

NAVAJO COUNTY, ARIZONA

Single Audit Reporting Package

June 30, 2001

NAVAJO COUNTY, ARIZONA
Single Audit Reporting Package
June 30, 2001

TABLE OF CONTENTS

	Page
Report on Audit of General Purpose Financial Statements	
Independent Auditors' Report.....	1
Combined Balance Sheet--All Fund Types and Account Groups.....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances All Governmental Fund Types and Expendable Trust Fund.....	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual--General and Special Revenue Fund Types.....	7
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual--Debt Service and Capital Projects Fund Types.....	10
Combining Statement of Net Assets--Investment Trust Funds.....	11
Combining Statement of Changes in Net Assets--Investment Trust Funds.....	12
Notes to Financial Statement.....	13
Supplementary Information	
Schedule of Expenditures of Federal Awards.....	34
Notes to the Schedule of Expenditures of Federal Awards.....	36
Reports on Compliance and Internal Control	
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with <i>OMB Circular A-133</i>	39

**NAVAJO COUNTY, ARIZONA
Single Audit Reporting Package
June 30, 2001**

TABLE OF CONTENTS

	Page
Schedule of Findings and Questioned Costs	
Summary of Auditors' Results.....	41
Financial Statement Findings.....	42
Federal Award Findings and Questioned Costs.....	45
 County Responses	
Corrective Action Plan.....	46
Schedule of Prior Audit Findings.....	51

Independent Auditors' Report

The Auditor General of the State of Arizona

The Board of Supervisors of
Navajo County, Arizona

We have audited the accompanying general purpose financial statements of Navajo County as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group, which should be included in order to conform with U.S. generally accepted accounting principles. The amount that should be recorded in the General Fixed Assets Account Group is not known.

In our opinion, except for the effect on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Navajo County as of June 30, 2001, and the results of its operations, and the net assets and changes in net assets of its investment trust funds for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements of Navajo County taken as a whole. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2003, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

April 23, 2003

THIS PAGE LEFT BLANK INTENTIONALLY

NAVAJO COUNTY
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 2001

Assets	<u>Governmental Fund Types</u>				<u>Fiduciary Fund Type</u>	<u>Account Group</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>	<u>General Long-Term Debt</u>
Cash in bank and on hand	\$ 300,353	\$ 7,180			\$ 232,731	
Cash and investments held by County Treasurer		10,902,810	\$ 624,901	\$ 2,685,180	105,553,467	
Cash and investments held by trustee				2,400,213		
Investments					521,845	
Receivables:						
Property taxes	212,519	36,124				
Special assessments			3,046,913	77,125		
Accounts	334,003	5,309		9,060		
Accrued interest		17,404	1,690		866,825	
Due from:						
Other funds		959,115	3,275	20,645	29,169	
Other governments	1,395,712	2,294,765		1,165,193	40,870	
Inventories	53,575	293,196				
Prepaid items	47,089	1,334				
Amount available in Debt Service Fund						\$ 646,500
Amount to be provided for retirement of general long-term debt						<u>10,747,904</u>
Total assets	<u>\$ 2,343,251</u>	<u>\$ 14,517,237</u>	<u>\$ 3,676,779</u>	<u>\$ 6,357,416</u>	<u>\$ 107,244,907</u>	<u>\$ 11,394,404</u>

(Continued)

The accompanying notes are an integral part of this statement.

NAVAJO COUNTY
Combined Balance Sheet - All Fund Types and Account Groups
June 30, 2001
(Continued)

Liabilities and Fund Equity	Governmental Fund Types				Fiduciary Fund Type	Account Group
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long-Term Debt
Liabilities:						
Accounts payable	\$ 708,988	\$ 1,709,275		\$ 651,933	\$ 27,967	
Accrued payroll and employee benefits	30,681	19,399				\$ 1,197,010
Due to other funds	925,543				86,661	
Deposits held for others	204,765	6,479			713,527	
Claims and judgments payable	55,902					
Insurance claims payable	622,233					
Notes payable						175,922
Revenue bonds payable						7,115,000
Special assessment bonds with governmental commitment payable						2,889,106
Landfill closure and postclosure care costs payable						17,366
Deferred revenues	134,801	24,155	\$ 3,030,279	46,211		
Total liabilities	2,682,913	1,759,308	3,030,279	698,144	828,155	11,394,404
Fund equity:						
Fund balances:						
Reserved for inventories	53,575	293,196				
Reserved for prepaid items	47,089	1,334				
Reserved for investment trust participants					105,618,066	
Unreserved	(440,326)	12,463,399	646,500	5,659,272	798,686	
Total fund equity	(339,662)	12,757,929	646,500	5,659,272	106,416,752	
Total liabilities and equity	\$ 2,343,251	\$ 14,517,237	\$ 3,676,779	\$ 6,357,416	\$ 107,244,907	\$ 11,394,404

The accompanying notes are an integral part of this statement.

NAVAJO COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
Year Ended June 30, 2001

	<u>Governmental Fund Types</u>				<u>Fiduciary</u>
	<u>General</u>	<u>Special</u>	<u>Debt</u>	<u>Capital</u>	<u>Expendable</u>
		<u>Revenue</u>	<u>Service</u>	<u>Projects</u>	<u>Trust</u>
Revenues:					
Taxes	\$ 4,645,767	\$ 2,051,131			
Special assessments		245,774	\$ 537,262	\$ 970,165	
Licenses and permits	672,298				
Intergovernmental	15,757,901	13,623,858		3,297,996	
Charges for services	920,852	557,697			
Fines and forfeits	705,617	25,711			
Investment income	496,259	569,454	70,756	537,016	\$ 18,633
Miscellaneous	216,138	522,039		3,086	300,000
Total revenues	<u>23,414,832</u>	<u>17,595,664</u>	<u>608,018</u>	<u>4,808,263</u>	<u>318,633</u>
Expenditures:					
Current:					
General government	12,517,521	2,427,717			40,547
Public safety	7,328,661	2,530,574			
Highways and streets		8,727,727			
Sanitation	619,173				
Health	535,138	776,830			
Welfare	3,336,489				
Culture and recreation	130,390	270,630			
Education	260,709				
Capital outlay				9,245,977	
Debt service:					
Principal retirement			554,020		
Interest and fiscal charges			509,702		
Total expenditures	<u>24,728,081</u>	<u>14,733,478</u>	<u>1,063,722</u>	<u>9,245,977</u>	<u>40,547</u>
Excess of revenues over (under) expenditures	<u>(1,313,249)</u>	<u>2,862,186</u>	<u>(455,704)</u>	<u>(4,437,714)</u>	<u>278,086</u>
Other financing sources (uses):					
Operating transfers in	1,015,484	759,846	300,097	306,981	
Operating transfers out	(352,996)	(1,171,288)	(6,931)	(851,193)	
Special assessment bond proceeds				220,938	
Total other financing sources (uses)	<u>662,488</u>	<u>(411,442)</u>	<u>293,166</u>	<u>(323,274)</u>	
Excess of revenues and other sources over (under) expenditures and other uses	(650,761)	2,450,744	(162,538)	(4,760,988)	278,086
Fund balances, July 1, 2000	287,377	11,107,506	359,474	10,148,068	286,397
Increase (decrease) in reserve for inventories	4,080	(68,306)			
Increase (decrease) in reserve for prepaid items	19,642	(10,259)			
Residual equity transfers in (out)		(721,756)	449,564	272,192	
Fund balances, June 30, 2001	<u>\$ (339,662)</u>	<u>\$ 12,757,929</u>	<u>\$ 646,500</u>	<u>\$ 5,659,272</u>	<u>\$ 564,483</u>

The accompanying notes are an integral part of this statement.

NAVAJO COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General and Special Revenue Fund Types
Year Ended June 30, 2001

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues:						
Taxes	\$ 4,917,722	\$ 4,645,767	\$ (271,955)	\$ 1,323,845	\$ 2,051,131	\$ 727,286
Special assessments					245,774	245,774
Licenses and permits	501,855	672,298	170,443			
Intergovernmental	15,511,690	15,757,901	246,211	13,643,846	13,623,858	(19,988)
Charges for services	916,425	920,852	4,427	429,370	557,697	128,327
Fines and forfeits	808,900	705,617	(103,283)	54,650	25,711	(28,939)
Investment income	400,000	496,259	96,259	100,000	569,454	469,454
Miscellaneous	964,225	216,138	(748,087)	449,219	522,039	72,820
Total revenues	24,020,817	23,414,832	(605,985)	16,000,930	17,595,664	1,594,734
Expenditures:						
Current:						
General government:						
Board of Supervisors	684,845	619,444	65,401	280,000	167,728	112,272
County Manager	1,054,640	1,178,914	(124,274)	400,000	492,268	(92,268)
Buildings and grounds	1,135,615	1,190,459	(54,844)			
Elections	304,030	372,527	(68,497)			
Planning and building	537,185	598,942	(61,757)			
Recorder	173,280	181,357	(8,077)	136,610	122,303	14,307
Voter registration	102,410	100,224	2,186			
Assessor	835,965	910,174	(74,209)		11,912	(11,912)
MIS	342,050	344,469	(2,419)			
Treasurer	325,065	339,801	(14,736)	10,000	12,967	(2,967)
Contingency	1,558,750	282,665	1,276,085			
Legal Defender	262,340	254,275	8,065	4,815	6,742	(1,927)
Attorney	1,324,830	1,397,876	(73,046)	1,239,110	1,200,413	38,697
Superior Courts	1,045,885	1,748,594	(702,709)	216,380	273,764	(57,384)
Public Defenders	635,870	597,045	38,825	54,255	17,741	36,514
Clerk of Superior Court	604,670	672,180	(67,510)	114,210	3,184	111,026
Holbrook Justice Court	180,990	203,531	(22,541)	10,930	3,288	7,642
Winslow Justice Court	175,360	193,715	(18,355)	8,380	433	7,947
Snowflake Justice Court	224,080	238,707	(14,627)	8,500		8,500
Show Low Justice Court	183,970	215,641	(31,671)	2,900		2,900
Pinetop Justice Court	174,445	220,184	(45,739)	9,500	1,972	7,528
Kayenta Justice Court	105,220	96,968	8,252	6,100		6,100
Holbrook Constable	9,760	11,836	(2,076)			
Winslow Constable	10,685	13,949	(3,264)			
Snowflake Constable	10,385	14,134	(3,749)			
Show Low Constable	10,210	13,884	(3,674)			
Pinetop Constable	10,275	12,614	(2,339)			
Kayenta Constable	9,760	12,013	(2,253)			
Miscellaneous	1,908,400	481,399	1,427,001	872,000	113,002	758,998
Total general government	13,940,970	12,517,521	1,423,449	3,373,690	2,427,717	945,973

(Continued)

The accompanying notes are an integral part of this statement.

NAVAJO COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General and Special Revenue Fund Types
Year Ended June 30, 2001
(Continued)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
Public Safety:						
Juvenile probation	\$ 984,940	\$ 1,131,303	\$ (146,363)	\$ 1,577,040	\$ 861,372	\$ 715,668
Adult probation	500,205	458,349	41,856	1,192,590	1,099,456	93,134
Jail operations	2,425,545	2,636,054	(210,509)	185,000	183,059	1,941
Sheriff	2,697,655	3,102,955	(405,300)	555,675	386,687	168,988
Total public safety	6,608,345	7,328,661	(720,316)	3,510,305	2,530,574	979,731
Highways and streets:						
Engineering and roads				13,882,260	8,727,727	5,154,533
Sanitation:						
Sanitary landfill	35,700	619,173	(583,473)			
Health:						
Health services	459,660	535,138	(75,478)	895,820	776,830	118,990
Welfare:						
Public fiduciary	269,640	287,472	(17,832)			
Indigent health	3,105,990	3,049,017	56,973			
Total welfare	3,375,630	3,336,489	39,141			
Culture and recreation:						
Library				267,780	101,430	166,350
Parks and recreation	127,225	130,390	(3,165)	11,375	169,200	(157,825)
Total culture and recreation	127,225	130,390	(3,165)	279,155	270,630	8,525
Education:						
Superintendent of schools	237,435	260,709	(23,274)			
Debt service:						
Principal retirement						
Interest and fiscal charges						
Total debt service						
Total expenditures	24,784,965	24,728,081	56,884	21,941,230	14,733,478	7,207,752
Excess of revenues over (under) expenditures	(764,148)	(1,313,249)	(549,101)	(5,940,300)	2,862,186	8,802,486
Other financing sources (uses):						
Operating transfers in		1,015,484	1,015,484		759,846	759,846
Operating transfers out		(352,996)	(352,996)		(1,171,288)	(1,171,288)
Total other financing uses		662,488	662,488		(411,442)	(411,442)

The accompanying notes are an integral part of this statement.

(Continued)

NAVAJO COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General and Special Revenue Fund Types
Year Ended June 30, 2001
(Continued)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance	Budget	Actual	Variance
Excess of revenues and other sources over (under) expenditures and other uses	\$ (764,148)	\$ (650,761)	\$ 113,387	\$ (5,940,300)	\$ 2,450,744	\$ 8,391,044
Fund balances, July 1, 2000	764,148	287,377	(476,771)	5,940,300	11,107,506	5,167,206
Increase (decrease) in reserve for inventories		4,080	4,080		(68,306)	(68,306)
Increase (decrease) in reserve for prepaid items		19,642	19,642		(10,259)	(10,259)
Residual equity transfers out					(721,756)	(721,756)
Fund balances, June 30, 2001	\$	\$ (339,662)	\$ (339,662)	\$	\$ 12,757,929	\$ 12,757,929

The accompanying notes are an integral part of this statement.

NAVAJO COUNTY
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Debt Service and Capital Projects Fund Types
Year Ended June 30, 2001

	<u>Debt Service Fund</u>			<u>Capital Projects Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:						
Taxes						
Special assessments	\$ 475,795	\$ 537,262	\$ 61,467	\$ 764,730	\$ 970,165	\$ 205,435
Intergovernmental				584,000	3,297,996	2,713,996
Investment income		70,756	70,756		537,016	537,016
Miscellaneous					3,086	3,086
Total revenues	<u>475,795</u>	<u>608,018</u>	<u>132,223</u>	<u>1,348,730</u>	<u>4,808,263</u>	<u>3,459,533</u>
Expenditures:						
Capital outlay				10,856,440	9,245,977	1,610,463
Debt service:						
Principal retirement	1,085,575	554,020	531,555			
Interest and fiscal charges	<u>1,004,290</u>	<u>509,702</u>	<u>494,588</u>			
Total debt service	<u>2,089,865</u>	<u>1,063,722</u>	<u>1,026,143</u>			
Total expenditures	<u>2,089,865</u>	<u>1,063,722</u>	<u>1,026,143</u>	<u>10,856,440</u>	<u>9,245,977</u>	<u>1,610,463</u>
Excess of revenues over (under) expenditures	<u>(1,614,070)</u>	<u>(455,704)</u>	<u>1,158,366</u>	<u>(9,507,710)</u>	<u>(4,437,714)</u>	<u>5,069,996</u>
Other financing sources (uses):						
Operating transfers in		300,097	300,097		306,981	306,981
Operating transfers out		(6,931)	(6,931)		(851,193)	(851,193)
Revenue bond proceeds						
Special assessment bond proceeds					<u>220,938</u>	<u>220,938</u>
Total other financing sources		<u>293,166</u>	<u>293,166</u>		<u>(323,274)</u>	<u>(323,274)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(1,614,070)</u>	<u>(162,538)</u>	<u>1,451,532</u>	<u>(9,507,710)</u>	<u>(4,760,988)</u>	<u>4,746,722</u>
Fund balances, July 1, 2000	1,614,070	359,474	(1,254,596)	9,507,710	10,148,068	640,358
Residual equity transfers in		<u>449,564</u>	<u>449,564</u>		<u>272,192</u>	<u>272,192</u>
Fund balances, June 30, 2001	<u>\$</u>	<u>\$ 646,500</u>	<u>\$ 646,500</u>	<u>\$</u>	<u>\$ 5,659,272</u>	<u>\$ 5,659,272</u>

The accompanying notes are an integral part of this statement.

NAVAJO COUNTY
Combining Statement of Net Assets
Investment Trust Funds
June 30, 2001

	Treasurer's Investment Pool	Individual Investment Accounts	Total
Assets			
Cash and cash equivalents	\$ 1,260,388		\$ 1,260,388
Investments	103,771,955	\$ 521,845	104,293,800
Interest and dividends receivable	862,191	1,875	864,066
Total assets	105,894,534	523,720	106,418,254
Liabilities			
Due to other funds	86,661		86,661
Deposits held for others	713,527		713,527
Total liabilities	800,188		800,188
Net assets held in trust	\$105,094,346	\$ 523,720	\$105,618,066

The accompanying notes are an integral part of this statement.

NAVAJO COUNTY
Combining Statement of Changes in Net Assets
Investment Trust Funds
Year Ended June 30, 2001

	Treasurer's Investment Pool	Individual Investment Accounts	Total
Additions:			
Contributions from participants	\$289,265,109		\$289,265,109
Investment income:			
Interest and dividend income	6,382,484	\$ 306,939	6,689,423
Net investment income	6,382,484	306,939	6,689,423
Total additions	295,647,593	306,939	295,954,532
Deductions:			
Distributions to participants	271,079,789	10,313,285	281,393,074
Total deductions	271,079,789	10,313,285	281,393,074
Net increase (decrease) in net assets	24,567,804	(10,006,346)	14,561,458
Net assets held in trust:			
July 1, 2000	80,526,542	10,530,066	91,056,608
June 30, 2001	\$105,094,346	\$ 523,720	\$105,618,066

The accompanying notes are an integral part of this statement.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Navajo County conform to U.S. generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the County's more significant accounting policies follows.

The County's major operations include general government, public safety, highway and street maintenance and construction, sanitation, health, welfare, culture and recreation, and education.

A. Reporting Entity

The County is a general purpose local government that is governed by a separately elected board of five county supervisors. These general purpose financial statements present all the fund types and the General Long-Term Debt account group of the County (a primary government) and its component units.

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

Blended Component Units – A number of special districts and a nonprofit corporation have been established within the County to serve unique needs. The special districts consist of various improvement districts, and the non-profit corporation provides job training and educational services. Although these special districts and the non-profit corporation are legally separate entities from the County, the Board of Supervisors of the County serves as the Board of Directors of each of these entities. Consequently, the financial data for these districts and the non-profit corporation are blended with the data of the primary government and reported in the Special Revenue, Debt Service, and Capital Projects Funds and the General Long-Term Debt Account Group of the County. Separate financial statements of the blended component units are not prepared.

B. Fund Accounting

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 1 – Summary of Significant Accounting Policies (Cont'd)

B. Fund Accounting (Cont'd)

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the County's fund categories, types, and account groups follows.

1. Governmental Funds account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types.

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

The *Special Revenue Funds* account for specific revenue sources, other than major capital projects, that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* accounts for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs.

The *Capital Projects Funds* account for resources to be used for acquiring or constructing major capital facilities.

2. Fiduciary Funds account for assets held by the County on behalf of others and include the following fund types.

The *Expendable Trust Fund* is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus. Expendable trust funds account for assets where both the principal and interest may be spent.

The *Investment Trust Funds* account for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

3. Account Groups are used to establish control and accountability for certain County assets and liabilities that are not recorded in the funds and include the following group.

The General Long-Term Debt Account Group accounts for all of the County's long-term obligations.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 1 – Summary of Significant Accounting Policies (Cont'd)

C. Basis of Accounting

The financial statements of the Governmental, Expendable Trust, and Agency Funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due. However, since debt service resources are provided during the current year for payment of general long-term debt principal and interest due early in the following year, those expenditures and related liabilities have been recognized in the Debt Service Fund.

Revenues susceptible to accrual prior to receipt are property taxes; special assessments; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the State at year-end on the County's behalf. Fines and forfeits and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the Investment Trust Funds are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. Budgeting and Budgetary Control

Arizona Revised Statutes (A.R.S.) requires the County to prepare and adopt a balanced budget annually for each separate 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. prohibit expenditures or liabilities in excess of the amounts budgeted.

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The County has adopted budgets in accordance with the A.R.S. requirements for the General, Special Revenue, Debt Service, and Capital Projects Funds. Formal budget integration is not employed for the Expendable Trust Fund because effective budgetary control is alternatively achieved through the terms of the trust agreement.

Expenditures may not legally exceed appropriations at the department level. Transfers of appropriations between departments or from the contingency account to a department may be made in an emergency and require approval by the Board of Supervisors. With the exception of the General Fund, each fund includes only one department.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 1 – Summary of Significant Accounting Policies (Cont'd)

D. Budgeting and Budgetary Control (Cont'd)

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

E. Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value.

F. Inventories

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

G. Fixed Assets

Purchased fixed assets are recorded at the time of purchase as expenditures in the funds from which the expenditures were made, but they are not capitalized in a General Fixed Assets Account Group.

H. Compensated Absences

Compensated absences consist of vacation leave and a calculated amount of sick leave earned by employees based on services already rendered. Employees may accumulate up to 320 hours of vacation depending on years of service, 50% of excess hours may be extended for 90 days, or 50% may be transferred to sick leave, and the balance is forfeited. Upon termination of employment, all unused and unforfeited vacation benefits are paid to employees. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, employees who retire with an accumulation of sick leave in excess of 1000 hours are paid \$750; but since this liability is immaterial, no accrual has been made.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 1 – Summary of Significant Accounting Policies (Cont'd)

H. Compensated Absences (Cont'd)

The liability for vested compensated absences of the Governmental Funds is recorded in the General Long-Term Debt Account Group since the amount expected to be paid from current financial resources is not significant.

I. Investment Income

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

J. Property Taxes

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues.

K. Intergovernmental Grants and Aid

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. Reimbursements not received within 60 days subsequent to the fiscal year-end are reported as deferred revenues.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 2 – Individual Fund Deficits

The deficit fund balances in the General fund and individual Special Revenue Funds at June 30, 2001, were as follows:

<u>Fund</u>	<u>Deficit Balance</u>
General Fund	\$ 440,326
Special Revenue Funds:	
Home Program #149-97 - 96/97	16
Drought Emergency Program - NRCS/EWP - 2000	17,396
JTPA - One Stop - PY97	258
Title V – Older Worker	1,436
JTPA -II A - PY 98	28
JTPA - IIA - PY99	84
JTPA - IIC PY99	228
1% Transitional Fund	965
JTPA - INC PY 98 - 5%	111
WIA - Adult - PY 2000 - 7/01/2000	32,935
WIA - ACP - PY 2000 - 4/1/2000	13,273
WIA - Youth - PY 2000	56,762
Title V - Older Worker - 00/01	9,353
WIA - E5702009-Adult - FY 02	2,551
WIA - E5702009 - Youth- PY 01	7,286
WIA - TA - PY 2001	423
WIA - Set A Side FY 2001	26,325
Dislocated Worker - Gila Co.	196
WIA - E5701020 - Adult - PY 99	2,763
WIA - E5701020 - Youth - PY 99	2,051
WIA - E5701020 - ACP - PY 99	708
Property Information Storage and Retention	11,912
Gang Prosecution Program	8,519
Juv Acct I - JAIBGI 99/00	156
Juv Acct II - JAIBG - 00/01	10,603
Child Support IV- D	359,679
Juv Acct III - JAIBGI 00/02	1,152
Drug Enforcement Attorney	25,131
VOCA - Atty/VIT's of Crime	461
New Millenium Upgrade Program	8,275
T.B.	26,375
WIC	81,032
Nutrition	7,332
Domestic Violence - 00/01	21,044

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 2 – Individual Fund Deficits (Cont'd)

HMEPPG - Planning Salary - 113	\$ 8,018
Eviction Prevention/EMG Homeless Housing	4,609
HAZMAT - Training Program	12
Grants In Aid - Library	120
Library Outreach to Elderly	295
Speed Detection Devices	26,662
Gang Task Force - GITEM/RATE	1,676
Drug Enforcement Sheriff	87,376
COPS - Universal Hiring	20,738
Winslow Transport Officer	43,881
COPS - Universal Hiring - Supplemental	24,796
Juvenile Intensive Probation SERS/JIPS	8,036
Adult Intensive Probation Services	901
Clerk of Court - JCEF - Automation	5
Drug Enforcement Sup CT/AD Prob	185,313
Show Low Safe School Program	556
JCRF - Big Brothers/Sisters	58
Court Improvement Project 00/01	9,123
Facts 5 Implementation Plan	7,247
Access & Visitation Program	6,415
Detention Loss Prevention	3,655
Juvenile Detention Metal Building	6,642

The County expects the fund deficits listed above to be corrected through normal operations in fiscal year 2001-2002.

Note 3 – Deposits and Investments

Arizona Revised Statutes authorize the County to invest public monies in the State Treasurer's investment pool; U.S. Treasury obligations; specified state and local government bonds; and interest-earning investments such as saving accounts, certificates of deposit, and repurchase agreements in eligible depositories. The statutes require collateral for demand deposits, certificates of deposit, and repurchase agreements at 101 percent of all deposits not covered by federal depository insurance.

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 (see Note 14). Those monies are pooled with County monies for investment purposes.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 3 – Deposits and Investments (Cont'd)

Deposits – At June 30, 2001, the carrying amount of the investment pool's total cash in bank was \$3,872,245 and the bank balance was \$14,173,765. Of the bank balance, \$400,000 was covered by federal depository insurance and \$13,773,765 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name.

Investments – At June 30, 2001, the investments in the County Treasurer's investment pool consisted of the following:

	Fair Value
Investment in State Treasurer's investment pool	\$ 84,894,113
U.S. government securities	31,000,000
Total	\$ 115,894,113

Investments – The State Board of Investment provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares.

The investment pool's investments at June 30, 2001, are categorized below to give an indication of the level of risk the County assumed at year-end.

Category 1 – insured or registered in the County's name, or securities held by the County or its agent in the County's name.

Category 2 – uninsured and unregistered with securities held by the counterparty's trust department or agent in the County's name.

Category 3 – uninsured and unregistered with securities held by the counterparty, or by its trust department or agent, but not in the County's name.

	Category			Fair Value
	1	2	3	
U.S. government securities		\$ 31,000,000		\$ 31,000,000
	\$	\$ 31,000,000	\$	31,000,000
Investment not subject to categorization:				
State Treasurer's investment pool				84,894,113
Total				\$ 115,894,113

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 3 – Deposits and Investments (Cont'd)

Other Deposits – At June 30, 2001, the total nonpooled cash on hand was \$2,647. The carrying amount of the County's total nonpooled cash in bank was \$537,617, and the bank balance was \$1,069,890. The entire bank balance was either covered by federal depository insurance or by collateral held by the County or its agent.

Other Investments – At June 30, 2001, the County's nonpooled investments consisted of the following.

Investment in State Treasurer's investment pool	\$ 521,845
-------------------------------------------------	------------

Cash and Investments Held by Trustee – At June 30, 2001, the County's cash and investments held by trustee, consisted of the following:

	Fair Value
Commercial papers	\$ 671,736
U.S. government security money market funds	1,724,343
U.S. government securities	4,134
Total	\$ 2,400,213

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The County's nonpooled investments and investments held by trustee at June 30, 2001, are categorized below to give an indication of the level of risk assumed by the County at year-end.

	1	2	3	Value
U.S. government securities			\$ 2,400,213	\$ 2,400,213
	\$	\$	\$ 2,400,213	2,400,213
Investment not subject to categorization:				
State Treasurer's investment pool				521,845
Total				\$ 2,922,058

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 3 – Deposit and Investments (Cont'd)

A reconciliation of cash and investments to amounts shown on the combined balance sheet follows.

Cash and investments

	County Treasurer's Investment Pool	Other	Total
Cash on hand		\$ 2,647	\$ 2,647
Carrying amount of deposits	\$ 3,872,245	537,617	4,409,862
Reported amount of investments	115,894,113	2,922,058	118,816,171
	\$ 119,766,358	\$ 3,462,322	\$ 123,228,680
Combined balance sheet:			
Cash in bank and on hand	\$ 540,264		
Cash and investments held by County Treasurer	119,766,358		
Cash and investments held by trustee	2,400,213		
Investments	521,845		
Total	\$ 123,228,680		

Note 4 – Property Taxes Receivable

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

During the year, the County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

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

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2001 were as follows:

	General Fund	Special Revenue Funds
2000-2001	\$ 174,241	\$ 27,391
Prior	38,278	8,733
Net total	\$ 212,519	\$ 36,124

That portion of property taxes receivable not collected within 60 days after June 30, 2001, has been deferred and, consequently, is not included in current year revenues.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 5 – Due from Other Governments

Amounts due from other governments at June 30, 2001, include \$593,728 in state-shared revenue from highway user taxes, \$989,949 in sales taxes, and \$164,648 in county taxes and miscellaneous taxes. The balance of \$3,148,215 represents various grants and contracts from federal, state, and local governments.

Note 6 – Bonds Payable

Revenue Bonds – Navajo County revenue bonds of April 30, 2000 were issued to provide monies to construct jail facilities. The bonds are generally noncallable with interest payable semiannually.

Principal and interest requirements at June 30, 2001, were as follows:

Description	Interest Rates	Maturity	Outstanding Principal July 1, 2000	Issues/ (Retirements)	Outstanding Principal June 30, 2001
Navajo County, Arizona Municipal Property Corporation Jail Facility Bonds Series 2000 ACA Insured	5.00 - 6.50%	July 1, 2020	\$ 7,320,000	\$ (205,000)	\$ 7,115,000

Revenue bond debt service requirements to maturity, including \$5,058,559 of interest, are as follows:

2002	\$ 210,219
2003	624,420
2004	627,345
2005	624,745
2006	621,245
Thereafter	<u>9,465,585</u>
Total	<u>\$ 12,173,559</u>

Special Assessment Bonds with Governmental Commitment – Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The proceeds of the bond issues were used to finance construction in these districts. These bonds are generally callable with interest payable semiannually.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 6 – Bonds Payable (Cont'd)

The following special assessment districts had bonds outstanding at June 30, 2001.

District	Interest Rate	Maturities	Outstanding Principal July 1, 2000	Issues	Retirements	Outstanding Principal June 30, 2001
Soaring Eagle County Road Improvement	7.25%	7/1/94-2004	\$ 45,000		\$ 10,000	\$ 35,000
White Mountain Summer Home Water	5.00%	7/1/81-2019	1,516,000		50,000	1,466,000
Blue Lake Circle CRID	5.95%	7/23/97-2007	96,496		16,959	79,537
Mountain Homes Unit II	7.50%	7/1/91-2001	15,000		15,000	
Sweeping Vista/Charro Way County Road	7.65%	7/1/91-2001	15,000		15,000	
Porter Creek Domestic Water	8.50%	1/1/92-2001	5,000		5,000	
Misty Mountain Domestic Water	7.125%	1/1/90-2009	53,877		5,000	48,877
Forest Trails Unit III County Road	6.75%	7/1/97-2007	140,000		25,000	115,000
Moon Creek Imp. Dist.	5.95%	7/23/97-2007	56,282		8,040	48,242
Mule Deer Way Imp. Dist.	5.95%	7/23/97-2007	194,892		33,603	161,289
Wild Horse Road #1	5.95%	7/23/97-2007	53,096		7,585	45,511
Timberlake Pines CRID	6.35%	8/27/97-2007	315,673		46,457	269,216
Shore Line Dr. CRID	8.50%	7/7/97-2002	8,000		4,000	4,000
Heber DWID	8.00%	8/1/90-2001	5,000		5,000	
Palomino CRID	7.50%	6/29/92-2002	25,000		10,000	15,000
Buck Springs Road Improvement	5.40%	8/13/98-2008	98,420		12,280	86,140
Hiawatha Trail Improvement District	5.91%	8/5/99-2009	87,555		16,463	71,092
Pine Meadows CC Imp. Dist.	5.91%	8/5/99-2009	72,962		8,107	64,855
Chaparral Drive Improvement District	5.80%	8/27/99-2010	204,220		38,811	165,409
Drifting Snow Loop Improvement District	5.75%	9/7/00-2011		220,938	7,000	213,938
Total			\$ 3,007,473	\$ 220,938	\$ 339,305	\$ 2,889,106

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 6 – Bonds Payable (Cont'd)

Special assessment bond debt service requirements to maturity, including \$1,092,020 of interest, are as follows:

Year ending June 30,	
2002	\$ 315,853
2003	398,059
2004	387,666
2005	365,398
2006	352,756
Thereafter	<u>2,161,394</u>
Total	<u>\$ 3,981,126</u>

Note 7 – Claims and Judgments Payable

The County is a defendant in several claims and lawsuits involving indigent health care, general liability, and contractual disputes. Liabilities are reported for such claims and judgments when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In the opinion of the County Attorney and County management, probable losses not covered by insurance from these proceedings total \$55,902, which has been accrued as a liability in the accompanying financial statements.

Note 8 – Obligations under Leases

Operating Leases – The County leases office space and land under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$24,611 for the year ended June 30, 2001. The operating leases have remaining noncancelable lease terms of one to twenty years and provide renewal options. The future minimum rental payments under the operating leases at June 30, 2001, were as follows:

Year ending June 30,	<u>General Fund</u>
2002	\$ 36,920
2003	32,220
2004	32,220
2005	32,220
2006	27,765
Thereafter	<u>224,640</u>
Total minimum payments required	<u>\$385,985</u>

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 9 – Notes Payable

The County is obligated under the terms of two notes payable. The proceeds from these notes were used to finance construction in two special assessment districts. The notes have principal payments due semiannually and annually, respectively, with interest payable semiannually.

A summary of these notes payable outstanding at June 30, 2001, follows:

District	Interest Rate	Maturities	Original Principal	Principal Payments	Principal June 30, 2001
White Mountain Lakes Recreational Dist	9.00%	11/21/97-2002	\$ 9,659	\$ 3,145	\$ 6,514
Porter Mountain DWID	4.50%	6/17/97-2037	<u>175,978</u>	<u>6,570</u>	<u>169,408</u>
Total			<u>\$ 185,637</u>	<u>\$ 9,715</u>	<u>\$ 175,922</u>

Note 10 – Landfill Closure and Postclosure Care Costs

State and federal laws and regulations require the County to place a final cover on its Lone Pine landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Lone Pine landfill closed for operations in June of 1994. The closure and postclosure care costs were estimated and reported as a liability in the General Long-Term Debt Account Group. The \$17,366 reported as landfill closure and postclosure care liability at June 30, 2001 is the cumulative amount reported to date, less payments thereon made to date. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2000-2001. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Note 11 – Risk Management

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$25,000 for each occurrence.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 11 – Risk Management - continued

The County is also responsible for any payments in excess of the maximum coverage of \$101 million per occurrence for property claims and \$12 million per occurrence for liability claims. A County must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

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

The Employee Benefits Fund (a part of the General Fund) accounts for the financing of the uninsured risk of loss for certain health benefits (comprehensive, major medical, dental) to eligible employees and their dependents. Under this program, the Fund provides coverage for up to a maximum of \$40,000 for each claim. The Fund purchases commercial insurance for claims in excess of this coverage. Settled claims did not exceed this commercial insurance coverage in any of the past three fiscal years.

The insurance claims payable liability of the General Fund totaling \$622,233 at June 30, 2001, is the estimated ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. This estimate is based on actuarial estimates. Changes in the Fund's claims payable liability amounts for the years ended June 30, 2000 and 2001 were as follows:

	2000	2001
Claims payable, beginning of year	\$ 358,778	\$ 956,750
Current-year claims and changes in estimates	2,734,722	2,199,816
Claim payments	(2,136,750)	(2,534,333)
Claims payable, end of year	<u>\$ 956,750</u>	<u>\$ 622,233</u>

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 12 – Changes in Long-Term Liabilities

A summary of changes in the liabilities reported in the General Long-Term Debt Account Group follows.

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
Accrued payroll and employee benefits	\$ 1,003,124	\$ 193,886		\$ 1,197,010
Obligations under capital leases	9,391		\$ 9,391	
Notes payable	185,637		9,715	175,922
Revenue bonds payable	7,320,000		205,000	7,115,000
Special assessment bonds with governmental commitment payable	3,007,473	220,938	339,305	2,889,106
Landfill closure and postclosure care costs payable	<u>58,694</u>		<u>41,328</u>	<u>17,366</u>
Total	<u>\$ 11,584,319</u>	<u>\$ 414,824</u>	<u>\$ 604,739</u>	<u>\$ 11,394,404</u>

Note 12– Interfund Assets and Liabilities

Interfund receivables, payables, and operating transfers by fund are as follows:

Funds	Due from Other Funds	Due to Other Funds	Operating Transfers In	Operating Transfers Out
General		\$ 925,543	\$ 1,015,484	\$ 352,996
Special Revenue	\$ 959,115		759,846	1,171,288
Debt Service	3,275		300,097	6,931
Capital Projects	20,645		306,981	851,193
Trust & Agency	<u>29,169</u>	<u>86,661</u>		
Total	<u>\$ 1,012,204</u>	<u>\$ 1,012,204</u>	<u>\$ 2,382,408</u>	<u>\$ 2,382,408</u>

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 13 – Retirement Plans

Plan Descriptions – The County contributes to the three plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. In addition, the County contributes to the Elected Officials Retirement Plan (EORP), which is not described due to the plan's relative insignificance to the County's financial statements.

The *Arizona State Retirement System (ASRS)* administers a cost-sharing multiple-employer defined benefit pension plan that covers general employees of the County. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The *Public Safety Personnel Retirement System (PSPRS)* is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned to hazardous duty as employees of the State of Arizona or one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and 181 local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

The *Corrections Officer Retirement Plan (CORP)* is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, Departments of Corrections and Juvenile Corrections, and County employees whose primary duties require direct inmate contact. The CORP is governed by The Fund Manager of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

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

ASRS

3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910

(602) 240-2000 or (800) 621-3778

PSPRS and CORP

1020 E. Missouri Ave.
Phoenix, AZ 85014

(602) 255-5575

Funding Policy – The Arizona State Legislature establishes and may amend active plan members' and the County's contributions rates.

Cost-sharing plans – For the year ended June 30, 2001, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2001, 2000, and 1999 were \$413,509, \$397,670, and \$475,722, respectively, which were equal to the required contributions for the year.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 13 – Retirement Plans - continued

Agent plans – For the year ended June 30, 2001, active PSPRS members were required by statute to contribute 7.65 percent of the members’ annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.56 percent. Active CORP members were required by statute to contribute 8.5 percent of the members’ annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.0 percent.

Annual Pension Cost – The County’s pension cost for the two agent plans for the year ended June 30, 2001, and the related information follow.

	<u>PSPRS</u>	<u>CORP</u>
Contribution rates:		
County	2.56%	2.0%
Plan Members	7.65%	8.5%
Annual pension cost	\$131,276	\$14,436
Contributions made	\$131,276	\$14,436

The current-year annual required contributions for the PSPRS and CORP were determined as part of their June 30, 1999 actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded actuarial accrued liability is being amortized at a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 1999 was 20 years.

Trend Information – Annual pension cost information for the current and two preceding years follows for each of the agent plans.

Contributions Required and Contributions Made

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2001	\$131,276	100.0	\$0
	2000	74,918	100.0	0
	1999	70,520	100.0	0
CORP	2001	14,136	100.0	0
	2000	47,459	100.0	0
	1999	53,790	100.0	0

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 13 – Retirement Plans - continued

Analysis of Funding Progress – The following information was obtained from the three most recent actuarial valuations of the agent plans.

PSPRS

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/01	\$ 7,795,661	\$ 6,134,547	\$1,661,114	127.1%	\$ 1,488,806	-
6/30/00	7,201,543	6,327,942	873,601	113.8	1,867,160	-
6/30/99	6,346,276	5,787,916	558,360	109.6	1,701,845	-

CORP

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/01	\$ 1,468,412	\$737,172	\$731,240	199.2%	\$946,115	-
6/30/00	1,359,429	735,158	624,271	184.9	952,546	-
6/30/99	1,105,187	601,265	503,922	183.8	911,180	-

Note 14 – County Treasurer’s Investment Pool

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County monies under his 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.

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 14 – County Treasurer’s Investment Pool - continued

Details of each major investment classification follows.

	Principal	Interest Rates	Maturities	Fair Value
Investment in State Treasurer's investment pool	\$ 84,894,113	5.6179%	n/a	\$ 84,894,113
U.S. government securities	31,000,000	4.975-6.250%	9/4/01-6/18/04	31,000,000

A condensed statement of the investment pool’s net assets and changes in net assets follows.

Assets	\$ 120,650,402
Liabilities	<u>800,188</u>
Net assets	<u><u>\$ 119,850,214</u></u>

Net assets held in trust for:	
Internal participants	\$ 14,755,868
External participants	<u>105,094,346</u>
Total net assets held in trust	<u><u>\$ 119,850,214</u></u>

Statement of Changes in Net Assets

Total additions	\$ 358,967,059
Total deductions	<u>333,295,600</u>
Net increase	25,671,459
Net assets held in trust:	
July 1, 2000	<u>94,178,755</u>
June 30, 2001	<u><u>\$ 119,850,214</u></u>

NAVAJO COUNTY, ARIZONA
Notes to Financial Statements
June 30, 2001

Note 15 – Restatement

As of July 1, 2000, Career Development, Incorporated (CDI) ceased being a component unit of the County. Beginning net assets of Special Revenue Funds have been restated to reflect this change, as follows:

Net assets, July 1, 2000, as previously stated	\$ 11,097,554
Adjustment to remove CDI net deficit	<u>9,952</u>
Net assets, July 1, 2000, as restated	<u>\$ 11,107,506</u>

Note 16 – Implementation of GASB Statement No. 34

Beginning with fiscal year 2002, the County will prepare its external financial reports following the requirements of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Implementing this standard will significantly change the accounting principles and reporting format used by the County in future financial reports.

Supplementary Information

NAVAJO COUNTY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2001

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture			
Passed through the Arizona Department of Health Services			
Special Supplemental Food Program for Women, Infants, and Children	10.557	761108	\$ 258,588
Drought Emergency	10.unknown	68-9457-1-403	24,839
Passed through the Arizona State Treasurer			
Schools and Roads – Grants to States	10.665	None	<u>24,307</u>
Total U.S. Department of Agriculture			<u>307,734</u>
U.S. Department of Housing and Urban Development			
Passed through the Arizona Department of Commerce			
Community Development Block Grants	14.228	026-00	123,748
Home Program	14.229	039-00	<u>63,985</u>
Total U.S. Department of Housing and Urban Development			<u>187,733</u>
U.S. Department of Justice			
Discretionary Grant	16.580		50,259
Juvenile Accountability, Inc. Block Grant	16.523		81,154
Federal Major Crime Apprehension Team	16.unknown		100,047
Passed through the Arizona Department of Public Safety			
VOCA - Crime Victim Assistance	16.575	None	21,224
VOCA - Crime Prevention	16.576	None	3,752
Passed through the Arizona Criminal Justice Commission			
Byrne Formula Grant Program - Drug Control and System Improvement			
Sheriff	16.579	AC 180-01	181,232
Attorney	16.579	PC-140-01	65,053
Domestic Violence Prevention	16.589	97-WR-VX-0014	32,390
Local Law Enforcement Block Grant	16.592	2000-LB-BX-0816	<u>8,591</u>
Total U.S. Department of Justice			<u>543,702</u>
U.S. Department of Labor			
Passed through Arizona Department of Economic Security			
Title V - Older Worker	17.235	E6201054	52,746
Job Training Partnership Act	17.250	E5702010, E5701020, E5700006	188,561
Workforce Investment Act	17.255	E5702010, E5701020, E5700006	<u>238,672</u>
Total U.S. Department of Labor			<u>479,979</u>

(Continued)

See accompanying notes to schedule.

NAVAJO COUNTY
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2001
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation			
Hazardous Materials	20.703		\$ 8,487
Passed through the Arizona Department of Transportation			
Apache Trail System	20.205	AGIN00000501	<u>25,376</u>
Total U.S. Department of Transportation			<u>33,863</u>
U.S. Institute of Museum and Library Services			
Passed through Arizona Department of Library, Archives, & Public Records			
State Library Program	45.310	981-1-8-(7)	9,277
State Library Program	45.310	201-1-5-(6)	2,500
State Library Program	45.310	99000-90903-6811	<u>15,251</u>
Total U.S. Institute of Museum and Library Services			<u>27,028</u>
U.S. Federal Emergency Management Agency			
Passed through State of Arizona Department of Emergency and Military Affairs			
Federal Emergency Management Food and Shelter Program	83.523	None	<u>25,853</u>
U.S. Department of Education			
Passed through Arizona Department of Economic Security			
Title II Technology - LSCA	84.154	KR 97-2782-EQS	20,000
Early Intervention	84.181	E1800031, E1800032	<u>51,581</u>
Total U.S. Department of Education			<u>71,581</u>
U.S. Department of Health and Human Services			
Passed through Arizona Department of Health Services			
Childhood Immunization Grants	93.991	30-4066, 152045	13,265
Child Support Enforcement	93.563	E7200017, E7201017	592,497
HIV - Prevention and Control	93.940	852023, 152016	112
Preventive Health Services - Sexually Transmitted Diseases	93.977	None	195
Preventive Health and Health Services Block Grant	93.991	952020	39,297
Maternal and Child Health Services Block Grant to the States	93.994	961125, 761108, 961092	<u>69,071</u>
Total U.S. Department of Health and Human Services			<u>714,437</u>
U.S. Department of the Interior			
Payment in Lieu of Taxes – Section 1	15.226		435,569
Passed through Apache County			
U.S. Forest Service	15.unknown	None	<u>5,000</u>
Total U.S. Department of the Interior			<u>440,569</u>
Total Expenditures of Federal Awards			<u>\$ 2,832,479</u>

See accompanying notes to schedule.

Navajo County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2001

Note 1- Basis of Accounting

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

Note 2 – Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from federal or pass-through grantors or the 2001 *Catalog of Federal Domestic Assistance Update*.

Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor General of the State of Arizona

The Board of Supervisors of
Navajo County, Arizona

We have audited the general purpose financial statements of Navajo County as of and for the year ended June 30, 2001, and have issued our report thereon dated April 23, 2003, which was qualified as to the General Fixed Assets Account Group. 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.

Compliance

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 01-01 and 01-02. We also noted other immaterial instances of noncompliance that we have reported to the management of the County in a separate letter dated April 23, 2003.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-03 and 01-4.

Page Two

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 01-03 and 01-04 to be material weaknesses. We also noted other matters involving internal control over financial reporting that we have reported to the management of the County in a separate letter dated April 23, 2003.

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

April 23, 2003

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of
Navajo County, Arizona

Compliance

We have audited the compliance of Navajo County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The County's major federal programs are identified in the summary of the auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

In our opinion, Navajo County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 01-101.

Page Two

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all such internal control matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

April 23, 2001

NAVAJO COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Qualified	
	YES	NO
Material weaknesses identified in internal control over financial reporting?	<u>X</u>	<u> </u>
Reportable condition identified not considered to be material weakness?	<u> </u>	<u>X</u>
Noncompliance material to the financial statements noted?	<u> </u>	<u>X</u>

Federal Awards

Material weakness identified in internal control over major programs?	<u> </u>	<u>X</u>
Reportable condition identified not considered to be material weakness?	(None reported)	

Type of auditors' report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	<u> </u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Food Program for Women, Infants, and Children
15.226	Payment in Lieu of Taxes – Section 1
16.579	Byrne Formula Grant Program – Drug Control and System Improvement
93.563	Child Support Enforcement

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
--------------------------------------------------------------------------	-------------------

Auditee qualified as low-risk auditee?	<u> </u>	<u>X</u>
----------------------------------------	---------------	-----------------

Other Matters

Auditee's summary schedule of prior audit findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>	<u> </u>
---------------------------------------------------------------------------------------------------------------------------------	-----------------	---------------

NAVAJO COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

Financial Statement Findings

01-01

The County Board of Supervisors failed to approve budget transfers and amendments

Condition:

1. The County's Board of Supervisors failed to formally approve transfers between budget line items and, therefore, the County expended amounts in excess of budgeted amounts within its General Fund.
2. The County's Board of Supervisors failed to formally amend the County's special revenue budget when it received grant awards after its final budget was approved and, therefore, the County expended amounts in excess of its final budget.

Effect: The County was out of compliance with Arizona Revised Statute (A.R.S.) 42-17106.

Recommendation: To comply with A.R.S. 42-17106, the County's Board of Supervisors should formally approve all County budget transfers and amendments by a majority vote.

01-02

The County failed to submit the Annual Expenditure Limitation Report to the Auditor General of the State of Arizona

Condition: The County failed to submit its Annual Expenditure Limitation Reports to the Auditor General of the State of Arizona by February 28, following the fiscal years ended June 30, 2000 and 2001.

Effect: The County was out of compliance with Arizona Revised Statute (A.R.S.) 41-1279.07(c).

Recommendation: To comply with A.R.S. 41-1279.07(c), the County should submit the reports required by the *Uniform Expenditure Reporting System* to the Auditor General by February 28, following each fiscal year-end.

NAVAJO COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

01-03

General fixed assets

Condition: The County's general fixed assets system of accountability was inadequate, as evidenced by the weaknesses in the County's internal control over them set forth below. Existing records did not provide adequate information to present general fixed assets in the County's financial statements in accordance with U.S. generally accepted accounting principles. The deficiencies noted below are considered to be material weaknesses.

1. The County did not maintain a general fixed assets listing. In addition, a physical inventory of fixed assets has not been taken in the last ten years.

Criteria: The County's general fixed assets policies and procedures should be in compliance with the *Uniform Accounting Manual for Arizona Counties* (UAMAC).

Effect: Because of the lack of adequate internal control over them, general fixed assets have not been safeguarded against improper or unauthorized use.

Recommendation: To comply with the requirements of the *Uniform Accounting Manual for Arizona Counties* (UAMAC) § VI-E, the County should prepare and maintain a complete and accurate listing of land, buildings, and related improvements costing \$5,000 or more, and machinery and equipment items with unit costs of \$1,000 or more, and with useful lives longer than one year. The listing should include the following for each item:

- a. Location
- b. Identification number for furniture, equipment, and vehicles (tag number, serial number, or other number that specifically identifies the item)
- c. Description
- d. Method of acquisition (purchase, construction, trade, lease-purchase, or donation)
- e. Source of funding
- f. Acquisition date (month and year)
- g. Purchase document number
- h. Cost

Actual costs, including ancillary costs such as sales tax, freight, and installation costs, should be used to record assets, and supporting documentation should be retained for these costs. If actual cost information is not available, the County may record purchased assets at estimated historical cost. Estimated fair market value at the date of acquisition should be used to record the cost of donated assets. Documentation, such as contracts, catalogs, working paper calculations, and the minutes of Board of Supervisors' meetings, should be retained to support estimated cost information.

NAVAJO COUNTY
Schedule of Findings and Questioned Costs
Year Ended June 30, 2001

01-03

General fixed assets (Cont'd)

In addition, to help ensure compliance with the requirements of the UAMAC § VI-E, the County should take a physical inventory at least every two years of fixed assets purchased with federal monies and every three years of all other fixed assets, and reconcile it to the general fixed assets listing.

01-04

**Reconciliations of cash and investments
on deposit with the County Treasurer**

Condition: The County's accountability over cash and investments on deposit with the County Treasurer was inadequate, as evidenced by the internal control weakness set forth below.

1. The County failed to reconcile its cash and investments balances in the general ledger to the amounts recorded by the County Treasurer monthly or at year-end in a timely manner.

Criteria: Cash and investments on deposit with the County Treasurer for each County fund must be reconciled on a timely basis to the amounts recorded by the County Treasurer each month.

Effect:

1. The County's assets were not properly safeguarded.
2. The County was unable to prepare its financial statements in a timely manner.
3. Several audit and post-closing adjustments were necessary to properly state the County's financial statements.

Recommendation: The County's management and Board of Supervisors should have reliable, informative, and timely financial information to effectively manage the County's finances and operations. However, due to difficulties encountered during the County Treasurer's implementation of a new accounting system the County was unable to properly compile, reconcile, and review financial data required for timely completion of financial statements and other required reports. The County should review its policies and procedures and accounting system to ensure that cash and investments on deposit with the County Treasurer are reconciled monthly.

NAVAJO COUNTY
Schedule of Findings and Questioned
Year Ended June 30, 2001

Federal Award Findings and Questioned Costs

01-101

CFDA No.: 93.563 **Child Support Enforcement**

U.S. Department of Health and Human Services

Pass-through Entity: Arizona Department of Health Services

Award Year: October 1, 1999 through September 30, 2000 and October 1, 2000
through September 30, 2001.

Award Numbers: E7206017 and E7201017

Questioned Cost: N/A

Condition: As a result of testing monthly financial reports, it was determined that ten of twelve reports were submitted late to the Arizona Department of Health Services.

Criteria: Per the Child Support Enforcement reporting requirements, monthly financial reports are required to be submitted 28 days following the end of the month in which the County incurs the expenditures.

Effect: The Arizona Department of Health and Human Services may reduce contract incentives pursuant to the grant agreement's performance standards.

Recommendation: To help ensure compliance with reporting requirements, the County should implement policies and procedures to ensure that the Child Support Enforcement financial information is compiled monthly to enable the finance department to complete the monthly financial reports in a timely manner.

April 23, 2003

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

Dear Ms. Davenport:

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

Sincerely,

Joan Mickle
Accounting Supervisor

NAVAJO COUNTY
Corrective Action Plan
Year Ended June 30, 2001

The findings from the June 30, 2001, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Financial Statement Findings

01-01

The County Board of Supervisors failed to approve budget transfers and amendments

Contact Person: Joan Mickle, Accounting Supervisor

Phone Number (928) 524-4038

Anticipated completion date: June 30, 2003

Recommendation: To comply with A.R.S. 42-17106, the County's Board of Supervisors should formally approve all County budget transfers and amendments by a majority vote.

Action taken: The County has established and plans to adhere to policies and procedures that will require a formal vote be taken to approve all County budget transfers and amendments.

01-02

The County failed to submit the Annual Expenditure Limitation Report to the Auditor General of the State of Arizona

Contact Person: Joan Mickle, Accounting Supervisor

Phone Number (928) 524-4038

Anticipated completion date: February 28, 2004

Recommendation: To comply with A.R.S. 41-1279.07(c), the County should submit the reports required by the *Uniform Expenditure Reporting System* to the Auditor General by February 28, following each fiscal year-end.

Action taken: The report for the fiscal year ending June 30, 2000 has been completed, and currently the County is working with members of the staff of the Arizona Auditor General to complete their annual expenditure limitation report for the fiscal year ending June 30, 2001.

NAVAJO COUNTY
Corrective Action Plan
Year Ended June 30, 2001

01-03

General fixed assets

Contact Person: Joan Mickle, Accounting Supervisor

Phone Number (928) 524-4038

Anticipated completion date: December 31, 2003

Recommendation: To comply with the requirements of the *Uniform Accounting Manual for Arizona Counties* (UAMAC) §VI-E, the County should prepare and maintain a complete and accurate listing of land, buildings, and related improvements costing \$5,000 or more, and machinery and equipment items with unit costs of \$1,000 or more, and with useful lives longer than one year. The listing should include the following for each item:

- a. Location
- b. Identification number for furniture, equipment, and vehicles (tag number, serial number, or other number that specifically identifies the item)
- c. Description
- d. Method of acquisition (purchase, construction, trade, lease-purchase, or donation)
- e. Source of funding
- f. Acquisition date (month and year)
- g. Purchase document number
- h. Cost

Actual costs, including ancillary costs such as sales tax, freight, and installation costs, should be used to record assets, and supporting documentation should be retained for these costs. If actual cost information is not available, the County may record purchased assets at estimated historical cost. Estimated fair market value at the date of acquisition should be used to record the cost of donated assets. Documentation, such as contracts, catalogs, working paper calculations, and the minutes of Board of Supervisors' meetings, should be retained to support estimated cost information.

NAVAJO COUNTY
Corrective Action Plan
Year Ended June 30, 2001

01-03

General fixed assets (Cont'd)

In addition, to help ensure compliance with the requirements of the UAMAC § VI-E, the County should take a physical inventory at least every two years of fixed assets purchased with federal monies and every three years of all other fixed assets, and reconcile it to the general fixed assets listing.

Actions taken: Navajo County has recently purchased a new accounting package. This package includes a General Fixed Assets program, using bar codes. It is our intention to have our general fixed assets listing completed by December 31, 2003. However, we do have our entire inventory written up and balanced through December 31, 1998. From January 1, 1999 to current we have all of the inventory written up, but it remains to be balanced. This project is being worked on currently.

01-04

**Reconciliations of cash and investments
on deposit with the County Treasurer**

Contact Person: Joan Mickle, Accounting Supervisor

Phone Number (928) 524-4038

Completed

Recommendation: The County's management and Board of Supervisors should have reliable, informative, and timely financial information to effectively manage the County's finances and operations. However, due to difficulties encountered during the County Treasurer's implementation of a new accounting system the County was unable to properly compile, reconcile, and review financial data required for timely completion of financial statements and other required reports. The County should review its policies and procedures and accounting system to ensure that cash and investments on deposit with the County Treasurer are reconciled monthly.

Action taken: The County has worked with members of the staff of the Arizona Auditor General to bring its cash and investments on deposit with the County Treasurer reconciliations up to date, and the reconciliations are now current.

**NAVAJO COUNTY
Corrective Action Plan
Year Ended June 30, 2001**

Federal Award Findings and Questioned Costs

01-101

CFDA No.: 93.563 **Child Support Enforcement**

Contact Person: Joan Mickle, Accounting Supervisor

Phone Number (928) 524-4038

Anticipated completion date: December 31, 2003

Recommendation: To help ensure compliance with reporting requirements, the County should implement policies and procedures to ensure that the Child Support Enforcement financial information is compiled monthly to enable the finance department to complete the monthly financial reports in a timely manner.

Action taken: The County is currently working to provide more timely monthly financial reporting.

April 23, 2003

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

Dear Ms. Davenport:

The accompanying summary schedule of prior audit findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs related to federal awards. This schedule also includes audit findings reported in the prior audit's summary schedule of prior audit findings that have not been corrected.

Sincerely,

Joan Mickle
Accounting Supervisor

NAVAJO COUNTY
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2001

Status of Federal Award Findings and Questioned Costs

00-101

CFDA No.: 93.563 **Child Support Enforcement**

U.S. Department of Health and Human Services

Pass-through Entity: Arizona Department of Health Services

Award Year: October 1, 1998 through September 30, 1999 and October 1, 1999
through September 30, 2000.

Award Numbers: E7200017 and E7201017

Questioned Cost: N/A

Condition: During our testing of monthly financial reports we determined that all twelve reports were submitted late to the Arizona Department of Health Services.

Status: Not corrected. The County is currently working to provide more timely monthly financial reporting.