	<u>45,261</u>
Total committed			<u>415,777</u>	<u>415,777</u>
<b>Assigned to:</b>				
General government	\$ 659,354		100,472	759,826
Social services			8,836	8,836
Law enforcement			5,214	5,214
Highways and streets			238	238
Health			67,841	67,841
Education			<u>656,646</u>	<u>656,646</u>
Total assigned	<u>659,354</u>		<u>839,247</u>	<u>1,498,601</u>
<b>Unassigned:</b>				
Total fund balances	<u>1,496,359</u>	<u>\$3,045,915</u>	<u>(341,670)</u>	<u>1,154,689</u>
	<u>\$2,155,713</u>	<u>\$3,045,915</u>	<u>\$2,985,268</u>	<u>\$8,186,896</u>

Note 8 - Risk Management

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

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

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

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

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

## Note 9 - Pensions and Other Postemployment Benefits

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

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

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

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

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

The *Elected Officials Retirement Plan* (EORP) administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium benefit plan that covers State of Arizona and county elected officials and judges, and elected officials of participating cities. The EORP is governed by the Board of Trustees of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. EORP's health insurance premium benefit portion is not administered as its own formal trust. Therefore, in accordance with GASB Statement No. 43, the County is required to disclose certain actuarial information related to the health insurance premium benefit portion that is similar to that of an agent multiple-employer defined benefit plan. However, the Board of Trustees obtains an actuarial valuation for both EORP portions on their statutory basis as cost-sharing plans, and therefore, actuarial information for the County, as a participating government employer, is not available.

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

**ASRS**

3300 N. Central Ave.  
P.O. Box 33910  
Phoenix, AZ 85067-3910  
(602) 240-2000 or 1-800-621-3778  
[www.azasrs.gov](http://www.azasrs.gov)

**PSPRS, CORP, and EORP**

3010 E. Camelback Rd., Ste. 200  
Phoenix, AZ 85016-4416  
(602) 255-5575  
[www.psprs.com](http://www.psprs.com)

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

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*Cost-sharing plans*—For the year ended June 30, 2013, statute required active ASRS members to contribute at the actuarially determined rate of 11.14 percent (10.9 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 11.14 percent (10.25 percent for retirement, 0.65 percent for health insurance premium benefit, and 0.24 percent for long-term disability) of the members' annual covered payroll. Statute required active EORP members to contribute 11.5 percent of the members' annual covered payroll and the County to remit a designated portion of certain court fees plus additional contributions at the actuarially determined rate of 20.87 percent of the members' annual covered payroll that includes the actuarially set rate of 1.8 percent for the plan's health insurance premium benefit.

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

<b>Year ended June 30</b>	<b>Retirement Fund</b>	<b>Health Benefit Supplement Fund</b>	<b>Long-Term Disability Fund</b>
<b>ASRS:</b>			
2013	\$577,330	\$36,611	\$13,518
2012	545,794	34,838	13,272
2011	485,099	31,766	13,460

<b>Year ended June 30</b>	<b>Retirement Fund</b>	<b>Health Insurance Premium Benefit</b>
<b>EORP:</b>		
2013	\$163,390	\$15,422
2012	140,045	15,503
2011	137,573	13,978

*Agent Plans*—For the year ended June 30, 2013, statute required active PSPRS members to contribute 9.55 percent of the members' annual covered payroll and the County to contribute 20.39 percent, the aggregate of which is the actuarially required amount. The health insurance premium benefit portion of the contribution rate was actuarially set at 1.45 percent of covered payroll. Statute required active CORP members to contribute 8.41 percent of the nondispatcher members' and 7.96 percent of the dispatchers' annual covered payroll. In addition, the County was required to contribute 7.86 percent for CORP corrections officers, 13.12 percent for AOC CORP employees, and 5.48 percent for CORP dispatchers. The aggregate of the members' and the County's contributions is the actuarially required amount. The health insurance premium benefit portion of the contribution rate was actuarially set at 0.76 percent for CORP corrections officers, 1.27 percent for AOC CORP employees, and 0.68 percent for CORP dispatchers of covered payroll.

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June 30, 2013

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

**Actuarial methods and assumptions**—The contribution requirements for the year ended June 30, 2013, were established by the June 30, 2011, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on (1) the plans as understood by the County and plans' members and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2013 contribution requirements are as follows:

Actuarial valuation date	June 30, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	25 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5%-8% for PSPRS and CORP
includes inflation at	5% for PSPRS and CORP

**Annual Pension/OPEB Cost**—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2013, and related information follows:

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June 30, 2013

	PSPRS		CORP					
	Pension	Health Insurance Premium Benefit	Corrections		AOC		Dispatchers	
			Pension	Health Insurance Premium Benefit	Pension	Health Insurance Premium Benefit	Pension	Health Insurance Premium Benefit
Annual pension/OPEB cost	\$205,573	\$15,738	\$78,360	\$8,388	\$167,626	\$17,965	\$14,457	\$2,048
Contributions made	205,573	15,738	78,360	8,388	167,626	17,965	14,457	2,048

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

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
<b>PSPRS</b>				
Pension	2013	\$205,573	100%	\$0
Health insurance premium benefit	2013	15,738	100%	0
Pension	2012	185,277	100%	0
Health insurance premium benefit	2012	16,744	100%	0
Pension	2011	194,208	100%	0
Health insurance premium benefit	2011	16,003	100%	0
<b>CORP</b>				
Corrections				
Pension	2013	78,360	100%	0
Health insurance premium benefit	2013	8,388	100%	0
Pension	2012	56,514	100%	0
Health insurance premium benefit	2012	12,013	100%	0
Pension	2011	50,273	100%	0
Health insurance premium benefit	2011	11,999	100%	0
AOC				
Pension	2013	167,626	100%	0
Health insurance premium benefit	2013	17,965	100%	0
Pension	2012	166,855	100%	0
Health insurance premium benefit	2012	20,393	100%	0
Pension	2011	144,369	100%	0
Health insurance premium benefit	2011	16,496	100%	0

Graham County  
Notes to Financial Statements  
June 30, 2013

Dispatchers				
Pension	2013	14,457	100%	0
Health insurance premium benefit	2013	2,048	100%	0
Pension	2012	14,987	100%	0
Health insurance premium benefit	2012	309	100%	0
Pension	2011	15,125	100%	0
Health insurance premium benefit	2011	3,910	100%	0

**Funded Status**—The funded status of the plans as of the most recent valuation date, June 30, 2013, along with the actuarial assumptions and methods used in those valuations follow:

	PSPRS		Corrections		CORP		Dispatchers	
	Pension	Health insurance premium benefit	Pension	Health insurance premium benefit	Pension	Health insurance premium benefit	Pension	Health insurance premium benefit
Actuarial value of assets (a)	\$3,526,191	\$ 0	\$1,982,294	\$ 0	N/A	N/A	\$465,961	\$ 0
Actuarial accrued liability (b)	5,183,219	171,853	2,228,882	73,314	N/A	N/A	386,939	13,750
Unfunded actuarial accrued liability (funding excess) (b) – (a)	1,657,028	171,853	246,588	73,314	N/A	N/A	(79,022)	13,750
Funded ratio (a)/(b)	68.0%	0.0%	88.9%	0.0%	N/A	N/A	120.4%	0.0%
Annual covered payroll (c)	\$1,031,637	\$1,031,637	\$1,120,750	\$1,120,750	N/A	N/A	\$236,747	\$236,747
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((b) – (a))/(c)	160.6%	16.7%	22.0%	6.5%	N/A	N/A	(33.4)%	5.8%

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

Actuarial valuation date	June 30, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	23 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases includes inflation at	4.5% - 8.5% for PSPRS; 4.5% - 7.75% for CORP 4.5% for PSPRS and CORP

Graham County  
Notes to Financial Statements  
June 30, 2013

Note 10 - Interfund Activity

**Interfund transfers**—Interfund transfers for the year ended June 30, 2013, were as follows:

Transfer from	Transfer to		Total
General Fund	Other Governmental Funds	Total	Total
General Fund	\$148,695	\$148,695	\$148,695
Highway Road Fund	83,920	83,920	83,920
Other Governmental Funds	<u>\$73,758</u>	<u>3,947</u>	<u>77,705</u>
Total	<u>\$73,758</u>	<u>\$236,562</u>	<u>\$310,320</u>

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

Note 11 - County Treasurer's Investment Pool

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

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

The Treasurer allocates interest earnings to each of the pool's participants. However, for the County's monies in the pool, \$1,242 of interest earned in certain other funds was transferred to the General Fund.

The deposits and investments the County held are included in the County Treasurer's investment pool, except for \$896,314 of deposits and \$62,149 of investments in the State Treasurer's investment pools. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 2 for disclosure of the County's deposit and investment risks.

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Notes to Financial Statements  
June 30, 2013

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Amount
State Treasurer's investment pool 7	\$18,932,084	None stated	None stated	\$18,932,084
State Treasurer's investment pool 5	5,139,095	None stated	None stated	5,139,095
Negotiable certificates of deposit	8,620,000	.4-2.00%	7/13 – 5/16	8,662,879
U.S. agency securities	<u>15,129,000</u>	.4-1.25%	3/14 – 12/16	<u>15,083,147</u>
	<u>\$47,820,179</u>			<u>\$47,817,205</u>

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

**Statement of Net Position**

Assets	\$ 65,228,266
Net position	<u>\$ 65,228,266</u>

Net position held in trust for:

Internal participants	\$ 7,557,874
External participants	<u>57,670,392</u>
Total net position held in trust	<u>\$ 65,228,266</u>

**Statement of Changes in Net Position**

Total additions	\$108,639,074
Total deductions	<u>104,100,744</u>
Net increase	<u>4,538,330</u>
Net position held in trust:	
July 1, 2012	<u>60,689,936</u>
June 30, 2013	<u>\$ 65,228,266</u>

Note 12 - Beginning Balance Restated

Fund balances on the Statement of Revenues, Expenditures, and Changes in Fund Balances as of July 1, 2012, have been restated as follows.

	<u>Governmental Funds</u>	
	General Fund	Other Governmental Funds
Fund Balances as of June 30, 2012, as previously reported	\$1,673,573	\$2,589,041
Fund reclassification	<u>398,944</u>	<u>(398,944)</u>
Fund Balances as of July 1, 2012, as restated	<u>\$2,072,517</u>	<u>\$2,190,097</u>

## Other Required Supplementary Information

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 4,996,232	\$ 4,996,232	\$ 5,462,462	\$ 466,230
Licenses and permits	52,000	52,000	49,984	(2,016)
Intergovernmental	10,772,000	10,772,000	9,833,786	(938,214)
Charges for services	2,093,642	2,093,642	1,994,907	(98,735)
Fines and forfeits	240,000	240,000	201,491	(38,509)
Investment earnings	15,000	15,000	25,678	10,678
Rents	35,000	35,000	19,287	(15,713)
Miscellaneous	226,000	226,000	100,553	(125,447)
Donations			7,000	7,000
Total revenues	<u>18,429,874</u>	<u>18,429,874</u>	<u>17,695,148</u>	<u>(734,726)</u>
Expenditures:				
General government				
Board of supervisors	740,495	740,495	732,482	8,013
Treasurer	265,743	265,743	259,784	5,959
Assessor	510,211	510,211	537,685	(27,474)
Recorder	246,456	246,456	229,211	17,245
Elections	152,116	152,116	144,887	7,229
Attorney	1,168,032	1,168,032	907,687	260,345
Clerk of the court	488,830	488,830	486,753	2,077
Superior court	1,109,667	1,021,219	1,001,475	19,744
Justice of the peace No.1	344,526	344,526	342,831	1,695
Justice of the peace No.2	232,990	232,990	228,283	4,707
Victim witness	24,598	24,598	23,228	1,370
Public fiduciary	96,599	96,599	94,474	2,125
Planning and zoning	250,347	250,347	246,143	4,204
Building maintenance	139,491	139,491	118,799	20,692
Overtime	14,155	14,155	-	14,155
General services	323,500	323,500	244,301	79,199
Contingency	870,000	870,000	7,474	862,526
Miscellaneous	581,960	581,960	290,369	291,591
Medical examiner	47,000	47,000	32,144	14,856
Information technology	1,143,053	1,143,053	862,176	280,877
Total general government	<u>8,749,769</u>	<u>8,661,321</u>	<u>6,790,186</u>	<u>1,871,135</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
Year Ended June 30, 2013  
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Probation	\$ 90,127	\$ 178,575	\$ 196,931	\$ (18,356)
Sheriff	5,039,942	5,039,942	5,111,140	(71,198)
Search and rescue	14,800	14,800	12,279	2,521
Detention health services	463,976	463,976	455,022	8,954
Juvenile detention center	1,454,948	1,454,948	1,251,588	203,360
Animal shelter	249,556	249,556	224,517	25,039
Total public safety	<u>7,313,349</u>	<u>7,401,797</u>	<u>7,251,477</u>	<u>150,320</u>
Sanitation				
Sanitary landfill	<u>76,000</u>	<u>76,000</u>	<u>59,109</u>	<u>16,891</u>
Health				
Health services	<u>271,148</u>	<u>271,148</u>	<u>269,195</u>	<u>1,953</u>
Welfare				
Attorney for the indigent	419,000	419,000	419,000	
Indigent medical	<u>2,099,700</u>	<u>2,099,700</u>	<u>2,080,323</u>	<u>19,377</u>
Total welfare	<u>2,518,700</u>	<u>2,518,700</u>	<u>2,499,323</u>	<u>19,377</u>
Cultural and recreation				
Parks and recreation	<u>303,149</u>	<u>303,149</u>	<u>309,518</u>	<u>(6,369)</u>
Education				
School superintendent	208,479	208,479	208,954	(475)
Employment and training	<u>9,910</u>	<u>9,910</u>	<u>9,449</u>	<u>461</u>
Total education	<u>218,389</u>	<u>218,389</u>	<u>218,403</u>	<u>(14)</u>
Capital outlay	<u>859,154</u>	<u>859,154</u>	<u>330,788</u>	<u>528,366</u>
Total expenditures	<u>20,309,658</u>	<u>20,309,658</u>	<u>17,727,999</u>	<u>2,581,659</u>
Excess (deficiency) of revenues over expenditures	<u>(1,879,784)</u>	<u>(1,879,784)</u>	<u>(32,851)</u>	<u>1,846,933</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2013  
 (Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Capital lease agreement			\$ 182,389	\$ 182,389
Proceeds from sale of capital assets			8,595	8,595
Transfers in	\$ 400,000	\$ 400,000	73,758	(326,242)
Transfers out			(148,695)	(148,695)
Total other financing sources and (uses)	<u>400,000</u>	<u>400,000</u>	<u>(116,047)</u>	<u>(283,953)</u>
Net change in fund balances	(1,479,784)	(1,479,784)	83,196	1,562,980
Fund balances, July 1, 2012, as restated	<u>1,479,784</u>	<u>1,479,784</u>	<u>2,072,517</u>	<u>592,733</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,155,713</u>	<u>\$ 2,155,713</u>

See accompanying notes to budgetary comparison schedules.

Graham County  
Required Supplementary Information  
Budgetary Comparison Schedule  
Highway Road Fund  
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 3,651,176	\$ 3,651,176	\$ 3,443,925	\$ (207,251)
Charges for services	115,000	115,000	325,453	210,453
Investment earnings	20,000	20,000	6,495	(13,505)
Rents	1,500	1,500	-	(1,500)
Miscellaneous	75,000	75,000	32,813	(42,187)
Total revenues	<u>3,862,676</u>	<u>3,862,676</u>	<u>3,808,686</u>	<u>(53,990)</u>
Expenditures:				
Highways and streets				
General road	4,784,749	4,784,749	2,954,998	1,829,751
Engineering	380,100	380,100	236,375	143,725
Safety department	23,085	23,085	22,283	802
Total highways and streets	<u>5,187,934</u>	<u>5,187,934</u>	<u>3,213,656</u>	<u>1,974,278</u>
Capital outlay	<u>647,500</u>	<u>647,500</u>	<u>51,619</u>	<u>595,881</u>
Total expenditures	<u>5,835,434</u>	<u>5,835,434</u>	<u>3,265,275</u>	<u>2,570,159</u>
Excess (deficiency) of revenues over expenditures	<u>(1,972,758)</u>	<u>(1,972,758)</u>	<u>543,411</u>	<u>2,516,169</u>
Other financing sources:				
Transfers in	25,000	25,000	-	(25,000)
Transfers out	<u>-</u>	<u>-</u>	<u>(83,920)</u>	<u>(83,920)</u>
Total other financing sources	<u>25,000</u>	<u>25,000</u>	<u>(83,920)</u>	<u>(108,920)</u>
Net change in fund balances	(1,947,758)	(1,947,758)	459,491	2,407,249
Fund balances, July 1, 2012	1,947,758	1,947,758	2,649,950	702,192
Changes in nonspendable resources:				
Decrease in inventories	<u>-</u>	<u>-</u>	<u>(63,526)</u>	<u>(63,526)</u>
Fund balances, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,045,915</u>	<u>\$ 3,045,915</u>

See accompanying notes to budgetary comparison schedules.

Graham County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2013

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2013, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<b>Fund/Department</b>	<b>Excess</b>
General Fund	
Assessor	\$27,474
Parks and recreation	6,369
Probation	18,356
School superintendent	14
Sheriff	34,684

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

Graham County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2013

**Public Safety Personnel Retirement System**

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
Pension 6/30/13	\$3,526,191	\$5,183,219	\$1,657,028	68.0%	\$1,031,637	160.6%
Health insurance premium benefit 6/30/13	0	171,853	171,853	0.0%	1,031,637	16.7%
Pension 6/30/12	3,171,870	4,932,639	1,760,769	64.3%	1,206,971	145.9%
Health insurance premium benefit 6/30/12	0	174,003	174,003	0.0%	1,206,971	14.4%
Pension 6/30/11	2,839,609	4,221,313	1,381,704	67.3%	1,041,162	132.7%
Health insurance premium benefit 6/30/11	0	170,655	170,655	0.0%	1,041,162	16.4%

**Corrections Officer Retirement Plan**

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
<b>Corrections Officers</b>						
Pension 6/30/13	\$1,982,294	\$2,228,882	\$246,588	88.9%	\$1,120,750	22.0%
Health insurance premium benefit 6/30/13	0	73,314	73,314	0.0%	1,120,750	6.5%
Pension 6/30/12	1,903,185	2,281,821	378,636	83.4%	1,203,742	31.5%
Health insurance premium benefit 6/30/12	0	81,880	81,880	0.0%	1,203,742	6.8%
Pension 6/30/11	1,663,130	1,747,311	84,181	95.2%	1,068,695	7.9%
Health insurance premium benefit 6/30/11	0	59,346	59,346	0.0%	1,068,695	5.5%

See accompanying note to schedule of agent retirement plans' funding progress.

Graham County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2013

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
<u>Dispatchers</u>						
Pension 6/30/13	\$465,961	\$386,939	\$ (79,022)	120.4%	\$236,747	(33.4)%
Health insurance premium benefit 6/30/13	0	13,750	13,750	0.0%	236,747	5.8%
Pension 6/30/12	452,760	429,590	(23,170)	105.4%	307,905	(7.5)%
Health insurance premium benefit 6/30/12	0	17,643	17,643	0.0%	307,905	5.7%
Pension 6/30/11	532,831	411,300	(121,531)	129.5%	382,877	(31.7)%
Health insurance premium benefit 6/30/11	0	21,449	21,449	0.0%	382,877	5.6%

See accompanying note to schedule of agent retirement plans' funding progress.

Graham County  
Required Supplementary Information  
Notes to Schedule of Agent Retirement Plans' Funding Progress  
June 30, 2013

Note - Actuarial Information Available

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

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## Supplementary Information

**Graham County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
<b>Department of Agriculture</b>						
10 555	National School Lunch Program	Child Nutrition Cluster	Arizona Department of Education	None	\$ 33,859	
10 665	Schools and Roads - Grants to States	Forest Service Schools and Roads Cluster	Arizona State Treasurer	None	585,568	
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS11-004551	201,023	
<b>Total Department of Agriculture</b>					<u>820,450</u>	
<b>Department of Housing and Urban Development</b>						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CDBG State-Administered CDBG	Arizona Department of Housing	112-12, 123-10	830,236	\$ 745,625
<b>Department of the Interior</b>						
15 226	Payments in Lieu of Taxes				2,636,873	
15 Unknown	BLM-Patrol Grant				1,538	
<b>Total Department of the Interior</b>					<u>2,638,411</u>	
<b>Department of Justice</b>						
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster			26,169	
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster	Arizona Criminal Justice Commission	DC-13-052	28,662	
16 738	Edward Byrne Memorial Justice Assistance Grant Program (JAG) Program/Grants to States and Territories <i>Total 16.738</i>	JAG Program Cluster	Arizona Criminal Justice Commission	DC-12-043	15,393	
					<u>70,224</u>	
16 804 ARRA	Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government <i>Total JAG Program Cluster</i>	JAG Program Cluster			46,296	
					<u>116,520</u>	
16 606	State Criminal Alien Assistance Program				761	
16 607	Bulletproof Vest Partnership Program				6,113	
<b>Total Department of Justice</b>					<u>123,394</u>	
<b>Department of Education</b>						
84 010	Title I Grants to Local Educational Agencies	Title 1, Part A Cluster	Arizona Department of Education	S010A040003	17,411	
84 027	Special Education_Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	H027A050007, H027A0090007	481,972	
84 027	Special Education_Grants to States	Special Education Cluster (IDEA)	Arizona Supreme Court	KR12-0088	27,978	
84 027	Special Education_Grants to States	Special Education Cluster (IDEA)	Greenlee County	KR12-0089, KR11-0113	5,261	
					<u>515,211</u>	
84 173	Special Education_Preschool Grants <i>Total Special Education Cluster (IDEA)</i>	Special Education Cluster (IDEA)	Arizona Department of Education	H173A000003	22,550	
					<u>537,761</u>	
84 013	Title I State Agency Program for Neglected and Delinquent Children and Youth		Arizona Supreme Court	S013A090003	4,668	
84 013	Title I State Agency Program for Neglected and Delinquent Children and Youth <i>Total 84.013</i>		Greenlee County	S013A090003	22,656	
					<u>27,324</u>	
84 018	Overseas Programs_Special Bilateral Projects		Arizona Department of Education	SH458979	24,076	
84 358	Rural Education				13,114	

See accompanying notes to schedule.

**Graham County**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2013**

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
84 367	Improving Teacher Quality State Grants		Arizona Department of Education	S367A110049	1,995	
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court	S281A0003	1,689	
84 367	Improving Teacher Quality State Grants		Greenlee County	S281A0003	9,918	
	<i>Total 84.367</i>				<u>13,602</u>	
	<b>Total Department of Education</b>				<u>633,288</u>	
<b>Department of Health and Human Services</b>						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007888	183,873	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041540	56,621	
93 283	Centers for disease Control and Prevention_ Investigations and Technical Assistance		Arizona Department of Health Services	ADHS13-029376	80,826	
93 940	HIV Prevention Activities_Health Department Based		Arizona Department of Health Services	ADHS13-031211	6,256	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS12-020645	28,362	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS13-034537	53,187	
	<b>Total Department of Health and Human Services</b>				<u>409,125</u>	
<b>Department of Homeland Security</b>						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2013-EP-000024	55,364	
97 067	Homeland Security Grant Program		Arizona Department of Homeland Security	555301-02, 777306-01, 777306-02, 444311-01, 999300-01	100,992	
	<b>Total Department of Homeland Security</b>				<u>156,356</u>	
	<b>Total expenditures of federal awards</b>				<u>\$ 5,611,260</u>	<u>\$ 745,625</u>

See accompanying notes to schedule.

Graham County  
Notes to Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2013

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2013 *Catalog of Federal Assistance*. When no CFDA number has been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.



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

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of  
Graham County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 28, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's basic financial statements are free from 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Debbie Davenport  
Auditor General

May 28, 2014



DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

MELANIE M. CHESNEY  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance**

Members of the Arizona State Legislature

The Board of Supervisors of  
Graham County, Arizona

**Report on Compliance for Each Major Federal Program**

We have audited Graham County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

***Basis for Adverse Opinion on CDBG State-Administered CDBG Cluster: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CDBG)***

As described in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding the CDBG Cluster's (14.228) subrecipient monitoring compliance requirement as described in item 2013-102. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

***Adverse Opinion on CDBG State-Administered CDBG Cluster: Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (CDBG)***

In our opinion, because of the significance of the effects of the noncompliance described in the Basis for Adverse Opinion paragraph, Graham County did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the CDBG Cluster for the year ended June 30, 2013.

***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, Graham County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2013.

***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133 and that is described in the accompanying Schedule of Findings and Questioned Costs as item 2013-101. Our opinion on each major federal program is not modified with respect to this matter.

Graham County's responses to the noncompliance findings identified in our audit are presented on pages 53 through 54. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

***Report on Internal Control over Compliance***

The County's management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-102 to be a material weakness.

Graham County's responses to the internal control over compliance findings identified in our audit are presented on pages 53 through 54. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Debbie Davenport  
Auditor General

May 28, 2014

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Graham County  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2013

**Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified	
	<b>Yes</b>	<b>No</b>
Internal control over financial reporting:		
Material weakness identified?	___	<u>X</u>
Significant deficiency identified?	___	<u>X</u> (None reported)
Noncompliance material to the financial statements noted?	___	<u>X</u>

**Federal Awards**

Internal control over major programs:		
Material weaknesses identified?	<u>X</u>	___
Significant deficiency identified?	___	<u>X</u> (None reported)
Type of auditors' report issued on compliance for major programs:		
Unmodified for all major programs except for the CDBG State-Administered CDBG Cluster: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (14.228), which was adverse.		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	___

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Woman, Infants, and Children
14.228	CDBG State-Administered CDBG Cluster
15.226	Payments in Lieu of Taxes
84.027, 84.173	Special Education Cluster (IDEA)

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

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

**Yes**      **No**

Auditee qualified as low-risk auditee?

\_\_\_       X

**Other Matters**

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

X       \_\_\_

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

Financial Statement Findings

None reported.

Federal Award Findings and Questioned Costs

**2013-101**

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<b>CFDA No. and Name:</b>	Not applicable
<b>Questioned Costs:</b>	N/A

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

Condition and context: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2014; however, the County did not issue its Single Audit Reporting Package until May 2014.

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

Cause: The County was late submitting its prior year reports and, therefore, delayed its fiscal year 2013 reports preparation.

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

This finding is similar to a prior-year finding.

Graham County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2013

**2013-102**

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<b>Cluster Name:</b>	<b>CDBG State-Administered CDBG Cluster</b>
<b>CFDA No. and Name:</b>	<b>14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii</b>
<b>Award Number and Year:</b>	123-10, December 14, 2009 through August 30, 2012, 112-12, December 27, 2011 through May 31, 2014
<b>Federal Agency:</b>	<b>U.S. Department of Housing and Urban Development</b>
<b>Pass-Through Grantor:</b>	Arizona Department of Housing
<b>Compliance Requirement:</b>	Subrecipient Monitoring
<b>Questioned Costs:</b>	None

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Criteria: In accordance with Office of Management and Budget (OMB) Circular A-133, §400(d)(1-5), pass-through entities should adequately identify federal awards; advise subrecipients of program requirements; monitor the activities of subrecipients; ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year; and issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Condition and context: The County's subrecipient expenditures of \$745,625 represented 90 percent of total program expenditures. The County reviewed supporting documentation of its subrecipient's expenditures prior to reimbursement; however, it did not perform any of the other procedures the subrecipient monitoring compliance requirements required. This finding only applies to award number 112-12.

Effect: The County did not comply with the subrecipient monitoring compliance requirements.

Cause: The County was not fully aware of the requirements over subrecipient monitoring and did not have adequate policies and procedures over subrecipient monitoring.

Recommendation: The County should establish the following policies and procedures over subrecipient monitoring:

- Inform each subrecipient of federal awards made by identifying the CFDA title and number, award name, and number.
- Advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements the County imposed.
- Monitor the activities of subrecipients as necessary to ensure that they use federal awards for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that they achieve performance goals.
- Ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements for that fiscal year.
- Issue a management decision on audit findings within 6 months after receiving the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.



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

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

Terry Cooper, County Manager/Clerk

May 28, 2014

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

Dear Ms. Davenport:

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

Sincerely,

Julie Rodriguez  
Chief Financial Officer

Graham County  
Corrective Action Plan  
Year Ended June 30, 2013

Federal Award Findings and Questioned Costs

**2013-101**

CFDA No.: Not applicable  
Contact person: Julie Rodriguez, Chief Financial Officer  
Anticipated completion date: March 31, 2015  
Response: Concur

Corrective Action Plan: The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package. A new employee who will be in charge of the preparation of the Single Audit Report Package was hired in June 2013. In working with the Office of the Auditor General, the goal is to have the audit process caught up to date by the issuance of the fiscal year 2014 audit in March 2015. To improve the timeliness of preparing its reports, the Department is documenting procedures on audit preparation steps and allocating a sizeable percentage of time to audit preparation.

**2013-102**

CDBG – State-Administered CDBG Cluster  
CFDA No.: 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii  
112-12, December 27, 2011 through May 31, 2014  
U.S. Department of Housing and Urban Development  
Arizona Department of Housing  
Compliance Requirement: Subrecipient Monitoring  
Questioned Costs: None  
Contact persons: Michael Bryce, Engineer and Julie Rodriguez, Chief Financial Officer  
Anticipated completion date: June 30, 2014  
Response: Concur

Corrective Action Plan: Graham County was diligent in reviewing the financial payments to the subrecipient under this grant. However, to be compliant with Office of Management and Budget (OMB) Circular A-133, §400(d)(1-5), Graham County will establish a policy for subrecipient monitoring that will incorporate the recommendations for informing and communicating key award data and requirements to subrecipients, monitoring subrecipient activities, and ensuring that subrecipients meet these audit requirements. This CDBG grant is anticipated to conclude on May 29, 2014, but Graham County will use this subrecipient monitoring policy for future federal awards over \$500,000 that involve subrecipients.



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May 28, 2014

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

Dear Ms. Davenport:

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

Sincerely,

Julie Rodriguez  
Chief Financial Officer

Graham County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2013

Status of Federal Award Findings and Questioned Costs

09-101, 10-101, 11-101, 12-101  
CFDA No.: Not applicable  
Status: Not corrected

Status: The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package. A new employee who will be in charge of the preparation of the Single Audit Report Package was hired in June 2013. In working with the Office of the Auditor General, the goal is to have the audit process caught up to date by the issuance of the fiscal year 2014 audit in March 2015. To improve the timeliness of preparing its reports, the Department is documenting procedures on audit preparation steps and allocating a sizeable percentage of time to audit preparation.

10-104

**Special Education Cluster:**

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

Status: Corrected

11-104

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

**Homeland Security Cluster:**

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

Status: Not Corrected

In April 2014, the County adjusted their procurement process by adding a line item to every purchase order requiring designation if items are purchased with federal funds. The CFO will review all purchase orders and will log all vendor purchases with federal funds. Purchases that exceed the \$25,000 threshold will be properly checked within the System for Award Management. This verification will then be filed in order to verify the vendors are eligible to do business with government entities according to federal regulations.

11-105

**Special Education Cluster:**

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

Status: Corrected

Graham County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2013

11-106

**Homeland Security Cluster:**

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

Status: Not Corrected

The County has begun to identify equipment purchased with federal funding and is maintaining a list. In addition, the County has instituted a procedure for new purchases that will identify capital and noncapital items purchased with federal funds so these items can be added to the list. The County still needs to work through historical assets to identify federal purchases and plans to do this as part of the upcoming (May-June 2014) physical inventory. It is also our intention during this physical inventory to have equipment tagged and matched to a master list.

12-102

**Special Education Cluster:**

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

84.173 **Special Education—Preschool Grants**

Status: Corrected

12-103

**Homeland Security Cluster:**

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

Status: Not Corrected

The County has begun to identify equipment purchased with federal funding and is maintaining a list. In addition, the County has instituted a procedure for new purchases that will identify capital and noncapital items purchased with federal funds so these items can be added to the list. The County still needs to work through historical assets to identify federal purchases and plans to do this as part of the upcoming (May-June 2014) physical inventory. It is also our intention during this physical inventory to have equipment tagged and matched to a master list.

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