



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Graham County

Year Ended June 30, 2011



Debra K. Davenport
Auditor General

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Graham County
Single Audit Reporting Package
Year Ended June 30, 2011

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011, which represents a change in accounting principle.

The Management's Discussion and Analysis on pages i through vii, the Budgetary Comparison Schedules on pages 30 through 34, and the Schedule of Agent Retirement Plans' Funding Progress on pages 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2012, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jay Zsorey", with a long, sweeping horizontal stroke extending to the right.

Jay Zsorey, CPA
Financial Audit Director

May 23, 2012

Graham County Management's Discussion and Analysis June 30, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

Financial Highlights

- The assets of Graham County exceeded its liabilities at the close of the current fiscal year by \$35,294,098 (net assets). Of this amount, \$1,334,758 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of \$6,573,551, an increase of \$430,099 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,651,102 or 10% of total General Fund expenditures.
- Graham County's capital assets decreased by \$718,590 during the current fiscal year. The key factor in this decrease is spending for capital assets was again reduced to only what was absolutely necessary and purchases provided by grant funding. The largest expenditure was for communication equipment provided by grant funding. Two other major projects funded by grants were solar panels for the Accommodation School and Park Improvements of new playground equipment. An addition to the Adult Detention Facility and replacement servers 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 Assets* presents information on all of Graham County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Graham County is improving or deteriorating.

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

Graham County
Management's Discussion and Analysis
June 30, 2011

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

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

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

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

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

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

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

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

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

Graham County
Management's Discussion and Analysis
June 30, 2011

The notes to the financial statements can be found on pages 9 through 27 of this report.

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

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

Government-wide Financial Analysis

Statement of net assets—As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Graham County's assets exceeded liabilities by \$35,294,098.

Condensed Statement of Net Assets
As of June 30, 2011 and 2010

	Governmental Activities	
	2011	2010*
Current and other assets	\$ 8,348,937	\$ 9,007,538
Capital assets	<u>29,191,717</u>	<u>29,910,307</u>
Total assets	<u>37,540,654</u>	<u>38,917,845</u>
Long-term liabilities outstanding	1,455,675	1,702,537
Other liabilities	<u>790,881</u>	<u>2,048,333</u>
Total liabilities	<u>2,246,556</u>	<u>3,750,870</u>
Net assets:		
Invested in capital assets, net of related debt	28,814,612	29,271,774
Restricted	5,144,728	4,667,431
Unrestricted	<u>1,334,758</u>	<u>1,227,770</u>
Total net assets	<u>\$35,294,098</u>	<u>\$35,166,975</u>

* As restated, see Note 11 to financial statements.

The largest portion of Graham County's net assets (82 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure). This amount is presented less accumulated depreciation and any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Graham County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Graham County
Management's Discussion and Analysis
June 30, 2011

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased from \$1,227,770 at June 30, 2010 to \$1,334,758 at June 30, 2011. The increase is reflective of the conservative efforts of the Board of Supervisors, elected officials and department heads in the current economic conditions to reduce costs while meeting the requirements of mandated services to Graham County's citizens.

Current assets, related to governmental activities, decreased as compared to the previous fiscal year, primarily because due from other governments decreased as PILT funding was received and spent before the end of the fiscal year. Capital assets decreased this fiscal year as depreciation exceeded the cost of new assets. The liability for compensated absences increased modestly reflecting employees' increased carryover of vacation and sick leave hours. There have been no new capital leases this year, only payments, and the liability for postclosure costs for landfills remained almost unchanged.

Statement of activities—Already noted was the statement of activities' purpose in presenting information in how the government's net assets changed during the most recent fiscal year. For the fiscal year, net assets increased \$127,123 even though the County dealt with increased cost shifts and decreased revenue streams from the State. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes whose primary purpose is for the County's operation.

Condensed Statement of Revenues,
Expenses, and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	Governmental Activities	
	2011	2010
Revenues		
Program revenues:		
Charges for services	\$ 3,599,354	\$ 3,401,542
Operating grants and contributions	10,050,888	9,689,561
Capital grants and contributions	189,223	186,131
General revenues:		
Property taxes	3,874,911	3,690,694
Shared revenue—state sales taxes	4,909,043	4,902,238
Shared revenue—state vehicle license tax	1,428,805	1,490,116
Grants and contributions not restricted to specific programs	2,789,352	3,102,282
Miscellaneous	909,201	721,989
Total revenues	27,750,777	27,184,553

Graham County
Management's Discussion and Analysis
June 30, 2011

	Governmental Activities	
	2011	2010*
Expenses		
General government	\$7,340,268	7,489,961
Public safety	9,465,117	9,366,851
Highways and streets	4,249,546	4,763,048
Sanitation	139,091	183,194
Health	1,475,138	1,523,248
Welfare	2,152,453	2,282,640
Culture and recreation	545,027	559,915
Education	<u>2,257,014</u>	<u>2,285,023</u>
Total expenses	<u>27,623,654</u>	<u>28,453,880</u>
Increase (decrease) in net assets	127,123	(1,269,327)
Net assets—beginning, as restated	<u>35,166,975</u>	<u>36,436,302</u>
Net assets—ending	<u>\$35,294,098</u>	<u>\$35,166,975</u>

As restated, see Note 11 to the financial statements.

Governmental activities

Governmental activities revenues totaled \$27,750,777 for fiscal year 2011. The following are highlights of county revenues.

- Operating grants and contributions increased by \$361,327 as additional federal grants were received.
- Charges for services increased by \$197,812 over the prior fiscal year due to an increase in agreements with various cities and towns for the operation of the animal shelter, dispatch services and wide area network.
- Property tax revenues increased \$184,217, or 5 percent this fiscal year because local taxpayers continued to pay their property taxes in spite of tough economic conditions. There was also significant new construction added to the tax rolls.
- Grants and Contributions not restricted to specific programs decreased by \$312,930, or 10 percent, primarily because miscellaneous state revenues declined, the largest being a "Hold Harmless" distribution not received this fiscal year. Also, the County no longer receives County Assistance (Lottery) from the State.
- Miscellaneous revenues increased this fiscal year \$187,212, or 26 percent, as the County received an equity distribution from the Arizona Counties Insurance Pool in an effort to meet expenses.

Expenses:

Overall expenses in governmental activities decreased by \$830,226, or 3 percent. Spending for nearly all of the functions was reduced during this fiscal year, except for Public Safety. The highway and streets function decreased significantly as three vacancies were not filled during the fiscal year and the distribution of Forest Fees to the local School Districts was significantly reduced.

Graham County
Management's Discussion and Analysis
June 30, 2011

Financial Analysis of the Government's Funds

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

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

The General Fund is the chief operating fund of Graham County. At June 30, 2011, the General Fund's unreserved fund balance was \$1,651,102, which was a decrease of \$17,767 over the prior fiscal year. There was an excess of expenditures over revenues in the General Fund of \$192,269 (prior to any other financing sources or uses), which was primarily due to a decrease in overall revenues. Revenues are not keeping pace with the expenditures, as the State has continued reducing some revenues traditionally passed down to the County (i.e., JP Salary reimbursement, County Assistance, Hold Harmless, etc.).

The Highway Road Fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the care of the County. The fund balance for the Highway Road Fund increased \$431,329 this fiscal year. Management made a conscious effort to increase the fund balance as the Arizona State Legislature continued to reduce funding for this fiscal year in order to help balance the State's budget.

The other governmental fund balance increased by \$16,537. This is a combination of many non-major funds of the County, most funded by various grants. Funding for some programs is being cut or reduced as the economy continues to struggle, but additional funding from the state for increased personnel for Probation was received and the reimbursements for homeland security grants increased.

General Fund Budgetary Highlights

There were no amendments to the original revenue budget for the General Fund. General Fund revenues received compared favorably with budgeted revenues except for property tax collections, which was \$737,303 or 17.2 percent below budget and miscellaneous revenue, which was \$738,447 or 84.8 percent below budget. One major taxpayer, who filed a claim against the County in Bankruptcy Court to reduce its assessed valuation, did not pay any of its 2010/11 property taxes. Various miscellaneous revenues anticipated by the County did not occur and represents approximately 75 percent of the difference. The General Fund expenditure budget of \$19,344,609 was amended, moving \$15,000 from contingency and \$21,000 from Information Technology to Capital Outlay. General Fund Expenditures were less than the final budget by \$2,732,098, or 14.1 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of \$1,870,561. These savings were a result of conservative budgeting practices and reduced spending due to declining economic conditions that resulted in spending less than anticipated from the contingency, attorney, and information technology funds.

Graham County
Management's Discussion and Analysis
June 30, 2011

Capital Asset and Debt Administration

Capital assets—The County's capital assets for its governmental activities as of June 30, 2011, amounts to \$29,191,717 (net of accumulated depreciation). The decrease of \$718,590 is due primarily to depreciation for the current fiscal year. Due to economic conditions, few assets were purchased during the fiscal year. Funding for capital assets in almost all programs except from the Homeland Security Grant, CDBG Grant, and School Facilities Board has been eliminated by the funding agencies.

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

Long-term Debt—At the end of the current fiscal year, the County had total long-term liabilities outstanding of \$1,455,675. Included in long-term liabilities is \$998,733 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 \$377,105 and post-closure care costs of \$79,837. The County did not have any outstanding bonded debt.

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

Economic Factors and Next Year's Budget and Rates

- The unemployment rate for Graham County is currently 11.2 percent. While it is an improvement of 2.6 percent from a rate of 13.8 percent a year ago, it is still greater than the State rate of 10.0 percent. This reflects continued difficult economic conditions in Graham County at the current time.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Graham County's budget for the 2011/12 fiscal year. The unassigned ending fund balance in the General Fund of \$1,651,102 was appropriated for spending in the 2011/12 fiscal year budget. Even with the use of available fund balances in conjunction with realistic revenue projections and a conservative expenditure plan the County still needed to raise the General Fund property tax rate above the Truth in Taxation Rate of 1.7836 for the 2011/12 fiscal year to 1.8556.

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 Assets
June 30, 2011

	<u>Primary Government Governmental Activities</u>
Assets	
Cash, cash equivalents, and investments	\$ 5,356,864
Property taxes receivables	1,041,120
Due from other governments	1,349,970
Inventories	600,983
Capital assets, not being depreciated	6,284,695
Capital assets, being depreciated, net	<u>22,907,022</u>
Total assets	<u>37,540,654</u>
Liabilities	
Accounts payable	341,225
Accrued payroll and employee benefits	449,656
Noncurrent liabilities	
Due within 1 year	710,910
Due in more than 1 year	<u>744,765</u>
Total liabilities	<u>2,246,556</u>
Net Assets	
Invested in capital assets, net of related debt	28,814,612
Restricted for:	
Highways and streets	2,502,943
Capital projects	60,903
Other purposes	2,580,882
Unrestricted	<u>1,334,758</u>
Total net assets	<u>\$ 35,294,098</u>

See accompanying notes to financial statements.

Graham County
Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 7,340,268	\$ 2,411,050	\$ 2,636,111		\$ (2,293,107)
Public safety	9,465,117	230,319	2,106,690		(7,128,108)
Highways and streets	4,249,546	57,140	2,969,818	\$ 45,209	(1,177,379)
Sanitation	139,091		48,834		(90,257)
Health	1,475,138	38,299	970,920		(465,919)
Welfare	2,152,453				(2,152,453)
Culture and recreation	545,027	175,049		144,014	(225,964)
Education	2,257,014	687,497	1,318,515		(251,002)
Total governmental activities	\$ 27,623,654	\$ 3,599,354	\$ 10,050,888	\$ 189,223	(13,784,189)
General revenues:					
					3,874,911
					4,909,043
					1,428,805
					2,789,352
					51,595
					857,606
					13,911,312
					127,123
					35,166,975
					\$ 35,294,098

See accompanying notes to financial statements.

Graham County
Balance Sheet
Governmental Funds
June 30, 2011

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash, cash equivalents, and investments	\$ 1,371,900	\$ 1,702,198	\$ 2,282,766	\$ 5,356,864
Property taxes receivables	993,415		47,705	1,041,120
Due from other governments	690,756	305,728	353,486	1,349,970
Inventories		600,983		600,983
Total assets	<u>\$ 3,056,071</u>	<u>\$ 2,608,909</u>	<u>\$ 2,683,957</u>	<u>\$ 8,348,937</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 143,785	\$ 65,607	\$ 131,833	\$ 341,225
Accrued payroll and employee benefits	320,937	40,359	88,360	449,656
Deferred revenue	940,247		44,258	984,505
Total liabilities	<u>1,404,969</u>	<u>105,966</u>	<u>264,451</u>	<u>1,775,386</u>
Fund balances:				
Nonspendable		600,983		600,983
Restricted		1,901,960	1,051,135	2,953,095
Committed			1,082,500	1,082,500
Assigned			967,332	967,332
Unassigned	1,651,102		(681,461)	969,641
Total fund balances	<u>1,651,102</u>	<u>2,502,943</u>	<u>2,419,506</u>	<u>6,573,551</u>
Total liabilities and fund balances	<u>\$ 3,056,071</u>	<u>\$ 2,608,909</u>	<u>\$ 2,683,957</u>	<u>\$ 8,348,937</u>

See accompanying notes to financial statements.

Graham County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2011

Fund balances—total governmental funds	\$ 6,573,551
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	29,191,717
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	984,505
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,455,675)</u>
Net assets of governmental activities	<u>\$ 35,294,098</u>

See accompanying notes to financial statements.

Graham County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	<u>General Fund</u>	<u>Highway Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 3,555,595		\$ 150,564	\$ 3,706,159
Licenses and permits	56,815			56,815
Fines and forfeits	231,571		62,856	294,427
Intergovernmental	10,662,951	\$ 3,603,766	5,100,594	19,367,311
Charges for services	1,746,387	56,719	1,322,513	3,125,619
Investment earnings	5,473	16,414	29,708	51,595
Rents	28,690	420	93,383	122,493
Miscellaneous	132,760	80,368	645,562	858,690
Total revenues	<u>16,420,242</u>	<u>3,757,687</u>	<u>7,405,180</u>	<u>27,583,109</u>
Expenditures:				
Current:				
General government	6,409,099		675,291	7,084,390
Public safety	7,027,203		2,030,861	9,058,064
Highways and streets		3,448,651	158,887	3,607,538
Sanitation	90,286		48,912	139,198
Health	240,806		1,148,925	1,389,731
Welfare	2,152,453			2,152,453
Culture and recreation	310,606		175,916	486,522
Education	213,941		1,907,097	2,121,038
Capital outlay	168,117	10,249	1,068,252	1,246,618
Total expenditures	<u>16,612,511</u>	<u>3,458,900</u>	<u>7,214,141</u>	<u>27,285,552</u>
Excess (deficiency) of revenues over expenditures	<u>(192,269)</u>	<u>298,787</u>	<u>191,039</u>	<u>297,557</u>
Other financing sources (uses):				
Transfers in	174,502			174,502
Transfers out			(174,502)	(174,502)
Total other financing sources (uses)	<u>174,502</u>		<u>(174,502)</u>	
Net change in fund balances	<u>(17,767)</u>	<u>298,787</u>	<u>16,537</u>	<u>297,557</u>
Fund balances, July 1, 2010	1,668,869	2,071,614	2,402,969	6,143,452
Changes in nonspendable resources:				
Increase in inventories		132,542		132,542
Fund balances, June 30, 2011	<u>\$ 1,651,102</u>	<u>\$ 2,502,943</u>	<u>\$ 2,419,506</u>	<u>\$ 6,573,551</u>

See accompanying notes to financial statements.

Graham County
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2011

Net change in fund balances—total governmental funds \$ 297,557

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

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

Capital outlay	\$ 1,246,618	
Depreciation expense	<u>(1,964,124)</u>	(717,506)

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

(1,084)

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

168,752

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal payments on long-term debt		261,428
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Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses are reported regardless of when the financial resources are available.

Increase in compensated absences	(14,673)	
Decrease in landfill and postclosure care costs	<u>107</u>	(14,566)

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.

Increase in inventories		<u>132,542</u>
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Change in net assets of governmental activities \$ 127,123

See accompanying notes to financial statements.

Graham County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2011

	Investment Trust Funds	Agency Funds
Assets		
Cash, cash equivalents, and investments	\$ 57,297,007	\$ 515,878
Accrued interest receivable	73,168	
Total assets	57,370,175	\$ 515,878
Liabilities		
Due to other governments		\$ 515,878
Total liabilities		\$ 515,878
Net Assets		
Held in trust for investment trust participants	\$ 57,370,175	

See accompanying notes to financial statements.

Graham County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2011

	<u>Investment Trust Funds</u>
Additions:	
Contributions from participants	\$ 78,023,479
Investment earnings	<u>635,946</u>
Total additions	<u>78,659,425</u>
 Deductions:	
Distributions to participants	<u>60,401,972</u>
Total deductions	<u>60,401,972</u>
 Change in net assets	 18,257,453
 Net assets, July 1, 2010	 <u>39,112,722</u>
 Net assets, June 30, 2011	 <u><u>\$ 57,370,175</u></u>

See accompanying notes to financial statements.

Graham County
Notes to Financial Statements
June 30, 2011

Note 1 - Summary of Significant Accounting Policies

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

For the year ended June 30, 2011, the County implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 establishes standards for financial reporting, including note disclosures requirements, for fund balance classifications of the governmental funds and clarifies existing governmental fund type definitions.

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.

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

B. Basis of Presentation

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

Graham County
Notes to Financial Statements
June 30, 2011

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

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

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

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

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

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

The County reports the following major governmental funds:

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

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

The County reports the following fund types:

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

Graham County
Notes to Financial Statements
June 30, 2011

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

C. Basis of Accounting

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

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

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

D. Cash and Investments

All investments are stated at fair value.

E. Inventories

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

Graham County
Notes to Financial Statements
June 30, 2011

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

F. Property Tax Calendar

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

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

G. Capital Assets

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

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

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

H. Fund Balance Classifications

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

Graham County
Notes to Financial Statements
June 30, 2011

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

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

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 not delegated authority 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 uses restricted fund balance first. For the disbursement of unrestricted fund balances, the County will use committed amounts first, followed by assigned amounts, and lastly unassigned amounts.

I. Investment Earnings

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

J. Compensated Absences

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

Employees may accumulate up to 240 hours of vacation depending on years of service, but any vacation hours in excess of the maximum amount that are unused at calendar year-end are forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Graham County
Notes to Financial Statements
June 30, 2011

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

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

Note 2 - Deposits and Investments

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

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Graham County
Notes to Financial Statements
June 30, 2011

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. Investments in repurchase agreements must have a maximum maturity of 180 days.

Foreign currency risk

Statutes do not allow foreign investments.

Deposits—At June 30, 2011, the carrying amount of the County's deposits was \$11,344,750, and the bank balance was \$10,657,938. The County does not have a formal policy with respect to custodial credit risk.

Investments—The County's investments at June 30, 2011, were as follows:

Investment Type	Amount
State Treasurer's investment pool 7	\$20,764,621
State Treasurer's investment pool 5	1,293,488
Negotiable certificates of deposit	6,659,454
U.S. agency securities	21,091,997
U.S. Treasury securities	<u>1,998,580</u>
Total	<u>\$51,808,140</u>

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

Credit risk—Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The County does not have a formal policy with respect to credit risk.

At June 30, 2011, 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	\$20,764,621
State Treasurer's investment pool 5	AAAf/S1+	Standard & Poor's	1,293,488
Negotiable certificates of deposit	A	Moody's	495,747
Negotiable certificates of deposit	BAA	Moody's	99,529
Negotiable certificates of deposit	Unrated	Not applicable	6,064,178
U.S. agency securities	AAA	Standard & Poor's	<u>21,091,997</u>
Total			<u>\$49,809,560</u>

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

Graham County
Notes to Financial Statements
June 30, 2011

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, 2011, of 5 percent or more in the Federal Home Loan Bank, Federal Farm Credit Banks, and the Federal National Mortgage Association. These investments were 7.82, 11.60, and 17.42 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, 2011, the County had the following investments in debt securities:

Investment Type	Amount	Weighted Average Maturity (In Years)
State Treasurer's investment pool 7	\$20,764,621	0.13
State Treasurer's Investment pool 5	1,293,488	0.07
Negotiable certificates of deposit	6,659,454	1.95
U.S. agency securities	21,091,997	2.53
U.S. Treasury securities	<u>1,998,580</u>	0.50
Total	<u>\$51,808,140</u>	

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

Cash, deposits, and investments:

Cash on hand	\$ 16,859
Amount of deposits	11,344,750
Amount of investments	<u>51,808,140</u>
Total	<u>\$63,169,749</u>

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Statement of Net Assets:				
Cash, cash equivalents, and investments	\$5,356,864	\$57,297,007	\$515,878	\$63,169,749

Note 3 - Due from Other Governments

Amounts due from other governments at June 30, 2011, include \$177,686 in state-shared revenue from sales tax, \$155,539 in county excise tax distributions from the State Treasurer, \$74,519 in state motor vehicle license taxes from the Arizona Department of Transportation, \$172,820 in prisoner detention fees from the U.S. Department of Justice, and \$110,192 in

Graham County
Notes to Financial Statements
June 30, 2011

other fees from federal, state, and local governments recorded in the General Fund; \$200,248 in state-shared revenue from highway user taxes, \$58,911 in state motor vehicle license taxes from the Arizona Department of Transportation, and \$46,569 in other fees from local governments recorded in the Highway Road Fund; and \$353,486 in other fees and grants from federal, state, and local governments recorded in the other governmental funds.

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010, as restated	Increases	Decreases	Balance June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,709,871			\$ 2,709,871
Construction in progress	<u>3,158,334</u>	<u>\$ 416,490</u>		<u>3,574,824</u>
Total capital assets not being depreciated	<u>5,868,205</u>	<u>416,490</u>		<u>6,284,695</u>
Capital assets being depreciated:				
Buildings	14,308,071	21,232		14,329,303
Machinery and equipment	11,464,773	798,417	\$56,276	12,206,914
Infrastructure	<u>17,885,162</u>	<u>10,479</u>		<u>17,895,641</u>
Total	<u>43,658,006</u>	<u>830,128</u>	<u>56,276</u>	<u>44,431,858</u>
Less accumulated depreciation for:				
Buildings	5,223,440	344,706		5,568,146
Machinery and equipment	8,290,146	1,172,289	55,192	9,407,243
Infrastructure	<u>6,102,318</u>	<u>447,129</u>		<u>6,549,447</u>
Total	<u>19,615,904</u>	<u>1,964,124</u>	<u>55,192</u>	<u>21,524,836</u>
Total capital assets being depreciated, net	<u>24,042,102</u>	<u>(1,133,996)</u>	<u>1,084</u>	<u>22,907,022</u>
Governmental activities capital assets, net	<u>\$29,910,307</u>	<u>\$ (717,506)</u>	<u>\$ 1,084</u>	<u>\$29,191,717</u>

The July 1, 2010, balances were restated due to a correction of an error.

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 446,622
Public safety	467,651
Highways and streets	764,304
Health	84,353
Culture and recreation	65,441
Education	<u>135,753</u>
Total governmental activities depreciation expense	<u>\$1,964,124</u>

Graham County
Notes to Financial Statements
June 30, 2011

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, 2011, the County had an outstanding balance of \$0. The activity for the fiscal year ended June 30, 2011, was as follows:

Beginning balance	\$1,178,960
Total borrowings	5,853,876
Total payments	<u>7,032,836</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, 2011. The July 1, 2010, balances were restated due to a correction of an error.

	Balance July 1, 2010, as restated	Additions	Reductions	Balance June 30, 2011	Due within 1 year
Governmental activities					
Compensated absences payable	\$ 984,060	\$647,010	\$632,337	\$ 998,733	\$699,113
Capital leases payable	638,533		261,428	377,105	9,977
Landfill closure and post-closure care costs payable	<u>79,944</u>	<u>1,703</u>	<u>1,810</u>	<u>79,837</u>	<u>1,820</u>
Total governmental activities long-term liabilities	<u>\$1,702,537</u>	<u>\$648,713</u>	<u>\$895,575</u>	<u>\$1,455,675</u>	<u>\$710,910</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. Although closure and postclosure care costs will not be paid until near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs in each period that the County operates the landfill. These costs will be paid from the General Fund.

The \$79,837 reported as landfill postclosure care liability at June 30, 2011, is based on what it would cost to perform all remaining postclosure care in fiscal year 2011. The County closed the landfill during the 2003 fiscal year. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

Graham County
Notes to Financial Statements
June 30, 2011

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

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

Compensated Absences—Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2011, the County paid for compensated absences as follows: 71 percent from the General Fund, 10 percent from the Highway Road Fund, and 19 percent from other governmental funds.

Note 7 - Fund Balance Classifications of the Governmental Funds

The fund balance classifications of the governmental funds as of June 30, 2011, were as follows:

	General Fund	Highway Road Fund	Other Governmental Funds	Total
Fund balances:				
Nonspendable:				
Inventories		\$ 600,983		\$ 600,983
Total nonspendable		<u>600,983</u>		<u>600,983</u>
Restricted for:				
General government			\$ 743,984	743,984
Public safety			147,263	147,263
Highways and streets		1,901,960	88,703	1,990,663
Health			34,573	34,573
Education			<u>36,612</u>	<u>36,612</u>
Total restricted		<u>1,901,960</u>	<u>1,051,135</u>	<u>2,953,095</u>
Committed to:				
General government			132,811	132,811
Public safety			512,006	512,006
Health			91,610	91,610
Education			<u>346,073</u>	<u>346,073</u>
Total committed			<u>1,082,500</u>	<u>1,082,500</u>

Graham County
Notes to Financial Statements
June 30, 2011

	General Fund	Highway Road Fund	Other Governmental Funds	Total
Assigned to:				
General government			\$ 462,907	\$ 462,907
Public safety			1,154	1,154
Highways and streets			235	235
Education			<u>503,036</u>	<u>503,036</u>
Total assigned			<u>967,332</u>	<u>967,332</u>
Unassigned	<u>\$1,651,102</u>		<u>(681,461)</u>	<u>969,641</u>
Total fund balances	<u>\$1,651,102</u>	<u>\$2,502,943</u>	<u>\$2,419,506</u>	<u>\$6,573,551</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 and the Arizona Counties Workers' Compensation Pool, which are described below, and the Arizona Local Government Employee Benefit Trust, which is described in the insurance claims on page 19.

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

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

Graham County
Notes to Financial Statements
June 30, 2011

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

Note 9 - Pensions and Other Postemployment Benefits

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

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

The *Public Safety Personnel Retirement System (PSPRS)* administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona and participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a 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 plan that covers state, county, and local correction officers; dispatchers; and probation, surveillance, and juvenile detention officers. The CORP is governed by The Board of Trustees of PSPRS and the participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The *Elected Officials Retirement Plan (EORP)* administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium plan that covers State of Arizona and county elected officials and judges, and elected officials of participating cities. The EORP is governed by The Board of Trustees of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. Because the health

Graham County
Notes to Financial Statements
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insurance premium plan benefit of the EORP is not established as a formal trust, the EORP is reported in accordance with GASB Statement No. 45 as an agent multiple-employer defined benefit plan. Accordingly, the disclosures that follow reflect EORP as if it were an agent multiple-employer defined benefit plan.

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

ASRS

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

PSPRS, CORP, and EORP

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

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

Cost-sharing plans—For the year ended June 30, 2011, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.6 percent for retirement and 0.25 percent for long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll.

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

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	\$485,099	\$31,766	\$13,460
2010	462,909	36,633	22,202
2009	463,981	55,748	29,035

Agent Plans—For the year ended June 30, 2011, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the County was required to contribute 18.39 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 1.4 percent of covered payroll. Active CORP members were required by statute to contribute 8.41 percent of the members' annual covered payroll for corrections officers and Administrative Office of the Courts' (AOC) employees and 7.96 percent of the members' annual covered payroll for dispatchers. In addition, the County was required to contribute 3.31 percent for CORP corrections officers, 11.64 percent for AOC employees, and 1.47 percent for CORP dispatchers. The aggregate of the members' and the County's contributions is the

Graham County
Notes to Financial Statements
June 30, 2011

actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.79 percent for CORP corrections officers, 1.33 percent for AOC employees, and 0.38 percent for CORP dispatchers of covered payroll. Active EORP members were required by statute to contribute 7.00 percent of the members' annual covered payroll; and the County was required to remit a designated portion of certain court fees plus additional contributions at the actuarially determined rate of 17.42 percent of the members' annual covered payroll. The health insurance premium portion of the contribution rate was actuarially set at 1.77 percent of covered payroll.

Actuarial methods and assumptions—The contributions requirements for the year ended June 30, 2011, were established by the June 30, 2009, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on 1) the plans as understood by the County and plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2011 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	27 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases includes inflation at	5.50% - 8.50% for PSPRS and CORP; 5.00% for EORP 5.50% for PSPRS and CORP; 5.00% for EORP

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2011, and related information follows:

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Notes to Financial Statements
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	PSPRS		CORP				EORP			
	Pension	Health Insurance	Corrections		AOC		Dispatchers			
			Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance		
Annual pension/OPEB cost	\$194,208	\$16,003	\$50,273	\$11,999	\$144,369	\$16,496	\$15,125	\$3,910	\$137,573	\$13,978
Contributions made	194,208	16,003	50,273	11,999	144,369	16,496	15,125	3,910	137,573	13,978

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

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
PSPRS				
Pension	2011	\$194,208	100%	\$0
Health insurance	2011	16,003	100%	0
Pension	2010	173,005	100%	0
Health insurance	2010	13,635	100%	0
Pension	2009	176,168	100%	0
Health insurance	2009	13,610	100%	0
CORP				
Corrections				
Pension	2011	50,273	100%	0
Health insurance	2011	11,999	100%	0
Pension	2010	60,878	100%	0
Health insurance	2010	6,960	100%	0
Pension	2009	40,609	100%	0
Health insurance	2009	6,068	100%	0
AOC				
Pension	2011	144,369	100%	0
Health insurance	2011	16,496	100%	0
Pension	2010	81,095	100%	0
Health insurance	2010	3,379	100%	0
Pension and health insurance	2009	141,063	100%	0
Dispatchers				
Pension	2011	15,125	100%	0
Health insurance	2011	3,910	100%	0
Pension	2010	17,946	100%	0
Health insurance	2010	1,105	100%	0
Pension	2009	17,176	100%	0
Health insurance	2009	1,131	100%	0
EORP				
Pension	2011	137,573	100%	0
Health insurance	2011	13,978	100%	0
Pension	2010	113,215	100%	0
Health insurance	2010	17,312	100%	0
Pension	2009	141,541	100%	0
Health insurance	2009	8,455	100%	0

Graham County
Notes to Financial Statements
June 30, 2011

Funded Status—The funded status of the plans as of the most recent valuation date, June 30, 2011, along with the actuarial assumptions and methods used in those valuations follow. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Board of Trustees obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government, is not available.

	<u>PSPRS</u>		<u>Corrections</u>		<u>CORP AOC*</u>		<u>Dispatchers</u>	
	<u>Pension</u>	<u>Health insurance</u>	<u>Pension</u>	<u>Health insurance</u>	<u>Pension</u>	<u>Health insurance</u>	<u>Pension</u>	<u>Health insurance</u>
Actuarial accrued liability (a)	\$4,221,313	\$170,655	\$1,747,311	\$59,346	N/A	N/A	\$411,300	\$21,449
Actuarial value of assets (b)	2,839,609	0	1,663,130	0	N/A	N/A	532,831	0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	1,381,704	170,655	84,181	59,346	N/A	N/A	(121,531)	21,449
Funded ratio (b)/(a)	67.3%	0.0%	95.2%	0.0%	N/A	N/A	129.5%	0.0%
Covered payroll (c)	\$1,041,162	\$1,041,162	\$1,068,695	\$1,068,695	N/A	N/A	\$382,877	\$382,877
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ((a) – (b))/(c)	132.7%	16.4%	7.9%	5.6%	N/A	N/A	0.0%	5.6%

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

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

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

Graham County
Notes to Financial Statements
June 30, 2011

Note 10 - County Treasurer's Investment Pool

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

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

The Treasurer allocates interest earnings to each of the pool's participants. However, for the County's monies in the pool, the Board of Supervisors authorized \$772 of interest earned in certain other funds to be transferred to the General Fund.

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for \$554,322 of deposits and \$61,383 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	\$20,764,621	None stated	None stated	\$20,764,621
State Treasurer's investment pool 5	1,232,105	None stated	None stated	1,232,105
Negotiable certificates of deposit	6,655,000	.25-2.00%	9/11 - 1/16	6,659,454
U.S. agency securities	21,027,963	.38-2.65%	08/12 - 04/15	21,091,997
U.S. Treasury securities	<u>1,849,845</u>	1.41-2.88%	08/12 - 04/15	<u>1,998,580</u>
	<u>\$51,529,534</u>			<u>\$51,746,757</u>

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

Graham County
Notes to Financial Statements
June 30, 2011

Statement of Net Assets

Assets	\$ 62,627,212
Net assets	<u>\$ 62,627,212</u>

Net assets held in trust for:

Internal participants	\$ 5,290,314
External participants	<u>57,336,898</u>
Total net assets held in trust	<u>\$ 62,627,212</u>

Statement of Changes in Net Assets

Total additions	\$115,969,799
Total deductions	<u>96,122,784</u>
Net increase	<u>19,847,015</u>
Net assets held in trust:	
July 1, 2010	<u>42,780,197</u>
June 30, 2011	<u>\$ 62,627,212</u>

Note 11 - Beginning Balances Restated

The County entered into a capital lease in fiscal year 2010 that was not recorded in the financial statements; therefore, the net assets of governmental activities at July 1, 2010, has been restated from amounts previously reported, as follows:

	<u>Governmental Activities</u>
Net assets, June 30, 2010, as previously reported	\$35,162,759
Correction for capital assets, net of accumulated depreciation	396,424
Correction for capital leases payable	<u>(392,208)</u>
Net assets, July 1, 2010, as restated	<u>\$35,166,975</u>

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Other Required Supplementary Information

Graham County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 4,292,898	\$ 4,292,898	\$ 3,555,595	\$ (737,303)
Licenses and permits	76,000	76,000	56,815	(19,195)
Fines and forfeits	260,000	260,000	231,571	(28,429)
Intergovernmental	10,240,461	10,240,461	10,662,951	422,490
Charges for services	1,796,882	1,796,882	1,746,387	(50,495)
Investment earnings	20,000	20,000	5,473	(14,527)
Rents	50,000	50,000	28,690	(21,310)
Miscellaneous	871,207	871,207	132,760	(738,447)
Total revenues	<u>17,607,448</u>	<u>17,607,448</u>	<u>16,420,242</u>	<u>(1,187,206)</u>
Expenditures:				
General government				
Board of supervisors	727,952	727,952	712,747	15,205
Treasurer	276,929	276,929	271,954	4,975
Assessor	434,265	434,265	432,881	1,384
Recorder	245,729	245,729	228,242	17,487
Elections	152,058	152,058	128,617	23,441
Attorney	1,123,055	1,123,055	877,049	246,006
Clerk of the court	478,766	478,766	474,998	3,768
Superior court	636,270	636,270	681,622	(45,352)
Justice of the peace No.1	349,179	349,179	339,632	9,547
Justice of the peace No.2	230,755	230,755	221,947	8,808
Victim witness	22,590	22,590	22,648	(58)
Public fiduciary	87,442	87,442	88,159	(717)
Planning and zoning	250,768	250,768	238,536	12,232
Building maintenance	130,751	130,751	112,373	18,378
Electrical maintenance	26,100	26,100	12,163	13,937
Overtime	14,122	14,122		14,122
General services	475,000	475,000	381,284	93,716
Contingency	1,200,000	1,185,000	5,705	1,179,295
Miscellaneous	478,365	478,365	354,678	123,687
Medical examiner	43,000	43,000	34,033	8,967
Information technology	932,564	911,564	789,831	121,733
Total general government	<u>8,315,660</u>	<u>8,279,660</u>	<u>6,409,099</u>	<u>1,870,561</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Graham County
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2011
 (Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Probation	\$ 166,256	\$ 166,256	\$ 173,933	\$ (7,677)
Sheriff	5,033,896	5,033,896	5,041,753	(7,857)
Search and rescue	17,600	17,600	13,057	4,543
Detention health services	398,503	398,503	399,447	(944)
Juvenile detention center	1,148,351	1,148,351	1,185,706	(37,355)
Animal shelter	246,885	246,885	213,307	33,578
Total public safety	<u>7,011,491</u>	<u>7,011,491</u>	<u>7,027,203</u>	<u>(15,712)</u>
Sanitation				
Sanitary landfill	91,500	91,500	90,286	1,214
Health				
Health services	252,276	252,276	240,806	11,470
Welfare				
Attorney for the indigent	434,000	434,000	413,630	20,370
Indigent medical	1,951,000	1,951,000	1,738,823	212,177
Total welfare	<u>2,385,000</u>	<u>2,385,000</u>	<u>2,152,453</u>	<u>232,547</u>
Cultural and recreation				
Parks and recreation	269,791	269,791	310,606	(40,815)
Education				
School superintendent	205,161	205,161	205,199	(38)
Employment and training	9,830	9,830	8,742	1,088
Total education	<u>214,991</u>	<u>214,991</u>	<u>213,941</u>	<u>1,050</u>
Capital outlay	803,900	839,900	168,117	671,783
Total expenditures	<u>19,344,609</u>	<u>19,344,609</u>	<u>16,612,511</u>	<u>2,732,098</u>
Deficiency of revenues under expenditures	<u>(1,737,161)</u>	<u>(1,737,161)</u>	<u>(192,269)</u>	<u>1,544,892</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Graham County
 Required Supplementary Information
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2011
 (Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Other financing sources:				
Transfers in	\$ 400,000	\$ 400,000	\$ 174,502	\$ (225,498)
Net change in fund balances	(1,337,161)	(1,337,161)	(17,767)	1,319,394
Fund balances, July 1, 2010	<u>1,337,161</u>	<u>1,337,161</u>	<u>1,668,869</u>	<u>331,708</u>
Fund balances, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,651,102</u>	<u>\$ 1,651,102</u>

See accompanying notes to budgetary comparison schedule.

Graham County
 Required Supplementary Information
 Budgetary Comparison Schedule
 Highway Road Fund
 Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 3,918,130	\$ 3,918,130	\$ 3,603,766	\$ (314,364)
Charges for services	126,000	126,000	56,719	(69,281)
Investment earnings	20,000	20,000	16,414	(3,586)
Rents	1,500	1,500	420	(1,080)
Miscellaneous	39,332	39,332	80,368	41,036
Total revenues	<u>4,104,962</u>	<u>4,104,962</u>	<u>3,757,687</u>	<u>(347,275)</u>
Expenditures:				
Highways and streets				
General road	4,414,162	4,414,162	3,191,902	1,222,260
Engineering	365,550	365,550	234,953	130,597
Safety department	24,550	24,550	21,796	2,754
Total highways and streets	<u>4,804,262</u>	<u>4,804,262</u>	<u>3,448,651</u>	<u>1,355,611</u>
Capital outlay	<u>697,430</u>	<u>697,430</u>	<u>10,249</u>	<u>687,181</u>
Total expenditures	<u>5,501,692</u>	<u>5,501,692</u>	<u>3,458,900</u>	<u>2,042,792</u>
Excess of (deficiency) of revenues over (under) expenditures	<u>(1,396,730)</u>	<u>(1,396,730)</u>	<u>298,787</u>	<u>1,695,517</u>
Other financing sources:				
Transfers in	<u>25,000</u>	<u>25,000</u>	<u> </u>	<u>25,000</u>
Net change in fund balances	(1,371,730)	(1,371,730)	298,787	1,670,517
Fund balances, July 1, 2010	1,371,730	1,371,730	2,071,614	699,884
Changes in nonspendable resources:				
Increase in reserve for inventories	<u> </u>	<u> </u>	<u>132,542</u>	<u>132,542</u>
Fund balances, June 30, 2011	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,502,943</u>	<u>\$ 2,502,943</u>

See accompanying notes to budgetary comparison schedule.

Graham County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2011

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2011, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows.

Fund/Department	Excess
General fund	
Courts	\$26,997
Parks and recreation	26,878
Probation	7,677
Public fiduciary	717
Regional juvenile detention	37,355

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

Graham County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2011

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Pension 6/30/11	\$2,839,609	\$4,221,313	\$(1,381,704)	67.3%	1,041,162	132.7%
Health Insurance 6/30/11	0	170,655	(170,655)	0.0%	1,041,162	16.39%
Pension 6/30/10	2,456,214	3,752,237	(1,296,023)	65.5%	1,158,489	111.90%
Health Insurance 6/30/10	0	152,680	(152,680)	0.0%	1,158,489	13.18%
Pension 6/30/09	1,859,906	3,208,181	(1,348,275)	58.0%	1,087,620	124.0%
Health Insurance 6/30/09	0	127,550	(127,550)	0.0%	1,087,620	11.73%

Corrections Officer Retirement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Corrections Officers						
Pension 6/30/11	\$1,663,130	\$1,747,311	\$(84,181)	95.2%	\$1,068,695	7.9%
Health Insurance 6/30/11	0	59,346	(59,346)	0.0%	1,068,695	5.5%
Pension 6/30/10	1,486,737	1,417,835	68,902	104.9%	1,108,719	0.0%
Health Insurance 6/30/10	0	58,664	(58,664)	0.0%	1,108,719	5.29%
Pension 6/30/09	1,334,376	1,243,986	90,390	107.3%	1,087,315	0.0%
Health Insurance 6/30/09	0	66,198	(66,198)	0.0%	1,087,315	6.09%

Graham County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2011

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
<u>Dispatchers</u>						
Pension 6/30/11	\$532,831	\$411,300	\$121,531	129.5	\$382,877	0.0%
Health Insurance 6/30/11	0	21,449	(21,449)	0.0%	382,877	5.6%
Pension 6/30/10	454,604	271,001	183,603	167.7%	373,831	0.0%
Health Insurance 6/30/10	0	9,172	(9,172)	0	373,831	2.45%
Pension 6/30/09	386,862	218,261	168,601	177.2%	424,379	0.0%
Health Insurance 6/30/09	0	6,970	(6,970)	0	424,379	1.67%

Graham County
Required Supplementary Information
Notes to Schedule of Agent Retirement Plans' Funding Progress
June 30, 2011

Note - Actuarial Information Available

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

The funding progress information for CORP—AOC is only reported for the plan as a whole and, therefore, actuarial information for the County as a participating government is not available.

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Supplementary Information

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Child Nutrition Cluster:			
National School Lunch Program, passed through the Arizona Department of Education	10.555	None	\$ 11,286
Total Child Nutrition Cluster			<u>11,286</u>
Schools and Roads Cluster:			
Secure Payments for States and Counties Containing Federal Lands, passed through the Arizona State Treasurer	10.665	None	632,331
Total Schools and Roads Cluster			<u>632,331</u>
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	HG050281	246,568
Total U.S. Department of Agriculture			<u>890,185</u>
U.S. Department of Housing and Urban Development			
CDBG—State Administered CDBG Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	123-10	138,666
Total CDBG—State Administered Small Cities Program Cluster			<u>138,666</u>
Total U.S. Department of Housing and Urban Development			<u>138,666</u>
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		2,644,642
BLM-Patrol Grant	15.unknown		4,351
Total U.S. Department of the Interior			<u>2,648,993</u>
U.S. Department of Justice			
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories, passed through the Arizona Criminal Justice Commission	16.738		32,050
ARRA—Recovery Act—Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units Of Local Government	16.803	DC-10-043	41,287
Total JAG Program Cluster	16.804		<u>7,483</u>
Total JAG Program Cluster			<u>80,820</u>
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-11-053	1,340
State Criminal Alien Assistance Program	16.606		25,005
Bulletproof Vest Partnership Program	16.607		1,001
Public Safety Partnership and Community Policing Grants	16.710		2,031
Total U.S. Department of Justice			<u>110,197</u>
U.S. Department of Labor			
WIA Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE101046001, DE111007001	37,866
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE101046001, DE111007001	69,779
ARRA—WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE091200001	233,725
Total WIA Youth Activities			<u>303,504</u>

(Continued)

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
WIA—Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE101046001	\$ 1,115
WIA—Dislocated Worker Formula Grants, passed through the Arizona Department of Economic Security	17.278	DE111007001	<u>706</u>
Total WIA Cluster			<u>343,191</u>
Total U.S. Department of Labor			<u>343,191</u>
U.S. Department of Transportation			
Highway Planning and Construction Cluster:			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	JPA 08-781, JPA 04-120	<u>19,274</u>
Total Highway Planning and Construction Cluster			<u>19,274</u>
Highway Safety Cluster:			
State and Community Highway Safety, passed through the Governor's Office of Highway Safety	20.600	2010-PT-052	<u>6,554</u>
Total Highway Safety Cluster			<u>6,554</u>
Total U.S. Department of Transportation			<u>25,828</u>
U.S. Department of Energy			
ARRA—State Energy Program, passed through the Arizona School Facilities Board	81.041	050199000-999-001 SOL	164,664
ARRA—Energy Efficiency and Conservation Block Grant Program, passed through the Arizona Department of Commerce, Energy Office	81.128	R016-10-23	<u>190,272</u>
Total U.S. Department of Energy			<u>354,936</u>
U.S. Department of Education			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies, passed through the Arizona Department of Education	84.010	SO10A090003	17,710
ARRA—Title I Grants to Local Educational Agencies, Recovery Act, passed through the Arizona Department of Education	84.389	S389A090003	<u>5,527</u>
Total Title I, Part A Cluster			<u>23,237</u>
Special Education Cluster (IDEA):			
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	H027A100007	436,624
Special Education—Grants to States, passed through the Arizona Supreme Court	84.027	H027A100007	17,220
Special Education—Grants to States, passed through Greenlee County	84.027	KR10-0020	<u>4,281</u>
Total Special Education—Grants to States			<u>458,125</u>
Special Education—Preschool Grants, passed through the Arizona Department of Education	84.173	H173A100003	21,231
ARRA—Special Education Grants to States, Recovery Act, passed through the Arizona Supreme Court	84.391	KR10-0019	<u>21,539</u>
Total Special Education Cluster (IDEA)			<u>500,895</u>

(Continued)

See accompanying notes to schedule.

Graham County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011
(Continued)

Federal Grantor/Program Title/ Pass-Through Grantor	CFDA Number	Pass-Through Grantor's Number	Expenditures
Educational Technology State Grants Cluster:			
Education Technology State Grants, passed through the Arizona Department of Education	84.318	S318X090003, S318X090005	\$ 50,611
Total Educational Technology State Grants Cluster			<u>50,611</u>
State Fiscal Stabilization Fund Cluster:			
ARRA—State Fiscal Stabilization Fund (SFSF)—Government Services, Recovery Act, passed through the Arizona Governor's Office of Economic Recovery	84.397	OER-11-IGA-GS-31, OER-11-IGA-GS-146	517,177
Total State Fiscal Stabilization Fund Cluster			<u>517,177</u>
Title I State Agency Program for Neglected and Delinquent Children, passed through the Arizona Department of Education	84.013	S013A090003	22,965
Rural Education	84.358		15,246
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	S367A90049	49,756
Improving Teacher Quality State Grants, passed through the Arizona Supreme Court	84.367	S367A90049	15,092
Total Improving Teacher Quality State Grants			<u>64,848</u>
Total U.S. Department of Education			<u>1,194,979</u>
U.S. Department of Health and Human Services			
Immunization Cluster:			
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG854285	58,457
Total Immunization Cluster			<u>58,457</u>
Public Health Emergency Preparedness Program, passed through the Arizona Department of Health Services	93.069	HG754196	290,348
Centers for Disease Control and Prevention—Investigations and Technical Assistance, passed through Arizona Department of Health Services	93.283	HG761264	28,197
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	HG852276	5,982
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG854247	56,095
Total U.S. Department of Health and Human Services			<u>439,079</u>
U.S. Department of Homeland Security			
Homeland Security Cluster:			
Homeland Security Grant Program, passed through the Arizona Department of Homeland Security	97.067	555301-01, 555301-02, 555307-01, 555307-03, 777306-01, 777306-02, 777306-03, 777316-01, 777316-02	550,923
Total Homeland Security Cluster			<u>550,923</u>
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	18660004580-019	61,866
Total U.S. Department of Homeland Security			<u>612,789</u>
Total Expenditures of Federal Awards			<u>\$ 6,758,843</u>

See accompanying notes to schedule.

Graham County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Note 1 - Basis of Accounting

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

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2011 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

Note 3 - Subrecipients

Graham County did not have any subrecipients for the year ended June 30, 2011.

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

We have audited the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements, and have issued our report thereon dated May 23, 2012. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement No. 54. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

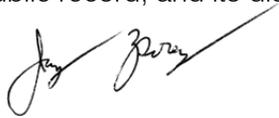
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as item 11-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Graham County's response to the finding identified in our audit is presented on page 60. We did not audit the County's response and, accordingly, we express no opinion on it.

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



Jay Zsorey, CPA
Financial Audit Director

May 23, 2012



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

Members of the Arizona State Legislature

The Board of Supervisors of
Graham County, Arizona

Compliance

We have audited Graham County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

As described in items 11-102, 11-105, and 11-106 in the accompanying Schedule of Findings and Questioned Costs, the County did not comply with requirements regarding allowable costs/cost principles that is applicable to its WIA Cluster, procurement, suspension, and debarment that is applicable to its Special Education Cluster (IDEA), and equipment and real property management that is applicable to its Homeland Security Cluster. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Graham County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133, and that are described in the accompanying Schedule of Findings and Questioned Costs as items 11-101, 11-103, and 11-104.

Internal Control over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-102, 11-105, and 11-106 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-103 and 11-104 to be significant deficiencies.

Graham County's responses to the findings identified in our audit are presented on pages 61 through 63. We did not audit the County's responses and, accordingly, we express no opinion on them.

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



Jay Zsorey, CPA
Financial Audit Director

May 23, 2012

Graham County
 Schedule of Findings and Questioned Costs
 Year Ended June 30, 2011

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified
	Yes No
Internal control over financial reporting:	
Material weakness identified?	___ <u>X</u>
Significant deficiency identified?	<u>X</u> ___
Noncompliance material to the financial statements noted?	___ <u>X</u>

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	<u>X</u> ___
Significant deficiency identified?	<u>X</u> ___
Type of auditors' report issued on compliance for major programs:	Qualified
Unqualified for all major programs except for the WIA Cluster, Special Education Cluster (IDEA), and Homeland Security Cluster, which were qualified.	
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>
15.226	Payments in Lieu of Taxes
17.258, 17.259, 17.260, 17.278	WIA Cluster
81.041	ARRA—State Energy Program
81.128	ARRA—Energy Efficiency and Conservation Block Grant Program
84.027, 84.173, 84.391	Special Education Cluster (IDEA)
84.397	State Fiscal Stabilization Fund Cluster
97.067	Homeland Security Cluster

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, 2011

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, 2011

Financial Statement Findings

11-01

The County should develop, implement, and test a disaster recovery plan for its information systems

Criteria: To help ensure the continuity of operations and that electronic data files are not lost in the event of a system or equipment failure or other system interruption, the County should have a documented and tested disaster recovery plan for its information systems.

Condition and context: The County did not have a written and tested disaster recovery plan for its financial information systems.

Effect: The disruption of services in the event of a system or equipment failure or other system interruption could result in significant harm or inconvenience to the County and its citizens. In addition, inadequate disaster recovery controls subject the County to risks that can result in inaccurate or incomplete financial or management information, expensive recovery efforts, and financial losses.

Cause: The County is in the process of developing its disaster recovery plan.

Recommendation: The County should develop a disaster recovery plan for its financial information systems. At a minimum, the County's plan for computer disaster recovery should include the following:

- A risk analysis identifying and prioritizing critical applications to determine which applications should be recovered first.
- A listing of current employees assigned to disaster teams, including telephone numbers.
- Employee assignments and responsibilities.
- A designated alternative computer facility or arrangements with vendors to support hardware and software requirements.
- Details of off-site storage locations and availability of information stored at these locations.
- A list of procedures for processing critical transactions, including forms or other documents to use.
- Restoration procedures for backup media and servers.
- Documentation of overall testing strategies, testing frequencies, and disaster plan test results.

Federal Award Findings and Questioned Costs

11-101

CFDA No.: Not applicable

Questioned Cost: N/A

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

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Condition and context: The federal reporting deadline for the County's Single Audit Reporting Package was March 31, 2012; however, the County did not issue its Single Audit Reporting Package until May 2012.

Effect: The County did not comply with OMB Circular A-133 audit requirements. In addition, late single audit reporting inhibits the ability of federal agencies and pass-through entities to timely monitor federal programs administered by the County. In addition, continued late reporting could result in the suspension of federal funding.

Cause: The County was late submitting its prior year reports and, therefore, delayed preparation of its fiscal year 2011 reports.

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

This finding is similar to a prior-year finding.

11-102

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.278 **WIA Dislocated Worker Formula Grants**

U.S. Department of Labor

Passed through the Arizona Department of Economic Security

Award Periods: February 17, 2009 through June 30, 2011

April 1, 2009 through June 30, 2012

April 1, 2010 through June 30, 2013

Award Numbers: DE091200001, DE101046001, and DE111007001

Allowable Costs/Cost Principles

Questioned Cost: \$67,408

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

Condition and context: The County's Health Department allocated payroll charges for two employees totaling \$67,408 based upon predetermined budget percentages. Furthermore, the County did not prepare personnel activity reports or equivalent documentation for the individual WIA programs, but rather prepared timesheets that documented hours charged to the Cluster, as a whole. The Department then periodically prepared comparisons of total actual aggregated costs to total budgeted costs and recorded a net adjustment to a WIA administrative account used for all WIA programs.

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Effect: The Department was unable to determine the actual hours or costs charged to the individual WIA programs and the County's Schedule of Expenditures of Federal Awards and federal financial reports showed payroll expenditures that did not represent actual time worked on the individual WIA programs.

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

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

- Prepare personnel activity reports or equivalent documentation for the individual WIA programs that reflect an after-the-fact distribution of each employee's actual activity.
- Compare actual costs to budgeted distributions for each WIA program on a quarterly basis.
- Record adjustments quarterly or annually for differences between budgeted and actual costs.
- Revise the distribution percentages at least quarterly, if necessary, to reflect changed circumstances.

This finding is similar to a prior year finding.

11-103

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.278 **WIA Dislocated Worker Formula Grants**

U.S. Department of Labor

Passed through the Arizona Department of Economic Security

Award Periods: February 17, 2009 through June 30, 2011

April 1, 2009 through June 30, 2011

April 1, 2010 through June 30, 2012

Award Numbers: DE091200001, DE101046001, and DE111007001

Reporting and Cash Management

Questioned Cost: Unknown

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

Condition and context: The County's Health Department did not follow its policies and procedures to ensure that information reported was supported by county records and that supporting records were retained. Specifically, auditors were unable to verify the accrued expenditure amounts reported in the Department's federal reports.

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

In addition, for the award number DE091200001 close-out report auditors were unable to verify the out-of-school youth expenditure amount reported; however, the earmarking requirement was met as the Department provided support that they expended more than 30 percent on out-of-school youth activities. Furthermore, the Department assigned the responsibilities of preparing and approving federal reimbursement reports to one employee.

Effect: Auditors could not verify if accrued expenditures on the reports were accurate. As a result, incorrect financial data was submitted to the federal grantor that may result in potential errors in analysis or other determinations. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause: The Department used spreadsheets to record actual and accrued expenditures. However, the Department did not retain the spreadsheets to support each submitted report.

Recommendation: The Department should retain the documentation supporting the amounts reported on each submitted expenditure report. Also, an employee other than the preparer should review and approve all federal reports prior to submission.

This finding is similar to a prior-year finding.

11-104

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

U.S. Department of Energy

Passed through the Arizona Department of Commerce, Energy Office

Award Period: March 2, 2010 through March 2, 2011

Award Number: R016-10-23

Homeland Security Cluster:

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

U.S. Department of Homeland Security

Passed through the Arizona Department of Homeland Security

Award Periods: October 1, 2009 through September 30, 2010

October 1, 2009 through March 31, 2011

October 1, 2010 through September 30, 2011

October 1, 2010 through March 31, 2012

Award Numbers: 555301-01, 555301-02, 555307-01, 555307-03, 777306-01, 777306-02, 777306-03, 777316-01, and 777316-02

Suspension and Debarment

Questioned Cost: None

Criteria: In accordance with 10 CFR §600.235 and 44 CFR §13.35, the County should verify that contracts over \$25,000 are not granted to an entity that has been suspended or debarred from doing business with the federal government.

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Condition and context: The County indicated it had verified that the vendors providing goods and services for the grant award had not been suspended or debarred from doing business with the federal government; however, it did not retain documentation of its verification. Auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred vendors.

Effect: Payments could be made to suspended or debarred vendors.

Cause: The County was unaware of the need to retain documentation of the verification process.

Recommendation: The County should document its determination that vendors being paid over \$25,000 in federal monies have not been suspended or debarred from doing business with governmental entities. This may be accomplished by checking the Excluded Parties List System, obtaining a certification from the vendor, or adding a clause or condition to the contract.

11-105

Special Education Cluster (IDEA):

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

84.173 **Special Education—Preschool Grants**

84.391 **ARRA—Special Education Grants to States, Recovery Act**

U.S. Department of Education

Passed through the Arizona Department of Education, Arizona Supreme Court, and Greenlee County

Award Periods: July 1, 2010 through June 30, 2011

July 1, 2010 through September 30, 2011

October 1, 2010 through September 30, 2011

Award Numbers: H027A100007, H173A100003, KR10-0019, and KR10-0020

Procurement, Suspension, and Debarment

Questioned Cost: None

Criteria: In accordance with 34 CFR §80.36, the County should follow its procedures for procuring goods or services. Further, in accordance with 34 CFR §80.35, the County must verify that vendors are not suspended or debarred before making purchases exceeding \$25,000 to be paid with federal monies.

Condition and context: The County School Superintendent's Office did not always follow its procurement policies and procedures to issue requests for proposals and obtain statements of qualifications from prospective vendors. Specifically, for the two vendors tested subject to procurement requirements during the fiscal year, auditors noted the Office did not issue requests for proposal or obtain the statements of qualifications from a variety of potential vendors to consider for selection or document the lack of availability of vendors for services totaling \$43,354. In addition, the Office indicated that it had verified that one vendor tested was not suspended or debarred from doing business with the federal government; however, it did not retain documentation of its verification. Auditors performed additional procedures and noted no payments were made to suspended or debarred vendors.

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Effect: The Office could enter into a contract that is not the most advantageous to the County, and payments could be made to suspended or debarred vendors.

Cause: The Office did not follow its procurement policies and procedures and lacked policies and procedures to comply with the suspension and debarment compliance requirement.

Recommendation: The Office should follow its policies and procedures to allow for adequate competition or document why competition was not practical. Further, the Office should establish policies and procedures to ensure that documentation is obtained and retained verifying that vendors have not been suspended or debarred prior to awarding contracts of \$25,000 or more in federal monies. This verification may be accomplished by checking the Excluded Parties List System, obtaining vendor certifications, or adding clauses or conditions to the contracts.

This finding is similar to prior-year findings.

11-106

Homeland Security Cluster:

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

U.S. Department of Homeland Security

Passed through the Arizona Department of Homeland Security

Award Periods: October 1, 2009 through September 30, 2010

October 1, 2009 through March 31, 2011

October 1, 2010 through September 30, 2011

October 1, 2010 through March 31, 2012

Award Numbers: 555301-01, 555301-02, 555307-01, 555307-03, 777306-01, 777306-02, 777306-03, 777316-01, and 777316-02

Equipment and Real Property Management

Questioned Cost: Unknown

Criteria: In accordance with 44 CFR §13.32(d)(1), the County should maintain property records that identify property purchased under a federal program, including serial numbers or other identification numbers.

Condition and context: The County maintained a capital assets listing for all equipment; however, the listing did not identify the federal programs that purchased equipment. Additionally, a separate listing was not maintained identifying all equipment purchased under the Homeland Security Cluster. As a result, auditors were unable to identify equipment purchased with federal monies for the Cluster. Further, for equipment purchased during the current year, not all equipment was tagged, as required by County policy, nor was a serial number included on the capital assets listing to assist in the identification of the equipment.

Effect: Failure to maintain control over equipment purchased with federal grant monies can result in equipment being lost, stolen, or misused. In addition, this finding could potentially affect other federal programs the County administers.

Graham County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Cause: The County's capital assets system does not identify federally purchased equipment, nor did the County maintain a separate listing of equipment purchased with federal monies. Additionally, the County did not follow their policy to properly tag equipment.

Recommendation: The County should update the capital assets system to include identification of federally purchased equipment, or at a minimum, develop a policy to maintain separate comprehensive listings for programs purchasing equipment under federal programs. The County should also follow its policy to ensure that all equipment items are properly tagged.

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

Terry Cooper, County Manager/Clerk

May 23, 2012

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 findings and the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each federal award finding included in the current year's Schedule of Findings and Questioned Costs.

Sincerely,

A handwritten signature in cursive script that reads "Clel L Flake".

Clel L Flake
Chief Financial Officer

Graham County
Corrective Action Plan
Year Ended June 30, 2011

Financial Statement Findings

11-01

The County should develop, implement, and test a disaster recovery plan for its information systems

Contact person: John Lucas, Information Technology Director

Anticipated completion date: September 30, 2012

Response: Concur

Corrective Action Plan: The Graham County Information Technology Department is actively involved in converting our informal disaster recovery plan to a formal plan. We are currently working with other counties to discuss their procedures and guidelines to obtain a working model to structure our plan after. We are also working to extend our current system backup from local backups to out of area backups. Our goal is not only to have a local relocation plan in place but to relocate County operations to any location in Arizona. This increases our ability to gain access to equipment and manpower resources in the event of a major disaster. Our goal is to have this plan formalized and a regional resource/disaster plan in place and operational by the August-September 2012 time frame.

Graham County
Corrective Action Plan
Year Ended June 30, 2011

Federal Award Findings and Questioned Costs

11-101

CFDA No.: Not applicable

Contact person: Clel Flake, Chief Financial Officer

Anticipated completion date: December 31, 2012

Response: Concur

Corrective Action Plan: The Finance Department still has limited resources available for the preparation of the Single Audit Reporting Package, yet the 2011 report was completed more timely than the previous year. Changes have been made to procedures helping to expedite the audit. In addition, the workload of the upcoming audit will be spread out to more staff.

11-102

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.278 **WIA—Dislocated Worker Formula Grants**

Contact person: Neil Karnes, Health Director

Completion date: September 30, 2011

Response: Concur

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

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

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

Graham County
Corrective Action Plan
Year Ended June 30, 2011

11-103

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.278 **WIA—Dislocated Worker Formula Grants**

Contact person: Neil Karnes, Health Director

Completion date: September 30, 2011

Response: Concur

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

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

Also, accrued expenditure reports submitted to DES will be reviewed and signed by both the Workforce Development Coordinator and the WIA Director. Regional consolidation of the WIA program under the direction of Cochise County was implemented beginning with the 2012-13 fiscal year.

11-104

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

Homeland Security Cluster:

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

Contact persons: Will Wright, Community Development Director, John Lucas, Information Technology Director, Preston Allred, Sheriff, and Brian Douglas, Deputy Director for Emergency Management

Anticipated completion date: July 1, 2012

Response: Concur

Corrective Action Plan: The Community Development Department, Information Technology Department, Sheriff's Office, and Bioterrorism Department will adjust their procurement processes to ensure any expenditure over \$25,000 will be properly documented to show that staff checked the Excluded Parties List System (EPLS). This verification will then be filed in order to verify the vendors are eligible to do business with government entities according to federal regulations.

Graham County
Corrective Action Plan
Year Ended June 30, 2011

11-105

Special Education Cluster (IDEA):

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

84.173 **Special Education—Preschool Grants**

84.391 **ARRA—Special Education Grants to States, Recovery Act**

Contact persons: Jill Davis, Chief Deputy School Superintendent and Bekki Mattice, Business Manager

Anticipated completion date: July 1, 2012

Response: Concur

Corrective Action Plan: To address the issues of not following the county purchasing procedures we will write up procedures that will be followed when going out to bid or creating/accepting statements of qualifications.

The County School Superintendent's Office and Graham County Special Services (Dan Hinton Accommodation School) will adjust its procurement process to ensure any expenditure over \$25,000 paid from federal funds is properly documented that staff checked the Excluded Parties List System (EPLS). This verification will then be filed in order to verify vendors are eligible to do business with government entities according to federal regulations.

11-106

Homeland Security Cluster:

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

Contact person: Clel Flake, Chief Financial Officer

Anticipated completion date: October 31, 2012

Response: Concur

Corrective Action Plan: The County will update all equipment purchased with federal funding that is on the capital asset system using an unused user defined field. Then a master list of all equipment will be compiled to ensure that non capitalized equipment is also included and identified. Any equipment not tagged will be tagged and matched to the master list.

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Graham County Board of Supervisors
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Mark C. Herrington, Member

Terry Cooper, County Manager/Clerk

May 23, 2012

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,

Clel L Flake
Chief Financial Officer

Graham County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Status of Federal Award Findings and Questioned Costs

09-101

CFDA No.: Not applicable

Status: Not corrected

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

09-105

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

Arizona Department of Economic Security

Status: Partially corrected

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

10-101

CFDA No.: Not applicable

Status: Not corrected

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

Graham County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

10-102

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program**
17.259 **WIA Youth Activities**
17.259 **ARRA—WIA Youth Activities**
17.260 **WIA Dislocated Workers**
17.260 **ARRA—WIA Dislocated Workers**

Status: Not corrected

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

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

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

10-103

WIA Cluster:

CFDA No.: 17.258 **WIA Adult Program**
17.259 **WIA Youth Activities**
17.259 **ARRA—WIA Youth Activities**
17.260 **WIA Dislocated Workers**
17.260 **ARRA—WIA Dislocated Workers**

Status: Partially corrected

A copy of the spreadsheet and all records with regard to the development of the accrued expenditure reports will be retained. Also, accrued expenditure reports submitted to DES will be reviewed and signed by both the Workforce Development Coordinator and the WIA Director.

10-104

Special Education Cluster:

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

Status: Not corrected

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

Graham County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

10-105

CFDA No.: 93.069 **Public Health Emergency Preparedness Program**

Status: Not corrected

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

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

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

10-106

CFDA No.: 93.069 **Public Health Emergency Preparedness Program**

Status: Not corrected

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