A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Graham County

Year Ended June 30, 2010

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The Management's Discussion and Analysis on pages i through viii, the Budgetary Comparison Schedules on pages 28 through 32, and the Schedule of Agent Retirement Plans' Funding Progress on pages 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2011, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Debbie Davenport
Auditor General

August 30, 2011

Graham County
Management's Discussion and Analysis
June 30, 2010

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, 2010. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The assets of Graham County exceeded its liabilities at the close of the current fiscal year by $35,162,759 (net assets). Of this amount, $1,227,770 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balance of $6,143,452, a decrease of $277,045 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was $1,668,869, or 10 percent of total General Fund expenditures.
- Graham County's capital assets decreased by $1,697,614 during the current fiscal year. The key factor for the decrease in capital assets was restricting expenditures to only what was absolutely necessary. The largest expenditure was related to costs associated with the construction of the bridge over the Gila River on Eighth Avenue. Although the dedication of the Bridge took place on April 9, 2010, Arizona Department of Transportation, who managed the project, has not completed the final accounting or turned the bridge over to the County.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the 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 26 of this report.

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

Required supplementary information can be found on pages 28 through 35 of this report.

Government-wide Financial Analysis

Statement of net assets—As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Graham County's assets exceeded liabilities by $35,162,759.

Condensed Statement of Net Assets
As of June 30, 2010 and 2009

	Governmental Activities	
	2010	2009
Current and other assets	$ 9,007,538	$ 7,462,772
Capital assets	29,513,883	31,211,497
Total assets	38,521,421	38,674,269
Long-term liabilities outstanding	1,310,329	1,540,108
Other liabilities	2,048,333	697,859
Total liabilities	3,358,662	2,237,967
Net asset:		
Invested in capital assets, net of related debt	29,267,558	30,717,258
Restricted	4,667,431	4,691,394
Unrestricted	1,227,770	1,027,650
Total net assets	$35,162,759	$36,436,302

The largest portion of Graham County's net assets (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 used to acquire those assets that are still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Graham County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from $1,027,650 at June 30, 2009, to $1,227,770 at June 30, 2010.

The increase in unrestricted net assets is a reflection of the conservative efforts of the Board of Supervisors, Elected Officials, and Department Heads, in the current economic conditions to reduce costs while meeting the requirements of providing mandated services to Graham County's citizens.

Current assets, related to governmental activities, increased as compared to the previous fiscal year, primarily because the County's Payment in Lieu of Taxes (PILT) was not received until July 2010. Along with the economic challenges small business owners and homeowners are having, one large taxpayer did not make its tax payments and also sued Graham County to reduce its assessed value to reduce its tax bill. Increases in due from other governments and property tax receivable more than offset the decreases in cash and inventories. Capital assets decreased this fiscal year as depreciation more than exceeded the cost of new assets.

The County was unable to pay off its short-term debt before the fiscal year-end due to the delay in receiving the PILT monies. This is reflected in the nearly 100 percent increase in other liabilities. The liability for compensated absences increased modestly, reflecting employees increased carryover of vacation and sick leave hours. There have been no new capital leases this year and minimal changes to landfill closure and postclosure care costs; therefore, these liabilities remained almost unchanged.

Statement of activities—Already noted was the statement of activities' purpose in presenting information in how the government's net assets changed during the most recent fiscal year. For the fiscal year, net assets decreased $1,273,543 as the County dealt with increased cost shifts and decreased revenue streams from the State. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes whose primary purpose is for the County's operation.

Condensed Statement of Revenues,
Expenses, and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	Governmental Activities	
	2010	2009
Revenues		
Program revenues:		
Charges for services*	$ 3,401,542	$ 3,119,214
Operating grants and contributions*	9,689,561	9,548,503
Capital grants and contributions*	186,131	774,914
General revenues:		
Property taxes	3,690,694	2,972,434
Sales taxes	4,902,238	5,143,005
Vehicle license tax	1,490,116	1,610,757
Grants and contributions not restricted to specific programs*	3,102,282	4,099,434
Miscellaneous*	721,989	1,384,311
Total revenues	27,184,553	28,652,572
Expenses		
General government	7,492,069	8,074,038
Public safety	9,368,959	9,760,314
Highways and streets	4,763,048	4,431,042
Sanitation	183,194	198,484
Health	1,523,248	1,422,829
Welfare	2,282,640	2,449,406
Culture and recreation	559,915	583,743
Education	2,285,023	2,304,880
Total expenses	28,458,096	29,224,736
Decrease in net assets	(1,273,543)	(572,164)
Net assets–beginning	36,436,302	37,008,466
Net assets–ending	$35,162,759	$36,436,302

* The fiscal year 2009 revenue amounts have been reclassified for comparison with fiscal year 2010 amounts.

Governmental activities

Governmental activities revenues totaled $27,184,553 for fiscal year 2010. The following are highlights of county revenues:

- Capital grants and contributions decreased by $588,783 as funding for capital projects was unavailable.

- Property tax revenues increased $718,260, or 24 percent, this fiscal year because the property valuation increased by $46,630,356, or 26.6 percent, even though the tax rate decreased by 0.0743 per $100 of net assessed value. Additionally, significant new construction was added to the tax rolls, primarily at the Safford mine of Freeport-McMoRan Copper & Gold Inc.
- Grants and Contributions not restricted to specific programs decreased by $997,152, or 24 percent, primarily because in 2009 the County received an $826,929 additional PILT funding to bring the previous distribution up to "full funding."
- Miscellaneous revenues decreased this fiscal year $662,322 or 48 percent, as the State stopped sharing lottery funds with counties during the current fiscal year, interest income declined significantly, fair and racing funds continued to decline, and health funding declined.

Expenses:

Overall expenses in governmental activities decreased by $766,640, or 2.6 percent. Spending for most of the functions was reduced during this fiscal year, with exceptions in spending for highways and streets and health. The highway and streets function did not perform any major pavement preservation projects in fiscal year 2009 but started back up in fiscal year 2010. The State provided funding for a new health program, Teen Pregnancy Prevention, and fiscal year 2010 was its first full year of expenditures.

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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Graham County. At June 30, 2010, the General Fund's unreserved fund balance was $1,668,869, which was a decrease of $60,234 over the prior fiscal year. Even though expenditures were significantly reduced, revenues only increased slightly, as the State has continued reducing some distributions traditionally passed down to the County (i.e., Lottery, JP Salary reimbursement, etc.). Additionally, the County did not obtain funding from other financing sources, such as the capital lease agreement in the prior year and funds transferred from other funds was significantly reduced.

The Highway Road Fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State for the purposes of maintaining and improving the roads under the County's care. The fund balance for the Highway Road Fund increased $48,191 this fiscal year. The Highway Road Fund received $35,137 for work performed on behalf of the fairgrounds, which was reimbursed by a CDGB Grant. Also, $85,419 was transferred to the Peterson Wash Construction Project to cover the County's share and cost overruns for that project. Management made a conscious effort to increase the fund balance as the Arizona State Legislature continued to reduce funding in order to help balance the State's budget.

The other governmental fund balance decreased by $265,002. This is a combination of many nonmajor funds of the County, most funded by various grants. Funding for several programs are being cut or reduced as the economy continues to struggle. As a result, balances were reduced and not replenished this fiscal year.

General Fund Budgetary Highlights

There were no amendments to the original revenue budget for the General Fund. A significant unfavorable revenue variance of $509,296, or 14.1 percent, below budget was incurred for property tax collections. One major taxpayer, who is suing the County in Bankruptcy Court to reduce its assessed valuation, did not pay any of its 2009/10 property taxes. The General Fund general government original expenditure budget of $8,374,493 was amended, moving $62,000 from contingency to public safety expenditures for the Juvenile Detention Center. General Fund expenditures were less than the final budget by $2,226,558, or by 11.8 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of $1,720,653. 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 and information technology funds.

Capital Asset and Debt Administration

Capital assets—The County's capital assets for its governmental activities as of June 30, 2010, amounts to $29,513,883 (net of accumulated depreciation). The decrease of $1,697,614 is due primarily to depreciation exceeding assets added for the current fiscal year. Additionally, due to economic conditions, very few assets were purchased during the fiscal year. Funding for capital assets in almost all programs has been eliminated by the funders. As discussed above in the Financial Highlights section, committed funds for the Peterson Wash project were paid to the Arizona Department of Transportation.

Additional information on Graham County's capital assets can be found in Note 4 on page 16 of this report.

Long-term Debt—At the end of the current fiscal year, the County had total long-term debt outstanding of $1,310,329. Included in long-term liabilities is $984,060 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 $246,325 and post-closure care costs of $79,944. 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 17 through 19.

Economic Factors and Next year's Budget and Rates

- The unemployment rate for Graham County is currently 13.8 percent. While this is a slight improvement of 0.7 percent from 14.5 percent a year ago, it is still greater than the state rate of 10 percent. This reflects continued difficult economic conditions in Graham County at the current time.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the fiscal year 2011. The unreserved ending fund balance in the General Fund of $1,688,869 was appropriated for spending in the fiscal year 2011 budget. The use of available fund balances in conjunction with realistic revenue projections and a conservative expenditure plan avoided the need to raise the General Fund property tax rate above the Truth in Taxation Rate of 1.8132 for the fiscal year 2011.

Requests for Information

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

Graham County
Statement of Net Assets
June 30, 2010

	Primary Government
	Governmental Activities
Assets	
Cash, cash equivalents, and investments	$ 3,810,689
Property taxes receivables	851,586
Due from other governments	3,876,822
Inventories	468,441
Capital assets, not being depreciated	5,868,205
Capital assets, being depreciated, net	23,645,678
Total assets	38,521,421
Liabilities	
Accounts payable	455,387
Accrued payroll and employee benefits	413,986
Short-term loans	1,178,960
Noncurrent liabilities	
Due within 1 year	926,952
Due in more than 1 year	383,377
Total liabilities	3,358,662
Net Assets	
Invested in capital assets, net of related debt	29,267,558
Restricted for:	
Highways and streets	2,071,614
Capital projects	119,368
Other purposes	2,476,449
Unrestricted	1,227,770
Total net assets	$ 35,162,759

See accompanying notes to financial statements.

Graham County
Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets: Primary Government: Governmental Activities
Primary government:					
Governmental activities:					
General government	$ 7,492,069	$ 2,328,340	$ 2,486,516		$ (2,677,213)
Public safety	9,368,959	231,090	1,614,617		(7,523,252)
Highways and streets	4,763,048	9,904	3,096,101	$ 186,131	(1,470,912)
Sanitation	183,194		45,881		(137,313)
Health	1,523,248	48,269	1,165,072		(309,907)
Welfare	2,282,640				(2,282,640)
Culture and recreation	559,915	62,099			(497,816)
Education	2,285,023	721,840	1,281,374		(281,809)
Total governmental activities	$ 28,458,096	$ 3,401,542	$ 9,689,561	$ 186,131	(15,180,862)

General revenues:	
Property taxes, levied for general purposes	3,690,694
Shared revenues—state sales tax	4,902,238
Shared revenues—state vehicle license tax	1,490,116
Shared revenues—lottery	304,381
Grants and contributions not restricted to specific programs	3,102,282
Investment earnings	73,048
Miscellaneous	344,560
Total general revenues	13,907,319
Change in net assets	(1,273,543)
Net assets, July 1, 2009	36,436,302
Net assets, June 30, 2010	$ 35,162,759

See accompanying notes to financial statements.

Graham County
Balance Sheet
Governmental Funds
June 30, 2010

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Cash, cash equivalents, and investments	$ 255	$ 1,423,544	$ 2,386,890	$ 3,810,689
Property taxes receivables	813,072		38,514	851,586
Due from other governments	3,286,359	263,640	326,823	3,876,822
Inventories		468,441		468,441
Total assets	$ 4,099,686	$ 2,155,625	$ 2,752,227	$ 9,007,538
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	175,531	42,645	237,211	455,387
Accrued payroll and employee benefits	296,957	41,366	75,663	413,986
Short-term loans	1,178,960			1,178,960
Deferred revenue	779,369		36,384	815,753
Total liabilities	2,430,817	84,011	349,258	2,864,086
Fund balances:				
Reserved for:				
Inventories		468,441		468,441
Unreserved, reported in:				
General fund	1,668,869			1,668,869
Special revenue funds		1,603,173	2,440,687	4,043,860
Capital projects funds			(37,718)	(37,718)
Total fund balances	1,668,869	2,071,614	2,402,969	6,143,452
Total liabilities and fund balances	$ 4,099,686	$ 2,155,625	$ 2,752,227	$ 9,007,538

See accompanying notes to financial statements.

Graham County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2010

Fund balances—total governmental funds	$ 6,143,452
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,513,883
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	815,753
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(1,310,329)
Net assets of governmental activities	$ 35,162,759

See accompanying notes to financial statements.

Graham County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	$ 3,090,854		$ 128,503	$ 3,219,357
Licenses and permits	43,972			43,972
Fines and forfeits	224,652		67,303	291,955
Intergovernmental	11,254,546	$ 3,728,151	4,685,334	19,668,031
Charges for services	1,654,745	9,484	1,276,595	2,940,824
Investment earnings	12,163	20,040	40,844	73,047
Rents	51,714	420	79,337	131,471
Miscellaneous	121,783	72,684	255,210	449,677
Total revenues	16,454,429	3,830,779	6,533,126	26,818,334
Expenditures:				
Current:				
General government	6,591,840		667,046	7,258,886
Public safety	6,925,974		1,977,240	8,903,214
Highways and streets		3,610,611	191,145	3,801,756
Sanitation	138,016		46,017	184,033
Health	241,874		1,205,657	1,447,531
Welfare	2,282,640			2,282,640
Culture and recreation	267,413		227,241	494,654
Education	211,141		1,932,220	2,143,361
Capital outlay	46,601	28,695	411,008	486,304
Total expenditures	16,705,499	3,639,306	6,657,574	27,002,379
Excess (deficiency) of revenues over expenditures	(251,070)	191,473	(124,448)	(184,045)
Other financing sources (uses):				
Transfers in	190,836	35,137	86,647	312,620
Transfers out		(85,419)	(227,201)	(312,620)
Total other financing sources and uses	190,836	(50,282)	(140,554)	
Net change in fund balances	(60,234)	141,191	(265,002)	(184,045)
Fund balances, July 1, 2009	1,729,103	2,023,423	2,667,971	6,420,497
Decrease in reserve for inventories		(93,000)		(93,000)
Fund balances, June 30, 2010	$ 1,668,869	$ 2,071,614	$ 2,402,969	$ 6,143,452

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, 2010

Net change in fund balances—total governmental funds		$ (184,045)
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	$ 486,304	
Depreciation expense	(2,078,800)	(1,592,496)
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 assets differs from the change in fund balance by the book value of the capital assets sold.		(105,118)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		471,337
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Principal Payments on long-term debt		247,914
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	(18,974)	
Decrease in landfill and postclosure care costs	839	(18,135)
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		(93,000)
Change in net assets of governmental activities		$ (1,273,543)

See accompanying notes to financial statements.

Graham County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2010

	Investment Trust Funds	Agency Funds
Assets		
Cash, cash equivalents, and investments	$ 39,110,903	$ 428,276
Accrued interest receivable	1,819	
Total assets	39,112,722	$ 428,276
Liabilities		
Deposits held for others		$ 428,276
Total liabilities		$ 428,276
Net Assets		
Held in trust for investment trust participants	$ 39,112,722	

See accompanying notes to financial statements.

Graham County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2010

	Investment Trust Funds
Additions:	
Contributions from participants	$ 67,293,431
Investment earnings	568,467
Total additions	67,861,898
Deductions:	
Distributions to participants	55,344,911
Total deductions	55,344,911
Change in net assets	12,516,987
Net assets, July 1, 2009	26,595,735
Net assets, June 30, 2010	$ 39,112,722

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

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

For the year ended June 30, 2010, the County implemented the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets. Implementing this statement did not affect the County's financial statements.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. The blended component unit discussed below has a June 30 year-end. The County has no discretely presented component units.

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

B. Basis of Presentation

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

Government-wide statements—Provide information about the primary government (the County) and its component units. The statements include a statement of net assets and a statement of activities. These statements report the financial activities of the overall government, except for the 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, are reported as general revenues.

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

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

The County reports the following major governmental funds:

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

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

The County reports the following fund types:

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

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

C. Basis of Accounting

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

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.

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

D. Cash and Investments

All investments are stated at fair value.

E. Inventories

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 are offset by a fund balance reserve to indicate that they do not constitute "available spendable resources." These inventories are stated at cost using the first-in, first-out method.

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.

F. Property Tax Calendar

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

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

G. Capital Assets

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

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

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

H. Investment Earnings

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

I. Compensated Absences

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

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

Employees may accumulate up to 1,500 hours of sick leave. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of 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 hours are accrued in the governmental funds' financial statements only if they have matured, as defined in the previous paragraph.

Sick Leave Balance	Rate of Reimbursement
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; interest earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; and specified commercial paper, bonds, debentures, and notes issued by corporations organized and doing business in the United States. In addition, the County Treasurer may invest trust funds in fixed income securities of corporations doing business in the United States or District of Columbia.

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

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

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

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

Foreign currency risk
Statutes do not allow foreign investments.

Deposits—At June 30, 2010, the carrying amount of the County's deposits was $1,073,776, and the bank balance was $988,870. The County does not have a formal policy with respect to custodial credit risk.

In November 2008, the FDIC's Board of Directors established a program called the Temporary Liquidity Guarantee Program (TLGP). This program was designed to assist in the stabilization of the nation's financial system. Under the Transaction Account Guarantee (TAG) program, a component of the TLGP, the FDIC guarantees all funds held in qualifying noninterest-bearing transaction accounts at participating insured depository institutions. Effective June 22, 2010, an amendment to 12 CFR 370, in part, extended the TAG program until December 31, 2010.

Investments—The County's investments at June 30, 2010, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	$16,203,016
State Treasurer's Investment pool 5	1,462,076
Certificates of deposit	2,593,490
U.S. agency securities	12,024,789
U.S. Treasury securities	9,986,895
Total	$42,270,266

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, 2010, 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	$16,203,016
State Treasurer's Investment Pool 5	AAAf/S1+	Standard & Poor's	1,462,076
U.S. agency securities	AAA	Standard & Poor's	12,024,789
Total			$29,689,881

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, 2010, of 5 percent or more in the Federal Home Loan Bank. This investment was 14.35 percent 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, 2010, the County had the following investments in debt securities:

Investment	Amount	Weighted Average Maturity (In Years)
State Treasurer's investment pool 7	$16,203,016	0.06
State Treasurer's Investment pool 5	1,462,076	0.08
Certificates of deposit	2,593,490	0.68
U.S. agency securities	12,024,789	2.49
U.S. Treasury securities	9,986,895	0.44
Total	$42,270,266	

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

Cash, deposits, and investments:

Cash on hand	$ 5,826
Amount of deposits	1,073,776
Amount of investments	42,270,266
Total	$43,349,868

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Statement of Net Assets				
Cash, cash equivalents, and investments	$3,810,689	$39,110,903	$428,276	$43,349,868

Note 3 - Due from Other Governments

Amounts due from other governments at June 30, 2010, include $2,672,505 in Payments in Lieu of Taxes (PILT) from the U.S. Department of the Interior, $153,369 in state-shared revenue from sales tax, $138,773 in county excise tax distributions from the State Treasurer, $74,398 in state motor vehicle license taxes from the Arizona Department of Transportation, $163,507 in prisoner detention fees from the U.S. Department of Justice, and $83,807 in other fees from federal, state, and local governments recorded in the General Fund; $201,686 in state-shared revenue from highway user taxes and $61,954 in state motor vehicle license taxes from the Arizona Department of Transportation recorded in the Highway Road Fund; and $326,823 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, 2010, was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 2,788,149		$ 78,278	$ 2,709,871
Construction in progress	2,848,508	$ 309,826		3,158,334
Total capital assets not being Depreciated	5,636,657	309,826	78,278	5,868,205
Capital assets being depreciated:				
Buildings	13,876,836	13,947		13,890,783
Machinery and equipment	11,573,150	162,531	270,908	11,464,773
Infrastructure	17,885,162			17,885,162
Total	43,335,148	176,478	270,908	43,240,718
Less accumulated depreciation for:				
Buildings	4,872,574	330,002		5,202,576
Machinery and equipment	7,232,545	1,301,669	244,068	8,290,146
Infrastructure	5,655,189	447,129		6,102,318
Total	17,760,308	2,078,800	244,068	19,595,040
Total capital assets being depreciated, net	25,574,840	(1,902,322)	26,840	23,645,678
Governmental activities capital assets, net	$31,211,497	$(1,592,496)	$105,118	$29,513,883

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	$ 454,013
Public safety	467,985
Highways and streets	867,267
Health	84,904
Culture and recreation	66,144
Education	138,487
Total governmental activities depreciation expense	$2,078,800

Note 5 - Short-Term Loans

The County needed to open a line of credit with Wells Fargo Bank during the fiscal year to cover timing differences in the receipt of revenue and the payment of obligations during the year. There was no balance on the line of credit at the beginning of the fiscal year; however, the balance at the end of the fiscal year was $1,178,960. The activity for fiscal year 2010 was as follows:

Beginning balance	$ 0
Total borrowings	7,024,436
Total payments	5,845,476
Ending balance	$1,178,960

Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2010:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within 1 year
Governmental Activities					
Compensated absences payable	$ 965,086	$657,992	$639,018	$ 984,060	$688,842
Capital leases payable	494,239		247,914	246,325	236,310
Landfill closure and post-closure care costs payable	80,783	961	1,800	79,944	1,800
Total governmental activities long-term liabilities	$1,540,108	$658,953	$888,732	$1,310,329	$926,952

Capital leases—The County has entered into lease agreements as lessee for financing the acquisition of a phone system, computer equipment, an accounting system, and Sheriff's vehicles. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the net minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Equipment	$728,788
Software	365,684
Less: accumulated depreciation	499,367
Total	$595,105

The future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2010, were as follows:

	Governmental Activities
Year ending June 30	
2011	$244,422
2012	10,015
Total minimum lease payments	254,437
Less amount representing interest	(8,112)
Present value of net minimum lease payments	$246,325

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. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reported a portion of these closure and postclosure care costs in each period that the county operated the landfill. These costs will be paid from the General Fund.

The $79,944 reported as landfill postclosure care liability at June 30, 2010, is based on what it would cost to perform all remaining postclosure care in fiscal year 2010. The County closed the landfill during the 2003 fiscal year. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

According to state and federal laws and regulations, the County must comply with the local government financial test requirements that assure 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, currently composed of six member counties. The Trust provides the benefits through a self-funding agreement with its participants and administers the program. 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 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 the fiscal year 2010, the County paid for compensated absences as follows: 74 percent from General Fund, 8 percent from Highway Road Fund, and 18 percent from other governmental funds.

Note 7 - Risk Management

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

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 for 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 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 8 - Pensions and Other Postemployment Benefits

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

The *Arizona State Retirement System* (ASRS) administers a cost-sharing, multiple-employer defined benefit pension plan; a cost-sharing, multiple-employer defined benefit health insurance premium plan; and a cost-sharing, multiple-employer defined benefit long-term disability plan that covers employees of the State of Arizona and employees of participating political subdivisions and school districts. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

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

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

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

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

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

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

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

Cost-sharing plans—For the year ended June 30, 2010, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.4 percent (9.0 percent for retirement and 0.4 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.4 percent (8.34 percent for retirement, 0.66 percent for health insurance premium, and 0.4 percent for long-term disability) of the members' annual covered payroll.

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

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2010	$462,909	$36,633	$22,202
2009	463,981	55,748	29,035
2008	445,523	58,112	27,672

Agent Plans—For the year ended June 30, 2010, active PSPRS member were required by statute to contribute 7.65 percent of the members' annual covered payroll and the County was required to contribute 16.70 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.22 percent of covered payroll. Active CORP members were required by statue to contribute

8.41 percent for corrections officers and Administrative Office of the Courts (AOC) and 7.96 percent for dispatchers of the members' annual covered payroll. In addition, the County was required to contribute 6.53 percent for CORP corrections officers, 6.00 percent for AOC, and 5.00 percent for CORP dispatchers. The aggregate of the members' and the County's contributions is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.67 percent for CORP corrections officers, 0.24 percent for AOC, and 0.29 percent for CORP dispatchers of covered payroll. Active EORP members were required by statute to contribute 7.00 percent of the members' annual covered payroll; and the County was required to remit a designated portion of certain court fees plus additional contributions at the actuarially determined rate of 14.25 percent of the members' annual covered payroll. The health insurance premium portion of the contribution rate was actuarially set at 1.89 percent of covered payroll.

Actuarial methods and assumptions—The contributions requirements for the year ended June 30, 2010, were established by the June 30, 2008, 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 2010 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	28 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% - 8.50% for PSPRS and CORP; 5.00% for EORP
includes inflation at	5.50% for PSPRS and CORP; 5.00% for EORP

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2010, and related information follows:

	PSPRS		CORP						EORP	
			Corrections		AOC		Dispatchers			
	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance
Annual pension/ OPEB cost	$173,005	$13,635	$60,878	$6,960	$81,095	$3,379	$17,946	$1,105	$113,215	$17,312
Contributions made	173,005	13,635	60,878	6,960	81,095	3,379	17,946	1,105	113,215	17,312

Trend Information—Annual pension and OPEB cost information for the current and 2 preceding years follows for each of the agent plans. For CORP – AOC, separate pension and health insurance was not available for the years ended June 30, 2008 or 2009.

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
PSPRS				
Pension	2010	$173,005	100%	$0
Health insurance	2010	13,635	100%	0
Pension	2009	176,168	100%	0
Health insurance	2009	13,610	100%	0
Pension	2008	119,648	100%	0
Health insurance	2008	11,126	100%	0
CORP				
Corrections				
Pension	2010	60,878	100%	$0
Health insurance	2010	6,960	100%	0
Pension	2009	40,609	100%	0
Health insurance	2009	6,068	100%	0
Pension	2008	37,203	100%	0
Health insurance	2008	6,024	100%	0
AOC				
Pension	2010	81,095	100%	$0
Health insurance	2010	3,379	100%	0
Pension and health	2009	141,063	100%	0
insurance	2008	165,487	100%	0
Dispatchers				
Pension	2010	17,946	100%	$0
Health insurance	2010	1,105	100%	0
Pension	2009	17,176	100%	0
Health insurance	2009	1,131	100%	0
Pension	2008	16,453	100%	0
Health insurance	2008	1,163	100%	0

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
EORP				
Pension	2010	$113,215	100%	$0
Health insurance	2010	17,312	100%	0
Pension	2009	141,541	100%	0
Health insurance	2009	8,455	100%	0
Pension	2008	104,027	100%	0
Health insurance	2008	9,265	100%	0

Funded Status—The funded status of the plans as of the most recent valuation date, June 30, 2010, along with the actuarial assumptions and methods used in those valuations follow. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Fund Manager obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government, is not available.

	PSPRS		CORP					
			Corrections		AOC*		Dispatchers	
	Pension	Health insurance	Pension	Health insurance	Pension	Health insurance	Pension	Health insurance
Actuarial accrued liability (a)	$3,752,237	$152,680	$1,417,835	$58,664	N/A	N/A	$271,001	$9,172
Actuarial value of assets (b)	$2,456,214	$0	$1,486,737	$0	N/A	N/A	$454,604	$0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	$1,296,023	$152,680	$(68,902)	$58,664	N/A	N/A	$(183,603)	$9,172
Funded ratio (b)/(a)	65.5%	0.0%	104.9%	0.0%	N/A	N/A	167.7%	0.0%
Covered payroll (c)	$1,158,489	$1,158,489	$1,108,719	$1,108,719	N/A	N/A	$373,831	$373,831
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a) – (b)]/(c))	111.9%	13.2%	(6.2%)	5.3%	N/A	N/A	(49.1%)	2.5%

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

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

Actuarial valuation date	June 30, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	26 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% - 8.50% for PSPRS and CORP; 5.00% for EORP
includes inflation at	5.50% for PSPRS and CORP; 5.00% for EORP

Note 9 - Interfund Balances and Activity

Interfund transfers—Interfund transfers for the year ended June 30, 2010, were as follows:

	Transfer to			
Transfer from	General Fund	Highway Road Fund	Other Governmental Funds	Total
Highway Road Fund			$85,419	$ 85,419
Other Governmental Funds	$190,836	$35,137	1,228	227,201
Total	$190,836	$35,137	$86,647	$312,620

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. The transfer from the Highway Road Fund to Other Governmental Funds was recorded to fund the matching portion of the Peterson Wash project.

Note 10 - County Treasurer's Investment Pool

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

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

The Treasurer allocates interest earnings to each of the pool's participants. However, for the County's monies in the pool, the Board of Supervisors authorized $893 of interest earned in certain other funds to be transferred to the General Fund

Substantially, all deposits and all investments of the County's primary government are included in the County Treasurer's investment pool, except for $356,151 of deposits and $61,318 of investments in 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 3 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Amount
State Treasurer's investment pool 7	$16,203,016	None stated	None stated	$16,203,016
State Treasurer's investment pool 5	1,400,758	None stated	None stated	1,400,758
Certificates of deposit	2,590,000	.20-2.50%	12/10 – 12/11	2,593,490
U.S. agency securities	12,024,507	.75–5.20%	06/10 – 08/13	12,024,789
U.S. Treasury securities	9,576,165	.13–5.75%	08/10 – 05/12	9,986,895
	$41,794,446			$42,208,948

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

Statement of Net Assets	
Assets	$42,780,197
Net assets	$42,780,197
Net assets held in trust for:	
Internal participants	$ 3,700,680
External participants	39,079,517
Total net assets held in trust	$42,780,197
Statement of Changes in Net Assets	
Total additions	$99,354,242
Total deductions	89,313,902
Net increase	10,040,340
Net assets held in trust:	
July 1, 2009	32,739,857
June 30, 2010	$42,780,197

Other Required Supplementary Information

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Property taxes	$ 3,600,150	$ 3,600,150	$ 3,090,854	$ (509,296)
Licenses and permits	76,000	76,000	43,972	(32,028)
Fines and forfeits	257,500	257,500	224,652	(32,848)
Intergovernmental	11,148,549	10,898,549	11,254,546	355,997
Charges for services	1,464,500	1,714,500	1,654,745	(59,755)
Investment income	25,000	25,000	12,163	(12,837)
Rents	35,000	35,000	51,714	16,714
Miscellaneous	256,000	256,000	121,783	(134,217)
Total revenues	16,862,699	16,862,699	16,454,429	(408,270)
Expenditures:				
General government				
Board of supervisors	704,395	704,395	689,362	15,033
Treasurer	287,904	287,904	278,697	9,207
Assessor	435,500	435,500	439,694	(4,194)
Recorder	242,500	242,500	235,257	7,243
Elections	97,558	97,558	57,773	39,785
Attorney	1,071,308	1,071,308	1,050,140	21,168
Clerk of the court	519,080	519,080	522,224	(3,144)
Superior court	600,967	660,967	607,339	53,628
Justice of the peace No.1	339,482	339,482	337,085	2,397
Justice of the peace No.2	231,999	231,999	227,179	4,820
Victim witness	27,636	27,636	19,280	8,356
Public fiduciary	85,175	85,175	85,759	(584)
Planning and zoning	269,297	269,297	238,389	30,908
Building maintenance	164,351	164,351	195,877	(31,526)
Electrical maintenance	31,130	31,130	27,035	4,095
Overtime	14,068	14,068		14,068
General services	483,000	483,000	429,658	53,342
Contingency	1,350,000	1,228,000	5,994	1,222,006
Miscellaneous	474,012	474,012	394,784	79,228
Medical examiner	43,000	43,000	38,895	4,105
Information technology	902,131	902,131	711,419	190,712
Total general government	8,374,493	8,312,493	6,591,840	1,720,653

(Continued)

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2010
(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Public safety				
Probation	$ 173,201	$ 173,201	$ 160,480	$ 12,721
Sheriff	4,729,070	4,729,070	4,977,262	(248,192)
Search and rescue	20,200	20,200	10,442	9,758
Detention health services	400,150	400,150	364,668	35,482
Juvenile detention center	1,088,420	1,150,420	1,174,906	(24,486)
Animal shelter	236,263	236,263	238,216	(1,953)
Total public safety	6,647,304	6,709,304	6,925,974	(216,670)
Sanitation				
Sanitary landfill	103,600	103,600	138,016	(34,416)
Health				
Health services	240,244	240,244	241,874	(1,630)
Welfare				
Attorney for the indigent	524,000	524,000	494,000	30,000
Indigent medical	1,804,300	1,804,300	1,788,640	15,660
Total welfare	2,328,300	2,328,300	2,282,640	45,660
Cultural and recreation				
Parks and recreation	238,686	238,686	267,413	(28,727)
Education				
School superintendent	201,569	201,569	201,855	(286)
Employment and training	9,588	9,588	9,286	302
Total education	211,157	211,157	211,141	16
Capital outlay	788,273	788,273	46,601	741,672
Total expenditures	18,932,057	18,932,057	16,705,499	2,226,558
Deficiency of revenues over expenditures	(2,069,358)	(2,069,358)	(251,070)	1,818,288

(Continued)

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2010
(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Other financing sources:				
Transfers in	$ 738,011	$ 738,011	$ 190,836	$ (547,175)
Net change in fund balances	(1,331,347)	(1,331,347)	(60,234)	1,271,113
Fund balances, July 1, 2009	1,331,347	1,331,347	1,729,103	397,756
Fund balances, June 30, 2010	$ -	$ -	$ 1,668,869	$ 1,668,869

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
Highway Road Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues:				
Intergovernmental	$ 3,260,500	$ 3,260,500	$ 3,728,151	$ 467,651
Charges for services	175,000	175,000	9,484	(165,516)
Investment earnings	60,000	60,000	20,040	(39,960)
Rents			420	420
Miscellaneous	45,000	45,000	72,684	27,684
Total revenues	3,540,500	3,540,500	3,830,779	290,279
Expenditures:				
Highways and streets				
General road	3,770,559	3,770,559	3,343,107	427,452
Engineering	384,085	384,085	247,279	136,806
Safety department	24,231	24,231	20,225	4,006
Total highways and streets	4,178,875	4,178,875	3,610,611	568,264
Capital outlay	442,640	442,640	28,695	413,945
Total expenditures	4,621,515	4,621,515	3,639,306	982,209
Excess (deficiency) of revenues over expenditures	(1,081,015)	(1,081,015)	191,473	1,272,488
Other financing sources (uses):				
Transfers in	39,536	39,536	35,137	(4,399)
Transfers out			(85,419)	(85,419)
Total other financing sources and uses	39,536	39,536	(50,282)	(89,818)
Net change in fund balances	(1,041,479)	(1,041,479)	141,191	1,182,670
Fund balances, July 1, 2009	1,041,479	1,041,479	2,023,423	981,944
Decrease in reserve for inventories			(93,000)	(93,000)
Fund balances, June 30, 2010	$ -	$ -	$ 2,071,614	$ 2,071,614

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2010

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, 2010, expenditures exceeded final budget amounts for some departments within the General Fund; however, expenditures did not significantly exceed the budget at the total aggregated department level (the legal level of budgetary control).

Graham County
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2010

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Pension 6/30/10	$2,456,214	$3,752,237	$(1,296,023)	65.5%	$1,158,489	111.90%
Health Insurance 6/30/10	0	152,680	(152,680)	0.0%	1,158,489	13.18%
Pension 6/30/09	1,859,906	3,208,181	(1,348,275)	58.0%	1,087,620	124.0%
Health Insurance 6/30/09	0	127,550	(127,550)	0.0%	1,087,620	11.73%
Pension 6/30/08	1,594,202	2,821,606	(1,227,404)	56.5%	1,039,847	118.0%
Health Insurance 6/30/08	0	116,169	(116,169)	0.0%	1,039,847	11.17%

Correction Officer Retirement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Corrections Officers						
Pension 6/30/10	$1,486,737	$1,417,835	$68,902	104.9%	$1,108,719	N/A
Health Insurance 6/30/10	0	58,664	(58,664)	0.0%	1,108,719	5.29%
Pension 6/30/09	1,334,376	1,243,986	90,390	107.3%	1,087,315	N/A
Health Insurance 6/30/09	0	66,198	(66,198)	0.0%	1,087,315	6.09%
Pension 6/30/08	1,207,810	1,161,382	46,428	104.0%	711,404	N/A
Health Insurance 6/30/08	0	29,821	(29,821)	0.0%	711,404	4.19%

Graham County
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2010

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Dispatchers						
Pension 6/30/10	$454,604	$271,001	$183,603	167.7%	$373,831	N/A
Health Insurance 6/30/10	0	9,172	(9,172)	0	373,831	2.45%
Pension 6/30/09	386,862	218,261	168,601	177.2%	424,379	N/A
Health Insurance 6/30/09	0	6,970	(6,970)	0	424,379	1.67%
Pension 6/30/08	318,814	173,437	145,377	183.8%	390,402	N/A
Health Insurance 6/30/08	0	3,124	(3,124)	0.0%	390,402	0.80%

Graham County
Required Supplementary Information
Notes to Schedule of Agent Retirement Plans' Funding Progress
June 30, 2010

Note 1 - Actuarial Information Available

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

The funding progress information for CORP-AOC is only reported for the plan as a whole and, 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, 2010

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster:			
National School Lunch Program, passed through the Arizona Department of Education	10.555	None	$ 29,740
Total Child Nutrition Cluster			29,740
Schools and Roads Cluster:			
Secure Payments for States and Counties Containing Federal Lands, passed through the Arizona State Treasurer	10.665	None	782,936
Total Schools and Roads Cluster			782,936
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	HG861082	257,799
Watershed Rehabilitation Program	10.916		66,272
Total U.S. Department of Agriculture			1,136,747
U.S. Department of Housing and Urban Development			
CDBG—State Administered Small Cities Program Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	116-07	2,323
Total CDBG—State Administered Small Cities Program Cluster			2,323
Total U.S. Department of Housing and Urban Development			2,323
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		2,672,505
BLM-Patrol Grant	15.unknown		973
Total U.S. Department of the Interior			2,673,478
U.S. Department of Justice			
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-10-053	4,368
State Criminal Alien Assistance Program	16.606		2,232
Bulletproof Vest Partnership Program	16.607		1,001
Public Safety Partnership and Community Policing Grants	16.710		52,393
Edward Byrne Memorial Justice Assistance Grant Program, passed through the Arizona Criminal Justice Commission	16.738	DC-10-029	4,428
Edward Byrne Memorial Justice Assistance Grant Program	16.738		6,855
Total Edward Byrne Memorial Justice Assistance Grant Program			11,283
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, passed through the Arizona Criminal Justice Commission	16.803	DC-10-043	16,889
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units Of Local Government	16.804		5,498
Total U.S. Department of Justice			93,664
U.S. Department of Labor			
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE101046001	21,520
ARRA—WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE091200001	34,976
Total WIA Adult Program			56,496

(Continued)

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE101046001	$ 86,298
ARRA—WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE091200001	119,515
Total WIA Youth Activities			205,813
WIA—Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE101046001	4,421
ARRA—WIA—Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE091200001	20,660
Total WIA Dislocated Workers			25,081
Total WIA Cluster			287,390
Total U.S. Department of Labor			287,390
U.S. Department of Transportation			
Highway Planning and Construction Cluster:			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	JPA 08-078, JPA 04-120	272,845
Total Highway Planning and Construction Cluster			272,845
Highway Safety Cluster:			
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2010-PT-052	8,655
Total Highway Safety Cluster			8,655
Total U.S. Department of Transportation			281,500
U.S. Department of Education			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	SO10A090003	21,080
ARRA—Title I Grants to Local Educational Agencies, Recovery Act, passed through the Arizona Department of Education	84.389	S389A090003	5,652
Total Title I, Part A Cluster			26,732
Special Education Cluster (IDEA):			
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	HO27A090007, H027A0090007	443,122
Special Education—Grants to States, passed through the Arizona Supreme Court	84.027	KR10-0019	18,622
Special Education—Grants to States, passed through Greenlee County	84.027	KR10-0020	4,926
Total Special Education—Grants to States			466,670
Special Education—Preschool Grants, passed through the Arizona Department of Education	84.173	H173A090003	20,387
ARRA—Special Education Grants to States, Recovery Act, passed through the Department of Education	84.391	H391A090007	12,196
ARRA—Special Education Grants to States, Recovery Act, passed through the Arizona Supreme Court	84.391	KR10-0019	20,614
Total ARRA—Special Education Grants to States, Recovery Act			32,810
ARRA—Special Education—Preschool Grants, Recovery Act, passed through the Arizona Department of Education	84.392	H392A090003	465
Total Special Education Cluster (IDEA)			520,332

(Continued)

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Educational Technology State Grants Cluster:			
Education Technology State Grants, passed through the Arizona Department of Education	84.318	S318X090003, S318X090005	$ 65,777
ARRA—Education Technology State Grants, Recovery Act, passed through the Arizona Department of Education	84.386	S386A090003	385
Total Educational Technology State Grants Cluster			66,162
Title I State Agency Program for Neglected and Delinquent Children, passed through the Arizona Department of Education	84.013	S013A090003	38,475
Safe and Drug Free Schools and Communities State Grants, passed through the Arizona Department of Education	84.186	S186A090003	417
Rural Education	84.358		9,524
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	S281A090003, S367A90049	60,054
Total U.S. Department of Education			721,696
U.S. Election Assistance Commission			
Help America Vote Act Requirements Payments, passes through the Arizona Secretary of the State's Office	90.401	Unknown	50,156
U.S. Department of Health and Human Services			
Immunization Cluster:			
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG854285	60,632
Total Immunization Cluster			60,632
Public Health Emergency Preparedness Program, passed through the Arizona Department of Health Services	93.069	HG754196	369,693
Centers for Disease Control and Prevention—Investigations and Technical Assistance, passed through Arizona Department of Health Services	93.283	HG761264	42,637
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	G 02-04-AZ-4004	2,485
Voting Access for Individuals with Disabilities—Grants to States, passed through the Arizona Secretary of the State's Office	93.617	Unknown	300
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	HG852276	6,261
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG854247	62,937
Total U.S. Department of Health and Human Services			544,945
U.S. Department of Homeland Security			
Homeland Security Cluster:			
Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs	97.067	444301-01, 444311-01 444311-02, 555301-01	121,260
Total Homeland Security Cluster			121,260
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	18660004580-019	159,916
Total U.S. Department of Homeland Security			281,176
Total Expenditures of Federal Awards			$ 6,073,075

See accompanying notes to schedule.

Graham County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

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 a 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 2010 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

Graham County did not have any subrecipients for the year ended June 30, 2010.

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2010, which collectively comprise the County's basic financial statements, and have issued our report thereon dated August 30, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

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

Debbie Davenport
Auditor General

August 30, 2011

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Compliance

We have audited Graham County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

As described in items 10-102, 10-103, and 10-106 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding allowable costs/cost principles, reporting, and cash management that are applicable to its WIA Cluster and matching that are applicable to its Public Health Emergency Preparedness Program. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Graham County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The

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results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 10-101, 10-104, and 10-105.

Internal Control over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-102, 10-103, 10-104, 10-105, and 10-106 to be material weaknesses.

Graham County's responses to the findings identified in our audit are presented on pages 55 through 58. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

Debbie Davenport
Auditor General

August 30, 2011

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Summary of Auditors' Results

Financial Statements

	Yes	No
Type of auditors' report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness identified?	___	X
Significant deficiency identified?	___	X (none reported)
Noncompliance material to the financial statements noted?	___	X

Federal Awards

	Yes	No
Internal control over major programs:		
Material weaknesses identified?	X	___
Significant deficiency identified?	___	X (none reported)
Type of auditors' report issued on compliance for major programs: Unqualified for all major programs except for WIA Cluster and Public Health Emergency Preparedness Program, which were qualified.	Qualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	___

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
15.226	Payments in Lieu of Taxes
17.258, 17.259, 17.260	WIA Cluster
84.027, 84.173, 84.391, 84.392	Special Education Cluster (IDEA)
93.069	Public Health Emergency Preparedness Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	___	X

Other Matters

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

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Financial Statement Findings

None reported

Federal Award Findings and Questioned Costs

10-101
CFDA No.: Not applicable
Questioned Cost: N/A

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

Condition and context: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2011; however, the County did not issue its Single Audit Reporting Package until August 2011.

Effect: The County did not comply with OMB Circular A-133 audit requirements. The late submission of the Single Audit Reporting Package affects all federal programs administered by the County. This finding is noncompliance with OMB Circular A-133, §.320. However, this finding does not result in a control deficiency over compliance or noncompliance for the individual federal programs.

Cause: The County was late submitting its prior year reports and, therefore, delayed preparation of its fiscal year 2010 reports.

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

This finding was similar to a prior-year finding.

10-102
WIA Cluster:
CFDA No.: 17.258 **WIA Adult Program**
17.258 **ARRA—WIA Adult Program**
17.259 **WIA Youth Activities**
17.259 **ARRA—WIA Youth Activities**
17.260 **WIA Dislocated Workers**
17.260 **ARRA—WIA Dislocated Workers**
U.S. Department of Labor
Passed through the Arizona Department of Economic Security
Award Periods: February 17, 2009 through June 30, 2011
April 1, 2009 through June 30, 2011
Award Numbers: DE091200001 and DE101046001
Allowable Costs/Cost Principles
Questioned Cost: $78,529

Criteria: In accordance with 2 Code of Federal Regulations (CFR), Appendix B to Part 225, §§8.h.(4) and (5), when employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets certain standards.

Condition and context: The County's Health Department allocated payroll charges for two employees totaling $78,529 based upon predetermined budget percentages. Furthermore, the County did not prepare personnel activity reports or equivalent documentation for the individual WIA programs, but rather prepared timesheets that documented total hours charged to the Cluster. The Department then prepared comparisons of total actual costs to total budgeted costs and recorded a net adjustment to a WIA administrative account used for all WIA programs. Therefore, the County's Schedule of Expenditures of Federal Awards and federal financial reports showed payroll expenditures that did not represent actual time worked on the programs.

Effect: Not regularly comparing actual costs to predetermined distributions and not tracking individual program activity may result in inaccurate payroll charges. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's allowable costs/cost principles requirements.

Cause: The Health Department was not fully aware of the requirements related to time distribution and, therefore, did not have policies and procedures to ensure compliance.

Recommendation: The Department should establish policies and procedures to address federal requirements related to time distribution. These procedures should include the following:

- Prepare personnel activity reports or equivalent documentation for the individual WIA programs that reflect an after-the-fact distribution of the actual activity of each employee.
- Compare actual costs to budgeted distributions for each WIA program on a quarterly basis.

- Record adjustments quarterly or annually if the quarterly comparisons show the differences between budgeted and actual costs are less than 10 percent.
- Revise the distribution percentages at least quarterly, if necessary, to reflect changed circumstances.

In addition, the Department should not record expenditures to an account used for more than one WIA program.

10-103
WIA Cluster:
CFDA No.: 17.258 **WIA Adult Program**
17.258 **ARRA—WIA Adult Program**
17.259 **WIA Youth Activities**
17.259 **ARRA—WIA Youth Activities**
17.260 **WIA Dislocated Workers**
17.260 **ARRA—WIA Dislocated Workers**
U.S. Department of Labor
Passed through the Arizona Department of Economic Security
Award Periods: February 17, 2009 through June 30, 2011
April 1, 2009 through June 30, 2011
Award Numbers: DE091200001 and DE101046001
Reporting and Cash Management
Questioned Cost: Unknown

Criteria: In accordance with 29 CFR §97.20(b)(6), amounts presented on reports should agree to the recipient's financial records. In addition, in accordance with 20 CFR §667.300(c)(3), recipients should use the standard reporting form authorized by the pass-through grantor. The recipient must report cumulative expenditures on the accrual basis of accounting by fiscal year of appropriation. If the recipient's accounting records are not normally kept on the accrual basis of accounting, the recipient must develop accrual information through an analysis of other documentation.

Condition and context: The County did not have policies and procedures to ensure that information reported was supported by county records and that supporting records were retained. Specifically, the County's accounting records did not identify expenditures by individual grants awarded for the Cluster, and the County was unable to provide supporting documentation that identified actual and accrued expenditures by award for amounts reported on its federal reimbursement reports. Furthermore, the County assigned the responsibilities of preparing and approving federal reimbursement reports to one employee.

Effect: Auditors could not verify if expenditures on the reports were accurate. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the Cluster's cash management and reporting requirements.

Cause: The County used spreadsheets, which did not identify expenditures by individual grants awarded for the Cluster, to record actual and accrued expenditures and updated the accrued amounts with actual amounts as the transactions occurred. In addition, the County did not retain the spreadsheet to support each submitted report.

Recommendation: The County should develop policies and procedures that include a method to specifically identify the expenditures by individual grants awarded for the Cluster. The County should retain the documentation supporting the amounts reported on each submitted expenditure report. Also, an employee other than the preparer should review and approve all federal reports prior to submission.

This finding was similar to a prior-year finding.

10-104
Special Education Cluster (IDEA):
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**
U.S. Department of Education
Passed through the Arizona Department of Education, Arizona Supreme Court, and Greenlee County
Award Periods: July 1, 2009 through June 30, 2010
October 1, 2009 through September 30, 2010
Award Numbers: H027A0090007, H027A090007, H173A090003, H391A090007, H392A090003, KR10-0019, and KR10-0020
Procurement, Suspension, and Debarment
Questioned Cost: $42,039

Criteria: In accordance with 2 CFR §215.44, the County should follow its procedures for procuring goods or services. Further, in accordance with 2 CFR §§180.220 and 180.300, the County must verify that vendors are not suspended or debarred before making purchases exceeding $25,000 to be paid with federal monies.

Condition and context: The County School Superintendent's Office did not always follow its procurement policies and procedures for obtaining written price quotations. Specifically, for one of four transactions subject to procurement requirements during the fiscal year, auditors noted the Office did not obtain the required written price quotations or document why quotations could not be obtained for occupational therapy services totaling $42,039. In addition, the Office did not establish policies or procedures to verify that vendors providing goods and services paid with federal monies had not been suspended or debarred, or otherwise excluded, from federal contracts. Auditors performed additional procedures and noted no payments were made to suspended or debarred vendors. This finding did not affect any ARRA programs.

Effect: The Office could enter into a contract that is not the most advantageous to the County, and payments could be made to suspended or debarred vendors. This finding is a material weakness in internal control over compliance with the Cluster's procurement, suspension, and debarment requirements and noncompliance with the Cluster's procurement requirements.

Cause: The Office did not follow its procurement policies and procedures and lacked policies, procedures, and knowledge of the suspension and debarment compliance requirement.

Recommendation: The Office should follow its policies and procedures to obtain required quotations or to document why quotations could not be obtained. Further, the Office should establish policies and procedures to verify that vendors have not been suspended or debarred prior to awarding contracts of $25,000 or more in federal monies and retain documentation of this determination. This verification may be accomplished by checking the Excluded Parties List System, obtaining vendor certifications, or adding clauses or conditions to the contracts.

10-105
CFDA No.: 93.069 **Public Health Emergency Preparedness Program**
U.S. Department of Health and Human Services
Passed through the Arizona Department of Health Services
Award Period: April 1, 2007 through August 30, 2011
Award Number: HG754196
Allowable Costs/Cost Principles
Questioned Cost: $354

Criteria: In accordance with 2 CFR, Appendix B to Part 225, §§8.h.(4) and (5), when employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that meets certain standards.

Condition and context: The County's Health Department initially charged all Public Health Emergency Preparedness (PHEP) program payroll expenditures based on predetermined distributions of hours and did not perform required comparisons between time sheets and the predetermined hours with the required frequency. Auditors noted that the Department performed one comparison between actual and predetermined hours during fiscal year 2010, which covered only nine pay periods. This comparison resulted in the Department requesting reimbursement for an additional $39,600 of allowable expenditures. However, the Department did not record the adjustment on its general ledger system until fiscal year 2011, thereby understating program expenditures on the County's 2010 Schedule of Expenditures of Federal Awards (SEFA). The County corrected its SEFA for the error. For the 17 other pay periods, the Department did not perform a comparison between actual hours charged and predetermined distributions of hours, and therefore, did not know if a correcting adjustment was necessary or if a revision of the distributions based on changed circumstances was necessary. In addition, in 5 of 12 time sheets tested, auditors noted a difference in the amounts charged to the PHEP program and amounts based on the employees' time sheets resulted in a $354 overstatement of payroll expenditures.

Effect: Not regularly comparing actual costs to predetermined distributions may result in inaccurate payroll charges. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a material weakness in internal control over compliance and noncompliance with the program's allowable costs/cost principles requirement.

Cause: The Health Department was unaware of the requirements related to time distribution and, therefore, did not have policies and procedures to ensure compliance. The Department was also unaware of the consequences to the program of delaying comparisons of actual costs to budgeted distributions and making appropriate corrections quarterly.

Recommendation: The Health Department should establish policies and procedures to address federal requirements related to time distribution. These procedures should include the following:

- Compare actual costs to budgeted distributions on a quarterly basis.
- Record adjustments quarterly or annually if the quarterly comparisons show the differences between budgeted and actual costs are less than 10 percent.
- Revise budget estimates or other distribution percentages at least quarterly, if necessary, to reflect changed circumstances.

10-106
CFDA No.: 93.069 **Public Health Emergency Preparedness Program**
U.S. Department of Health and Human Services
Passed through the Arizona Department of Health Services
Award Period: April 1, 2007 through August 30, 2011
Award Number: HG754196
Matching
Questioned Cost: $9,480

Criteria: According to 45 CFR §92.24(b), a matching requirement may not be met by costs borne by another federal grant, costs may not count toward satisfying a matching requirement of a grant agreement if they have been or will be counted toward satisfying a matching requirement of another federal grant, and costs counting toward satisfying a matching requirement must be verifiable from County records.

Condition and context: While performing risk assessment procedures, auditors determined that the County did not have policies and procedures or other internal controls to ensure that the 5 percent matching requirement was satisfied. The County relied on nonreimbursable indirect costs to accomplish the match; however, the County did not identify in its accounting records the particular indirect costs used to satisfy the match. Because no particular costs were identified in the accounting records, the County could not support that the costs used to satisfy the matching requirement were not borne by another federal program and were not counted toward satisfying a matching requirement for another federal program. As a result, the County could not support that it made the required $9,480 match.

Effect: Auditors could not determine if the matching requirement was met. This finding is a material weakness in internal control over compliance and material noncompliance with the program's matching requirement.

Cause: The County lacked policies and procedures or other internal controls to ensure that the matching requirement was met.

Recommendation: The County should develop policies and procedures that include a method to specifically identify the costs being used to satisfy the matching requirement.

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

Mark C. Herrington, Chairman
James A. Palmer, Vice Chairman
Drew John, Member

Terry Cooper, County Manager/Clerk

August 22, 2011

Debbie Davenport
Auditor General
2910 North 44th Street, Suite 410
Phoenix, AZ 85018

Dear Ms. Davenport:

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

Sincerely,

Clel L Flake
Chief Financial Officer

Graham County
Corrective Action Plan
Year Ended June 30, 2010

Federal Award Findings and Questioned Costs

10-101
CFDA No.: Not applicable
Contact person: Clel Flake, Chief Financial Officer
Anticipated completion date: December 31, 2011

Response: Concur

Corrective Action Plan: The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package, yet the 2010 report was completed more timely than the previous year. To further improve the timeliness of preparing its reports the Department has upgraded the accounting skills available when it hired a replacement for employee who transferred to another department. Changes have been made to procedures helping to expedite the audit. In addition, the workload of the upcoming audit will be spread out to more staff.

10-102
Workforce Investment Cluster:
CFDA No.: 17.258 WIA Adult Program #s DE081292001, DE091200001, and DE101046001
17.259 WIA Youth Activities #s DE081292001, DE091200001, and DE101046001
17.259 ARRA-WIA Youth Activities #s DE081292001, DE091200001, and DE101046001
Arizona Department of Economic Security
Contact person: Neil Karnes, Health Director
Anticipated completion date: September 30, 2011

Response: Concur

Corrective Action Plan: In order to correct the stated finding, the Department will prepare personnel activity reports in the form of bi-weekly timesheets that will segregate the work accomplished by WIA staff into appropriate categories.

Actual costs will be compared to budgeted distributions on a quarterly basis for each WIA program and each staff person.

Budgeted distributions will be determined by the comparison noted for the prior quarter. In the event that the comparison of the budgeted distribution versus the actual hours worked by a specific employee exceeds a threshold of 10 percent, an adjustment will be made for that employee for the subsequent quarter. Any overcharges will also be noted and reimbursed back to the WIA program.

10-103
Workforce Investment Cluster:
CFDA No.: 17.258 WIA Adult Program #s DE081292001, DE091200001, and DE101046001
17.259 WIA Youth Activities #s DE081292001, DE091200001, and DE101046001
17.259 ARRA-WIA Youth Activities #s DE081292001, DE091200001, and DE101046001
Arizona Department of Economic Security
Contact person: Neil Karnes, Health Director
Anticipated completion date: September 30, 2011

Response: Concur

Corrective Action Plan: The Department will prepare and submit the DES Cash Reports on a monthly basis. In order to differentiate between WIA grant awards for similar expenditure categories on County financial records, i.e., Administration, Adult and Youth funding, sub-codes will be created which will identify both the revenues and expenditures as being designated from specific contract awards.

A copy of the spreadsheet and all records with regard to the development of the accrued expenditure reports will be retained.

Also, accrued expenditure reports submitted to DES will be reviewed and signed by both the Workforce Development Coordinator and the WIA Director.

10-104
Special Education Cluster:
CFDA No.: 84.027 Special Education-Grants to States #'s H027A0090007, H027A090007, KR10-0019, and KR10-0020
84.173 Special Education-Preschool Grants # H173A090003
84.391 ARRA—Special Education-Grants to States, Recovery Act #s H391A090007 and KR10-0019
84.392 ARRA—Special Education-Preschool Grants, Recovery Act # H392A090003
Arizona Department of Education
Contact person: Jill Davis, Chief Deputy School Superintendent
Anticipated completion date: August 31, 2011

Response: Concur

Corrective Action Plan: The Department will refine its procedures to ensure that they are followed in procuring goods and services. Also, procedures will be established to first determine if any vendor is expected to reach the threshold of $25,000 in federal monies for each grant being administered by the Department. Second, check the appropriate sources to determine if any vendor identified has been suspended or debarred from doing business with governmental entities.

Graham County
Corrective Action Plan
Year Ended June 30, 2010

10-105
CFDA No.: 93.069 Public Health Emergency Preparedness Program # HG754196
U.S. Department of Health and Human Services
Arizona Department of Health Services
Contact person: Neil Karnes, Health Director
Anticipated completion date: September 30, 2011

Response: Concur
Corrective Action Plan: The Department will prepare personnel activity reports in the form of bi-weekly timesheets that will segregate the work accomplished by PHIP staff into the appropriate categories.

Actual costs will be compared to budgeted distributions on a quarterly basis for each program and each staff person.

Budgeted distributions will be determined by the comparison noted for the prior quarter. In the event that the comparison of the budgeted distribution versus the actual hours worked by a specific employee exceeds a threshold of 10 percent, an adjustment will be made for that employee for the subsequent quarter. Any overcharges will also be noted and reimbursed back to the PHEP or other program.

10-106
CFDA No.: 93.069 Public Health Emergency Preparedness # HG754196
U.S. Department of Health and Human Services
Arizona Department of Health Services
Contact person: Neil Karnes, Health Director
Anticipated completion date: September 30, 2011

Response: Concur

Corrective Action Plan: The County will develop policies and procedures to identify specific costs incurred which are attributable to this program, not used as a match for any other federal programs, and are not included as reimbursable program costs.

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

Mark C. Herrington, Chairman
James A. Palmer, Vice Chairman
Drew John, Member

Terry Cooper, County Manager/Clerk

August 22, 2011

Debbie Davenport
Auditor General
2910 North 44th 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 findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards.

Sincerely,

Clel L Flake
Chief Financial Officer

Graham County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

Status of Federal Award Findings and Questioned Costs

09-101
CFDA No.: Not applicable
Status: Not corrected
Contact person: Clel Flake, Chief Financial Officer

The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package, yet the 2010 report was completed more timely than the previous year. To further improve the timeliness of preparing its reports the Department has upgraded the accounting skills available when it hired a replacement for employee who transferred to another department. Changes have been made to procedures helping to expedite the audit. In addition, the workload of the upcoming audit will be spread out to more staff.

09-102
CFDA No.: Not applicable
Status: Fully corrected
Contact person: Clel Flake, Chief Financial Officer

09-103
CFDA No.: 14.228 Community Development Block Grants/States # 116-07
Arizona Department of Housing
Status: No longer valid
Contact person: William Wright, Planning and Zoning Director

This finding is no longer valid as the program ended during FY 2009.

09-104
CFDA No.: 14.228 Community Development Block Grants/States # 116-07
Arizona Department of Housing
Status: No longer valid
Contact person: William Wright, Planning and Zoning Director

This finding is no longer valid as the program ended during FY 2009.

09-105
CFDA No.: 17.258 WIA Adult Program #'s DE070296001, DE081292001, and DE091200001
17.259 WIA Youth Activities #'s DE070296001, DE081292001, and DE091200001
17.259 ARRA—WIA Youth Activities # DE91200001
Arizona Department of Economic Security
Status: Not corrected
Contact person: Neal Karnes, Health Director

The Department will prepare and submit the DES Cash Reports on a monthly basis. In order to differentiate between WIA grant awards for similar expenditure categories on County financial records, i.e., Administration, Adult and Youth funding, sub-codes will be created which will identify both the revenues and expenditures as being designated from specific contract awards.

A copy of the spreadsheet and all records with regard to the development of the accrued expenditure reports will be retained.