

# Graham County

Annual Financial Report

Year Ended June 30, 2016



A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





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

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

**MELANIE M. CHESNEY**  
DEPUTY AUDITOR GENERAL

## **Independent auditors' report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Graham County, Arizona

### **Report on the financial statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

#### ***Management's responsibility for the financial statements***

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

#### ***Auditors' responsibility***

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Graham County as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Emphasis of matter**

As discussed in Note 1 to the financial statements, for the year ended June 30, 2016, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.

## **Other matters**

### *Required supplementary information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages a-1 through a-10, budgetary comparison schedules on pages 50 through 55, schedule of the County's proportionate share of the net pension liability—cost-sharing pension plans on page 56, schedule of changes in the County's net pension liability (asset) and related ratios—agent pension plans on pages 57 through 59, schedule of county pension contributions on pages 60 through 61, and schedule of agent OPEB plans' funding progress on page 63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Compliance over the use of highway user revenue fund and other dedicated state transportation revenue monies*

In connection with our audit, nothing came to our attention that caused us to believe that the County failed to use highway user revenue fund monies the County received pursuant to Arizona Revised Statutes Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues the County received solely for the authorized transportation purposes, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the County's noncompliance with the use of highway user revenue fund monies and other dedicated state transportation revenues, insofar as they relate to accounting matters.

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

## **Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2017, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Debbie Davenport  
Auditor General

March 30, 2017





# Graham County

## Management's discussion and analysis

June 30, 2016

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, 2016. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

### Financial Highlights for Fiscal Year 2016

- The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the current fiscal year by \$20,513,220 (net position). Of this amount, \$33,561,090 is the net investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure, and construction in progress); \$6,792,909 is restricted for specific purposes (restricted net position); and \$(19,840,779) is the unrestricted net position deficit balance that is primarily a result of \$25,497,445 in net pension liability.
- The decrease in the County's net position was \$1,566,457 in fiscal year 2016.
- As of the close of the current fiscal year, Graham County's governmental funds reported combined ending fund balances of \$36,049,795, an increase of \$27,109,223 in comparison with the prior year. The increase was primarily due to the proceeds from the issuance of the bonds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,588,365, or 9.7 percent, of total General Fund expenditures.
- Graham County's capital assets increased by \$650,470 during the current fiscal year. The key factor in this increase was construction in progress on the adult detention facility. The largest capital asset purchases were 11.75 acres of land for the new adult detention facility, dispatch virtualization IT equipment, and new election equipment. Seven trucks, 1.5 miles of construction on Ft. Grant Road, a jail security board upgrade, and IT computer equipment round out the majority of capital asset additions.

### Overview of the Financial Statements

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

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

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

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

# Graham County

## Management's discussion and analysis

June 30, 2016

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

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

The basic governmental fund financial statements can be found on pages 4 through 10 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 11 and 12 of this report.

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

The notes to the financial statements can be found on pages 13 through 47 of this report.

Graham County  
 Management's discussion and analysis  
 June 30, 2016

**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 50 through 63 of this report.

**Government-wide Financial Analysis**

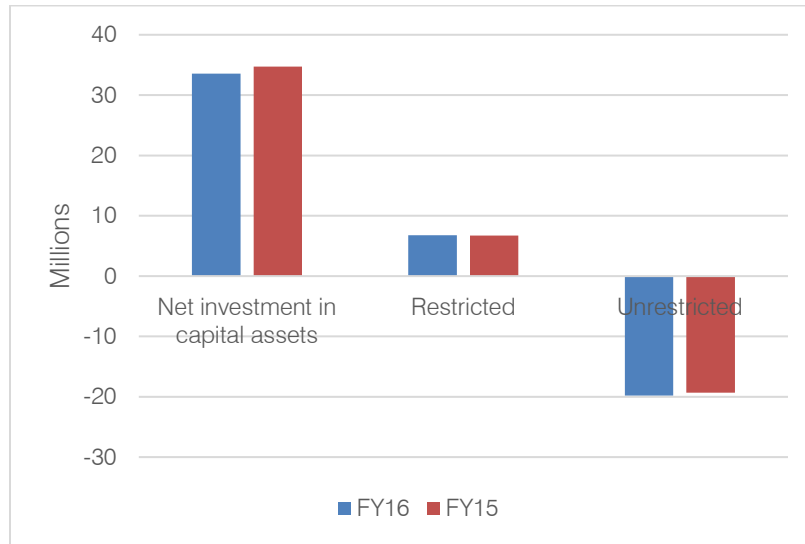
Statement of net position—As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the fiscal year, Graham County's assets and deferred outflow of resources exceeded liabilities and deferred inflow of resources by \$20,513,220.

Condensed Statement of Net Position  
 As of June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
Current and other assets	\$ 37,479,397	\$ 10,526,521
Capital assets	<u>36,236,434</u>	<u>35,585,964</u>
Total assets	<u>73,715,831</u>	<u>46,112,485</u>
Deferred outflows of resources		
Total deferred outflows of resources	<u>4,863,390</u>	<u>5,044,721</u>
Long-term liabilities outstanding	55,325,221	24,867,453
Other liabilities	<u>1,140,667</u>	<u>1,314,053</u>
Total liabilities	<u>56,465,888</u>	<u>26,181,506</u>
Deferred inflows of resources		
Total deferred inflows of resources	<u>1,600,113</u>	<u>2,895,753</u>
Net position:		
Net investment in capital assets	33,561,090	34,715,086
Restricted	6,792,909	6,708,211
Unrestricted	<u>(19,840,779)</u>	<u>(19,343,620)</u>
Total net position	<u>\$20,513,220</u>	<u>\$ 22,079,677</u>

Graham County  
 Management's discussion and analysis  
 June 30, 2016

Net Position  
 June 30, 2016 and 2015



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

Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, decreased from \$(19,343,620) at June 30, 2015, to \$(19,840,799) at June 30, 2016. Again, this is primarily a result of net pension liability.

Current and other assets, related to governmental activities, increased \$26,952,876 as compared to the previous fiscal year, primarily because amounts held in investments from the issuance of the Jail District bonds to be used for construction of the new adult detention facility. Capital assets increased slightly this fiscal year as construction in progress and assets placed in service exceeded the write-off of obsolete assets and depreciation of all assets.

Long-term liabilities increased \$30,457,768 with the issuance of \$26,340,000 in bonds and an increase of \$2,860,528 in net pension liability to \$25,497,445 for its employees at year-end. Compensated absences increased \$115,686, reflecting employees' increased carryover of vacation and sick leave hours. Capital leases payable increased \$178,989 as \$545,311 in new leases were incurred for election equipment, seven vehicles, and dispatch virtualization IT equipment, which exceeded the \$366,322 for lease payments made. Other liabilities decreased \$173,386, or 13.2 percent, mainly because of an decrease in accounts payable.

Statement of activities—Already noted was the statement of activities' purpose in presenting information in how the County's net position changed during the most recent fiscal year. All sources of revenue on the

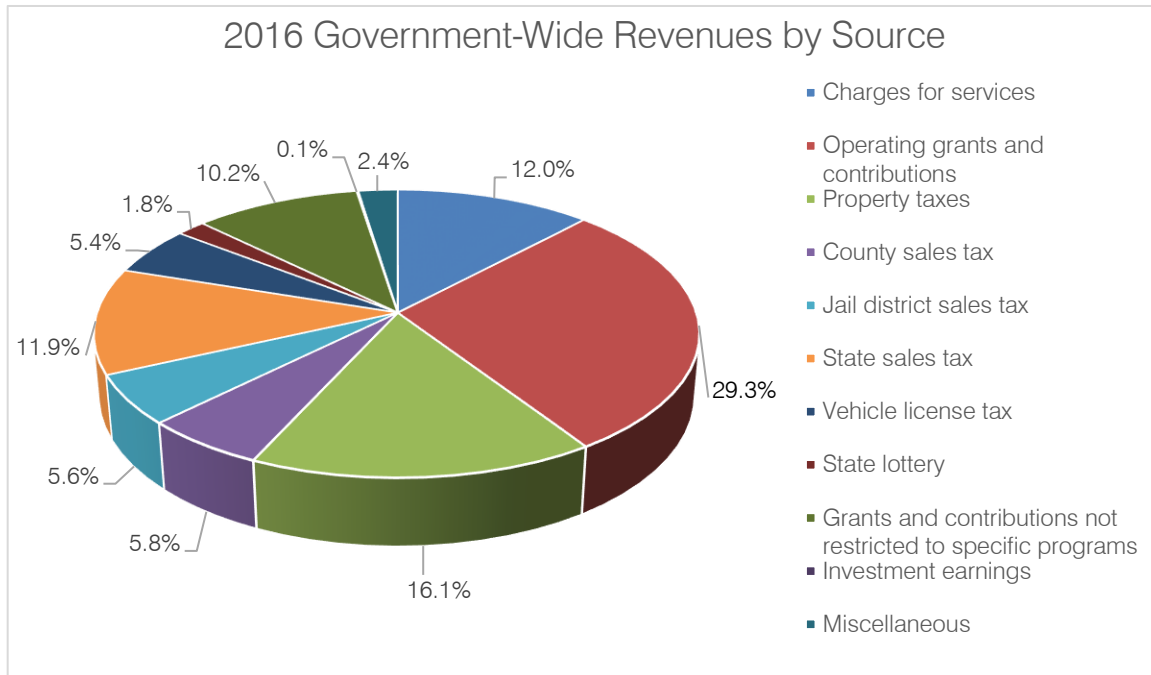
Graham County  
 Management's discussion and analysis  
 June 30, 2016

statement of activities increased with the exception of county sales tax, which decreased \$355,932, or 16.7 percent. The net result was an increase in revenue of \$2,994,468 for the fiscal year. The basis of accounting used in the government-wide statement of activities excludes capital expenditures, while its revenues include taxes whose primary purpose is for the County's operation.

Condensed Statement of Activities  
 Years Ended June 30, 2016 and 2015

	Governmental Activities	
	2016	2015
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 3,687,129	\$ 3,570,363
Operating grants and contributions	8,818,899	8,144,627
General revenues:		
Property taxes, levied for general purposes	4,951,806	4,790,821
County sales tax, levied for general purposes	1,772,719	2,128,651
Jail District sales tax, levied for debt service	1,712,505	0
Shared revenue—state sales tax	3,658,216	3,599,316
Shared revenue—state vehicle license tax	1,670,966	1,610,377
Shared revenue—state lottery	550,050	550,038
Grants and contributions not restricted to specific programs	3,129,976	2,629,350
Investment earnings	34,154	28,093
Miscellaneous	<u>744,523</u>	<u>684,839</u>
Total revenues	<u>30,730,943</u>	<u>27,736,475</u>
<b>Expenses</b>		
General government	\$ 9,825,988	\$ 9,584,681
Public safety	11,117,442	10,624,145
Highways and streets	4,360,403	4,132,366
Sanitation	88,843	152,600
Health	1,345,633	1,371,435
Welfare	2,478,947	2,632,019
Culture and recreation	902,541	606,035
Education	<u>2,177,603</u>	<u>2,200,333</u>
Total expenses	<u>32,297,400</u>	<u>31,303,614</u>
Change in net position	(1,566,457)	(3,567,139)
Net position—beginning	<u>22,079,677</u>	<u>25,646,816</u>
Net position—ending	<u>\$20,513,220</u>	<u>\$22,079,677</u>

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 June 30, 2016

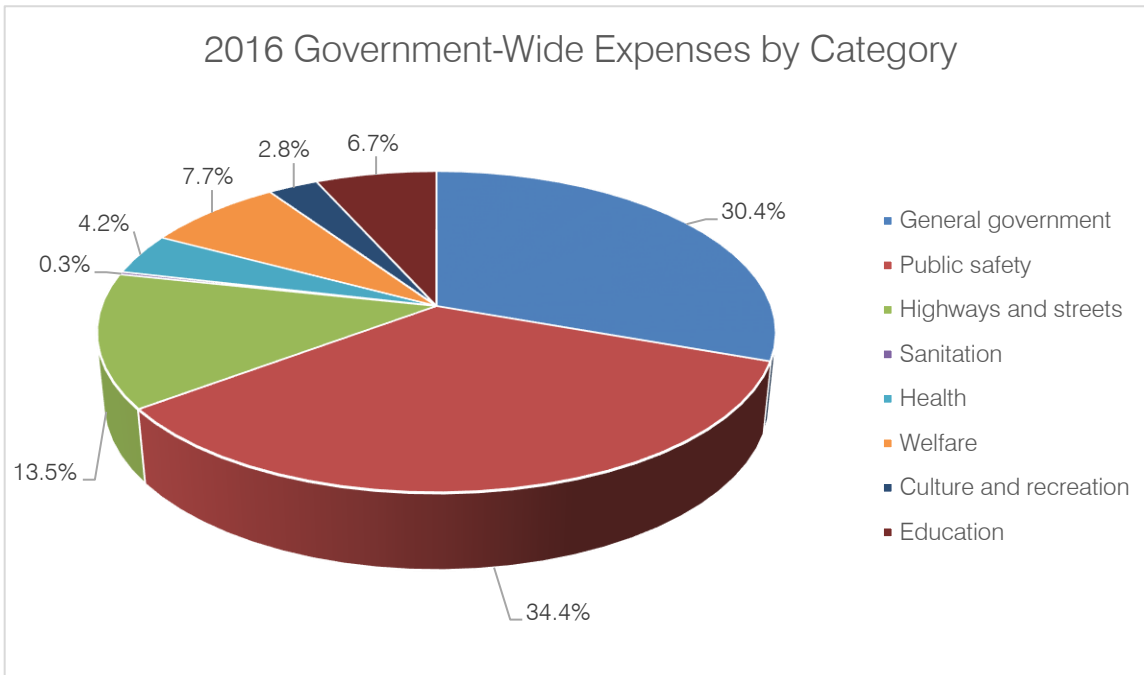


**Governmental activities**

Governmental activities revenues totaled \$30,730,943 for fiscal year 2016. The following are highlights of county revenues:

- Operating grants and contributions increased by \$674,272, or 8.3 percent, primarily from several smaller increases in state funding for probation, sheriff's office, health grants, and education grants.
- County sales taxes decreased by \$355,932, or 16.7 percent, due to a sluggish recovery in the local economy.
- \$1,712,505 of new taxes were collected for the new Jail District sales tax, which started collections on July 1, 2015. The tax is used for debt service on bonds payable.
- Grants and contributions not restricted to specific programs increased by \$500,626, or 19.0 percent, as PILT (Payment in Lieu of Taxes) funding withheld in fiscal year 2015 came through in fiscal year 2016.
- Investment earnings increased by \$6,061, or 21.6 percent, as interest rates continued a gradual rise.
- Miscellaneous revenues increased by \$59,684, or 8.7 percent, as the County received donations to build a community pavilion at the fairgrounds.

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 June 30, 2016



Expenses:

Overall expenses in governmental activities increased \$993,786, or 3.2 percent. Spending for one-half of the functions increased during the fiscal year. The majority of the increase was within the culture and recreation function, with public safety, highways and streets, and general government resulting in smaller increases.

- Culture and recreation had the largest percentage increase of 48.9 percent which was an increase of \$296,506. Increased utility costs of \$35,306 due to higher water rates, \$58,020 in costs to repair barn roofs from a windstorm, and \$137,026 in costs for the El Moro horse races made up the majority of this increase.
- Public safety had the largest dollar increase of \$493,297, or 4.6 percent, related to a \$141,548 increase in pension expense and \$372,347 in bond issuance costs.
- Highways and streets increased \$228,037, or 5.5 percent, due mainly to an increase in depreciation expense and related capital asset costs.

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

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

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

# Graham County

## Management's discussion and analysis

### June 30, 2016

The General Fund is the chief operating fund of Graham County. At June 30, 2016, the General Fund's unassigned fund balance was \$1,588,365, which was a decrease of \$615,872 from the prior fiscal year. Revenues were more than expenses by \$1,691,009 in the General Fund (prior to any other financing sources or uses). Revenues were \$122,844 more than the previous fiscal year with an increase in property taxes, intergovernmental revenues, and charges for services offsetting the largest reductions in County sales taxes and donations.

The Highway Road Fund receives the County's share of the Highway Users Revenue Funds collected and distributed by the State of Arizona for the purposes of maintaining and improving the roads under the County's care. The fund balance for the Highway Road Fund increased \$655,365 this fiscal year. Intergovernmental revenues saw a slight increase while expenditures were reduced. The Highway Department works diligently to keep a close eye on expenditures and to keep costs down whenever possible.

The first of three new funds presented in the governmental funds statements for fiscal year 2016 is the Jail District Operations Fund. This fund is composed of two functions previously handled by the General Fund—adult detention and detention health services. Beginning with fiscal year 2016, these functions were combined into the Jail District Operations Fund. The Jail District Operations Fund's main source of revenues are maintenance of effort transfers from the General Fund. For fiscal year 2016 these totaled \$2,844,139. The transfers will vary each year based on calculations tied to changes in the U.S. gross domestic product. The Jail District Operations Fund ended its first year with a negative fund balance of (\$109,984) due to year-end accruals for payroll, accounts payable, and amounts due to other governments.

The second of the three new funds presented in the governmental funds statements for fiscal year 2016 is the Jail District Debt Service Fund. The fund receives the new jail district sales tax, which went into effect on July 1, 2015. The district uses these taxes to service the principal and interest payments on the bonds issued to build the new adult detention facility. The debt service is scheduled to be paid off in 25 years, by the year 2040.

The final of the three new funds presented in the governmental funds statements for fiscal year 2016 is the Jail District Construction Fund, which had a fund balance of \$23,380,601 as of June 30, 2016. Bond proceeds are the main revenue source for this fund, and those proceeds are being used to pay the architects, construction companies, and related vendors to build the new adult detention facility. The facility is currently on schedule to be opened in September 2017.

The other governmental fund balance increased by \$209,759. This is a combination of many nonmajor funds of the County, most funded by various grants. While funding for many programs have faced multiple years of cuts, the intergovernmental revenues increased in fiscal year 2016 by \$737,890. Grants are typically only awarded for one fiscal year at a time.

### **General Fund Budgetary Highlights**

There were no amendments to the original revenue budget for the General Fund. General Fund revenues received were under the adopted budget by \$896,661, or 4.9 percent. The largest variances from budgeted amounts were in miscellaneous income, which was \$30,196, or 49.5 percent, above budget; investment income, which was \$1,490, or 42.6 percent below budget; county sales tax, which was \$227,281, or 11.4 percent, below budget; licenses and permits, which were \$4,869, or 8.9 percent, below budget and



Graham County  
 Management's discussion and analysis  
 June 30, 2016

intergovernmental revenues, which were \$666,074, or 6.8 percent, below budget. The General Fund expenditure budget of \$17,582,984 was also not amended this fiscal year. General Fund expenditures were less than the final budget by \$1,284,117, or 7.3 percent. Significant favorable expenditure variances, as compared to the budget, were incurred in the general government function of \$1,184,632. These savings were a result of conservative budgeting practices and reduced spending due to tight economic conditions that resulted in spending less than anticipated mainly by the treasurer, attorney, superior court, general services, information technology, contingency, and miscellaneous funds.

**Capital Asset and Debt Administration**

**Capital assets**—The County's capital assets for its governmental activities as of June 30, 2016, amount to \$36,236,434 (net of accumulated depreciation). The increase of \$650,470 is due primarily to construction in progress and assets placed in service exceeded the write-off of obsolete assets and depreciation of all assets.

**Graham County's Capital Assets**  
 (Net of depreciation)

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
Land	\$ 3,170,807	\$ 2,803,060
Buildings	7,722,858	8,095,353
Machinery and equipment	2,561,910	2,552,867
Infrastructure	20,848,965	21,552,197
Construction in progress	<u>1,931,894</u>	<u>582,487</u>
Total	<u>\$36,236,434</u>	<u>\$35,585,964</u>

Additional information on Graham County's capital assets can be found in Note 4 on page 22 of this report.

**Long-term Debt**—At the end of the current fiscal year, the County had total long-term liabilities outstanding of \$55,325,221. The largest portion of the long-term liabilities includes \$26,340,000 in revenue bonds payable and \$25,497,445 for net pension liability. Also included in long-term liabilities is \$1,398,271 for the future payment of compensated absences for unused employee vacation and sick leave, capital leases of \$1,049,867, unamortized bond premium of \$963,634, and post-closure care costs of \$76,004. This was the first year in the County's history that bonds were issued.

Additional information on the County's long-term debt can be found in Note 6 to the financial statements on pages 23 through 25.

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

- The unemployment rate for Graham County is currently 7.8 percent (exclusive of the San Carlos Apache Reservation). This is a slight increase from 7.4 percent a year ago. Comparatively, the State rate is 5.7 percent. This rate is reflective of our reliance on the local copper mining industry where continued low copper prices have led to a reduction in contract employees.
- Inflationary trends in the region compare favorably to national indices.

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- Even though state-shared revenues have increased, Graham County continues to see lower County sales taxes, and due to year-by-year authorization, there is uncertainty in federal PILT funding.

These factors were considered in preparing Graham County's budget for the 2017 fiscal year. The unassigned ending fund balance in the General Fund of \$1,588,365 was appropriated for spending in the 2016/17 fiscal year budget. Graham County balances the use of available fund balances with realistic revenue projections while implementing a conservative plan for the expenditure of limited resources to meet its citizens' current and future needs. Due to an decrease in assessed valuations, the County raised the General Fund property tax rate from 2.3071 to 2.4597, which was equal to the Truth in Taxation Rate for the fiscal year 2017.

**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 W. Thatcher Blvd., Safford, AZ 85546.

**Graham County**  
**Statement of net position**  
**June 30, 2016**

	<b>Governmental activities</b>
<b>Assets</b>	
Cash, cash equivalents, and investments	\$ 7,803,684
Receivables:	
Property taxes	258,296
Accounts	23,553
Due from other governments	1,969,067
Investments held by trustee—restricted	26,824,212
Inventories	527,902
Net pension assets	72,683
Capital assets, not being depreciated	5,102,701
Capital assets, being depreciated, net	<u>31,133,733</u>
Total assets	<u>73,715,831</u>
 <b>Deferred outflows of resources</b>	
Deferred outflows related to pensions	<u>4,863,390</u>
Total deferred outflows of resources	<u>4,863,390</u>
 <b>Liabilities</b>	
Accounts payable	270,584
Accrued payroll and employee benefits	780,601
Due to other governments	89,482
Noncurrent liabilities	
Due within 1 year	1,402,854
Due in more than 1 year	<u>53,922,367</u>
Total liabilities	<u>56,465,888</u>
 <b>Deferred inflows of resources</b>	
Deferred inflows related to pensions	<u>1,600,113</u>
Total deferred inflows of resources	<u>1,600,113</u>
 <b>Net position</b>	
Net investment in capital assets	33,561,090
Restricted for:	
Highways and streets	3,893,595
Debt service	1,713,052
Other purposes	1,186,262
Unrestricted (deficit)	<u>(19,840,779)</u>
Total net position	<u>\$ 20,513,220</u>

See accompanying notes to financial statements.

**Graham County**  
**Statement of activities**  
**Year ended June 30, 2016**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program revenues</u>		<u>Net (expense)</u>
		<u>Charges for</u>	<u>Grants and</u>	<u>revenue and</u>
		<u>services</u>	<u>contributions</u>	<u>changes in</u>
				<u>net position</u>
				<u>Governmental</u>
				<u>activities</u>
Governmental activities:				
General government	\$ 9,825,988	\$ 2,430,584	\$ 2,036,958	\$ (5,358,446)
Public safety	11,117,442	250,351	1,801,082	(9,066,009)
Highways and streets	4,360,403		2,852,731	(1,507,672)
Sanitation	88,843		57,728	(31,115)
Health	1,345,633	51,462	1,096,913	(197,258)
Welfare	2,478,947			(2,478,947)
Culture and recreation	902,541	77,115		(825,426)
Education	2,177,603	877,617	973,487	(326,499)
Total governmental activities	<u>\$ 32,297,400</u>	<u>\$ 3,687,129</u>	<u>\$ 8,818,899</u>	<u>(19,791,372)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	4,951,806
County sales taxes, levied for general purposes	1,772,719
Jail District sales tax, levied for debt service	1,712,505
Shared revenue—state sales tax	3,658,216
Shared revenue—state vehicle license tax	1,670,966
Shared revenue—state lottery	550,050
Grants and contributions not restricted to specific programs	3,129,976
Investment earnings	34,154
Miscellaneous	744,523
Total general revenues	<u>18,224,915</u>
Change in net position	(1,566,457)
Net position, July 1, 2015	22,079,677
Net position, June 30, 2016	<u>\$ 20,513,220</u>

See accompanying notes to financial statements.

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**Graham County**  
**Balance sheet**  
**Governmental funds**  
**June 30, 2016**

	<u>General fund</u>	<u>Highway road fund</u>	<u>Jail district operations fund</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 1,160,076	\$ 3,255,206	\$ 36,068
Investments held by trustee			
Receivables:			
Property taxes	250,869		
Accounts			
Due from other governments	1,015,517	257,061	
Inventories		527,902	
Total assets	<u>\$ 2,426,462</u>	<u>\$ 4,040,169</u>	<u>\$ 36,068</u>
<b>Liabilities</b>			
Accounts payable	\$ 17,562	\$ 75,848	\$ 21,255
Accrued payroll and employee benefits	469,495	70,726	103,751
Due to other governments	48,770		21,046
Total liabilities	<u>535,827</u>	<u>146,574</u>	<u>146,052</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue—property taxes	<u>210,495</u>		
Total deferred inflows of resources	<u>210,495</u>		
<b>Fund balances</b>			
Nonspendable		527,902	
Restricted		3,365,693	
Committed			
Assigned	91,775		
Unassigned	<u>1,588,365</u>		<u>(109,984)</u>
Total fund balances	<u>1,680,140</u>	<u>3,893,595</u>	<u>(109,984)</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,426,462</u>	<u>\$ 4,040,169</u>	<u>\$ 36,068</u>

See accompanying notes to financial statements.

<u>Jail district debt service fund</u>	<u>Jail district construction fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
\$ 141	\$ 145	\$ 3,352,048	\$ 7,803,684
3,347,070	23,477,142		26,824,212
		7,427	258,296
		23,553	23,553
293,084		403,405	1,969,067
			527,902
<u>\$ 3,640,295</u>	<u>\$ 23,477,287</u>	<u>\$ 3,786,433</u>	<u>\$ 37,406,714</u>
	\$ 96,686	\$ 59,233	\$ 270,584
		136,629	780,601
		19,666	89,482
	<u>96,686</u>	<u>215,528</u>	<u>1,140,667</u>
		5,757	216,252
		<u>5,757</u>	<u>216,252</u>
			527,902
3,640,295	23,380,601	1,186,262	31,572,851
		395,640	395,640
		1,983,246	2,075,021
			1,478,381
<u>3,640,295</u>	<u>23,380,601</u>	<u>3,565,148</u>	<u>36,049,795</u>
<u>\$ 3,640,295</u>	<u>\$ 23,477,287</u>	<u>\$ 3,786,433</u>	<u>\$ 37,406,714</u>

**Graham County**  
**Reconciliation of the governmental funds balance sheet to the**  
**government-wide statement of net position**  
**June 30, 2016**

Fund balances—total governmental funds \$ 36,049,795

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets	\$ 67,610,973	
Less accumulated depreciation	<u>(31,374,539)</u>	36,236,434

Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.

216,252

Net pension assets held in trust for future benefits are not available for county operations and, therefore, are not reported in the funds.

72,683

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as a liability in the funds.

Bonds payable	(26,340,000)	
Bond premium	(963,634)	
Net pension liability	(25,497,445)	
Compensated absences	(1,398,271)	
Leases payable	(1,049,867)	
Landfill liability	<u>(76,004)</u>	<u>(55,325,221)</u>

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

3,263,277

Net position of governmental activities \$ 20,513,220



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**Graham County**  
**Statement of revenues, expenditures, and changes in fund balances**  
**Governmental funds**  
**Year ended June 30, 2016**

	<u>General fund</u>	<u>Highway road fund</u>	<u>Jail district operations fund</u>
Revenues:			
Property taxes	\$ 4,811,590		
County sales taxes	1,772,719		
Licenses and permits	50,131		
Intergovernmental	9,192,161	\$ 3,602,979	\$ 6,056
Charges for services	1,819,052		24,259
Fines and forfeits	227,043		
Investment earnings	2,010	14,337	67
Rents	23,974		
Miscellaneous	90,061	47,681	152
Donations	1,135		
Total revenues	<u>17,989,876</u>	<u>3,664,997</u>	<u>30,534</u>
Expenditures:			
Current:			
General government	7,595,775		
Public safety	4,576,975		2,954,290
Highways and streets		3,214,464	
Sanitation	32,169		
Health	257,751		
Welfare	2,478,947		
Culture and recreation	383,387		
Education	207,105		
Debt service:			
Bond issuance costs			
Capital outlay	<u>766,758</u>	<u>20,798</u>	<u>29,785</u>
Total expenditures	<u>16,298,867</u>	<u>3,235,262</u>	<u>2,984,075</u>
Excess (deficiency) of revenues over expenditures	<u>1,691,009</u>	<u>429,735</u>	<u>(2,953,541)</u>
Other financing sources (uses):			
Revenue bonds issued			
Premium on revenue bonds			
Capital lease agreements	545,311		
Sale of capital assets	14	990	
Transfers in	57,875	157,882	2,844,139
Transfers out	<u>(2,961,022)</u>	<u>(28,245)</u>	<u>(582)</u>
Total other financing sources (uses)	<u>(2,357,822)</u>	<u>130,627</u>	<u>2,843,557</u>
Net change in fund balances	<u>(666,813)</u>	<u>560,362</u>	<u>(109,984)</u>
Fund balances, July 1, 2015	2,346,953	3,238,230	
Increase in inventories		95,003	
Fund balances, June 30, 2016	<u>\$ 1,680,140</u>	<u>\$ 3,893,595</u>	<u>\$ (109,984)</u>

See accompanying notes to financial statements.

<u>Jail district debt service fund</u>	<u>Jail district construction fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
\$ 1,712,505		\$ 123,846	\$ 4,935,436
			3,485,224
			50,131
		4,392,592	17,193,788
		1,375,753	3,219,064
		59,827	286,870
547	\$ 2,034	15,159	34,154
		107,090	131,064
		497,073	634,967
		108,421	109,556
<u>1,713,052</u>	<u>2,034</u>	<u>6,679,761</u>	<u>30,080,254</u>
		562,288	8,158,063
		2,323,206	9,854,471
		132,449	3,346,913
		57,743	89,912
		987,118	1,244,869
			2,478,947
		388,853	772,240
		1,704,724	1,911,829
	372,347		372,347
	1,625,477	251,115	2,693,933
	1,997,824	6,407,496	30,923,524
<u>1,713,052</u>	<u>(1,995,790)</u>	<u>272,265</u>	<u>(843,270)</u>
1,927,243	24,412,757		26,340,000
	963,634		963,634
			545,311
		7,541	8,545
		111,376	3,171,272
		(181,423)	(3,171,272)
<u>1,927,243</u>	<u>25,376,391</u>	<u>(62,506)</u>	<u>27,857,490</u>
<u>3,640,295</u>	<u>23,380,601</u>	<u>209,759</u>	<u>27,014,220</u>
		3,355,389	8,940,572
			95,003
<u>\$ 3,640,295</u>	<u>\$ 23,380,601</u>	<u>\$ 3,565,148</u>	<u>\$ 36,049,795</u>

# Graham County

## Reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities Year ended June 30, 2016

Net change in fund balances—total governmental funds		\$ 27,014,220
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	\$ 2,699,321	
Depreciation expense	<u>(2,033,571)</u>	665,750
In the statement of activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital assets sold.		
		(15,280)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		16,370
County pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the statement of net position because the reported net pension liability is measured a year before the County's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the statement of activities.		
County pension contributions	1,659,967	
Pension expense	(4,039,566)	
State's nonemployer pension contributions	<u>634,319</u>	(1,745,280)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Debt issued	(26,340,000)	
Bond premium	(963,634)	
Capital lease incurred	(545,311)	
Principal payments on long-term debt	<u>366,322</u>	(27,482,623)
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	(115,686)	
Decrease in landfill and postclosure care costs	<u>1,069</u>	(114,617)
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>95,003</u>
Change in net position of governmental activities		<u>\$ (1,566,457)</u>

See accompanying notes to financial statements.

**Graham County**  
**Statement of fiduciary net position**  
**Fiduciary funds**  
**June 30, 2016**

	<u>Investment trust funds</u>	<u>Agency funds</u>
<b>Assets</b>		
Cash, cash equivalents, and investments	\$ 21,683,089	\$ 752,005
Accrued interest receivable	<u>26,780</u>	<u></u>
Total assets	<u>\$ 21,709,869</u>	<u>\$ 752,005</u>
<b>Liabilities</b>		
Due to other governments		<u>\$ 752,005</u>
Total liabilities		<u>\$ 752,005</u>
<b>Net position</b>		
Held in trust for investment trust participants	<u>\$ 21,709,869</u>	

See accompanying notes to financial statements.

**Graham County**  
**Statement of changes in fiduciary net position**  
**Fiduciary funds**  
**Year ended June 30, 2016**

	<u>Investment trust funds</u>
Additions:	
Contributions from participants	\$ 67,330,228
Investment earnings	<u>256,240</u>
Total additions	<u>67,586,468</u>
Deductions:	
Distributions to participants	<u>87,503,965</u>
Total deductions	<u>87,503,965</u>
Change in net position	(19,917,497)
Net position, July 1, 2015	<u>41,627,366</u>
Net position, June 30, 2016	<u>\$ 21,709,869</u>

See accompanying notes to financial statements.

# Graham County

## Notes to financial statements

### June 30, 2016

#### Note 1 - Summary of significant accounting policies

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

For the year ended June 30, 2016, the County implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 establishes standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements.

##### 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 units discussed below have a June 30 year-end. The County has no discretely presented component units.

The Graham County Flood Control District is a legally separate tax-levying entity pursuant to Arizona Revised Statutes (A.R.S.) §48-3602 that provides flood control facilities and regulates floodplains and drainage to prevent flooding of property within Graham County. The Graham County Jail District is a legally separate tax-levying entity pursuant to A.R.S. §48-4002 that acquires, constructs, operates, maintains, and finances the county adult detention facility. As the Graham County Board of Supervisors serves as the Board of Directors of the Flood Control and Jail Districts, it is able to significantly influence the programs, projects, activities, and level of services provided by the districts; the Board also establishes policy, appoints management, exercises budgetary control, and determines the Flood Control District's tax rate. Further, the districts provide services almost entirely for the benefit of the County; therefore, the Flood Control and the Jail Districts are considered blended component units of the County. Separate financial statements for the districts are not available.

##### B. Basis of presentation

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

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

# Graham County

## Notes to financial statements

### June 30, 2016

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

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

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

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

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

The County reports the following major governmental funds:

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

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

The *Jail District Operations Fund* accounts for all financial resources of the Jail District and is funded mainly by maintenance of effort payments from the County's General Fund.

The *Jail District Debt Service Fund* accounts for the accumulation of resources for, and the payment of, principal and interest on bonds issued to finance the construction of a new adult detention facility. Revenues are from the voter-approved Jail District sales tax.

The *Jail District Construction Fund* accounts for the financial resources to be used for the acquisition and construction of the new adult detention facility. Revenues are primarily from the issuance of bonds.

The County also reports the following fund types:

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

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



# Graham County

## Notes to financial statements

### June 30, 2016

#### **C. Basis of accounting**

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

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

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

#### **D. Cash and investments**

All investments are stated at fair value.

#### **E. Inventories**

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

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

#### **F. Property tax calendar**

The County levies real and personal property taxes on or before the third Monday in August that become due and payable in two equal installments. The first installment is due on the first day of October and

**Graham County**  
**Notes to financial statements**  
**June 30, 2016**

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 acquisition value at the time received.

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

	<b>Capitalization threshold</b>		
Land	\$10,000		
Land improvements	10,000		
Construction in progress	10,000		
		<b>Depreciation method</b>	<b>Estimated useful life</b>
Buildings	10,000	Straight-line	40 years
Machinery and equipment	2,500	Straight-line	5-10 years
Vehicles	5,000	Straight-line	5 years
Infrastructure	10,000	Straight-line	40 years

**H. Deferred outflows and inflows of resources**

The statement of net position and balance sheet include separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense or expenditure in future periods. Deferred inflows of resources represent an acquisition of net position or fund balance that applies to future periods and will be recognized as a revenue in future periods.

**I. Pensions**

For purposes of measuring the net pension (asset and) liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

# Graham County

## Notes to financial statements

### June 30, 2016

#### **J. Fund balance classifications**

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

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

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

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

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

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

#### **K. Investment earnings**

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

#### **L. Compensated absences**

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

Employees may accumulate up to 320 hours of vacation depending on years of service, but they forfeit any unused vacation hours in excess of the maximum amount at calendar year-end. Upon terminating employment, the County pays all unused and unforfeited vacation benefits to employees. Accordingly, vacation benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

**Graham County**  
**Notes to financial statements**  
**June 30, 2016**

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

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

**Note 2 - Deposits and investments**

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

**Credit risk**

Statutes have the following requirements for credit risk:

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

**Custodial credit risk**

Statutes require collateral for deposits at 102 percent of all deposits federal depository insurance does not cover.

**Graham County**  
**Notes to financial statements**  
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Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

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

**Deposits**—At June 30, 2016, the carrying amount of the County's deposits was \$2,800,177, and the bank balance was \$3,814,246. The County does not have a formal policy with respect to custodial credit risk.

**Investments**—The County's investments at June 30, 2016, categorized within the fair value hierarchy established by generally accepted accounting principles, were as follows:

	Amount	Fair value measurement using	
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
<b>Investment by fair value level</b>			
U.S. agency securities	\$ 2,003,180		\$2,003,180
Negotiable certificates of deposit	8,219,392	\$ 8,219,392	
Money market funds	<u>26,824,212</u>	<u>26,824,212</u>	
Total investments by fair value level	<u>37,046,784</u>	<u>\$35,043,604</u>	<u>\$2,003,180</u>
<b>External investment pools measured at fair value</b>			
State Treasurer's investment pools	<u>17,158,881</u>		
Total investments measured at fair value	<u>17,158,881</u>		
Total investments	<u>\$54,205,665</u>		

Investments categorized as Level 1 are valued using prices quoted in active markets for those investments. Investments categorized as Level 2 are valued using an automated-IDC institutional bond pricing model. Investments in the State Treasurer's investment pools are valued at the pool's share price multiplied by the number of shares the County held. The fair value of a participant's position in the pools approximates the value of that participant's pool shares. The State Board of Investment provides oversight for the State Treasurer's investment pools.

The money market fund investments are attributable solely to the Jail District Debt Service Fund and Jail District Construction Fund. Monies from the jail district's tax levy reported in the Jail District Debt Service Fund and revenue bond proceeds for the construction of a new jail facility reported in the Jail District Construction Fund were invested in these money market funds through a trustee. The following investment risk disclosures will separately disclose the investment risks of the Jail District Debt Service and Jail District Construction Funds' investments.

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**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, 2016, credit risk for the County’s investments was as follows:

Investment type	Rating	Rating agency	Amount
Primary government:			
State Treasurer’s investment pool 7	Unrated	Not applicable	\$13,809,632
State Treasurer’s investment pool 5	AAAf/S1+	Standard & Poor’s	3,349,249
Negotiable certificates of deposit	Unrated	Not applicable	8,219,392
U.S. agency securities	AAA	Moody’s	<u>2,003,180</u>
Total primary government			<u>27,381,453</u>
Jail district debt service and construction funds:			
Money market funds	AAAm	Standard & Poor’s	<u>26,824,212</u>
Total			<u>\$54,205,665</u>

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

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

**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, 2016, the County had the following investments in debt securities:

Investment type	Amount	Weighted average maturity (in years)
Primary government:		
State Treasurer’s investment pool 7	\$13,809,632	0.19
State Treasurer’s investment pool 5	3,349,249	0.07
Negotiable certificates of deposit	8,219,392	0.95
U.S. agency securities	<u>2,003,180</u>	1.08
Total primary government	<u>27,381,453</u>	
Jail district debt service and construction funds:		
Money market funds	<u>26,824,212</u>	0.42
Total	<u>\$54,205,665</u>	

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A reconciliation of cash, deposits, and investments to amounts shown on the statement of net position follows:

Cash, deposits, and investments:

Cash on hand	\$ 57,148
Amount of deposits	2,800,177
Amount of investments	<u>54,205,665</u>
Total	<u>\$57,062,990</u>

	<b>Governmental activities</b>	<b>Investment trust funds</b>	<b>Agency funds</b>	<b>Total</b>
Statement of net position:				
Cash, cash equivalents, and investments	\$ 7,803,684	\$21,683,089	\$752,005	\$30,238,778
Investments held by trustee— restricted	<u>26,824,212</u>			<u>26,824,212</u>
Total	<u>\$34,627,896</u>	<u>\$21,683,089</u>	<u>\$752,005</u>	<u>\$57,062,990</u>

**Note 3 - Due from other governments**

Amounts due from other governments at June 30, 2016, totaled \$1,969,067 and include \$613,164 in state-shared revenue from sales tax, \$298,826 in county sales tax distributions from the State Treasurer, \$41,166 in state motor vehicle license taxes from the Arizona Department of Transportation, \$27,851 in presidential preference election reimbursement from the State Treasurer, \$28,728 in field deputy payments from the University of Arizona, and \$5,782 in criminal justice enhancement fees from the Office of the Attorney General recorded in the General Fund; \$219,442 in state-shared revenue from highway user taxes and \$37,619 in state motor vehicle license taxes from the Arizona Department of Transportation recorded in the Highway Road Fund; \$293,084 in jail district sales tax distributions from the State Treasurer recorded in the Jail District Debt Service Fund; \$15,357 in CDBG project funds from the Arizona Department of Housing, \$12,122 in road project funds from the Arizona Department of Transportation funds, \$251,132 in health grants from the Arizona Department of Health Services, \$90,951 in homeland security grants from the Arizona Department of Homeland Security, \$13,652 in waste tire funds from the State Treasurer, \$11,749 in jail enhancement funding from the State Treasurer, and \$8,442 in state and federal education funding from the Department of Education recorded in the other governmental funds.

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**Note 4 - Capital assets**

Capital asset activity for the year ended June 30, 2016, was as follows:

	<b>Balance July 1, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2016</b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,803,060	\$ 367,747		\$ 3,170,807
Construction in progress	<u>582,487</u>	<u>1,804,219</u>	<u>\$454,812</u>	<u>1,931,894</u>
Total capital assets not being depreciated	<u>3,385,547</u>	<u>2,171,966</u>	<u>454,812</u>	<u>5,102,701</u>
Capital assets being depreciated:				
Buildings	15,077,131		14,673	15,062,458
Machinery and equipment	13,887,612	863,324	317,347	14,433,589
Infrastructure	<u>32,893,382</u>	<u>118,843</u>		<u>33,012,225</u>
Total of assets being depreciated	<u>61,858,125</u>	<u>982,167</u>	<u>332,020</u>	<u>62,508,272</u>
Less accumulated depreciation for:				
Buildings	6,981,778	362,988	5,166	7,339,600
Machinery and equipment	11,334,745	848,508	311,574	11,871,679
Infrastructure	<u>11,341,185</u>	<u>822,075</u>		<u>12,163,260</u>
Total	<u>29,657,708</u>	<u>2,033,571</u>	<u>316,740</u>	<u>31,374,539</u>
Total capital assets being depreciated, net	<u>32,200,417</u>	<u>(1,051,404)</u>	<u>15,280</u>	<u>31,133,733</u>
Governmental activities capital assets, net	<u>\$35,585,964</u>	<u>\$ 1,120,562</u>	<u>\$470,092</u>	<u>\$36,236,434</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 366,328
Public safety	359,439
Highways and streets	1,027,566
Health	48,684
Culture and recreation	118,903
Education	<u>112,651</u>
Total governmental activities depreciation expense	<u>\$2,033,571</u>

As of June 30, 2016, the County was involved in two significant construction projects. The Eighth Avenue and Airport Road intersection project is approximately 30 percent complete with \$147,040 in costs to date. The estimated construction costs are \$2,656,807, of which the County's estimated share is \$26,018. The remaining amounts will be paid from federal grants. Completion is estimated for 2018.

Also, as of June 30, 2016, the County had incurred \$1,528,791 in costs toward the design and construction of the new adult detention facility. Total costs of the facility are estimated to be \$22.5 million paid for with revenue bonds issued on September 23, 2015. The construction has an estimated completion date of September 2017.



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**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, 2016, the County had an outstanding balance of \$0. The activity for the year ended June 30, 2016, was as follows:

	<b>Fiscal year 2016</b>
Beginning balance	\$ 0
Total borrowings	6,897,516
Total payments	<u>6,897,516</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, 2016:

	<b>Balance July 1, 2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2016</b>	<b>Due within 1 year</b>
<b>Governmental activities</b>					
Bonds payable:					
Revenue bonds		\$26,340,000		\$26,340,000	
Premium on bonds		<u>963,634</u>		<u>963,634</u>	<u>\$ 68,136</u>
Total bonds payable		<u>27,303,634</u>		<u>27,303,634</u>	<u>68,136</u>
Compensated absences payable	\$ 1,282,585	828,125	\$ 712,439	1,398,271	978,790
Capital leases payable	870,878	545,311	366,322	1,049,867	353,928
Net pension liability	22,636,917	2,860,528		25,497,445	
Landfill closure and post-closure care costs payable	<u>77,073</u>	<u>911</u>	<u>1,980</u>	<u>76,004</u>	<u>2,000</u>
Total governmental activities long-term liabilities	<u>\$24,867,453</u>	<u>\$31,538,509</u>	<u>\$1,080,741</u>	<u>\$55,325,221</u>	<u>\$1,402,854</u>

**Bonds**—The County's bonded debt consists of one issuance of \$26,340,000 of revenue bonds that are generally noncallable with interest payable semiannually. Bond proceeds pay for the construction of an adult detention facility as part of the newly-formed County jail district. The County has pledged, as security for bonds issued, the proceeds from a half-cent sales tax to be used for debt repayment of the bonds. The projected amount of the revenue pledged was estimated to be \$1,666,667 for fiscal year 2016 and \$2,000,000 per year thereafter. The sales tax, which was voter approved for the purpose of building the adult detention facility, began on July 1, 2015 and continues for 25 years. One hundred percent of this special sales tax collected is pledged to be used for required debt repayment of the bonds. The revenue bonds were issued on September 23, 2015. For fiscal year 2016, \$1,712,505 of pledged revenues were recognized. No principal or interest payments were due in fiscal year 2016. The first interest payment is due on July 1, 2016, and the first principal payment is due on July 1, 2017. The final bond principal and interest payments will be made on July 1, 2040.

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The following bond was outstanding at June 30, 2016:

Description	Amount issued	Maturity ranges	Interest rates	Outstanding principal
Revenue bonds	\$26,340,000	7/1/2017-7/1/2040	3.000%-5.000%	\$26,340,000

The following schedule details debt service requirements to maturity for the County's bond payable at June 30, 2016:

Year ending June 30	Governmental activities	
	Principal	Interest
2017	\$ 0	\$1,487,283
2018	230,000	1,165,594
2019	235,000	1,158,618
2020	240,000	1,150,294
2021	250,000	1,140,494
2022-2026	4,365,000	5,153,094
2027-2031	5,555,000	3,939,256
2032-2036	6,930,000	2,539,444
2037-2041	<u>8,535,000</u>	<u>909,047</u>
Total	<u>\$26,340,000</u>	<u>\$18,643,124</u>

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

The assets acquired through capital leases are as follows:

Assets:	Governmental activities
Equipment	\$1,568,445
Building	417,288
Less: accumulated depreciation	<u>808,218</u>
Carrying value	<u>\$1,177,515</u>

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2016:

Year ending June 30	Governmental activities
2017	\$ 373,117
2018	<u>708,891</u>
Total minimum lease payments	1,082,008
Less amount representing interest	<u>32,141</u>
Present value of net minimum lease payments	<u>\$1,049,867</u>

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

The County closed the landfill in 2003. The \$76,004 reported as landfill postclosure care costs payable at June 30, 2016, is based on what it would cost to perform all remaining postclosure care in fiscal year 2016. These costs will be paid from the General Fund. The actual cost may be higher because of inflation, changes in technology, or changes in regulations.

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

**Compensated Absences**—Compensated absences are paid from various funds in nearly the same proportion that those funds pay payroll costs. During fiscal year 2016, the County paid for compensated absences as follows: 60 percent from General Fund, 9 percent from the Highway Road Fund, 13 percent from the Jail District Operations Fund, and 18 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, 2016, were as follows:

	General fund	Highway road fund	Jail district operations fund	Jail district debt service fund	Jail district construction fund	Other governmental funds	Total governmental funds
<b>Fund balances:</b>							
Nonspendable:							
Inventories		\$ 527,902					\$ 527,902
Total nonspendable		<u>527,902</u>					<u>527,902</u>
<b>Restricted for:</b>							
Social services						\$ 409,505	409,505
Law enforcement						288,751	288,751
Highways and streets		3,365,693					3,365,693
Health						208,640	208,640
Education						182,061	182,061
Debt service				\$3,640,295			3,640,295
Capital outlay					\$23,380,601	97,305	23,477,906
Total restricted		<u>3,365,693</u>		<u>3,640,295</u>	<u>23,380,601</u>	<u>1,186,262</u>	<u>31,572,851</u>
<b>Committed to:</b>							
General government						195,682	195,682
Highways and streets						197,873	197,873
Education						2,085	2,085
Total committed						<u>395,640</u>	<u>395,640</u>
<b>Assigned to:</b>							
Social services						460,904	460,904
Law enforcement	\$ 91,775					250,804	342,579
Health						70,134	70,134
Culture and recreation						241,348	241,348
Education						931,787	931,787
Capital outlay						28,269	28,269
Total assigned	<u>91,775</u>					<u>1,983,246</u>	<u>2,075,021</u>
<b>Unassigned:</b>							
Total fund balances	<u>1,588,365</u>	<u>\$3,893,595</u>	<u>\$(109,984)</u>	<u>\$3,640,295</u>	<u>\$23,380,601</u>	<u>\$3,565,148</u>	<u>\$36,049,795</u>

# Graham County

## Notes to financial statements

### June 30, 2016

#### Note 8 - Risk management

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 12 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants, and a deductible of \$5,000 per occurrence for property claims and \$5,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$300 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period.

The Arizona Counties Workers' Compensation Pool is a public entity risk pool currently composed of 12 member counties. The pool provides member counties with workers' compensation coverage, as law requires, and risk-management services. The County is responsible for paying a premium, based on an experience-rating formula that allocates pool expenditures and liabilities among the members.

The Arizona Local Government Employee Benefit Trust (Trust) is a public entity risk pool currently composed of nine member entities. The pool provides member entities with health, prescription, dental, vision, life, short-term disability and accidental death benefits for the counties' employees and their dependents. The Trust provides the benefits through a self-funding agreement with its participants and administers the program, and the County is responsible for paying a premium based on enrolled employees and dependents and requires its employees to contribute a portion of that premium. 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.

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

#### Note 9 - Pensions and other postemployment benefits

The County contributes to the plans described below. The plans are component units of the State of Arizona.

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At June 30, 2016, the County reported the following aggregate amounts related to pensions for all plans to which it contributes:

<b>Statement of net position and statement of activities</b>	<b>Governmental activities</b>
Net pension assets	\$ 72,683
Net pension liabilities	25,497,445
Deferred outflows of resources	4,863,390
Deferred inflows of resources	1,600,113
Pension expense	4,042,611

The County's accrued payroll and employee benefits includes \$87,736 of outstanding pension contribution amounts payable to all pension plans for the year ended June 30, 2016. Also, the County reported \$1,663,012 of pension contributions as expenditures in the governmental funds related to all pension plans to which it contributes.

**A. Arizona State Retirement System**

**Plan description**—County employees not covered by the other pension plans described below participate in the Arizona State Retirement System (ASRS). The ASRS administers a cost-sharing multiple-employer defined benefit pension plan, a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan, and a cost-sharing multiple-employer defined benefit long-term disability (OPEB) plan. The Arizona State Retirement System Board governs the ASRS according to the provisions of A.R.S. Title 38, Chapter 5, Articles 2 and 2.1. The ASRS issues a publicly available financial report that includes its financial statements and required supplementary information. The report is available on its website at [www.azasrs.gov](http://www.azasrs.gov).

**Benefits provided**—The ASRS provides retirement, health insurance premium supplement, long-term disability, and survivor benefits. State statute establishes benefit terms. Retirement benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

<b>ASRS</b>	<b>Retirement</b>	
	<b>Initial membership date:</b>	
	<b>Before July 1, 2011</b>	<b>On or after July 1, 2011</b>
Years of service and age required to receive benefit	Sum of years and age equals 80 10 years, age 62 5 years, age 50* any years, age 65	30 years, age 55 25 years, age 60 10 years, age 62 5 years, age 50* any years, age 65
Final average salary is based on	Highest 36 consecutive months of last 120 months	Highest 60 consecutive months of last 120 months
Benefit percent per year of service	2.1% to 2.3%	2.1% to 2.3%

\* With actuarially reduced benefits.

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Retirement benefits for members who joined the ASRS prior to September 13, 2013, are subject to automatic cost-of-living adjustments based on excess investment earnings. Members with a membership date on or after September 13, 2013, are not eligible for cost-of-living adjustments. Survivor benefits are payable upon a member’s death. For retired members, the retirement benefit option chosen determines the survivor benefit. For all other members, the beneficiary is entitled to the member’s account balance that includes the member’s contributions and employer’s contributions, plus interest earned.

**Contributions**—In accordance with state statutes, annual actuarial valuations determine active member and employer contribution requirements. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability. For the year ended June 30, 2016, statute required active ASRS members to contribute at the actuarially determined rate of 11.47 percent (11.35 percent for retirement and 0.12 percent for long-term disability) of the members’ annual covered payroll, and statute required the County to contribute at the actuarially determined rate of 11.47 percent (10.85 percent for retirement, 0.50 percent for health insurance premium benefit, and 0.12 percent for long-term disability) of the active members’ annual covered payroll. In addition, the County was required by statute to contribute at the actuarially determined rate of 9.36 percent (9.17 percent for retirement, 0.13 percent for health insurance premium benefit, and 0.06 percent for long-term disability) of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to the ASRS would typically fill. The County’s contributions to the pension plan for the year ended June 30, 2016, were \$743,113. The County’s OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

<b>ASRS</b>	<b>Health benefit</b>	<b>Long-term</b>
<b>Year ended June 30</b>	<b>supplement fund</b>	<b>disability fund</b>
2016	\$34,033	\$ 8,159
2015	39,722	8,071
2014	34,880	13,952

During fiscal year 2016, the County paid for ASRS pension and OPEB contributions as follows: 64.9 percent from the General Fund, 15.9 percent from the Highway Fund, 1.1 percent from the Jail District Operations Fund, and 18.1 percent from other funds.

**Pension liability**—At June 30, 2016, the County reported a liability of \$11,540,653 for its proportionate share of the ASRS’ net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2014, to the measurement date of June 30, 2015. The County’s proportion of the net pension liability was based on the County’s actual contributions to the plan relative to the total of all participating employer’s contributions for the year ended June 30, 2015. The County’s proportion measured as of June 30, 2015, was 0.07409 percent, which was an increase of 0.002398 from its proportion measured as of June 30, 2014.

**Pension expense and deferred outflows/inflows of resources**—For the year ended June 30, 2016, the County recognized pension expense for ASRS of \$783,297. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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**Notes to financial statements**  
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<b>ASRS</b>	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 314,920	\$604,741
Net difference between projected and actual earnings on pension plan investments		369,852
Changes in proportion and differences between county contributions and proportionate share of contributions	345,618	24,068
County contributions subsequent to the measurement date	<u>743,113</u>	
Total	<u>\$1,403,651</u>	<u>\$998,661</u>

The \$743,113 reported as deferred outflows of resources related to ASRS pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to ASRS pensions will be recognized in pension expense as follows:

Year ending June 30	
2017	\$ (83,596)
2018	(279,111)
2019	(242,405)
2020	266,989

**Actuarial Assumptions**—The significant actuarial assumptions used to measure the total pension liability are as follows:

<b>ASRS</b>	
Actuarial valuation date	June 30, 2014
Actuarial roll forward date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	8%
Projected salary increases	3-6.75%
Inflation	3%
Permanent benefit increase	Included
Mortality rates	1994 GAM Scale BB

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2012.

The long-term expected rate of return on ASRS pension plan investments was determined to be 8.79 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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<b>ASRS</b>	<b>Target</b>	<b>Long-term expected</b>
<b>Asset class</b>	<b>allocation</b>	<b>arithmetic real</b>
		<b>rate of return</b>
Equity	58%	6.79%
Fixed income	25%	3.70%
Real estate	10%	4.25%
Multi-asset	5%	3.41%
Commodities	<u>2%</u>	3.93%
Total	<u>100%</u>	

**Discount Rate**—The discount rate used to measure the ASRS total pension liability was 8 percent, which is less than the long-term expected rate of return of 8.79 percent. The projection of cash flows used to determine the discount rate assumed that contributors from participating employers will be made based on the actuarially determined rates based on the ASRS Board’s funding policy, which establishes the contractually required rate under Arizona statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the County’s proportionate share of the ASRS net pension liability to changes in the discount rate**—The following table presents the County’s proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7 percent) or 1 percentage point higher (9 percent) than the current rate:

<b>ASRS</b>	<b>1% decrease</b>	<b>Current</b>	<b>1% increase</b>
	<b>(7%)</b>	<b>discount rate</b>	<b>(9%)</b>
		<b>(8%)</b>	
County’s proportionate share of the net pension liability	\$15,122,199	\$11,540,653	\$9,086,121

**Pension plan fiduciary net position**—Detailed information about the pension plan’s fiduciary net position is available in the separately issued ASRS financial report.

**B. Public Safety Personnel Retirement System and Corrections Officer Retirement Plan**

**Plan descriptions**—County sheriff employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined health insurance premium benefit (OPEB) plan (agent plans). A seven-member board known as the Board of Trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

County detention officers, county dispatchers, and Administrative Office of the Courts (AOC) probation, surveillance, and juvenile detention officers participate in the Correction Officer Retirement Plan (CORP). The CORP administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined health insurance premium benefit (OPEB) plan for county detention officers and dispatchers (agent plans), and a cost-sharing multiple-employer defined benefit pension plan and a cost-



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sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for AOC officers (cost-sharing plans). The PSPRS Board of Trustees and the participating local boards govern CORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPRS and CORP plans. The report is available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

**Benefits provided**—The PSPRS and CORP provides retirement, a health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average monthly compensation, and service credit as follows:

<b>PSPRS</b>	<b>Initial membership date:</b>	
	<b>Before January 1, 2012</b>	<b>On or after January 1, 2012</b>
<b>Retirement and Disability</b>		
Years of service and age required to receive benefit	20 years, any age 15 years, age 62	25 years, age 52.5
Final average salary is based on	Highest 36 consecutive months of last 20 years	Highest 60 consecutive months of last 20 years
Benefit percent		
Normal Retirement	50% less 2.0% for each year of credited service less than 20 years OR plus 2.0% to 2.5% for each year of credited service over 20 years, not to exceed 80%	2.5% per year of credited service, not to exceed 80%
Accidental Disability Retirement	50% or normal retirement, whichever is greater	
Catastrophic Disability Retirement	90% for the first 60 months then reduced to either 62.5% or normal retirement, whichever is greater	
Ordinary Disability Retirement	Normal retirement calculated with actual years of credited service or 20 years of credited service, whichever is greater, multiplied by years of credited service (not to exceed 20 years) divided by 20	
<b>Survivor Benefit</b>		
Retired Members	80% to 100% of retired member's pension benefit	
Active Members	80% to 100% of accidental disability retirement benefit or 100% of average monthly compensation if death was the result of injuries received on the job	

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CORP	Initial membership date:	
	Before January 1, 2012	On or after January 1, 2012
<b>Retirement and Disability</b>		
Years of service and age required to receive benefit	Sum of years and age equals 80 25 years, any age (dispatchers) 20 years, any age (all others) 10 years, age 62	25 years, age 52.5 10 years, age 62
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent	2.0% to 2.5% per year of credited service, not to exceed 80%	
Normal Retirement		
Accidental Disability Retirement	50% or normal retirement if more than 20 years of credited service	50% or normal retirement if more than 25 years of credited service
Total and Permanent Disability Retirement	50% or normal retirement if more than 25 years of credited service	
Ordinary Disability Retirement	2.5% per year of credited service	
<b>Survivor Benefit</b>		
Retired Members	80% of retired member's pension benefit	
Active Members	40% of average monthly compensation or 100% of average monthly compensation if death was the result of injuries received on the job. If there is no surviving spouse or eligible children, the beneficiary is entitled to 2 times the member's contributions.	

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan. PSPRS also provides temporary disability benefits of 50 percent of the member's compensation for up to 12 months.

**Employees covered by benefit terms**—At June 30, 2016, the following employees were covered by the agent pension plans' benefit terms:

	PSPRS Sheriff	CORP Detention	CORP Dispatchers
Inactive employees or beneficiaries currently receiving benefits	6	5	0
Inactive employees entitled to but not yet receiving benefits	8	19	4
Active employees	<u>15</u>	<u>34</u>	<u>5</u>
Total	<u>29</u>	<u>58</u>	<u>9</u>

**Contributions and annual OPEB cost**—State statutes establish the pension contribution requirements for active PSPRS and CORP employees. In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for PSPRS and CORP pension and health insurance premium benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued

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liability. Contribution rates for the year ended June 30, 2016, are indicated below. Rates are a percentage of active members' annual covered payroll.

	<b>PSPRS Sheriff</b>	<b>CORP Detention</b>	<b>CORP Dispatchers</b>	<b>CORP AOC</b>
Active members—Pension	11.65%	8.41%	7.96%	8.41%
County				
Pension	29.61	8.15	6.11	19.10
Health insurance premium benefit	0.22	0.30	0.26	0.85

In addition, statute required the County to contribute at the actuarially determined rate of 28.62 percent for the PSPRS and 11.33 percent for the CORP of annual covered payroll of retired members who worked for the County in positions that an employee who contributes to PSPRS or CORP would typically fill.

For the agent plans, the County's contributions to the pension plan and annual OPEB cost and contributions for the health insurance premium benefit for the year ended June 30, 2016, were:

	<b>PSPRS Sheriff</b>	<b>CORP Detention</b>	<b>CORP Dispatchers</b>
<b>Pension</b>			
Contributions made	\$348,370	\$101,224	\$10,952
<b>Health Insurance Premium Benefit</b>			
Annual OPEB cost	2,532	3,921	493
Contributions made	2,532	3,921	493

Contributions to the CORP AOC pension plan for the year ended June 30, 2016, were \$256,909. The County's contributions for the current and 2 preceding years for the CORP AOC OPEB, all of which were equal to the required contributions, were as follows:

<b>CORP AOC</b>	<b>Health Insurance Fund</b>
<b>Year ended June 30</b>	
2016	\$11,311
2015	18,076
2014	15,111

During fiscal year 2016, the County paid for PSPRS and CORP pension and OPEB contributions as follows: 60.11 percent from the General Fund, 15.32 percent from the Jail District Operations Fund, and 24.57 percent from other funds.

**Pension liability (asset)**—At June 30, 2016, the County reported the following net pension liabilities (and asset):

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	<b>Net pension liability (asset)</b>
PSPRS Sheriff	\$2,686,433
CORP Detention	495,273
CORP Dispatchers	(72,683)
CORP AOC (County's proportionate share)	3,213,105

The net pension liabilities (and asset) were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date.

In May 2016 voters approved Proposition 124 that authorized certain statutory adjustments to PSPRS' automatic cost-of-living adjustments. The statutory adjustments change the basis for future cost-of-living adjustments from excess investment earnings to the change in the consumer price index, limited to a maximum annual increase of 2 percent. The change in the County's net pension liability as a result of the statutory adjustments is not known.

**Pension actuarial assumptions**—The significant actuarial assumptions used to measure the total pension liability are as follows:

**PSPRS and CORP-Pension**

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.0%-8.0% for PSPRS and 4.0%-7.25% for CORP
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table (adjusted by 105% for both males and females)

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on PSPRS and CORP pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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<b>PSPRS and CORP</b>		<b>Long-term geometric expected real rate of return</b>
<b>Asset class</b>	<b>Target allocation</b>	
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	<u>16%</u>	6.23%
Total	<u>100%</u>	

**Pension discount rates**—The discount rate used to measure the PSPRS and CORP total pension liabilities was 7.85 percent. The projection of cash flows used to determine the discount rates assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between the actuarially determined contribution rate and the member rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Changes in the net pension liability (asset)**

<b>PSPRS-Sheriff</b>	<b>Increase (decrease)</b>		
	<b>Total pension liability</b>	<b>Plan fiduciary net position</b>	<b>Net pension liability</b>
	<b>(a)</b>	<b>(b)</b>	<b>(a) – (b)</b>
Balances at June 30, 2015	\$5,918,746	\$3,422,505	\$2,496,241
Changes for the year:			
Service cost	160,546		160,546
Interest on the total pension liability	459,771		459,771
Differences between expected and actual experience in the measurement of the pension liability	(29,096)		(29,096)
Changes of assumptions or other inputs			
Contributions—employer		193,270	(193,270)
Contributions—employee		101,878	(101,878)
Net investment income		125,056	(125,056)
Benefit payments, including refunds of employee contributions	(284,120)	(284,120)	
Administrative expense		(3,429)	3,429
Other changes		(15,746)	15,746
Net changes	<u>307,101</u>	<u>116,909</u>	<u>190,192</u>
Balances at June 30, 2016	<u>\$6,225,847</u>	<u>\$3,539,414</u>	<u>\$2,686,433</u>

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CORP-Detention	Increase (decrease)		
	Total pension liability	Plan fiduciary net position	Net pension liability
	(a)	(b)	(a) – (b)
Balances at June 30, 2015	\$2,315,251	\$1,864,686	\$ 450,565
Changes for the year:			
Service cost	179,080		179,080
Interest on the total pension liability	181,379		181,379
Differences between expected and actual experience in the measurement of the pension liability	(86,107)		(86,107)
Contributions—employer		74,587	(74,587)
Contributions—employee		122,500	(122,500)
Net investment income		67,673	(67,673)
Benefit payments, including refunds of employee contributions	(188,456)	(188,456)	
Administrative expense		(2,059)	2,059
Other changes		(33,057)	33,057
Net changes	<u>85,896</u>	<u>41,188</u>	<u>44,708</u>
Balances at June 30, 2016	<u>\$2,401,147</u>	<u>\$1,905,874</u>	<u>\$ 495,273</u>

CORP-Dispatchers	Increase (decrease)		
	Total pension liability	Plan fiduciary net position	Net pension (asset)
	(a)	(b)	(a) – (b)
Balances at June 30, 2015	\$407,719	\$479,463	\$(71,744)
Changes for the year:			
Service cost	29,562		29,562
Interest on the total pension liability	33,166		33,166
Differences between expected and actual experience in the measurement of the pension liability	(21,537)		(21,537)
Contributions—employer		10,664	(10,664)
Contributions—employee		14,585	(14,585)
Net investment income		18,096	(18,096)
Administrative expense		(835)	835
Other changes		(380)	380
Net changes	<u>41,191</u>	<u>42,130</u>	<u>(939)</u>
Balances at June 30, 2016	<u>\$448,910</u>	<u>\$521,593</u>	<u>\$(72,683)</u>

The County's proportion of the CORP AOC net pension liability was based on the County's actual contributions to the plan relative to the total of all participating counties' actual contributions for the year ended June 30, 2015. The County's proportion measured as of June 30, 2015, was 1.321665 percent, which was an increase of 0.089434 from its proportion measured as of June 30, 2014.

**Sensitivity of the County's net pension liability (asset) to changes in the discount rate**—The following table presents the County's net pension liabilities (assets) calculated using the discount rate of 7.85 percent, as well as what the County's net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.85 percent) or 1 percentage point higher (8.85 percent) than the current rate:

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	<b>1% decrease</b>	<b>Current discount rate</b>	<b>1% increase</b>
PSPRS Sheriff	(6.85%)	(7.85%)	(8.85%)
Net pension liability	\$3,479,713	\$2,686,433	\$2,034,221
CORP Detention			
Net pension liability	\$ 804,100	\$ 495,273	\$ 241,989
CORP Dispatchers			
Net pension asset	\$ 12,621	\$ (72,683)	\$ (140,954)
CORP AOC			
County's proportionate share of the net pension liability	\$4,201,151	\$3,213,105	\$2,390,797

**Pension plan fiduciary net position**—Detailed information about the pension plan's fiduciary net position is available in the separately issued PSPRS and CORP financial reports.

**Pension expense**—For the year ended June 30, 2016, the County recognized the following pension expense:

	<b>Pension Expense</b>
PSPRS Sheriff	\$297,420
CORP Detention	113,272
CORP Dispatchers	3,414
CORP AOC (County's proportionate share)	460,595

**Pension deferred outflows/inflows of resources**—At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b>PSPRS-Sheriff</b>	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience		\$268,696
Changes of assumptions or other inputs	\$375,724	
Net difference between projected and actual earnings on pension plan investments	10,829	
County contributions subsequent to the measurement date	<u>348,370</u>	
Total	<u>\$734,923</u>	<u>\$268,696</u>

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	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
<b>CORP-Detention</b>		
Differences between expected and actual experience		\$190,681
Changes of assumptions or other inputs	\$136,221	
Net difference between projected and actual earnings on pension plan investments	4,858	
County contributions subsequent to the measurement date	<u>101,224</u>	
Total	<u>\$242,303</u>	<u>\$190,681</u>
<b>CORP-Dispatchers</b>		
Differences between expected and actual experience		\$39,748
Changes of assumptions or other inputs	\$ 1,247	
Net difference between projected and actual earnings on pension plan investments	2,286	
County contributions subsequent to the measurement date	<u>10,952</u>	
Total	<u>\$14,485</u>	<u>\$39,748</u>
<b>CORP-AOC</b>		
Differences between expected and actual experience	\$110,035	\$18,135
Changes of assumptions or other inputs	340,570	
Net difference between projected and actual earnings on pension plan investments	17,667	
Changes in proportion and differences between county contributions and proportionate share of contributions	140,613	
County contributions subsequent to the measurement date	<u>256,909</u>	
Total	<u>\$865,794</u>	<u>\$18,135</u>

The amounts reported as deferred outflows of resources related to pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability (or an increase of the net pension asset) in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:



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	<b>PSPRS Sheriff</b>	<b>CORP Detention</b>	<b>CORP Dispatchers</b>	<b>CORP AOC</b>
Year ending June 30				
2017	\$28,153	(\$14,465)	(\$7,363)	\$148,059
2018	28,153	(14,465)	(7,363)	148,059
2019	28,153	(14,465)	(7,363)	148,059
2020	33,400	4,626	(2,662)	136,184
2021		(10,832)	(6,759)	10,339
Thereafter			(4,706)	

**Agent plan OPEB actuarial assumptions**—The health insurance premium benefit contribution requirements for the year ended June 30, 2016, were established by the June 30, 2014, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on (1) the plans as the County and plans' members understand them and include the types of benefits in force at the valuation date, and (2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all PSPRS and CORP plans and related benefits (unless noted), and the following actuarial methods and assumptions were used to establish the fiscal year 2016 contribution requirements:

**PSPRS and CORP-OPEB contribution requirements**

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 20% corridor
Actuarial assumptions:	
Investment rate of return	7.85%
Projected salary increases	4%-8% for PSPRS and 4%-7.25% for CORP
Wage growth	4% for PSPRS and CORP

**Agent plan OPEB trend information**—Annual OPEB cost information for the health insurance premium benefit for the current and 2 preceding years follows for each of the agent plans:

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<b>Year ended June 30</b>	<b>Annual OPEB cost</b>	<b>Percentage of annual cost contributed</b>	<b>Net OPEB obligation</b>
PSPRS Sheriff			
2016	\$ 2,532	100%	\$0
2015	12,655	100	0
2014	11,987	100	0

<b>Year ended June 30</b>	<b>Annual OPEB cost</b>	<b>Percentage of annual cost contributed</b>	<b>Net OPEB obligation</b>
CORP Detention			
2016	\$ 3,921	100%	\$0
2015	6,357	100	0
2014	8,329	100	0
CORP Dispatchers			
2016	\$ 493	100%	\$0
2015	1,154	100	0
2014	1,364	100	0

**Agent plan OPEB funded status**—The health insurance premium benefit plans' funded status as of the most recent valuation date, June 30, 2016, along with the actuarial assumptions and methods used in those valuations follow:

	<b>PSPRS Sheriff</b>	<b>CORP Detention</b>	<b>CORP Dispatchers</b>
Actuarial value of assets (a)	\$232,686	\$ 73,800	\$ 18,687
Actuarial accrued liability (b)	211,208	64,507	16,359
(Funding excess) (b) – (a)	(21,478)	(9,293)	(2,328)
Funded ratio (a)/(b)	110.17%	114.41%	114.23%
Annual covered payroll (c)	\$848,381	\$1,185,164	\$153,684
(Funding excess) as a percentage of covered payroll (b) – (a) / (c)	(2.5%)	(0.8%)	(1.5%)

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The actuarial methods and assumptions used are the same for all the PSPRS and CORP health insurance premium benefit plans (unless noted), and for the most recent valuation date are as follows:

**PSPRS and CORP-OPEB funded status**

Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	20 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4%-8% for PSPRS and 4%-7.25% for CORP
Wage growth	4% for PSPRS and CORP

**C. Elected Officials Retirement Plan**

**Plan description**—Elected officials and judges participate in the Elected Officials Retirement Plan (EORP) or the Elected Officials Defined Contribution Retirement System (EODCRS). EORP administers a cost-sharing multiple-employer defined benefit pension plan and a cost-sharing multiple-employer defined benefit health insurance premium benefit (OPEB) plan for elected officials and judges who were members of the plan on December 31, 2013. This plan was closed to new members as of January 1, 2014. The PSPRS Board of Trustees governs the EORP according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. The PSPRS issues a publicly available financial report that includes financial statements and required supplementary information for the EORP plans. The report is available on the PSPRS’s website at [www.psprs.com](http://www.psprs.com).

**Benefits provided**—The EORP provides retirement, health insurance premium supplement, disability, and survivor benefits. State statute establishes benefit terms. Retirement, disability, and survivor benefits are calculated on the basis of age, average yearly compensation, and service credit as follows:

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<b>EORP</b>	<b>Retirement</b>	
	<b>Initial membership date:</b>	
<b>Retirement and Disability</b>	<b>Before January 1, 2012</b>	<b>On or after January 1, 2012</b>
Years of service and age required to receive benefit	20 years, any age 10 years, age 62 5 years, age 65 5 years, any age* Any years and age if disabled	10 years, age 62 5 years, age 65 any years and age if disabled
Final average salary is based on	Highest 36 consecutive months of last 10 years	Highest 60 consecutive months of last 10 years
Benefit percent		
Normal Retirement	4% per year of service, not to exceed 80%	3% per year of service, not to exceed 75%
Disability Retirement	80% with 10 or more years of service 40% with 5 to 10 years of service 20% with less than 5 years of service	75% with 10 or more years of service 37.5% with 5 to 10 years of service 18.75% with less than 5 years of service
<b>Survivor Benefit</b>		
Retired Members	75% of retired member's benefit	50% of retired member's benefit
Active Members and Other Inactive Members	75% of disability retirement benefit	50% of disability retirement benefit

\* With reduced benefits of 0.25 percent for each month of early retirement precedes the member's normal retirement age, with a maximum reduction of 30 percent.

Retirement and survivor benefits are subject to automatic cost-of-living adjustments based on excess investment earning. In addition, from and after December 31, 2015, the Legislature may enact permanent one-time benefit increases after a Joint Legislative Budget Committee analysis of the increase's effects on the plan.

**Contributions**—State statutes establish active member and employer contribution requirements. Statute also appropriates \$5 million annually through fiscal year 2043 for the EORP from the State of Arizona to supplement normal cost plus an amount to amortize the unfunded accrued liability and designates a portion of certain court fees for the EORP. For the year ended June 30, 2016, statute required active EORP members to contribute 13 percent of the members' annual covered payroll and the County to contribute 23.5 percent of active EORP members' annual covered payroll. Also, statute required the County to contribute 17.50 percent to EORP of the annual covered payroll of elected officials and judges who were EODCRS members, in addition to the County's required contributions to EODCRS for these elected officials and judges. The County's contribution to the pension plan for the year ended June 30, 2016, were \$199,399. No OPEB contributions were required or made for the years ended June 30, 2015 and 2016. The County's OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

**Graham County**  
**Notes to financial statements**  
**June 30, 2016**

EORP	Health Insurance Fund
<b>Year ended June 30</b>	
2016	\$ 0
2015	0
2014	14,159

During fiscal year 2016, the County paid for EORP pension contributions: 100 percent from the General Fund.

**Pension liability**—At June 30, 2016, the County reported a liability for its proportionate share of the EORP's net pension liability that reflected a reduction for the County's proportionate share of the State's appropriation for EORP. The amount the County recognized as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the County were as follows:

County's proportionate share of the EORP net pension liability	\$7,561,981
State's proportionate share of the EORP net pension liability associated with the County	<u>2,357,511</u>
Total	<u>\$9,919,492</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on the County's actual contributions to the plan relative to the total of all participating employers' actual contributions for the year ended June 30, 2015. The County's proportion measured as of June 30, 2015, was 0.9676842 percent, which was an increase of 0.00256405 from its proportion measured as of June 30, 2014.

**Pension expense and deferred outflows/inflows of resources**—For the year ended June 30, 2016, the County recognized pension expense for EORP of \$2,381,568 and revenue of \$634,319 for the County's proportionate share of the State's appropriation to EORP and the designated court fees. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Graham County**  
**Notes to financial statements**  
**June 30, 2016**

<b>EORP</b>	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 12,092	\$84,192
Changes of assumptions or other inputs	1,267,072	
Net difference between projected and actual earnings on pension plan investments	45,863	
Changes in proportion and differences between county contributions and proportionate share of contributions	77,807	
County contributions subsequent to the measurement date	<u>199,399</u>	
Total	<u>\$1,602,233</u>	<u>\$84,192</u>

The \$199,399 reported as deferred outflows of resources related to EORP pensions resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to EORP pensions will be recognized in pension expense as follows:

Year ending June 30	
2017	\$1,092,858
2018	187,474
2019	3,777
2020	34,533

**Actuarial Assumptions**—The significant actuarial assumptions used to measure the total pension liability are as follows:

<b>EORP</b>	
Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age normal
Investment rate of return	7.85%
Projected salary increases	4.25%
Inflation	4.0%
Permanent benefit increase	Included
Mortality rates	RP-2000 mortality table projected to 2025 with projection scale AA

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the 5-year period ended June 30, 2011.

The long-term expected rate of return on EORP pension plan investments was determined to be 7.85 percent using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

**Graham County**  
**Notes to financial statements**  
**June 30, 2016**

<b>EORP</b>		
<b>Asset class</b>	<b>Target allocation</b>	<b>Long-Term expected geometric real rate of return</b>
Short term investments	2%	0.75%
Absolute return	5%	4.11%
Risk parity	4%	5.13%
Fixed income	7%	2.92%
Real assets	8%	4.77%
GTAA	10%	4.38%
Private equity	11%	9.50%
Real estate	10%	4.48%
Credit opportunities	13%	7.08%
Non-U.S. equity	14%	8.25%
U.S. equity	<u>16%</u>	6.23%
Total	<u>100%</u>	

**Discount rate**—At June 30, 2015, the discount rate used to measure the EORP total pension liability was 4.86 percent, which was a decrease of 0.81 from the discount rate used as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate, employer contributors will be made at the statutorily set rates, and state contributions will be made as currently required by statute. Based on those assumptions, the pension plan’s fiduciary net position was projected to be insufficient to make all projected future benefit payments of current plan members. Therefore, to determine the total pension liability for the plan, the long-term expected rate of return on pension plan investments of 7.85 percent was applied to periods of projected benefit payments through the year ended June 30, 2028. A municipal bond rate of 3.80 percent obtained from the 20-year Bond Buyer index, as published by the Federal Reserve as of June 25, 2015, was applied to periods of projected benefit payments after June 30, 2028.

**Sensitivity of the County’s proportionate share of the EORP net pension liability to changes in the discount rate**—The following table presents the County’s proportionate share of the net pension liability calculated using the discount rate of 4.86 percent, as well as what the County’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.86 percent) or 1 percentage point higher (5.86 percent) than the current rate:

<b>EORP</b>	<b>1% decrease (3.86%)</b>	<b>Current discount rate (4.86%)</b>	<b>1% increase (5.86%)</b>
County’s proportionate share of the net pension liability	\$8,803,100	\$7,561,981	\$6,518,265

**Pension plan fiduciary net position**—Detailed information about the pension plan’s fiduciary net position is available in the separately issued EORP financial report.

**Graham County**  
**Notes to financial statements**  
**June 30, 2016**

**EODCRS plan**—Elected officials and judges who are not members of EORP or ASRS participate in the EODCRS and the Elected Officials Defined Contribution Retirement System Disability Program (EODCDP). The EODCRS is a defined contribution pension plan. The EODCDP is a cost-sharing multiple-employer defined benefit disability (OPEB) plan for EODCRS members. The PSPRS Board of Trustees governs the EODCRS and EODCDP according to the provisions of A.R.S. Title 38, Chapter 5, Articles 3.1 and 3.2 benefit terms, including contribution requirements, are established by state statute.

For the year ended June 30, 2016, active EODCRS members were required by statute to contribute 8 percent of the members’ annual covered payroll, and the County was required by statute to contribute 6 percent of active members’ annual covered payroll to an individual employee account. Employees are immediately vested in their own contributions and the County’s contributions to the individual employee account and the earnings on those contributions. In addition, statute required active EODCRS members and the County to each contribute at the actuarially determined rate of 0.125 percent of the members’ annual covered payroll to the EODCDP plan. For the year ended June 30, 2016, the County recognized pension expense of \$3,045. The County’s OPEB contributions for the current and 2 preceding years, all of which were equal to the required contributions, were as follows:

<b>EODCDP</b>		<b>Disability</b>
<b>Year ended June 30</b>		<b>Fund</b>
2016		\$64
2015		0
2014		0

**Note 10 - Interfund activity**

**Interfund transfers**—Interfund transfers for the year ended June 30, 2016, were as follows:

<b>Transfer from</b>	<b>Transfer to</b>				<b>Total</b>
	<b>General fund</b>	<b>Highway road fund</b>	<b>Jail district operations fund</b>	<b>Other governmental funds</b>	
General fund		\$ 65,435	\$2,844,139	\$ 51,448	\$2,961,022
Highway road fund				28,245	28,245
Jail district operations fund		582			582
Other governmental funds	<u>\$57,875</u>	<u>91,865</u>		<u>31,683</u>	<u>181,423</u>
Total	<u>\$57,875</u>	<u>\$157,882</u>	<u>\$2,844,139</u>	<u>\$111,376</u>	<u>\$3,171,272</u>

Transfers are used to move revenues from the funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them. \$2,844,139, which represents the majority of the \$2,961,870 transfers from the General Fund was to fund statutorily required maintenance of effort payments to the Jail District Operations Fund.



**Graham County**  
**Notes to financial statements**  
**June 30, 2016**

**Note 11 - County Treasurer's investment pool**

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

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

The Treasurer allocates interest earnings to each of the pool's participants. However, for the County's monies in the pool, \$1,622 of interest earned in certain other funds was transferred to the General Fund.

The deposits and investments the County holds are included in the County Treasurer's investment pool, except for \$856,190 of deposits, \$62,393 of investments in the State Treasurer's investment pools, and \$26,824,212 of investments held by trustee. See Note 2 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

<b>Investment type</b>	<b>Principal</b>	<b>Interest rates</b>	<b>Maturities</b>	<b>Amount</b>
State Treasurer's investment pool 7	\$13,809,632	None stated	None stated	\$13,809,632
State Treasurer's investment pool 5	3,286,856	None stated	None stated	3,286,856
Negotiable certificates of deposit	8,190,000	.65-1.65%	09/16 – 07/18	8,219,392
U.S. agency securities	<u>2,000,000</u>	1.00-1.10%	07/17 – 08/17	<u>2,003,180</u>
	<u>\$27,286,488</u>			<u>\$27,319,060</u>

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

**Statement of net position**

Assets	\$ 29,346,975
Net position	<u>\$ 29,346,975</u>

Net position held in trust for:

Internal participants	\$ 7,671,336
External participants	<u>21,675,639</u>
Total net position held in trust	<u>\$ 29,346,975</u>

**Statement of changes in net position**

Total additions	\$106,724,642
Total deductions	<u>127,128,952</u>
Net increase (decrease)	<u>(20,404,310)</u>
Net position held in trust:	
July 1, 2015	<u>49,751,285</u>
June 30, 2016	<u>\$ 29,346,975</u>

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Other required supplementary information

**Graham County**  
**Required supplementary information**  
**Budgetary comparison schedule**  
**General fund**  
**Year ended June 30, 2016**

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 4,855,226	\$ 4,855,226	\$ 4,811,590	\$ (43,636)
County sales taxes	2,000,000	2,000,000	1,772,719	(227,281)
Licenses and permits	55,000	55,000	50,131	(4,869)
Intergovernmental	9,858,235	9,858,235	9,192,161	(666,074)
Charges for services	1,791,576	1,791,576	1,819,052	27,476
Fines and forfeits	240,000	240,000	227,043	(12,957)
Investment income	3,500	3,500	2,010	(1,490)
Rents	22,000	22,000	23,974	1,974
Miscellaneous	61,000	61,000	91,196	30,196
Total revenues	<u>18,886,537</u>	<u>18,886,537</u>	<u>17,989,876</u>	<u>(896,661)</u>
Expenditures:				
Current				
General government				
Board of supervisors	786,626	786,626	785,232	1,394
Treasurer	379,446	379,446	311,166	68,280
Assessor	642,174	642,174	615,830	26,344
Recorder	272,520	272,520	255,334	17,186
Elections	216,204	216,204	193,660	22,544
Attorney	1,162,591	1,162,591	931,741	230,850
Employment and training	80,200	80,200	76,511	3,689
Clerk of the court	526,473	526,473	527,107	(634)
Superior court	955,699	955,699	815,014	140,685
Justice of the peace No.1	369,750	369,750	372,663	(2,913)
Justice of the peace No.2	213,718	213,718	207,906	5,812
Victim witness	13,571	13,571	14,114	(543)
Public fiduciary	89,734	89,734	84,588	5,146
Planning and zoning	256,229	256,229	254,684	1,545
Building maintenance	193,107	193,107	171,568	21,539
Electrical maintenance	9,031	9,031	6,635	2,396
Overtime	12,000	12,000		12,000
General services	273,000	273,000	211,073	61,927
Contingency	377,745	377,745		377,745
Miscellaneous	512,829	512,829	406,675	106,154
Medical examiner	66,600	66,600	60,992	5,608
Information technology	1,371,160	1,371,160	1,293,282	77,878
Total general government	<u>8,780,407</u>	<u>8,780,407</u>	<u>7,595,775</u>	<u>1,184,632</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

**Graham County**  
**Required supplementary information**  
**Budgetary comparison schedule**  
**General fund**  
**Year ended June 30, 2016**  
**(Continued)**

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Public safety				
Probation	\$ 163,021	\$ 163,021	\$ 157,612	\$ 5,409
Sheriff	3,227,737	3,227,737	2,992,527	235,210
Search and rescue	17,066	17,066	12,072	4,994
Juvenile detention center	1,387,829	1,387,829	1,227,359	160,470
Animal shelter	250,342	250,342	187,405	62,937
Total public safety	<u>5,045,995</u>	<u>5,045,995</u>	<u>4,576,975</u>	<u>469,020</u>
Sanitation				
Sanitary landfill	<u>108,500</u>	<u>108,500</u>	<u>32,169</u>	<u>76,331</u>
Health				
Health services	<u>262,418</u>	<u>262,418</u>	<u>257,751</u>	<u>4,667</u>
Welfare				
Attorney for the indigent	488,000	488,000	488,000	-
Indigent medical	<u>1,993,400</u>	<u>1,993,400</u>	<u>1,990,947</u>	<u>2,453</u>
Total welfare	<u>2,481,400</u>	<u>2,481,400</u>	<u>2,478,947</u>	<u>2,453</u>
Cultural and recreation				
Parks and recreation	<u>387,162</u>	<u>387,162</u>	<u>383,387</u>	<u>3,775</u>
Education				
School superintendent	<u>217,102</u>	<u>217,102</u>	<u>207,105</u>	<u>9,997</u>
Capital outlay	<u>300,000</u>	<u>300,000</u>	<u>766,758</u>	<u>(466,758)</u>
Total expenditures	<u>17,582,984</u>	<u>17,582,984</u>	<u>16,298,867</u>	<u>1,284,117</u>
Excess (deficiency) of revenues over expenditures	<u>1,303,553</u>	<u>1,303,553</u>	<u>1,691,009</u>	<u>387,456</u>

(Continued)

See accompanying notes to budgetary comparison schedules.

**Graham County**  
**Required supplementary information**  
**Budgetary comparison schedule**  
**General fund**  
**Year ended June 30, 2016**  
**(Continued)**

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Capital lease agreements			\$ 545,311	\$ 545,311
Proceeds from sale of capital assets			14	14
Transfers in	\$ 63,995	\$ 63,995	57,875	(6,120)
Transfers out	<u>(2,894,787)</u>	<u>(2,894,787)</u>	<u>(2,961,022)</u>	<u>(66,235)</u>
Total other financing sources and (uses)	<u>(2,830,792)</u>	<u>(2,830,792)</u>	<u>(2,357,822)</u>	<u>472,970</u>
Net change in fund balances	(1,527,239)	(1,527,239)	(666,813)	860,426
Fund balances, July 1, 2015	<u>(4,305,782)</u>	<u>(4,305,782)</u>	<u>2,346,953</u>	<u>6,652,735</u>
Fund balances, June 30, 2016	<u><u>\$ (5,833,021)</u></u>	<u><u>\$ (5,833,021)</u></u>	<u><u>\$ 1,680,140</u></u>	<u><u>\$ 7,513,161</u></u>

See accompanying notes to budgetary comparison schedules.

**Graham County**  
**Required supplementary information**  
**Budgetary comparison schedule**  
**Highway road fund**  
**Year ended June 30, 2016**

	<b>Budgeted amounts</b>		<b>Actual amounts</b>	<b>Variance with final budget</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Intergovernmental	\$ 3,622,364	\$ 3,622,364	\$ 3,602,979	\$ (19,385)
Charges for services	105,000	100,000		(100,000)
Investment income	10,000	10,000	14,337	4,337
Rents	9,000	1,500		(1,500)
Miscellaneous	70,000	82,500	47,681	(34,819)
Total revenues	<u>3,816,364</u>	<u>3,816,364</u>	<u>3,664,997</u>	<u>(151,367)</u>
Expenditures:				
Current:				
Highways and streets				
General road		5,065,179	2,972,424	2,092,755
Engineering		472,729	219,710	253,019
Safety department		24,049	22,330	1,719
Total highways and streets	<u>6,425,589</u>	<u>5,561,957</u>	<u>3,214,464</u>	<u>2,347,493</u>
Capital outlay	<u>-</u>	<u>863,632</u>	<u>20,798</u>	<u>842,834</u>
Total expenditures	<u>6,425,589</u>	<u>6,425,589</u>	<u>3,235,262</u>	<u>3,190,327</u>
Excess (deficiency) of revenues over expenditures	<u>(2,609,225)</u>	<u>(2,609,225)</u>	<u>429,735</u>	<u>3,038,960</u>
Other financing sources (uses):				
Proceeds from sale of capital assets			990	990
Transfers in			157,882	157,882
Transfers out	<u>-</u>	<u>-</u>	<u>(28,245)</u>	<u>(28,245)</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>130,627</u>	<u>130,627</u>
Net change in fund balances	(2,609,225)	(2,609,225)	560,362	3,169,587
Fund balances, July 1, 2015	2,609,225	2,609,225	3,238,230	629,005
Changes in nonspendable resources:				
Increase in inventories	<u>-</u>	<u>-</u>	<u>95,003</u>	<u>95,003</u>
Fund balances, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,893,595</u>	<u>\$ 3,893,595</u>

See accompanying notes to budgetary comparison schedules.

**Graham County**  
**Required supplementary information**  
**Budgetary comparison schedule**  
**Jail district operations fund**  
**Year ended June 30, 2016**

	<b>Budgeted amounts</b>		<b>Actual amounts</b>	<b>Variance with final budget</b>
	<b>Original</b>	<b>Final</b>		
Revenues:				
Intergovernmental	\$ 10,000	\$ 10,000	\$ 6,056	\$ (3,944)
Jail district taxes	1,666,666	65,451	-	(65,451)
Charges for services	21,689	21,689	24,259	2,570
Investment income	6,000	6,000	67	(5,933)
Miscellaneous	7,400	7,400	152	(7,248)
Total revenues	<u>1,711,755</u>	<u>110,540</u>	<u>30,534</u>	<u>(80,006)</u>
Expenditures:				
Current:				
Public safety	<u>4,507,542</u>	<u>2,906,327</u>	<u>2,954,290</u>	<u>(47,963)</u>
Capital outlay	<u>24,000</u>	<u>24,000</u>	<u>29,785</u>	<u>(5,785)</u>
Total expenditures	<u>4,531,542</u>	<u>2,930,327</u>	<u>2,984,075</u>	<u>(53,748)</u>
Excess (deficiency) of revenues over expenditures	<u>(2,819,787)</u>	<u>(2,819,787)</u>	<u>(2,953,541)</u>	<u>(133,754)</u>
Other financing sources:				
Transfers in	2,819,787	2,819,787	2,844,139	24,352
Transfers out	-	-	(582)	(582)
Total other financing sources	<u>2,819,787</u>	<u>2,819,787</u>	<u>2,843,557</u>	<u>23,770</u>
Net change in fund balances	-	-	(109,984)	(109,984)
Fund balances, July 1, 2015	-	-	-	-
Fund balances, June 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (109,984)</u>	<u>\$ (109,984)</u>

See accompanying notes to budgetary comparison schedules.



**Graham County**  
**Required supplementary information**  
**Notes to budgetary comparison schedules**  
**June 30, 2016**

**Note 1 - Budgeting and budgetary control**

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

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

**Graham County**  
**Required supplementary information**  
**Schedule of the County's proportionate share of the net pension liability**  
**Cost-sharing pension plans**  
**June 30, 2016**

**Arizona State Retirement System**

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
County's proportion of the net pension liability	0.074090%	0.071692%	Information
County's proportionate share of the net pension liability	\$ 11,540,653	\$ 10,607,990	not available
County's covered payroll	\$ 6,847,161	\$ 6,476,618	
County's proportionate share of the net pension liability as a percentage of its covered payroll	168.55%	163.79%	
Plan fiduciary net position as a percentage of the total pension liability	68.35%	69.49%	

**Corrections Officer Retirement Plan—  
Administrative Office of the Courts**

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
County's proportion of the net pension liability	1.321665%	1.232231%	Information
County's proportionate share of the net pension liability	\$ 3,213,105	\$ 2,765,040	not available
County's covered payroll	\$ 1,394,172	\$ 1,372,002	
County's proportionate share of the net pension liability as a percentage of its covered payroll	230.47%	201.53%	
Plan fiduciary net position as a percentage of the total pension liability	57.89%	58.59%	

**Elected Officials Retirement Plan**

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
County's proportion of the net pension liability	0.9676842%	0.9420437%	Information
County's proportionate share of the net pension liability	\$ 7,561,981	\$ 6,317,081	not available
State's proportionate share of the net pension liability associated with the County	<u>\$ 2,357,511</u>	<u>1,935,486</u>	
Total	<u>\$ 9,919,492</u>	<u>\$ 8,252,567</u>	
County's covered payroll	\$ 866,869	\$ 865,822	
County's proportionate share of the net pension liability as a percentage of its covered payroll	872.33%	729.61%	
Plan fiduciary net position as a percentage of the total pension liability	28.32%	31.91%	

**Graham County**  
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**Schedule of changes in the County's**  
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**June 30, 2016**

**PSPRS**

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 160,546	\$ 192,299	
Interest on the total pension liability	459,771	407,274	
Changes of benefit terms		108,018	
Differences between expected and actual experience in the measurement of pension liability	(29,096)	(396,687)	
Changes of assumptions or other inputs		606,963	
Benefit payments, including refunds of employee contributions	<u>(284,120)</u>	<u>(182,340)</u>	
Net changes in total pension liability	307,101	735,527	
Total pension liability—beginning	<u>5,918,746</u>	<u>5,183,219</u>	
Total pension liability—ending (a)	<u>\$ 6,225,847</u>	<u>\$ 5,918,746</u>	
Plan fiduciary net position			
Contributions—employer	193,270	\$ 195,845	
Contributions—employee	101,878	98,297	
Net investment income	125,056	414,968	
Benefit payments, including refunds of employee contributions	(284,120)	(182,340)	
Administrative expense	(3,429)	(3,342)	
Other changes	<u>(15,746)</u>	<u>(89,584)</u>	
Net changes in plan fiduciary net position	116,909	433,844	
Plan fiduciary net position—beginning	<u>3,422,505</u>	<u>2,988,661</u>	
Plan fiduciary net position—ending (b)	<u>\$ 3,539,414</u>	<u>\$ 3,422,505</u>	
County's net pension liability—ending (a) – (b)	<u>\$ 2,686,433</u>	<u>\$ 2,496,241</u>	
Plan fiduciary net position as a percentage of the total pension liability	56.85%	57.82%	
Covered payroll	\$ 935,210	\$ 1,006,178	
County's net pension liability as a percentage of covered payroll	287.25%	248.09%	

**Graham County**  
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**CORP-Detention**

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 179,080	\$ 159,853	
Interest on the total pension liability	181,379	169,277	
Changes of benefit terms		37,587	
Differences between expected and actual experience in the measurement of pension liability	(86,107)	(171,643)	
Changes of assumptions or other inputs		196,121	
Benefit payments, including refunds of employee contributions	<u>(188,456)</u>	<u>(304,826)</u>	
Net changes in total pension liability	85,896	86,369	
Total pension liability—beginning	<u>2,315,251</u>	<u>2,228,882</u>	
Total pension liability—ending (a)	<u>\$ 2,401,147</u>	<u>\$ 2,315,251</u>	
Plan fiduciary net position			
Contributions—employer	\$ 74,587	\$ 104,148	
Contributions—employee	122,500	93,360	
Net investment income	67,673	230,025	
Benefit payments, including refunds of employee contributions	(188,456)	(304,826)	
Administrative expense	(2,059)	(1,809)	
Other changes	(33,057)		
Net changes in plan fiduciary net position	41,188	120,898	
Plan fiduciary net position—beginning	<u>1,864,686</u>	<u>1,743,788</u>	
Plan fiduciary net position—ending (b)	<u>\$ 1,905,874</u>	<u>\$ 1,864,686</u>	
County's net pension liability—ending (a) – (b)	<u>\$ 495,273</u>	<u>\$ 450,565</u>	
Plan fiduciary net position as a percentage of the total pension liability	79.37%	80.54%	
Covered payroll	\$ 1,202,220	\$ 1,107,018	
County's net pension liability as a percentage of covered payroll	41.20%	40.70%	

**Graham County**  
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**CORP-Dispatchers**

	Reporting fiscal year (Measurement date)		
	2016 (2015)	2015 (2014)	2014 through 2007
Total pension liability			Information not available
Service cost	\$ 29,562	\$ 34,365	
Interest on the total pension liability	33,166	31,045	
Differences between expected and actual experience in the measurement of pension liability	(21,537)	(29,030)	
Changes of assumptions or other inputs		1,695	
Benefit payments, including refunds of employee contributions		(17,295)	
Net changes in total pension liability	41,191	20,780	
Total pension liability—beginning	407,719	386,939	
Total pension liability—ending (a)	<u>\$ 448,910</u>	<u>\$ 407,719</u>	
Plan fiduciary net position			
Contributions—employer	\$ 10,664	\$ 14,898	
Contributions—employee	14,585	16,679	
Net investment income	18,096	56,641	
Benefit payments, including refunds of employee contributions		(17,295)	
Administrative expense	(835)	(444)	
Other changes	(380)		
Net changes in plan fiduciary net position	42,130	70,479	
Plan fiduciary net position—beginning	479,463	408,984	
Plan fiduciary net position—ending (b)	<u>\$ 521,593</u>	<u>\$ 479,463</u>	
County's net pension asset—ending (a) – (b)	<u>\$ (72,683)</u>	<u>\$ (71,744)</u>	
Plan fiduciary net position as a percentage of the total pension liability	116.19%	117.60%	
Covered payroll	\$ 183,226	\$ 209,895	
County's net pension asset as a percentage of covered payroll	(39.67)%	(34.18)%	

**Graham County**  
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**Schedule of county pension contributions**  
**June 30, 2016**

**Arizona State Retirement System**

	Reporting fiscal year			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 743,113	\$ 743,150	\$ 691,491	Information not available
County's contributions in relation to statutorily required contribution	743,113	743,150	691,491	
County's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
County's covered payroll	\$ 6,869,957	\$ 6,847,161	\$ 6,476,618	
County's contributions as a percentage of covered payroll	10.82%	10.85%	10.68%	

**Corrections Officer Retirement Plan—  
Administrative Office of the Courts**

	Reporting fiscal year			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 256,909	\$ 218,876	\$ 191,632	Information not available
County's contributions in relation to statutorily required contribution	256,909	218,876	191,632	
County's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
County's covered payroll	\$ 1,391,108	\$ 1,394,172	\$ 1,372,002	
County's contributions as a percentage of covered payroll	18.47%	15.70%	13.97%	

**Elected Officials Retirement Plan**

	Reporting fiscal year			2013 through 2007
	2016	2015	2014	
Statutorily required contribution	\$ 199,399	\$ 203,451	\$ 200,725	Information not available
County's contributions in relation to statutorily required contribution	199,399	203,451	200,725	
County's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
County's covered payroll	\$ 861,210	\$ 866,869	\$ 865,822	
County's contributions as a percentage of covered payroll	23.15%	23.47%	23.18%	

**Graham County**  
**Required supplementary information**  
**Schedule of county pension contributions**  
**June 30, 2016**

	Reporting fiscal year			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 302,705	\$ 193,270	\$ 195,845	Information not available
County's contributions in relation to statutorily required contribution	348,370	193,270	195,845	
County's contribution deficiency (excess)	<u>\$ (45,665)</u>	<u>\$ -</u>	<u>\$ -</u>	
County's covered payroll	\$ 1,034,588	\$ 935,210	\$ 1,006,178	
County's contributions as a percentage of covered payroll	33.67%	20.67%	19.46%	

	Reporting fiscal year			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 101,224	\$ 74,587	\$ 104,148	Information not available
County's contributions in relation to statutorily required contribution	101,224	74,587	104,148	
County's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
County's covered payroll	\$ 1,244,657	\$ 1,202,220	\$ 1,107,018	
County's contributions as a percentage of covered payroll	8.13%	6.20%	9.41%	

	Reporting fiscal year			2013 through 2007
	2016	2015	2014	
Actuarially determined contribution	\$ 10,952	\$ 10,664	\$ 14,898	Information not available
County's contributions in relation to statutorily required contribution	10,952	10,664	14,898	
County's contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
County's covered payroll	\$ 179,580	\$ 183,226	\$ 209,895	
County's contributions as a percentage of covered payroll	6.10%	5.82%	7.10%	

**Graham County**  
**Required supplementary information**  
**Notes to pension plan schedules**  
**June 30, 2016**

**Note 1 – Change in accounting principle**

For the year ended June 30, 2016, the County implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

**Note 2 – Actuarially determined contribution rates**

Actuarial determined contribution rates for PSPRS and CORP are calculated as of June 30, 2 years prior to the end of the fiscal year in which contributions are made. The actuarial methods and assumptions used to establish the contribution requirements are as follows:

Actuarial cost method	Entry age normal
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period as of the 2014 actuarial valuation	22 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value; 80%/120% market corridor
Actuarial assumptions:	
Investment rate of return	In the 2013 actuarial valuation, the investment rate of return was decreased from 8.0% to 7.85%
Projected salary increases	In the 2014 actuarial valuation, projected salary increases were decreased from 4.5%-8.5% to 4.0%-8.0% for PSPRS and from 4.5%-7.75% to 4.0%-7.25% for CORP. In the 2013 actuarial valuation, projected salary increases were decreased from 5.0%-9.0% to 4.5%-8.5% for PSPRS and from 5.0%-8.25% to 4.5%-7.75% for CORP
Wage growth	In the 2014 actuarial valuation, wage growth was decreased from 4.5% to 4.0% for PSPRS and CORP. In the 2013 actuarial valuation, wage growth was decreased from 5.0% to 4.5% for PSPRS and CORP
Retirement age	Experience-based table of rates that is specific to the type of eligibility condition. Last updated for the 2012 valuation pursuant to an experience study of the period July 1, 2006–June 30, 2011.
Mortality	RP-2000 mortality table (adjusted by 105% for both males and females)



**Graham County**  
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**Health insurance premium benefit**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (b)</b>	<b>Unfunded actuarial accrued liability (UAAL) (funding excess) (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Annual covered payroll (c)</b>	<b>UAAL (funding excess) as percentage of covered payroll ([b-a]/c)</b>
<b>PSPRS Sheriff</b>						
6/30/2016	\$ 232,686	\$ 211,208	\$ (21,478)	110.2%	\$ 848,381	(2.5)%
6/30/2015	219,330	189,883	(29,447)	115.5%	810,650	(3.6)%
6/30/2014	199,475	172,468	(27,007)	115.7%	884,579	(3.1)%
<b>CORP Detention</b>						
6/30/2016	73,800	64,507	(9,293)	114.4%	1,185,164	(0.8)%
6/30/2015	68,249	64,395	(3,854)	106.0%	1,257,699	(0.3)%
6/30/2014	61,384	62,218	834	98.7%	1,322,239	0.1%
<b>CORP Dispatchers</b>						
6/30/2016	18,687	16,359	(2,328)	114.2%	153,684	(1.5)%
6/30/2015	17,053	15,793	(1,260)	108.0%	183,228	(0.7)%
6/30/2014	15,144	15,385	241	98.4%	208,836	0.1%

