



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Graham County

Year Ended June 30, 2014



Debra K. Davenport
Auditor General

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Graham County
Single Audit Reporting Package
Year Ended June 30, 2014

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2014, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

As discussed in Note 14 to the financial statements, the County restated beginning net position/fund balance of its financial statements for the year ended June 30, 2014, to correct misstatements in its previously issued financial statements. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages i through ix, the Budgetary Comparison Schedules on pages 32 through 36, and the Schedule of Agent Retirement Plans' Funding Progress on pages 37 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information—Schedule of Expenditures of Federal Awards

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

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in

accordance with U.S. generally accepted auditing standards. In our opinion, based on our audit and the procedures performed as described above, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies 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, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2015, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

March 20, 2015

Graham County Management's Discussion and Analysis June 30, 2014

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, 2014. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights for Fiscal Year 2014

- Graham County's assets exceeded its liabilities at the close of the current fiscal year by \$43,777,753 (net position). Of this amount, \$1,198,058 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of \$9,678,509, an increase of \$1,196,350 in comparison with the prior year as restated.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,574,616, or 14.2 percent of total General Fund expenditures.
- Graham County's capital assets decreased by \$643,629 during the current fiscal year. The key factor in this decrease was the write-off of obsolete assets as part of the physical inventory process. The largest capital assets purchases were for a reverse osmosis system located at the fairgrounds and two information technology projects purchased with capital leases. A motor grader and a jail front addition project round out the majority of capital asset additions.

Overview of the Financial Statements

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

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

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

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

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

Graham County
Management's Discussion and Analysis
June 30, 2014

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 governmental funds' focus 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, the Highway Road Fund, and the CDBG Colonia Water Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

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

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

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

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

The notes to the financial statements can be found on pages 9 through 30 of this report.

Graham County
 Management's Discussion and Analysis
 June 30, 2014

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

Required supplementary information can be found on pages 32 through 39 of this report.

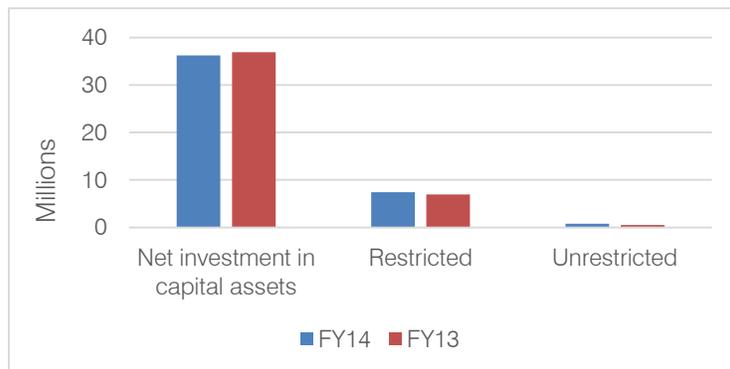
Government-wide Financial Analysis

Statement of net position—As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Graham County's assets exceeded liabilities by \$43,777,753.

Condensed Statement of Net Position
 As of June 30, 2014 and 2013

	Governmental Activities	
	2014	2013 (as restated)
Current and other assets	\$10,950,190	\$10,148,670
Capital assets	<u>36,262,972</u>	<u>36,906,601</u>
Total assets	<u>47,213,162</u>	<u>47,055,271</u>
Long-term liabilities outstanding	2,364,350	1,928,615
Other liabilities	<u>1,071,059</u>	<u>1,261,675</u>
Total liabilities	<u>3,435,409</u>	<u>3,190,290</u>
Net position:		
Net investment in capital assets	35,175,358	36,112,862
Restricted	7,404,337	7,032,207
Unrestricted	<u>1,198,058</u>	<u>719,912</u>
Total net position	<u>\$43,777,753</u>	<u>\$43,864,981</u>

Net Position
 June 30, 2014 and 2013



Graham County
Management's Discussion and Analysis
June 30, 2014

The largest portion of Graham County's net position (80.3 percent) reflects its net investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure). This amount is presented less accumulated depreciation and any related debt still outstanding that was used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Graham County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$719,912 at June 30, 2013, to \$1,198,058 at June 30, 2014.

Current assets, related to governmental activities, increased as compared to the previous fiscal year, primarily because cash and increases in amounts due from other governments increased. Property taxes receivable continued to decrease for the second year in a row because a major taxpayer settled a claim against Graham County in 2012 to reduce its assessed value and began making payments for current and back taxes, including interest owed in 2014. Decreases in property tax receivable and interest receivable did not offset the increases in cash and in amounts due from other governments. Capital assets decreased this fiscal year as assets placed in service did not exceed the depreciation of all assets.

Long-term liabilities increased 22.6 percent as the liability for capital leases payable increased \$293,875 and compensated absences increased \$142,729, reflecting employees' increased carryover of vacation and sick leave hours. Other liabilities decreased \$190,616, or 15.1 percent, mainly because of a decrease in accounts payable.

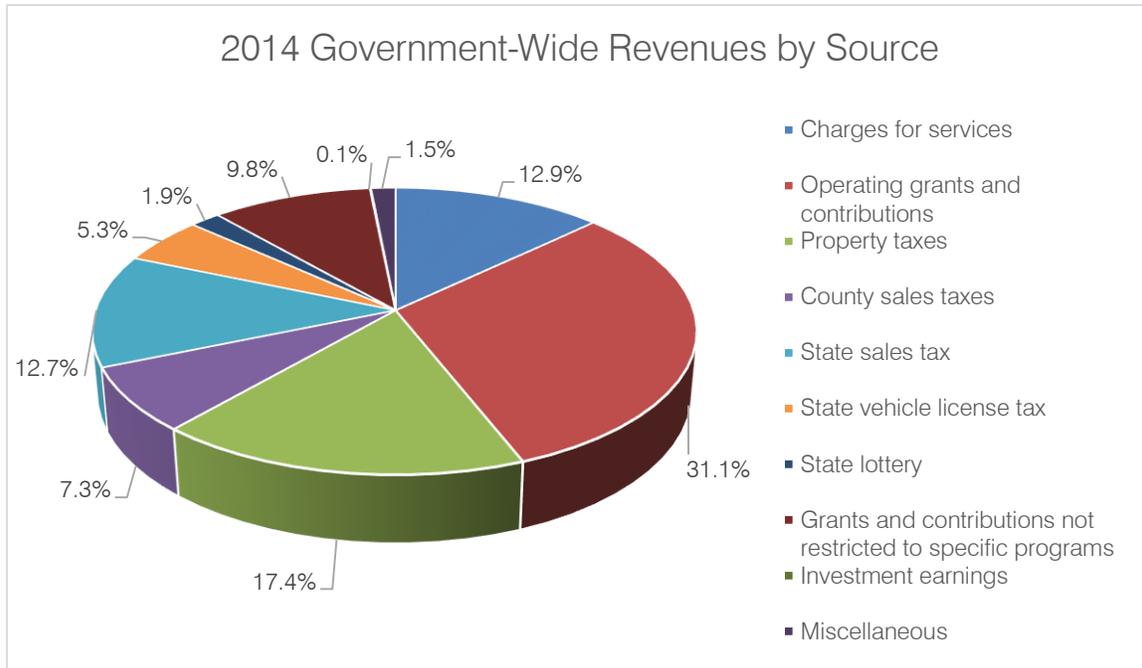
Statement of activities—Already noted was the statement of activities' purpose in presenting information in how the County's net position changed during the most recent fiscal year. Although state lottery shared revenues were reinstated for fiscal year 2014 in the amount of \$550,038, both miscellaneous and charges for services revenue were down, resulting in a minor net position decrease of \$87,228 for the fiscal year. The basis of accounting used in the government-wide statement of activities excludes capital expenditures, while its revenues include taxes whose primary purpose is for the County's operation.

Graham County
Management's Discussion and Analysis
June 30, 2014

Condensed Statement of Revenues,
Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	Governmental Activities	
	2014	2013 (as restated)
Revenues		
Program revenues:		
Charges for services	\$ 3,781,390	\$ 4,103,740
Operating grants and contributions	9,093,520	8,255,290
Capital grants and contributions	0	10,872,518
General revenues:		
Property taxes, levied for general purposes	5,077,466	5,257,550
County sales taxes, levied for general purposes	2,130,788	1,957,103
Shared revenue—state sales tax	3,714,934	4,025,790
Shared revenue—state vehicle license tax	1,540,698	1,463,665
Shared revenue—state lottery	550,038	0
Grants and contributions not restricted to specific programs	2,878,355	2,732,542
Investment earnings	21,939	42,379
Miscellaneous	<u>440,443</u>	<u>846,004</u>
Total revenues	<u>29,229,571</u>	<u>39,556,581</u>
Expenses		
General government	\$ 9,058,290	\$ 8,340,876
Public safety	9,478,110	9,846,337
Highways and streets	4,115,502	5,144,105
Sanitation	150,962	116,913
Health	1,403,125	1,388,164
Welfare	2,597,390	2,499,323
Culture and recreation	535,865	481,786
Education	<u>1,977,555</u>	<u>2,133,208</u>
Total expenses	<u>29,316,799</u>	<u>29,950,712</u>
Change in net position	(87,228)	9,605,869
Net position—beginning	<u>43,864,981</u>	<u>34,259,112</u>
Net position—ending	<u>\$43,777,753</u>	<u>\$43,864,981</u>

Graham County
Management's Discussion and Analysis
June 30, 2014

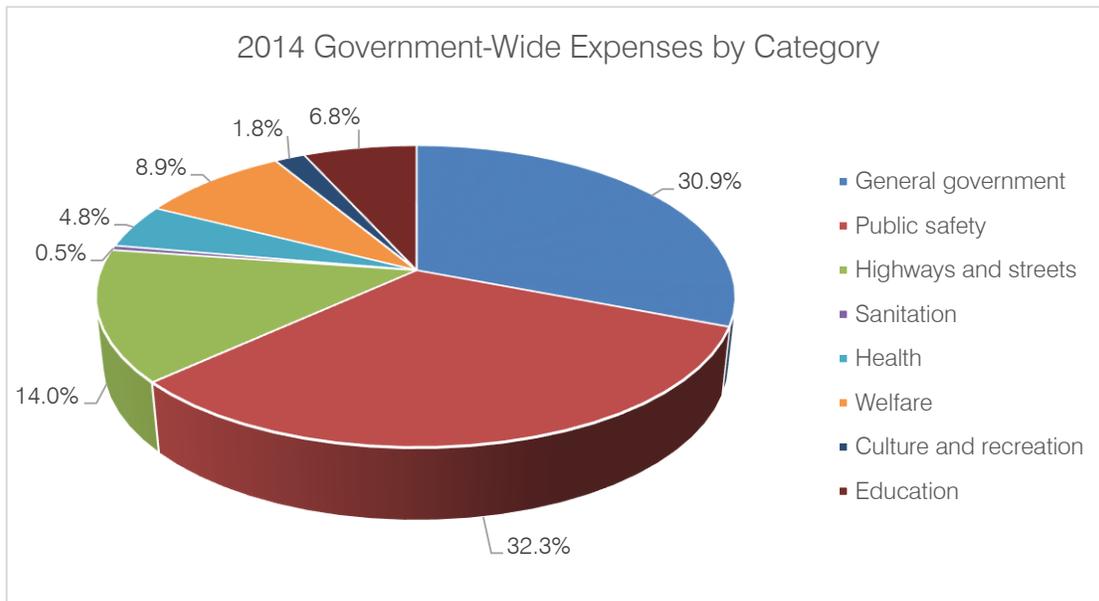


Governmental activities

Governmental activities revenues totaled \$29,229,571 for fiscal year 2014. The following are highlights of county revenues:

- Charges for services decreased by \$322,350, or 7.9 percent, as the highway did not complete any large projects for customers external to Graham County as they had in the prior year.
- Operating grants and contributions increased by \$838,230, or 10.2 percent, because of increased revenues received for the CDBG Colonia Water project and health programs such as WIC, Tobacco Education, and Teen Pregnancy Prevention.
- Capital grants and contributions decreased by \$10,872,518 following the fiscal year 2013 completions of two long-term projects for which ADOT paid the majority of the costs. There were no new capital grants or contributions in fiscal year 2014.
- State shared sales tax revenues decreased \$310,856, or 7.7 percent, as a reflection of the current downturn in the economy.
- County sales taxes increased by \$173,685, or 8.9 percent, as the state-wide collection of sales and income taxes remained strong in fiscal year 2014.
- Lottery shared revenues in the amount of \$550,038 were reinstated for Graham County for the first time since 2010.
- Investment earnings decreased \$20,440, or 48.2 percent, as interest rates remained low.
- Miscellaneous revenues decreased by \$405,561 or 47.9 percent. Fiscal year 2013 had some donations for road projects not replicated in fiscal year 2014.

Graham County
 Management's Discussion and Analysis
 June 30, 2014



Expenses:

Overall expenses in governmental activities remained fairly constant with a minor net decrease of \$633,913, or 2.1 percent. Spending for slightly more than half of the functions increased during this fiscal year. The majority of the increase was within the general government function, with health, welfare, and culture and recreation resulting in smaller increases. General government increased by \$717,414, or 8.6 percent, mainly because of increased expenditures related to the CDBG Colonia Water Project. Sanitation increased \$34,049, or 29.1 percent, as the County paid more for landfill disposal costs related to “Community Pride” clean up days. The functions of public safety, highways and streets, and education decreased. Highways and streets decreased \$1,028,603, or 20 percent, mainly because of a decrease in depreciation expense.

Financial Analysis of the County'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, 2014, the General Fund's unassigned fund balance was \$2,574,616, which was an increase of \$782,994 over the prior fiscal year as restated. There was a small excess of revenues over expenditures in the General Fund of \$243,309 (prior to any other financing sources or uses). Revenues appear to have leveled off after years of reductions as the State was reducing some revenues traditionally passed down to the County (i.e., JP Salary reimbursement, County Assistance, Hold Harmless, etc.). However, with the difficult year facing the State as they work on the fiscal year 2015 budget, this could be a short-lived reprieve.

Graham County
Management's Discussion and Analysis
June 30, 2014

The Highway Road Fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the County's care. The fund balance for the Highway Road Fund increased \$304,833 this fiscal year. The Highway Department works very hard to keep a close eye on expenditures to keep costs down whenever possible.

The CDBG Colonia Water Fund is funded by the U.S. Department of Housing and Urban Development. The City of Safford performed all work as a subrecipient of Graham County.

The other governmental fund balance increased by a minor amount of \$108,037. This is a combination of many nonmajor funds of the County, most funded by various grants. Funding for some programs is being cut or reduced as the economy continues to struggle, but the County received additional funding from the State for increased personnel and programs for probation and careful use of various fees collected has helped.

General Fund Budgetary Highlights

There were no amendments to the original revenue budget for the General Fund. General Fund revenues received were \$786,180, or 4.1 percent, under the adopted budget. The largest variances from budgeted amounts were in intergovernmental revenues, which was \$528,307, or 5.6 percent, below budget; miscellaneous, which was \$193,183, or 82.9 percent, below budget; and charges for services, which were \$117,646, or 5.7 percent, below budget. The General Fund expenditure budget of \$20,935,438 was also not amended this fiscal year. General Fund Expenditures were less than the final budget by \$2,797,782 or 13.4 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of \$2,263,613. These savings were a result of conservative budgeting practices and reduced spending due to tight economic conditions that resulted in spending less than anticipated from the elections, attorney, victim witness, general services, contingency, and miscellaneous funds.

Capital Asset and Debt Administration

Capital assets—The County's capital assets for its governmental activities as of June 30, 2014, amount to \$36,262,972 (net of accumulated depreciation). The decrease of \$643,629 is due primarily to depreciation expense exceeding capital asset additions. Funding agencies have decreased funding for capital assets in almost all programs except the Homeland Security Grant.

Graham County's Capital Assets
(Net of depreciation)

	Governmental Activities	
	2014	2013
Land	\$ 2,803,060	\$ 2,709,871
Buildings	8,371,523	8,621,168
Machinery and equipment	2,517,855	1,996,006
Infrastructure	22,011,711	22,822,749
Construction in progress	558,823	756,807
Total	\$36,262,972	\$36,906,601

Graham County Management's Discussion and Analysis June 30, 2014

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

Long-term Debt—At the end of the current fiscal year, the County had total long-term liabilities outstanding of \$2,364,350. Included in long-term liabilities is \$1,198,410 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 \$1,087,614 and post-closure care costs of \$78,326. 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 19 through 20.

Economic Factors and Next year's Budget and Rates

- The unemployment rate for Graham County is currently 7.5 percent. This is a slight increase from 7.0 percent a year ago, and is the same as the State. This rate is reflective of our reliance on the local copper mining industry, which completed a large construction project in 2014 resulting in a slight increase of unemployed citizens.
- Inflationary trends in the region compare favorably to national indices.
- Graham County continues to see lower levels in federal and state grant revenue and uncertainty in federal PILT (Payment in Lieu of Taxes) funding.

These factors were considered in preparing Graham County's budget for the 2015 fiscal year. The unassigned ending fund balance in the General Fund of \$2,574,616 was appropriated for spending in the 2015 fiscal year budget. Graham County balances the use of available fund balances with realistic revenue projections while implementing a conservative plan for the expenditure of limited resources to meet its citizens' current and future needs. Due to an increase in assessed valuations, the County was able to lower the General Fund property tax rate from 2.3711 to 2.1794, which was equal to the Truth in Taxation Rate for fiscal year 2015.

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.

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Graham County
Statement of Net Position
June 30, 2014

	<u>Primary Government Governmental Activities</u>
Assets	
Cash, cash equivalents, and investments	\$ 8,435,015
Property taxes receivables	245,038
Accounts receivable	32,548
Due from other governments	1,751,231
Inventories	486,358
Capital assets, not being depreciated	3,361,883
Capital assets, being depreciated, net	<u>32,901,089</u>
Total assets	<u>47,213,162</u>
Liabilities	
Accounts payable	85,300
Accrued payroll and employee benefits	562,651
Due to other governments	423,108
Noncurrent liabilities	
Due within 1 year	1,057,583
Due in more than 1 year	<u>1,306,767</u>
Total liabilities	<u>3,435,409</u>
Net Position	
Net investment in capital assets	35,175,358
Restricted for:	
Highways and streets	3,350,748
Other purposes	4,053,589
Unrestricted	<u>1,198,058</u>
Total net position	<u>\$ 43,777,753</u>

See accompanying notes to financial statements.

Graham County
Statement of Activities
Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government Governmental Activities</u>
Primary government:				
Governmental activities:				
General government	\$ 9,058,290	\$ 2,517,913	\$ 2,606,569	\$ (3,933,808)
Public safety	9,478,110	239,011	1,809,042	(7,430,057)
Highways and streets	4,115,502	61,288	2,785,879	(1,268,335)
Sanitation	150,962	(9,084)	54,898	(105,148)
Health	1,403,125	44,148	1,015,236	(343,741)
Welfare	2,597,390			(2,597,390)
Culture and recreation	535,865	111,453		(424,412)
Education	1,977,555	816,661	821,896	(338,998)
Total governmental activities	\$ 29,316,799	\$ 3,781,390	\$ 9,093,520	(16,441,889)
General revenues:				
Property taxes, levied for general purposes				5,077,466
County sales taxes, levied for general purposes				2,130,788
Shared revenue—state sales tax				3,714,934
Shared revenue—state vehicle license tax				1,540,698
Shared revenue—state lottery				550,038
Grants and contributions not restricted to specific programs				2,878,355
Investment earnings				21,939
Miscellaneous				440,443
Total general revenues				16,354,661
Change in net position				(87,228)
Net position, July 1, 2013, as restated				43,864,981
Net position, June 30, 2014				\$ 43,777,753

See accompanying notes to financial statements.

Graham County
Balance Sheet
Governmental Funds
June 30, 2014

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>CDBG Colonia Water</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 2,672,739	\$ 2,683,553		\$ 3,078,723	\$ 8,435,015
Receivables:					
Property taxes	237,627			7,411	245,038
Accounts	17,473	7,000		8,075	32,548
Due from other governments	1,017,282	245,270	\$ 324,323	164,356	1,751,231
Inventories		486,358			486,358
Total assets	<u>\$ 3,945,121</u>	<u>\$ 3,422,181</u>	<u>\$ 324,323</u>	<u>\$ 3,258,565</u>	<u>\$ 10,950,190</u>
Liabilities					
Accounts payable	\$ 32,464	\$ 24,617		\$ 28,219	\$ 85,300
Accrued payroll and employee benefits	416,685	46,816		99,150	562,651
Due to other governments	66,544		\$ 324,323	32,241	423,108
Total liabilities	<u>515,693</u>	<u>71,433</u>	<u>324,323</u>	<u>159,610</u>	<u>1,071,059</u>
Deferred Inflows of Resources					
Unavailable revenue—property taxes	194,972			5,650	200,622
Total deferred inflows of resources	<u>194,972</u>			<u>5,650</u>	<u>200,622</u>
Fund balances					
Nonspendable		486,358			486,358
Restricted		2,864,390		1,080,804	3,945,194
Committed				267,835	267,835
Assigned	659,840			2,102,466	2,762,306
Unassigned	2,574,616			(357,800)	2,216,816
Total fund balances	<u>3,234,456</u>	<u>3,350,748</u>		<u>3,093,305</u>	<u>9,678,509</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 3,945,121</u>	<u>\$ 3,422,181</u>	<u>\$ 324,323</u>	<u>\$ 3,258,565</u>	<u>\$ 10,950,190</u>

See accompanying notes to financial statements.

Graham County
 Reconciliation of the Balance Sheet to the Statement of Net Position
 June 30, 2014

Fund balances—total governmental funds		\$ 9,678,509
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
Capital assets	\$ 63,166,024	
Less accumulated depreciation	<u>(26,903,052)</u>	36,262,972
<p>Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.</p>		
		200,622
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds</p>		
Compensated absences	(1,198,410)	
Leases payable	(1,087,614)	
Landfill liability	<u>(78,326)</u>	<u>(2,364,350)</u>
Net position of governmental activities		<u>\$ 43,777,753</u>

See accompanying notes to financial statements.

Graham County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>CDBG Colonia Water</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 5,139,445			\$ 142,235	\$ 5,281,680
County sales taxes	2,128,831				2,128,831
Licenses and permits	47,475				47,475
Intergovernmental	8,824,566	\$3,438,782	\$1,554,228	3,961,926	17,779,502
Charges for services	1,938,408	52,204		1,283,361	3,273,973
Fines and forfeits	244,031			47,357	291,388
Investment income	1,572	8,748		11,619	21,939
Rents	16,820			151,735	168,555
Miscellaneous	39,642	622		336,358	376,622
Donations	175			63,646	63,821
Total revenues	<u>18,380,965</u>	<u>3,500,356</u>	<u>1,554,228</u>	<u>5,998,237</u>	<u>29,433,786</u>
Expenditures:					
Current:					
General government	6,832,764		1,554,228	543,843	8,930,835
Public safety	7,032,792			2,072,267	9,105,059
Highways and streets		3,035,070		118,540	3,153,610
Sanitation	101,915			49,916	151,831
Health	272,480			1,053,085	1,325,565
Welfare	2,597,390				2,597,390
Culture and recreation	302,285			145,048	447,333
Education	223,442			1,655,980	1,879,422
Capital outlay	774,588	176,964		229,223	1,180,775
Total expenditures	<u>18,137,656</u>	<u>3,212,034</u>	<u>1,554,228</u>	<u>5,867,902</u>	<u>28,771,820</u>
Excess of revenues over expenditures	<u>243,309</u>	<u>288,322</u>		<u>130,335</u>	<u>661,966</u>
Other financing sources (uses):					
Capital lease agreements	516,883				516,883
Proceeds on sale of capital assets	990	1,440			2,430
Transfers in	50,793			65,416	116,209
Transfers out	(28,495)			(87,714)	(116,209)
Total other financing sources (uses)	<u>540,171</u>	<u>1,440</u>		<u>(22,298)</u>	<u>519,313</u>
Net change in fund balances	<u>783,480</u>	<u>289,762</u>		<u>108,037</u>	<u>1,181,279</u>
Fund balances, July 1, 2013, as restated	2,450,976	3,045,915		2,985,268	8,482,159
Increase in inventories		15,071			15,071
Fund balances, June 30, 2014	<u>\$ 3,234,456</u>	<u>\$3,350,748</u>	<u>\$ -</u>	<u>\$3,093,305</u>	<u>\$ 9,678,509</u>

See accompanying notes to financial statements.

Graham County
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Statement of Activities
 Year Ended June 30, 2014

Net change in fund balances—total governmental funds		\$ 1,181,279
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Capital outlay	\$ 1,237,699	
Depreciation expense	<u>(1,849,032)</u>	(611,333)
<p>In the Statement of Activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.</p>		
		(32,296)
<p>Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities.</p>		
		(204,214)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.</p>		
Capital lease incurred	(516,883)	
Principal payments on long-term debt	<u>223,008</u>	(293,875)
<p>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.</p>		
Increase in compensated absences	(142,729)	
Decrease in landfill and postclosure care costs	<u>869</u>	(141,860)
<p>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.</p>		
Increase in inventories		<u>15,071</u>
Change in net position of governmental activities		<u>\$ (87,228)</u>

See accompanying notes to financial statements.

Graham County
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	Investment Trust Funds	Agency Funds
Assets		
Cash, cash equivalents, and investments	\$ 47,792,608	\$ 560,796
Accrued interest receivable	41,298	
Total assets	\$ 47,833,906	\$ 560,796
Liabilities		
Due to other governments		\$ 560,796
Total liabilities		\$ 560,796
Net Position		
Held in trust for investment trust participants	\$ 47,833,906	

See accompanying notes to financial statements.

Graham County
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2014

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 58,692,863
Investment earnings	<u>311,314</u>
Total additions	<u>59,004,177</u>
Deductions:	
Distributions to participants	<u>68,874,705</u>
Total deductions	<u>68,874,705</u>
Change in net position	(9,870,528)
Net position, July 1, 2013	<u>57,704,434</u>
Net position, June 30, 2014	<u>\$ 47,833,906</u>

See accompanying notes to financial statements.

Graham County
Notes to Financial Statements
June 30, 2014

Note 1 - Summary of Significant Accounting Policies

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

For the year ended June 30, 2014, the County implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources and recognizes certain other items that were previously reported as assets and liabilities as revenues or expenses.

A. Reporting Entity

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

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

The Graham County Flood Control District is a legally separate tax-levying entity pursuant to A.R.S. §48-3602 that provides flood control facilities and regulates floodplains and drainage to prevent flooding of property within Graham County. As the Graham County Board of Supervisors serves as the Board of Directors of the Flood Control District, it is able to significantly influence the programs, projects, activities, or level of services provided by the District; therefore, the District is considered a blended component unit of the County. Separate financial statements for the District are not available.

B. Basis of Presentation

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

Graham County
Notes to Financial Statements
June 30, 2014

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

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

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

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

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

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

The County reports the following major governmental funds:

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

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

The *CDBG Colonia Water Fund* accounts for the activities of one specific HUD-funded grant. The City of Safford is the subrecipient of this grant and performs the activities of the grant. Graham County monitors the subrecipient and passes all HUD funds through to the City of Safford.

Graham County
Notes to Financial Statements
June 30, 2014

The County also reports the following fund types:

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

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

C. Basis of Accounting

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

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

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

D. Cash and Investments

All investments are stated at fair value.

Graham County
Notes to Financial Statements
June 30, 2014

E. Inventories

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

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

F. Property Tax Calendar

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

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

G. Capital Assets

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

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

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

Graham County
Notes to Financial Statements
June 30, 2014

H. Deferred Inflows of Resources

The balance sheet includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of fund balance that applies to future periods and will be recognized as a revenue in future periods.

I. Fund Balance Classifications

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

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

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

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

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

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

J. Investment Earnings

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

Graham County
Notes to Financial Statements
June 30, 2014

K. Compensated Absences

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

Employees may accumulate up to 320 hours of vacation depending on years of service, but they forfeit any unused vacation hours in excess of the maximum amount at calendar year-end. Upon terminating employment, the County pays all unused and unforfeited vacation benefits 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 an unlimited amount of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative, but employees forfeit them upon terminating employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 500 hours of sick leave receive some benefit payments. Benefit payments vary based on the number of hours accumulated, but cannot exceed 1,500 hours or \$30,000. A liability is calculated for all employees whose accumulated sick leave exceeds 500 hours at the end of the fiscal year and accrued as a liability in the government-wide financial statements. Vested sick leave is accrued in the government-wide financial statements at the lesser of \$30,000 or the number of accrued hours multiplied by the employee's current hourly rate at the rate of reimbursement presented below. Vested sick leave hours are accrued in the government funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

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, notes, and other evidences of indebtedness; interest-earning investments such as savings accounts, certificates of deposit, and repurchase agreements in eligible depositories; specified commercial paper issued by corporations organized and doing business in the United States; specified bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars; and certain open-end and closed-end mutual funds, including exchange traded funds. In addition, the County Treasurer may invest trust funds in certain fixed income securities of corporations doing business in the United States or District of Columbia.

Graham County
Notes to Financial Statements
June 30, 2014

Credit risk

Statutes have the following requirements for credit risk:

1. Commercial paper must be of prime quality and be rated within the top two ratings by a nationally recognized rating agency.
2. Bonds, debentures, notes, and other evidences of indebtedness that are denominated in United States dollars must be rated "A" or better, at the time of purchase, by at least two nationally recognized rating agencies.
3. Fixed income securities must carry one of the two highest ratings by Moody's investors service and Standard and Poor's rating service. If only one of the above-mentioned services rates the security, it must carry the highest rating of that service.

Custodial credit risk

Statutes require collateral for deposits and certificates of deposit at 101 percent of all deposits not covered by federal depository insurance. At June 30, 2014, the County had \$277,279 in cash that was uninsured and not collateralized.

Concentration of credit risk

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

Interest rate risk

Statutes require that public monies invested in securities and deposits have a maximum maturity of 5 years. The maximum maturity for investments in repurchase agreements is 180 days.

Foreign currency risk

Statutes do not allow foreign investments unless the investment is denominated in United States dollars.

Deposits—At June 30, 2014, the carrying amount of the County's deposits was \$17,308,241, and the bank balance was \$18,538,166. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County's investments at June 30, 2014, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$11,646,154
State Treasurer's investment pool 5	3,859,334
Negotiable certificates of deposit	8,881,376
U.S. agency securities	<u>15,001,850</u>
Total	<u>\$39,388,714</u>

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

Graham County
Notes to Financial Statements
June 30, 2014

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, 2014, credit risk for the County’s investments was as follows:

Investment Type	Rating	Rating Agency	Amount
State Treasurer’s investment pool 7	Unrated	Not applicable	\$11,646,154
State Treasurer’s investment pool 5	AAAf/S1+	Standard & Poor’s	3,859,334
Negotiable certificates of deposit	Unrated	Not applicable	8,881,376
U.S. agency securities	AAA	Moody’s	<u>15,001,850</u>
Total			<u>\$39,388,714</u>

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

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

The County had investments at June 30, 2014, of 5 percent or more in the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, the Federal Farm Credit Bank, and the Federal National Mortgage Association. These investments were 10.16 percent, 7.62 percent, 7.61 percent, and 12.7 percent, respectively, of the County’s total investments.

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

At June 30, 2014, the County had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity (In Years)
State Treasurer’s investment pool 7	\$11,646,154	.05
State Treasurer’s investment pool 5	3,859,334	.16
Negotiable certificates of deposit	8,881,376	1.79
U.S. agency securities	<u>15,001,850</u>	2.32
Total	<u>\$39,388,714</u>	

Graham County
Notes to Financial Statements
June 30, 2014

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

Cash, deposits, and investments:

Cash on hand	\$ 91,464
Amount of deposits	17,308,241
Amount of investments	<u>39,388,714</u>
Total	<u>\$56,788,419</u>

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Statement of Net Position:				
Cash, cash equivalents, and investments	<u>\$8,435,015</u>	<u>\$47,792,608</u>	<u>\$560,796</u>	<u>\$56,788,419</u>

Note 3 - Due from Other Governments

Amounts due from other governments at June 30, 2014, totaled \$1,751,231 and include \$602,609 in state-shared revenue from sales tax, \$177,361 in county sales tax distributions from the State Treasurer, \$106,195 from the State of Arizona for Emergency Services Funding, \$56,350 in prisoner detention fees from the U.S. Department of Justice, \$38,959 in state motor vehicle license taxes from the Arizona Department of Transportation, and \$35,808 in other fees from state and local governments recorded in the General Fund; \$204,515 in state-shared revenue from highway user taxes, \$28,953 in state motor vehicle license taxes from the Arizona Department of Transportation, and \$11,802 in flood control payments from the Graham County Flood Control District recorded in the Highway Road Fund; \$324,323 in CDBG grant funds from the Department of Housing and Urban Development recorded in the CDBG Colonia Water Fund; and \$115,482 in health grants from the Arizona Department of Health Services, \$14,958 in homeland security grants from the Arizona Department of Homeland Security, \$15,171 in jail enhancement funding, and \$13,026 in waste tire funds from the State Treasurer, and \$5,719 in other fees and grants from federal, state, and local governments recorded in the other governmental funds.

Graham County
Notes to Financial Statements
June 30, 2014

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,709,871	\$ 93,189		\$ 2,803,060
Construction in progress	<u>756,807</u>	<u>219,139</u>	<u>\$417,123</u>	<u>558,823</u>
Total capital assets not being depreciated	<u>3,466,678</u>	<u>312,328</u>	<u>417,123</u>	<u>3,361,883</u>
Capital assets being depreciated:				
Buildings	14,892,217	109,422		15,001,639
Machinery and equipment	12,907,878	1,233,072	612,480	13,528,470
Infrastructure	<u>31,313,851</u>	<u>39,819</u>	<u>39,819</u>	<u>31,274,032</u>
Total of assets being depreciated	<u>59,113,946</u>	<u>1,342,494</u>	<u>652,299</u>	<u>59,804,141</u>
Less accumulated depreciation for:				
Buildings	6,271,049	359,067		6,630,116
Machinery and equipment	10,911,872	708,376	609,633	11,010,615
Infrastructure	<u>8,491,102</u>	<u>781,589</u>	<u>10,370</u>	<u>9,262,321</u>
Total	<u>25,674,023</u>	<u>1,849,032</u>	<u>620,003</u>	<u>26,903,052</u>
Total capital assets being depreciated, net	<u>33,439,923</u>	<u>(506,538)</u>	<u>32,296</u>	<u>32,901,089</u>
Governmental activities capital assets, net	<u>\$36,906,601</u>	<u>\$ (194,210)</u>	<u>\$449,419</u>	<u>\$36,262,972</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 256,113
Public safety	384,897
Highways and streets	956,878
Health	66,959
Culture and recreation	88,054
Education	<u>96,131</u>
Total governmental activities depreciation expense	<u>\$1,849,032</u>

As of June 30, 2014, the County was involved in only one significant construction project, the Eighth Avenue and Airport Road intersection project. Currently, the design/concept report is approximately 60 percent complete. The estimated construction costs are \$2,656,807, of which the County's estimated share is \$26,018. The remaining amounts will be paid from federal grants.

Graham County
Notes to Financial Statements
June 30, 2014

Note 5 - Short-Term Loans

The County maintains a line of credit with Wells Fargo Bank to cover timing differences in the receipt of revenue and the payment of obligations during the year. At June 30, 2014, the County had an outstanding balance of \$0. The activity for the year ended June 30, 2014, was as follows:

	Fiscal year 2014
Beginning balance	\$ 0
Total borrowings	4,926,689
Total payments	<u>4,926,689</u>
Ending balance	<u>\$ 0</u>

Note 6 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014	Due within 1 year
Governmental activities					
Compensated absences payable	\$1,055,681	\$ 776,887	\$634,158	\$1,198,410	\$ 838,887
Capital leases payable	793,739	516,883	223,008	1,087,614	216,736
Landfill closure and post-closure care costs payable	<u>79,195</u>	<u>1,061</u>	<u>1,930</u>	<u>78,326</u>	<u>1,960</u>
Total governmental activities long-term liabilities	<u>\$1,928,615</u>	<u>\$1,294,831</u>	<u>\$859,096</u>	<u>\$2,364,350</u>	<u>\$1,057,583</u>

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

The following assets were acquired through capital leases:

	Governmental Activities
Assets:	
Equipment	\$1,154,025
Building	417,288
Less: accumulated depreciation	<u>393,588</u>
Carrying value	<u>\$1,177,725</u>

Graham County
Notes to Financial Statements
June 30, 2014

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2014:

Year ending June 30	Governmental Activities
2015	\$ 236,868
2016	174,625
2017	174,625
2018	<u>559,834</u>
Total minimum lease payments	1,145,952
Less amount representing interest	<u>58,338</u>
Present value of net minimum lease payments	<u>\$1,087,614</u>

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

The County closed the landfill in 2003. The \$78,326 reported as landfill postclosure care costs payable at June 30, 2014, is based on what it would cost to perform all remaining postclosure care in fiscal year 2014. These costs will be paid from the General Fund. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

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

Compensated Absences—Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2014, the County paid for compensated absences as follows: 73 percent from General Fund, 8 percent from the Highway Road Fund, and 19 percent from other governmental funds.

Graham County
Notes to Financial Statements
June 30, 2014

Note 7 - Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2014, were as follows:

	General Fund	Highway Road Fund	Other Governmental Funds	Total Governmental Funds
Fund balances:				
Nonspendable:				
Inventories		\$ 486,358		\$ 486,358
Total nonspendable		<u>486,358</u>		<u>486,358</u>
Restricted for:				
Social services			\$ 385,338	385,338
Law enforcement			412,912	412,912
Highways and streets		2,864,390		2,864,390
Health			109,495	109,495
Education			<u>173,059</u>	<u>173,059</u>
Total restricted		<u>2,864,390</u>	<u>1,080,804</u>	<u>3,945,194</u>
Committed to:				
General government			13,468	13,468
Highways and streets			252,292	252,292
Education			<u>2,075</u>	<u>2,075</u>
Total committed			<u>267,835</u>	<u>267,835</u>
Assigned to:				
Social services			692,672	692,672
Law enforcement	\$ 659,840		347,092	1,006,932
Highways and streets			239	239
Health			111,827	111,827
Education			893,280	893,280
Capital outlay			<u>57,356</u>	<u>57,356</u>
Total assigned	<u>659,840</u>		<u>2,102,466</u>	<u>2,762,306</u>
Unassigned:				
Total fund balances	<u>2,574,616</u>	<u>\$3,350,748</u>	<u>(357,800)</u>	<u>2,216,816</u>
	<u>\$3,234,456</u>	<u>\$3,350,748</u>	<u>\$3,093,305</u>	<u>\$9,678,509</u>

Note 8 - Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For these risks of loss, the County joined and is covered by three public entity risk pools: the Arizona Counties Property and Casualty Pool, the Arizona Counties Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust that are described below.

Graham County
Notes to Financial Statements
June 30, 2014

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

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 law requires, and risk management services. The County is responsible for paying a premium, based on an experience-rating formula that allocates pool expenditures and liabilities among the members.

The Arizona Local Government Employee Benefit Trust is a public entity risk pool currently composed of six member counties. The pool provides member counties with life, health, and disability benefits for the counties' employees and their dependents. The County is responsible for paying a premium based on enrolled employees and dependents and requires its employees to contribute a portion of that premium.

The Arizona Counties Property and Casualty Pool, the Arizona Counties' Workers' Compensation Pool, and the Arizona Local Government Employee Benefit Trust receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. All pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation. If a pool were to become insolvent, the County would be assessed an additional contribution.

Note 9 - Pensions and Other Postemployment Benefits

Plan Descriptions—The County contributes to the four plans described below. The plans are component units of the State of Arizona, state statutes establish benefits, 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. The health insurance premium benefit is paid as a fixed dollar amount per month toward the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

Graham County
Notes to Financial Statements
June 30, 2014

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

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

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

The *Elected Officials Retirement Plan (EORP)* administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium benefit plan that covers State of Arizona and county elected officials and judges, and elected officials of participating cities who were plan members on December 31, 2013. This plan was closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.

Beginning in fiscal year 2014, PSPRS, CORP, and EORP established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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

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

PSPRS, CORP, and EORP
3010 E. Camelback Rd., Ste. 200
Phoenix, AZ 85016-4416
(602) 255-5575
www.psprs.com

Graham County
Notes to Financial Statements
June 30, 2014

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, 2014, statute required active ASRS members to contribute at the actuarially determined rate of 11.54 percent (11.3 percent for retirement and 0.24 percent for long-term disability) of the members' annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 11.54 percent (10.7 percent for retirement, 0.6 percent for health insurance premium benefit, and 0.24 percent for long-term disability) of the members' annual covered payroll. Statute required active EORP members to contribute 13 percent of the members' annual covered payroll and the County to remit a designated portion of certain court fees plus additional contributions at a percent of the members' annual covered payroll. Through December 31, 2013, the additional contributions were at the actuarially determined rate of 25.94 percent. Beginning January 1, 2014, the additional contributions were at the statutorily required rate of 23.5 percent. Both rates include the actuarially set rate of 1.56 percent for the plan's health insurance premium benefit. For the CORP AOC plan statute required active members to contribute 8.41 percent of the members' annual covered payroll and statute required the County to contribute 15.58 percent of the members' annual covered payroll. The aggregate of the members' and County's contributions is the actuarially required amount. The health insurance premium benefit portion of the contribution rate was 1.13 percent.

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

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Year ended June 30			
ASRS:			
2014	\$622,030	\$34,880	\$13,952
2013	577,330	36,611	13,518
2012	545,794	34,838	13,272
	Pension Fund	Health Insurance Fund	
Year ended June 30			
EORP:			
2014	\$199,137	\$14,159	
2013	163,390	15,422	
2012	140,045	15,503	

Graham County
Notes to Financial Statements
June 30, 2014

	Pension Fund	Health Insurance Fund
Year ended June 30		
AOC:		
2014	\$193,235	\$15,111
2013	167,626	17,965
2012	166,855	20,393

Agent Plans—For the year ended June 30, 2014, statute required active PSPRS members to contribute 10.35 percent of the members’ annual covered payroll, and the County was required to contribute 20.96 percent, the aggregate of which is the actuarially required amount. The health insurance premium benefit portion of the contribution rate was actuarially set at 1.21 percent of covered payroll. Statute required active CORP members to contribute 8.41 percent of the nondispatcher members’ and 7.96 percent of the dispatchers’ annual covered payroll. In addition, statute required the County to contribute 9.88 percent for CORP corrections officers, and 7.76 percent for CORP dispatchers. The aggregate of the members’ and the County’s contributions is the actuarially required amount. The health insurance premium benefit portion of the contribution rate was actuarially set at 0.76 percent for CORP corrections officers, and 0.65 percent for CORP dispatchers of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2014, were established by the June 30, 2012, 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 plans’ funded status 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 the County and plans’ members understand them 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 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 both plans and related benefits (unless noted), and the following actuarial methods and assumptions used to establish the fiscal year 2014 contribution requirements are as follows:

Graham County
Notes to Financial Statements
June 30, 2014

Actuarial valuation date	June 30, 2012
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	24 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	5%-9% for PSPRS and 5%-8.25% for CORP
includes inflation at	5% for PSPRS and CORP

Annual Pension/OPEB Cost—The County’s pension/OPEB cost for the agent plans for the year ended June 30, 2014, and related information follows:

	PSPRS		CORP			
	Pension	Health Insurance Premium Benefit	Correction’s Officers		Dispatchers	
			Pension	Health Insurance Premium Benefit	Pension	Health Insurance Premium Benefit
Annual pension/OPEB cost	\$195,647	\$11,987	\$99,951	\$8,329	\$14,922	\$1,364
Contributions made	195,647	11,987	99,951	8,329	14,922	1,364

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

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
PSPRS				
Pension	2014	\$195,647	100%	\$0
Health insurance premium benefit	2014	11,987	100%	0
Pension	2013	205,573	100%	0
Health insurance premium benefit	2013	15,738	100%	0
Pension	2012	185,277	100%	0
Health insurance premium benefit	2012	16,744	100%	0
CORP				
Correction’s Officers Pension	2014	99,951	100%	0
Health insurance premium benefit	2014	8,329	100%	0
Pension	2013	78,360	100%	0

Graham County
Notes to Financial Statements
June 30, 2014

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
Health insurance premium benefit	2013	\$ 8,388	100%	0
Pension	2012	56,514	100%	0
Health insurance premium benefit	2012	12,013	100%	0
Dispatchers:				
Pension	2014	14,922	100%	\$0
Health insurance premium benefit	2014	1,364	100%	0
Pension	2013	14,457	100%	0
Health insurance premium benefit	2013	2,048	100%	0
Pension	2012	14,987	100%	0
Health insurance premium benefit	2012	309	100%	0

Funded Status—The plans' funded status of the most recent valuation date, June 30, 2014, along with the actuarial assumptions and methods used in those valuations follow:

	PSPRS		CORP			
	Pension	Health insurance premium benefit	Correction's Officers		Dispatchers	
			Pension	Health insurance premium benefit	Pension	Health insurance premium benefit
Actuarial value of assets (a)	\$3,470,629	\$199,475	\$1,882,080	\$ 61,384	\$483,935	\$ 15,144
Actuarial accrued liability (b)	5,918,746	172,468	2,315,251	62,218	407,719	15,385
Unfunded actuarial accrued liability (funding excess) (b) – (a)	2,448,117	(27,007)	433,171	834	(76,216)	241
Funded ratio (a)/(b)	58.6%	115.7%	81.3%	98.7%	118.7%	98.4%
Annual covered payroll (c)	\$ 884,579	\$884,579	\$1,332,329	\$1,332,329	\$208,836	\$208,836
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((b) – (a))/(c)	276.8%	(3.1)%	32.5%	0.1%	(36.5)%	0.1%

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:

Graham County
Notes to Financial Statements
June 30, 2014

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value (80%/120% market)
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0% for PSPRS; 4.0%-7.25% for CORP
includes inflation at	4.0% for PSPRS and CORP

Note 10 - Interfund Activity

Interfund transfers—Interfund transfers for the year ended June 30, 2014, were as follows:

<u>Transfer from</u>	<u>Transfer to</u>		<u>Total</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
General Fund		\$28,495	\$ 28,495
Other Governmental Funds	<u>\$50,793</u>	<u>36,921</u>	<u>87,714</u>
Total	<u>\$50,793</u>	<u>\$65,416</u>	<u>\$116,209</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them. \$50,307 which represents the majority of the \$50,793 transfer from Other Governmental Funds to the General Fund was from Court Funds to help cover indigent defense and judicial salary costs.

Note 11 - County Treasurer's Investment Pool

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

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

Graham County
Notes to Financial Statements
June 30, 2014

The Treasurer allocates interest earnings to each of the pool's participants. However, for the County's monies in the pool, \$1,423 of interest earned in certain other funds was transferred to the General Fund.

The deposits and investments the County holds are included in the County Treasurer's investment pool, except for \$670,640 of deposits and \$62,459 of investments in the State Treasurer's investment pools. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 2 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Amount
State Treasurer's investment pool 7	\$11,646,154	None stated	None stated	\$11,646,154
State Treasurer's investment pool 5	3,796,875	None stated	None stated	3,796,875
Negotiable certificates of deposit	8,859,000	.4-2.00%	9/14 – 6/17	8,881,376
U.S. agency securities	<u>15,002,000</u>	.4-1.30%	11/15 – 12/17	<u>15,001,850</u>
	<u>\$39,304,029</u>			<u>\$39,326,255</u>

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

Statement of Net Position

Assets	\$ 56,096,618
Net position	<u>\$ 56,096,618</u>

Net position held in trust for:

Internal participants	\$ 8,296,850
External participants	<u>47,799,768</u>
Total net position held in trust	<u>\$ 56,096,618</u>

Statement of Changes in Net Position

Total additions	\$ 93,701,602
Total deductions	<u>102,833,250</u>
Net increase (decrease)	<u>(9,131,648)</u>
Net position held in trust:	
July 1, 2013	<u>65,228,266</u>
June 30, 2014	<u>\$ 56,096,618</u>

Graham County
Notes to Financial Statements
June 30, 2014

Note 12 - Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2014, the following nonmajor funds reported deficits in fund balance or net position.

Fund	Deficit
Governmental funds:	
Culture and recreation	\$309,369
Capital projects	48,431

The culture and recreation fund deficit stems from the discontinuing of horse racing. This deficit is expected to reverse in fiscal year 2015. The capital projects fund deficit relates to ongoing projects awaiting reimbursement from the Arizona Department of Transportation.

Note 13 - Subsequent Event

On November 4, 2014, the voters of Graham County approved the establishment of the Graham County Jail District and authorized the establishment of an excise tax to support the Jail District. This will result in the equivalent of a half cent per dollar sales tax increase. The sales tax is authorized for 25 years with collections beginning July 1, 2015. The tax will provide revenue for acquiring, constructing, operating, maintaining, and financing county jail facilities and a county jail system.

The estimated annual revenue to be raised from the sales tax will be approximately \$2 million. Bonds will be issued for the construction of the facility. The amount of bonds is not known at this time.

Note 14 - Beginning Balances Restated

In previous years, certain revenues collected by the Arizona State Treasurer on behalf of Graham County were not recognized in the appropriate reporting period. In order to correct this, the beginning balances were corrected as follows:

	Amount previously reported	Corrected amount
Governmental activities, net position	\$43,569,718	\$43,864,981
General fund, fund balance	2,155,713	2,450,976

Other Required Supplementary Information

Graham County
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 5,158,218	\$ 5,158,218	\$ 5,139,445	\$ (18,773)
County sales taxes	2,000,000	2,000,000	2,128,831	128,831
Licenses and permits	77,000	77,000	47,475	(29,525)
Intergovernmental	9,352,873	9,352,873	8,824,566	(528,307)
Charges for services	2,056,054	2,056,054	1,938,408	(117,646)
Fines and forfeits	240,000	240,000	244,031	4,031
Investment income	15,000	15,000	1,572	(13,428)
Rents	35,000	35,000	16,820	(18,180)
Miscellaneous	233,000	233,000	39,817	(193,183)
Total revenues	<u>19,167,145</u>	<u>19,167,145</u>	<u>18,380,965</u>	<u>(786,180)</u>
Expenditures:				
Current				
General government				
Board of supervisors	818,957	818,957	762,997	55,960
Treasurer	287,096	287,096	265,233	21,863
Assessor	588,858	588,858	486,236	102,622
Recorder	250,003	250,003	223,379	26,624
Elections	152,903	152,903	54,006	98,897
Attorney	1,158,583	1,158,583	886,225	272,358
Clerk of the court	525,859	525,859	506,603	19,256
Superior court	1,136,736	1,136,736	922,615	214,121
Justice of the peace No.1	314,099	314,099	352,455	(38,356)
Justice of the peace No.2	233,196	233,196	214,487	18,709
Victim witness	25,550	25,550	13,605	11,945
Public fiduciary	84,842	84,842	83,289	1,553
Planning and zoning	253,655	253,655	229,970	23,685
Building maintenance	127,461	127,461	205,244	(77,783)
General services	323,500	323,500	220,467	103,033
Contingency	870,000	870,000		870,000
Miscellaneous	586,584	586,584	315,373	271,211
Medical examiner	52,000	52,000	45,619	6,381
Information technology	1,306,495	1,306,495	1,044,961	261,534
Total general government	<u>9,096,377</u>	<u>9,096,377</u>	<u>6,832,764</u>	<u>2,263,613</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2014
(Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Probation	\$ 155,417	\$ 155,417	\$ 148,964	\$ 6,453
Sheriff	5,280,820	5,280,820	4,935,415	345,405
Search and rescue	16,000	16,000	6,950	9,050
Detention health services	481,757	481,757	487,255	(5,498)
Juvenile detention center	1,461,125	1,461,125	1,235,682	225,443
Animal shelter	265,996	265,996	218,526	47,470
Total public safety	<u>7,661,115</u>	<u>7,661,115</u>	<u>7,032,792</u>	<u>628,323</u>
Sanitation				
Sanitary landfill	<u>77,500</u>	<u>77,500</u>	<u>101,915</u>	<u>(24,415)</u>
Health				
Health services	<u>281,185</u>	<u>281,185</u>	<u>272,480</u>	<u>8,705</u>
Welfare				
Attorney for the indigent	519,500	519,500	531,791	(12,291)
Indigent medical	<u>2,093,300</u>	<u>2,093,300</u>	<u>2,065,599</u>	<u>27,701</u>
Total welfare	<u>2,612,800</u>	<u>2,612,800</u>	<u>2,597,390</u>	<u>15,410</u>
Cultural and recreation				
Parks and recreation	<u>366,964</u>	<u>366,964</u>	<u>302,285</u>	<u>64,679</u>
Education				
School superintendent	214,265	214,265	213,715	550
Employment and training	<u>10,232</u>	<u>10,232</u>	<u>9,727</u>	<u>505</u>
Total education	<u>224,497</u>	<u>224,497</u>	<u>223,442</u>	<u>1,055</u>
Capital outlay	<u>615,000</u>	<u>615,000</u>	<u>774,588</u>	<u>(159,588)</u>
Total expenditures	<u>20,935,438</u>	<u>20,935,438</u>	<u>18,137,656</u>	<u>2,797,782</u>
Excess (deficiency) of revenues over expenditures	<u>(1,768,293)</u>	<u>(1,768,293)</u>	<u>243,309</u>	<u>2,011,602</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

Graham County
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2014
 (Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Capital lease agreements			\$ 516,883	\$ 516,883
Proceeds from sale of capital assets			990	990
Transfers in	\$ 500,000	\$ 500,000	50,793	(449,207)
Transfers out			(28,495)	(28,495)
Total other financing sources and (uses)	<u>500,000</u>	<u>500,000</u>	<u>540,171</u>	<u>40,171</u>
Net change in fund balances	(1,268,293)	(1,268,293)	783,480	2,051,773
Fund balances, July 1, 2013, as restated	<u>1,268,293</u>	<u>1,268,293</u>	<u>2,450,976</u>	<u>1,182,683</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,234,456</u>	<u>\$ 3,234,456</u>

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
Highway Road Fund
Year Ended June 30, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 3,635,568	\$ 3,635,568	\$ 3,438,782	\$ (196,786)
Charges for services	125,000	125,000	52,204	(72,796)
Investment income	20,000	20,000	8,748	(11,252)
Rents	1,500	1,500		(1,500)
Miscellaneous	76,000	76,000	622	(75,378)
Total revenues	<u>3,858,068</u>	<u>3,858,068</u>	<u>3,500,356</u>	<u>(357,712)</u>
Expenditures:				
Current:				
Highways and streets				
General road	4,925,680	4,925,680	2,788,069	2,137,611
Engineering	382,700	382,700	224,835	157,865
Safety department	23,185	23,185	22,166	1,019
Total highways and streets	<u>5,331,565</u>	<u>5,331,565</u>	<u>3,035,070</u>	<u>2,296,495</u>
Capital outlay	<u>880,900</u>	<u>880,900</u>	<u>176,964</u>	<u>703,936</u>
Total expenditures	<u>6,212,465</u>	<u>6,212,465</u>	<u>3,212,034</u>	<u>3,000,431</u>
Excess (deficiency) of revenues over expenditures	<u>(2,354,397)</u>	<u>(2,354,397)</u>	<u>288,322</u>	<u>2,642,719</u>
Other financing sources:				
Proceeds from sale of capital assets			1,440	1,440
Transfers in	25,000	25,000		(25,000)
Total other financing sources	<u>25,000</u>	<u>25,000</u>	<u>1,440</u>	<u>(23,560)</u>
Net change in fund balances	(2,329,397)	(2,329,397)	289,762	2,619,159
Fund balances, July 1, 2013	1,713,531	1,713,531	3,045,915	1,332,384
Changes in nonspendable resources:				
Decrease in inventories			15,071	15,071
Fund balances, June 30, 2014	<u>\$ (615,866)</u>	<u>\$ (615,866)</u>	<u>\$ 3,350,748</u>	<u>\$ 3,966,614</u>

See accompanying notes to budgetary comparison schedules.

Graham County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2014

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2014, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund	
Attorney for the indigent	\$ 12,291
Building maintenance	77,783
Capital outlay	159,588
Detention health services	5,498
Justice of the peace No. 1	38,356
Sanitary landfill	24,415

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

Graham County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2014

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
Pension 6/30/14	\$3,470,629	\$5,918,746	\$2,448,117	58.6%	\$ 884,579	276.8%
Health insurance premium benefit 6/30/14	199,475	172,468	(27,007)	115.7%	884,579	(3.1)%
Pension 6/30/13	3,526,191	5,183,219	1,657,028	68.0%	1,031,637	160.6%
Health insurance premium benefit 6/30/13	0	171,853	171,853	0.0%	1,031,637	16.7%
Pension 6/30/12	3,171,870	4,932,639	1,760,769	64.3%	1,206,971	145.9%
Health insurance premium benefit 6/30/12	0	174,003	174,003	0.0%	1,206,971	14.4%

Corrections Officer Retirement Plan

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
<u>Correction's Officers</u> Pension 6/30/14	\$1,882,080	\$2,315,251	\$433,171	81.3%	\$1,332,329	32.5%
Health insurance premium benefit 6/30/14	61,384	62,218	834	98.7%	1,332,239	0.1%
Pension 6/30/13	1,982,294	2,228,882	246,588	88.9%	1,120,750	22.0%
Health insurance premium benefit 6/30/13	0	73,314	73,314	0.0%	1,120,750	6.5%
Pension 6/30/12	1,903,185	2,281,821	378,636	83.4%	1,203,742	31.5%
Health insurance premium benefit 6/30/12	0	81,880	81,880	0.0%	1,203,742	6.8%

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

Graham County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2014

Actuarial Valuation Date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)	Funded ratio (a/b)	Annual covered payroll (c)	UAAL (funding excess) as percentage of covered payroll ([b-a]/c)
<u>Dispatchers</u>						
Pension 6/30/14	\$483,935	\$407,719	\$ (76,216)	118.7%	\$208,836	(36.5)%
Health insurance premium benefit 6/30/14	15,144	15,385	241	98.4%	208,836	0.1%
Pension 6/30/13	465,961	386,939	(79,022)	120.4%	236,747	(33.4)%
Health insurance premium benefit 6/30/13	0	13,750	13,750	0.0%	236,747	5.8%
Pension 6/30/12	452,760	429,590	(23,170)	105.4%	307,905	(7.5)%
Health insurance premium benefit 6/30/12	0	17,643	17,643	0.0%	307,905	5.7%

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

Graham County
Required Supplementary Information
Notes to Schedule of Agent Retirement Plans' Funding Progress
June 30, 2014

Note 1 - Factors That Affect the Identification of Trends

Beginning in fiscal year 2014, PSPRS and CORP established separate funds for pension benefits and health insurance premium benefits. Previously, the plans recorded both pension and health insurance premium contributions in the same Pension Fund. During fiscal year 2014, the plans transferred prior-year health insurance premium benefit contributions that exceeded benefit payments from each plan's Pension Fund to the new Health Insurance Fund.

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Supplementary Information

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Agriculture						
10 555	National School Lunch Program	Child Nutrition Cluster	Arizona Department of Education	None	\$ 28,768	
10 665	Schools and Roads—Grants to States	Forest Service Schools and Roads Cluster	Arizona State Treasurer	None	572,058	
10 557	Special Supplemental Nutrition Program for Women, Infants, and Children		Arizona Department of Health Services	ADHS11-004551	203,517	
	Total Department of Agriculture				<u>804,343</u>	
Department of Housing and Urban Development						
14 228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	CDBG State-Administered CDBG Cluster	Arizona Department of Housing	112-12, 117-14	1,557,849	\$ 1,554,228
Department of the Interior						
15 226	Payments in Lieu of Taxes				2,784,560	
Department of Justice						
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster				21,802
16 738	Edward Byrne Memorial Justice Assistance Grant Program	JAG Program Cluster	Arizona Criminal Justice Commission	DC-14-029, DC-14-002	37,403	
	<i>Total JAG Program Cluster</i>				<u>59,205</u>	
16 606	State Criminal Alien Assistance Program				836	
16 607	Bulletproof Vest Partnership Program				7,448	
	Total Department of Justice				<u>67,489</u>	
Department of Education						
84 010	Title I Grants to Local Educational Agencies		Arizona Department of Education	S010A040003		12,906
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Department of Education	H027A050007, H027A0090007	463,454	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Supreme Court	KR12-0088, H027A050007, H027A090007	27,386	
84 027	Special Education—Grants to States	Special Education Cluster (IDEA)	Arizona Supreme Court/Greenlee County	KR12-0089, H027A050007, H027A090007	6,236	
	<i>Total 84.027</i>				<u>497,076</u>	
84 173	Special Education—Preschool Grants	Special Education Cluster (IDEA)	Arizona Department of Education	H173A000003	21,535	
	<i>Total Special Education Cluster (IDEA)</i>				<u>518,611</u>	
84 013	Title I State Agency Program for Neglected and Delinquent Children and Youth		Arizona Supreme Court	S013A090003	4,470	
84 013	Title I State Agency Program for Neglected and Delinquent Children and Youth		Arizona Supreme Court/Greenlee County	S013A090003	22,701	
	<i>Total 84.013</i>				<u>27,171</u>	
84 358	Rural Education				11,802	
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court/Greenlee	S281A0003	3,111	
84 367	Improving Teacher Quality State Grants		Arizona Supreme Court	S281A0003	10,716	
	<i>Total 84.367</i>				<u>13,827</u>	
	Total Department of Education				<u>584,317</u>	

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal agency/CFDA number	Federal program name	Cluster title	Pass-through grantor	Pass-through grantor's numbers	Program expenditures	Amount provided to subrecipients
Department of Health and Human Services						
93 069	Public Health Emergency Preparedness		Arizona Department of Health Services	ADHS12-007888	179,921	
93 268	Immunization Cooperative Agreements		Arizona Department of Health Services	ADHS13-041540	82,207	
93 283	Centers for Disease Control and Prevention—Investigations and Technical Assistance		Arizona Department of Health Services	ADHS13-029376	40,634	
93 940	HIV Prevention Activities—Health Department Based		Arizona Department of Health Services	ADHS13-031211	6,286	
93 991	Preventive Health and Health Services Block Grant		Arizona Department of Health Services	ADHS12-020645	65	
93 994	Maternal and Child Health Services Block Grant to the States		Arizona Department of Health Services	ADHS13-034537	<u>54,706</u>	
	Total Department of Health and Human Services				<u>363,819</u>	
Department of Homeland Security						
97 042	Emergency Management Performance Grants		Arizona Department of Emergency and Military Affairs	EMW-2013-EP- 000024, EMW-2014- EP-000024	125,520	
97 067	Homeland Security Grant Program		Arizona Department of Emergency and Military Affairs	555301-02, 777306- 01, 777306-02, 444311-01, 999309- 01	<u>112,375</u>	
	Total Department of Homeland Security				<u>237,895</u>	
	Total expenditures of federal awards				<u>\$ 6,400,272</u>	<u>\$ 1,554,228</u>

See accompanying notes to schedule.

Graham County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2014 *Catalog of Federal Assistance*.



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated March 20, 2015.

Internal Control over Financial Reporting

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

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

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2014-01 to be a material weakness.

Compliance and Other Matters

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

Graham County Response to Findings

Graham County's response to the finding identified in our audit is presented on page 58. The County's response was not subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

Debbie Davenport
Auditor General

March 20, 2015



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Report on Compliance for Each Major Federal Program

We have audited Graham County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Basis for Adverse Opinion on the CDBG—State-Administered CDBG Cluster: Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii and the Emergency Management Performance Grants

As described in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding the CDBG—State Administered CDBG Cluster’s Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (14.228) program’s subrecipient monitoring compliance requirement as described in item 2014-103 and the Emergency Management Performance Grants (97.042) program’s allowable costs/cost principles, cash management, and reporting compliance requirements as described in items 2014-101 and 2014-102. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to that program.

Adverse Opinion on the CDBG—State-Administered Cluster: Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii and the Emergency Management Performance Grants

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, Graham County did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the CDBG Cluster and the Emergency Management Performance Grants program for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, Graham County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditors’ Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

Graham County’s responses to the noncompliance findings identified in our audit are presented on pages 57 through 59. The County’s responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified 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 a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2014-101, 2014-102, and 2014-103 to be material weaknesses.

Graham County's responses to the internal control over compliance findings identified in our audit are presented on pages 57 through 59. The County's responses were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on them.

Purpose of this Report

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

Debbie Davenport
Auditor General

March 20, 2015

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Graham County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2014

Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:		
Material weaknesses identified?	<u>X</u>	—
Significant deficiencies identified?	—	<u>X</u> (None reported)
Type of auditors' report issued on compliance for major programs:		
Unmodified for all major programs except for the CDBG—State-Administered CDBG Cluster: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (14.228) and Emergency Management Performance Grants (97.042), which were adverse.		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	—	<u>X</u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.228	CDBG State-Administered CDBG Cluster
15.226	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
97.042	Payments in Lieu of Taxes Emergency Management Performance Grants

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

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Yes **No**

Auditee qualified as low-risk auditee?

___ X

Other Matters

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

 X ___

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Financial Statement Findings

2014-01

The County should establish procedures to recognize and accrue state sales tax revenues

Criteria: The County should accrue state shared sales taxes as both a revenue and receivable in the proper fiscal year in accordance with generally accepted accounting principles.

Condition and context: State shared sales taxes received in August totaling \$295,263 in fiscal year 2013 and \$290,965 in the fiscal year 2014 were not recognized as both a revenue and receivable in the proper fiscal years.

Effect: The errors caused the following misstatements in the County's financial statements:

- Intergovernmental revenues were overstated by \$4,298.
- Due from other governments were understated by \$290,965.
- Beginning fund balance/net position was understated by \$295,263 in the general fund and government-wide financial statements.

The County's financial statements were adjusted for these errors.

Cause: The County was not aware that state shared sales tax revenues had a 60-day lag.

Recommendation: The County should ensure that state sales taxes are reported as a revenue in the government-wide financial statements when earned and in the governmental funds when they become both measurable and available in accordance with generally accepted accounting principles.

Federal Award Findings and Questioned Costs

2014-101

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Numbers and Years:	EMW-2013-EP-000024, October 1, 2012 through September 30, 2013; EMW-2014-EP-000024, October 1, 2013 through September 30, 2014
Federal Agency:	U.S. Department of Homeland Security
Pass-Through Grantor:	Arizona Department of Emergency and Military Affairs
Compliance Requirements:	Allowable Costs/Cost Principles
Questioned Costs:	Unknown

Criteria: In accordance with 2 CFR §200.430(i), the County should maintain records that accurately reflect salaries and wages charged to the federal program. These records must be supported by a system of internal control that provides reasonable assurance that charges are accurate, allowable, and properly

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

allocated. Budget estimates alone do not qualify as support for charges to federal awards, but may be used if the County performs additional procedures to ensure the final amount charged to the federal award is accurate, allowable, and properly allocated.

Condition and context: During the fiscal year, the County charged \$125,500 in payroll cost to the Emergency Management Performance Grants program based on budgeted distribution percentages established in the grant agreement. However, the County did not require employees working on the program to prepare time-and-effort reports and it did not adjust payroll costs charged to the program for any differences between budgeted and actual payroll costs.

Effect: The County did not comply with the cost principles requirements. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding. This finding has the potential to affect other federal programs the County administers.

Cause: The County lacked policies and procedures for certifying or confirming employees' time and effort spent on federal programs.

Recommendation: The County should implement policies and procedures to ensure that salaries and wages charged to the program represent actual costs. In addition, the County should establish policies and procedures for certifying or confirming on an after-the-fact basis employees' time and effort on federal programs.

2014-102

CFDA No. and Name:	97.042 Emergency Management Performance Grants
Award Numbers and Years:	EMW-2013-EP-000024, October 1, 2012 through September 30, 2013; EMW-2014-EP-000024, October 1, 2013 through September 30, 2014
Federal Agency:	U.S. Department of Homeland Security
Pass-Through Grantor:	Arizona Department of Emergency and Military Affairs
Compliance Requirements:	Cash Management and Reporting
Questioned Costs:	Unknown

Criteria: In accordance with 44 Code of Federal Regulations (CFR) §13.20(b)(3), the County is required to maintain internal control over its Emergency Management Preparedness Grants program that provides reasonable assurance that federal program reports are accurate and reliable. An important part of the system of internal control is that data used for reimbursement and reporting purposes should agree to the County's accounting records.

Condition and context: The County prepared and submitted quarterly financial expenditure reports that did not agree to its accounting records. Specifically, the County used a spreadsheet with outdated salary information and allocations to determine the amounts reported. Auditors did not perform additional procedures to identify the actual errors in the reports tested.

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Effect: Incorrect financial data was submitted to the pass-through grantor for reimbursement. It was not practical to extend our auditing procedures to determine questioned costs, if any, that may have resulted from this finding.

Cause: The County did not have adequate policies and procedures for compiling, reconciling reported amounts to the underlying accounting records, and reviewing quarterly financial expenditure reports.

Recommendation: The County should develop detailed policies and procedures for compiling, reconciling reported amounts to the underlying accounting records, and reviewing the quarterly financial expenditure reports for accuracy prior to submission.

2014-103

Cluster Name:	CDBG—State-Administered CDBG Cluster
CFDA No. and Name:	14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii
Award Numbers and Years:	112-12, December 27, 2011 through May 31, 2014; 117-14, March 4, 2014 through December 30, 2015
Federal Agency:	U.S. Department of Housing and Urban Development
Pass-Through Grantor:	Arizona Department of Housing
Compliance Requirements:	Subrecipient Monitoring
Questioned Costs:	Not applicable

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

Condition and context: The County did not have established policies and procedures for subrecipient monitoring. In addition, for award number 112-12, it reviewed only the documentation for its subrecipient’s expenditures prior to reimbursement. The County did not perform any of the other procedures required by the subrecipient monitoring compliance requirements.

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

Cause: The County was not fully aware of the requirements over subrecipient monitoring and did not adopt policies and procedures for subrecipient monitoring activities until June 2014.

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Recommendation: To help ensure compliance with the subrecipient monitoring compliance requirements, the County should ensure its employees follow the County's newly adopted policies and Procedures for subrecipient monitoring.

This finding is similar to a prior-year finding.



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

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

Terry Cooper, County Manager/Clerk

March 20, 2015

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

Sincerely,

Julie Rodriguez
Chief Financial Officer

Graham County
Corrective Action Plan
Year Ended June 30, 2014

Financial Statement Findings

2014-01

Contact Person: Julie Rodriguez, Chief Financial Officer

Anticipated completion date: July 1, 2015

Response: Concur

Corrective Action Plan: Graham County now understands the State Treasurer's 60-day lag in disbursing State sales tax revenues to the County and will properly account for all such revenues in the future. In addition, this will be documented in Graham County procedures on financial statement preparation for future reference.

Federal Award Findings and Questioned Costs

2014-101

CFDA No.: 97.042 Emergency Management Performance Grants

Contact Person: Julie Rodriguez, Chief Financial Officer, Judy Dickerson, Deputy Clerk of the Board and Brian Douglas, Deputy Director for Emergency Management

Anticipated completion date: July 1, 2015

Response: Concur

Corrective Action Plan: Graham County has been in communication with the EMPG Program Coordinator of Arizona Department of Emergency Management. It is Graham County's intent to shift from 100% employee salaries and wages as the basis for grant expenditures to a combination of equipment and maintenance and limited employee salaries and wages. The current federal EMPG grant cycle runs through June 30, 2015. As Graham County has not submitted any requests for reimbursement for the time period beyond June 30, 2014, we will continue discussions with the state to ensure we are in agreement with EMPG. Once we reach that agreement, the County will establish a policy that confirms employee time and effort on federal programs is correctly documented.

Graham County
Corrective Action Plan
Year Ended June 30, 2014

2014-102

CFDA No.: 97.042 Emergency Management Performance Grants

Contact Person: Julie Rodriguez, Chief Financial Officer, Judy Dickerson, Deputy Clerk of the Board and Brian Douglas, Deputy Director for Emergency Management

Anticipated completion date: July 1, 2015

Response: Concur

Corrective Action Plan: In connection with the corrective action plan for finding 2014-101, after an agreement with the EMPG Program Coordinator of Arizona Department of Emergency Management is reached, Graham County will establish a policy that incorporates the reconciliation and review of quarterly reports prior to submission.

2014-103

CDBG – State-Administered CDBG Cluster

CFDA No.: 14.228 Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii

Contact persons: Julie Rodriguez, Chief Financial Officer and Michael Bryce, Engineer

Anticipated completion date: June 30, 2014

Response: Concur

Corrective Action Plan: The Graham County Board of Supervisors adopted a Subrecipient Monitoring policy on June 16, 2014 incorporating recommendations for informing and communicating key award data and requirements to subrecipients, monitoring subrecipient activities, and ensuring that subrecipients meet these audit requirements. However, the physical activities of the CDBG grant where subrecipient monitoring was required (the Solomon Colonia Water CDBG) concluded prior to the adoption of this policy and prior to the end of the fiscal year of June 30, 2014 so we were unable to physically perform subrecipient monitoring. With the newly-adopted policy in place and staff whom are aware of and educated about the requirements, future grants involving subrecipient monitoring will follow the established policy.

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Graham County Board of Supervisors
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James A. Palmer, Vice Chairman
Drew John, Member

Terry Cooper, County Manager/Clerk

March 20, 2015

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 audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

Julie Rodriguez
Chief Financial Officer

Graham County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Status of Federal Award Findings and Questioned Costs

09-101, 10-101, 11-101, 12-101, 2013-101

CFDA No.: Not applicable

Status: Corrected

11-104

CFDA No.: 81.128 ARRA—Energy Efficiency and Conservation Block Grant Program Homeland Security Cluster:

CFDA No.: 97.067 Homeland Security Grant Program

Status: Corrected

11-106

Homeland Security Cluster:

CFDA No.: 97.067 Homeland Security Grant Program

Status: Corrected

12-103

Homeland Security Cluster:

CFDA No.: 97.067 Homeland Security Grant Program

Status: Corrected

12-104

CFDA No.: 97.067 Homeland Security Grant Program

Status: Corrected

2013-102

CDBG—State-Administered CDBG Cluster:

CFDA No: 14.228 Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii

Status: Partially Corrected

The County established a policy for subrecipient monitoring that incorporated the recommendations for informing and communicating key award data and requirements to subrecipients, monitors subrecipient activities, and ensures that subrecipients meet these audit requirements. The new policy was adopted by the Board of Supervisors on June 16, 2014.