



A REPORT  
TO THE  
**ARIZONA LEGISLATURE**

Financial Audit Division

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Financial Statement Audit

# Navajo County

Year Ended June 30, 2005

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**Debra K. Davenport**  
Auditor General

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Navajo County  
Financial Statements  
Year Ended June 30, 2005

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

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Navajo County, Arizona

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Navajo County as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management.

We were instructed by the County's management not to audit the County's capital assets; net assets, invested in capital assets, net of related debt; and depreciation expense for the governmental activities reported in the government-wide financial statements of \$61,823,023, \$55,643,023, and \$2,649,475, respectively.

Also, as instructed by the County's management, we did not perform any procedures applicable to the account balances and activities related to the financing of the County's uninsured risks of loss for certain employee health benefits. These activities are included in governmental activities in the government-wide financial statements and in the Other Governmental Funds in the fund financial statements. The assets, liabilities, net assets or fund balance, revenues, and expenses or expenditures for the account balances and activities reported in the government-wide and fund financial statements are \$449,335, \$11,532, \$437,803, \$476,202, and \$89,312 respectively.

Furthermore, the County did not record in its accounting system and supporting records year-end accruals by individual fund. As a result, we were unable to determine the effects of this matter on beginning and ending fund balances, year-end accruals, and revenues and expenditures for the individual funds included in the fund financial statements. The County's accounting records do not permit the application of auditing procedures to determine whether the amounts reported for beginning and ending fund balances and year-end accruals for the individual funds included in the fund financial statements were accurate.

Since we did not perform auditing procedures on the County's capital asset balances and depreciation expense and the balances and activities related to the County's employee health benefits, and we were not able to apply auditing procedures to satisfy ourselves as to the amounts reported for beginning and ending fund balances, year-end accruals, and revenues and expenditures reported in the individual funds, the scope of our work was not sufficient to express, and we do not express, opinions on the financial statements of Navajo County as of and for the year ended June 30, 2005.

The Management's Discussion and Analysis on pages i through vi, the Budgetary Comparison Schedules on pages 29 through 34, and the Schedule of Agent Retirement Plans' Funding Progress on page 35 are not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because we were instructed by the County not to audit certain account balances and activities of the County's operations and because of limitations in the County's accounting records as described above.

In accordance with *Government Auditing Standards*, we will also issue our report 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 grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport  
Auditor General

October 5, 2007

# Navajo County Management's Discussion and Analysis June 30, 2005

As management of Navajo County, we offer readers of Navajo County's financial statements this narrative overview and analysis of the financial activities of Navajo County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements.

## Financial Highlights

- The Navajo County's assets exceeded its liabilities at June 30, 2005 by \$79,457,222 (net assets). Of this amount, \$8,491,241 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- At June 30, 2005, Navajo County's governmental funds reported combined ending fund balances of \$26,082,077, an increase of \$1,528,881 in comparison with the prior year restated balance.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$10,386,065 or 39.1% of total general fund expenditures.

## Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused paid-time-off leave). The statement of activities also distinguishes functions of Navajo County 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.

The governmental activities of Navajo County include general government, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and education.

# Navajo County Management's Discussion and Analysis June 30, 2005

The government-wide financial statements not only include Navajo County itself (known as the primary government), but also include various legally separate entities for which the County is considered to be financially accountable, and therefore, are blended with the data of the County and include various special assessment districts and a nonprofit corporation.

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

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

***Governmental funds.*** 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 funds 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 a government's near-term financial requirements.

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

Navajo 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 three funds considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 3 through 7 of this report.

***Fiduciary Funds.*** 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 Navajo County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 8 through 9 of this report.

***Notes to the financial statements.*** The notes 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 10 through 27 of this report.

Navajo County  
Management's Discussion and Analysis  
June 30, 2005

**Other required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Budgetary Comparison Schedules for the general fund and public works/HURF fund and Navajo County's progress in funding its obligation to provide pension benefits to its employees. Other required supplementary information can be found on pages 29 through 35 of this report.

## Government-wide Financial Analysis

The following is a summary of assets, liabilities, and net assets as of June 30, 2005:

<b>Condensed Statement of Net Assets</b>	
	<b>Governmental Activities 2005</b>
<b>Assets</b>	
Current and other assets	<u>\$90,623,420</u>
Total assets	<u>90,623,420</u>
<b>Liabilities</b>	
Long-term liabilities outstanding	8,766,656
Other liabilities	<u>2,399,542</u>
Total liabilities	<u>11,166,198</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	55,643,023
Restricted	15,322,958
Unrestricted	<u>8,491,241</u>
Total net assets	<u>\$79,457,222</u>

**Statement of Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Navajo County, assets exceeded liabilities by \$79,457,222 at June 30, 2005. However, the County did not record all of its capital assets and related accumulated depreciation. To correct this error, the County is in the process of completing a comprehensive inventory and upon completion, will record a complete record of capital assets, net of accumulated depreciation.

Unrestricted net assets of \$8,491,241 may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2005, Navajo County is able to report positive balances in all categories of net assets for its governmental activities.



Navajo County  
Management's Discussion and Analysis  
June 30, 2005

**Statement of Activities.** Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during fiscal year 2005. A summary of the changes in net assets follows. For the fiscal year, net assets increased \$4,892,605. The basis of accounting used in the government-wide statement of activities excludes capital expenditures, while its revenues include taxes that are used, in part, for the construction of those assets.

<b>Condensed Statement of Activities</b>		
	<b>Governmental Activities 2005</b>	<b>Governmental Activities 2004</b>
<b>Revenues</b>		
<i>Program revenues:</i>		
Charges for services	\$ 6,020,097	\$ 4,505,232
Operating grants and contributions	16,695,312	15,663
<i>General revenues:</i>		
Taxes	6,402,534	5,221,794
County sales and franchise tax	5,293,909	6,016,138
Share of state sales taxes	9,551,457	8,035,755
Share of state vehicle license tax	1,723,441	4,957,149
Payment in lieu of taxes	861,599	
Grants and contributions not restricted to specific programs	1,228,182	19,550,932
Investment earnings	1,184,173	1,178,509
Proceed from sale of assets	140,937	309,309
Miscellaneous	408,225	324,454
Total revenues	<u>49,509,866</u>	<u>50,114,935</u>
<b>Expenses</b>		
General government	18,389,571	15,392,349
Public safety	11,659,715	11,361,939
Highways and streets	8,434,616	9,418,291
Sanitation, health and welfare	4,831,295	4,266,760
Culture, recreation and education	794,954	818,761
Interest on long-term debt	507,110	540,314
Total expenses	<u>44,617,261</u>	<u>41,798,414</u>
Increase in net assets	<u>4,892,605</u>	<u>8,316,521</u>
Net assets, beginning, as restated	<u>74,564,617</u>	<u>64,238,888</u>
Net assets, ending	<u>\$79,457,222</u>	<u>\$72,555,409</u>

# Navajo County Management's Discussion and Analysis June 30, 2005

## Financial Analysis of the Government's Funds

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

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

At June 30, 2005, Navajo County's governmental funds reported combined ending fund balances of \$26,082,077, an increase of \$2,211,839 in comparison with the prior year's restated balance. This change is primarily attributable to the increase in the fund balance of the general fund.

The general fund is the chief operating fund of Navajo County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$10,386,065, which was \$2,211,839 greater than the previous fiscal year. Overall general fund revenues increased by \$1,173,506 and overall expenditures increased by \$4,685,038. However, for fiscal year 2005, revenues still exceeded expenditures resulting in an increase in unreserved fund balance.

## General Fund Budgetary Highlights

The general fund had budgeted expenditures of \$30,065,029. Actual general fund expenditures were under budget by approximately \$3.4 million. The most significant budget variances were for capital outlay and contingency expenditures which were \$1.7 million and \$3.0 million, respectively, less than budgeted due to not spending the capital outlay and contingency funds.

During the year, actual revenue exceeded estimates by approximately \$6.8 million.

## Capital Asset and Debt Administration

**Capital Assets.** Navajo County's expenditures for capital assets for its governmental activities during the year ended June 30, 2005 totaled approximately \$6.5 million in which \$2.3 million is recorded as capital outlays. This investment in capital assets includes equipment and vehicles purchased during the year as well as various building and infrastructure projects. As mentioned previously, the current year statement of net assets and statement of activities do not include a complete record of capital assets, accumulated depreciation, and depreciation expense. The County intends to take an inventory of its capital assets at which time all capital assets will be reported in these statements. Included in the inventory will be infrastructure assets (roads, highways, bridges, etc).

**Long-term Liabilities.** At the end of the current fiscal year, Navajo County had total outstanding long-term liabilities of \$8.8 million. This includes certificate of participation outstanding of \$6.2 million that financed the construction of jail facilities. Included in long-term liabilities is \$1.4 million for the future payment of

Navajo County  
Management's Discussion and Analysis  
June 30, 2005

compensated absences for unused employee vacation leave. The remainder of the long-term liabilities consists of capital leases, estimated landfill closure and postclosure care costs and claims and judgments payable.

Additional information on long-term debt can be found in Notes 7 through 12 on pages 19 through 21 of this report.

### Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Navajo County is currently 8.7 percent, which compares unfavorably to the state's average unemployment rate of 5.0 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Navajo County's budget for the 2004/05 fiscal year. The unreserved ending fund balance in the general fund of \$10,386,065 was appropriated for spending in the 2005/06 fiscal year budget.

### Requests for Information

This financial report is designed to provide a greater overview of Navajo 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 as follows:

Finance Director  
Navajo County  
100 East Carter  
Holbrook, Arizona 86025

Navajo County  
Statement of Net Assets  
June 30, 2005

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 25,697,909
Receivables (net of allowances for uncollectibles):	
Property taxes	324,421
Special assessments	38,842
Accrued interest	222,936
Due from other governments	1,976,260
Inventories	357,607
Prepaid items	89,040
Notes receivables	93,382
Capital assets, not being depreciated	6,666,542
Capital assets, being depreciated, net	<u>55,156,481</u>
Total assets	<u>90,623,420</u>
 <b>Liabilities</b>	
Accounts payable	2,109,436
Deposits held for others	290,106
Noncurrent liabilities	
Due within 1 year	685,545
Due in more than 1 year	<u>8,081,111</u>
Total liabilities	<u>11,166,198</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	55,643,023
Restricted for:	
Highways and streets	6,511,949
Debt service	1,144,600
Capital projects	7,573,027
Other purposes	93,382
Unrestricted	<u>8,491,241</u>
Total net assets	<u>\$ 79,457,222</u>

See accompanying notes to financial statements.

Navajo County  
Statement of Activities  
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary government:				
Governmental activities:				
General government	\$ 18,389,571	\$ 5,224,551	\$ 1,718,024	\$ (11,446,996)
Public safety	11,659,715	802,050	2,917,059	(7,940,606)
Highways and streets	8,434,616		10,997,876	2,563,260
Sanitation	94,595	(86,267)		(180,862)
Health	1,773,468	70,821	926,755	(775,892)
Welfare	2,963,232			(2,963,232)
Culture and recreation	531,045	8,942	135,598	(386,505)
Education	263,909			(263,909)
Interest on long-term debt	507,110			(507,110)
Total governmental activities	<u>\$ 44,617,261</u>	<u>\$ 6,020,097</u>	<u>\$ 16,695,312</u>	<u>(21,901,852)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				4,013,432
Property taxes, levied for debt service				458,758
Property taxes, levied for flood control				1,136,623
Property taxes, levied for public health district				517,308
Property taxes, levied for library district				136,824
Property taxes, levied for special assessment districts				139,589
County sales tax				5,205,992
Shared revenues - franchise taxes				87,917
Shared revenues - state sales tax				9,551,457
Shared revenues - vehicle license tax				1,723,441
Payment in lieu of taxes				861,599
Grants and contributions not restricted to specific programs				1,228,182
Investment earnings				1,184,173
Proceeds from sale of assets				140,937
Miscellaneous				408,225
Total general revenues				<u>26,794,457</u>
Change in net assets				4,892,605
Net assets, July 1, 2004, as restated				<u>74,564,617</u>
Net assets, June 30, 2005				\$ 79,457,222

See accompanying notes to financial statements.

Navajo County  
Balance Sheet  
Governmental Funds  
June 30, 2005

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 10,216,153	\$ 6,013,739	\$ 3,238,656	\$ 6,229,361	\$ 25,697,909
Receivables (net of allowances for uncollectibles):					
Property taxes	217,872		63,185	43,364	324,421
Special assessments				38,842	38,842
Accrued interest	90,534	48,975	26,155	57,272	222,936
Due from other governments	895,881	983,801		96,578	1,976,260
Inventories	37,625	319,982			357,607
Prepaid items	87,122			1,918	89,040
Total assets	<u>\$ 11,545,187</u>	<u>\$ 7,366,497</u>	<u>\$ 3,327,996</u>	<u>\$ 6,467,335</u>	<u>\$ 28,707,015</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 609,969	\$ 668,789	\$ 113,667	\$ 717,011	\$ 2,109,436
Deposits held for others	284,849			5,257	290,106
Deferred revenue	139,557		38,122	47,717	225,396
Total liabilities	<u>1,034,375</u>	<u>668,789</u>	<u>151,789</u>	<u>769,985</u>	<u>2,624,938</u>
Fund balances:					
Reserved for:					
Inventories	37,625	319,982			357,607
Prepaid items	87,122			1,918	89,040
Highways and streets		6,377,726			6,377,726
Unreserved, reported in:					
General fund	10,386,065				10,386,065
Special revenue funds				5,695,432	5,695,432
Capital projects funds			3,176,207		3,176,207
Total fund balances	<u>10,510,812</u>	<u>6,697,708</u>	<u>3,176,207</u>	<u>5,697,350</u>	<u>26,082,077</u>
Total liabilities and fund balances	<u>\$ 11,545,187</u>	<u>\$ 7,366,497</u>	<u>\$ 3,327,996</u>	<u>\$ 6,467,335</u>	<u>\$ 28,707,015</u>

See accompanying notes to financial statements.

Navajo County  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
June 30, 2005

Fund balances—total governmental funds	\$ 26,082,077
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	61,823,023
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	225,396
Some assets are not available in the current period and therefore, are not reported in the funds.	93,382
Some liabilities, including certificates of participation payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(8,766,656)</u>
Net assets of governmental activities	<u>\$ 79,457,222</u>

See accompanying notes to financial statements.

Navajo County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2005

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 4,139,338	\$ -	\$ 960,525	\$ 844,792	\$ 5,944,655
Special assessments				541,145	541,145
Licenses and permits	694,492			40,747	735,239
Fees, fines, and forfeits	787,103			62,035	849,138
Intergovernmental	18,554,353	11,051,053		5,630,636	35,236,042
Charges for services	3,548,369	-		887,351	4,435,720
Investment earnings	747,216	190,934	98,244	147,779	1,184,173
Contributions				13,624	13,624
Miscellaneous	300,537	84,061		23,627	408,225
Total revenues	<u>28,771,408</u>	<u>11,326,048</u>	<u>1,058,769</u>	<u>8,191,736</u>	<u>49,347,961</u>
Expenditures:					
Current:					
General government	14,012,990			3,506,265	17,519,255
Public safety	8,393,493			3,263,388	11,656,881
Highways and streets		10,017,908	-	444,724	10,462,632
Sanitation	64,518			-	64,518
Health				1,977,677	1,977,677
Welfare	2,939,772				2,939,772
Culture and recreation	183,000			330,452	513,452
Education	252,173				252,173
Debt service:					
Principal				718,342	718,342
Interest and other charges				507,110	507,110
Capital outlay	<u>746,474</u>		<u>505,310</u>	<u>1,032,596</u>	<u>2,284,380</u>
Total expenditures	<u>26,592,420</u>	<u>10,017,908</u>	<u>505,310</u>	<u>11,780,554</u>	<u>48,896,192</u>
Excess (deficiency) of revenues over expenditures	<u>2,178,988</u>	<u>1,308,140</u>	<u>553,459</u>	<u>(3,588,818)</u>	<u>451,769</u>

(Continued)

See accompanying notes to financial statements.



Navajo County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2005  
(Continued)

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):					
Sale of capital assets	\$ 18,190	\$ 69,941		\$ 52,806	\$ 140,937
Capital lease agreements				63,086	63,086
Transfers in	1,393,514	46,336		2,080,101	3,519,951
Transfers out	<u>(2,075,405)</u>	<u>(592,843)</u>	<u>\$ (242,000)</u>	<u>(609,703)</u>	<u>(3,519,951)</u>
Total other financing sources and uses	<u>(663,701)</u>	<u>(476,566)</u>	<u>(242,000)</u>	<u>1,586,290</u>	<u>204,023</u>
Net change in fund balances	<u>1,515,287</u>	<u>831,574</u>	<u>311,459</u>	<u>(2,002,528)</u>	<u>655,792</u>
Fund balances, July 1, 2004, as restated	8,980,189	5,742,647	2,864,748	7,699,170	25,286,754
Increase(decrease) in reserve for inventories	(2)	123,487			123,485
Increase in reserve for prepaids	<u>15,338</u>			<u>708</u>	<u>16,046</u>
Fund balances, June 30, 2005	<u>\$ 10,510,812</u>	<u>\$ 6,697,708</u>	<u>\$ 3,176,207</u>	<u>\$ 5,697,350</u>	<u>\$ 26,082,077</u>

See accompanying notes to financial statements.

Navajo County  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2005

Net change in fund balances—total governmental funds	\$	655,792
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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	\$ 6,524,455	
Depreciation expense	<u>(2,649,475)</u>	3,874,980

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		20,968
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

Principal repaid		722,311
Debt issued		(63,086)

Under the modified accrual basis of accounting used in 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 and liabilities are reported regardless of when the financial resources are available.

Increase in compensated absences		(178,829)
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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	(123,485)	
Increase in prepaid expenses	<u>(16,046)</u>	<u>(139,531)</u>

Change in net assets of governmental activities	\$	<u><u>4,892,605</u></u>
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See accompanying notes to financial statements.

Navajo County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2005

	<u>Investment Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 82,717,824	\$ 7,848,506
Interest receivable	<u>703,094</u>	<u>6,985</u>
Total assets	<u>83,420,918</u>	<u>\$ 7,855,491</u>
 <b>Liabilities</b>		
Deposits held for others		<u>7,855,491</u>
Total liabilities		<u>\$ 7,855,491</u>
 <b>Net Assets</b>		
Held in trust for investment trust participants	<u>\$ 83,420,918</u>	

See accompanying notes to financial statements.

Navajo County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2005

	<u>Investment Trust Funds</u>
Additions:	
Contributions from participants	\$ 230,959,589
Net investment income	<u>2,212,420</u>
Total additions	<u>233,172,009</u>
Deductions:	
Distributions to participants	<u>232,214,774</u>
Change in net assets	957,235
Net assets, July 1, 2004, as restated	<u>82,463,683</u>
Net assets, June 30, 2005	<u><u>\$ 83,420,918</u></u>

See accompanying notes to financial statements.

Navajo County  
Notes to Financial Statements  
June 30, 2005

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).

During the year ended June 30, 2005, the County implemented the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB Statement No. 40 establishes and modifies the risk disclosures about the County's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and has no effect on reported amounts for deposits, investment, net assets, or changes in net assets.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the 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 nonprofit corporation provides job training and educational services. Although these special districts and the nonprofit corporation are legally separate entities from the County, the Board of Supervisors of the County serves as the Board of Directors for each of these entities, therefore the special districts' and nonprofit corporation's transactions have been accounted for within the County's governmental fund types.

Separate financial statements of the blended component units are not prepared.

B. Basis of Presentation

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

Navajo County  
Notes to Financial Statements  
June 30, 2005

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

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

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

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

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

**Fund financial statements**—provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental and fiduciary fund categories. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as other governmental 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 Public Works/HURF Fund* is used to account for road construction and maintenance of major and nonmajor regional roads, and is funded by a ½ cent County sales tax, impact fees, and highway user revenue.

*The Flood Control District Fund* is used to account for the resources accumulated and payments made for capital expenditures related to County flood control projects.

Navajo County  
Notes to Financial Statements  
June 30, 2005

The County reports the following fund types:

*The Investment Trust Funds* account for pooled assets held and invested by the County Treasurer on behalf of County departments and other governmental entities.

*The Agency Funds* account for assets held by the County as an agent for the State, various local governments, other parties, and for property taxes collected and distributed to the State, local school districts, community college districts, and special districts.

### 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. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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

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

### D. Cash and Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participation interest-earning investment contracts with a remaining maturity of 1 year or less at time of purchase are stated at amortized cost. All other investments are stated at cost, which approximates fair value.

Navajo County  
Notes to Financial Statements  
June 30, 2005

#### E. Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

#### F. Property Tax Calendar

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

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

#### G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) are defined by the County as assets with an initial, individual cost of more than \$5,000. Depreciation methods and estimated useful lives of capital assets reported in the government-wide statements are as follows:

	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	N/A	N/A
Buildings	Straight-line	20-40 years
Machinery and equipment	Straight-line	5-10 years
Infrastructure	Straight-line	12-40 years

#### H. Investment Earnings

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



Navajo County  
Notes to Financial Statements  
June 30, 2005

## I. Compensated Absences

Compensated absences consist of unused vacation leave. Employees may accumulate up to 488 hours during a calendar year (depending on years of service) but must have reduced the balance to 320 hours by December 31 of each year. On December 31 of each year, if the balance has not been reduced to 320 hours, employees can request a 90 day extension for up to 50% of the excess vacation hours and transfer up to 50% of the excess vacation leave hours to sick leave. If a request to extend and transfer the vacation hours is not made, the excess balance is forfeited. Upon termination of employment, all unused vacation benefits up to a maximum of 320 hours (488 upon retirement) are paid to the employee. Accordingly, vacation benefits are accrued as a liability in the financial statements.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees, and therefore, are not accrued in the financial statements. However upon retirement or death, employees who have accumulated 301 hours or more of unused sick leave and have 5 or more years of continuous services will receive a partial sick leave payment, not to exceed \$4,000, based on the number of years of continuous service.

## Note 2 - Beginning Balances Restated

As a result of miscellaneous reporting errors in prior years the County restated net assets of the governmental activities and fiduciary funds and fund balances of the governmental funds as of July 1, 2004.

The following is a summary of the adjustments made to beginning net assets of the governmental activities and investment trust funds and fund balances of the governmental funds.

	<u>Governmental Activities Total</u>	<u>General Fund</u>	<u>Public Works/HURF Fund</u>	<u>Other Governmental Funds</u>	<u>Investment Trust Funds</u>
Net assets and fund balances reported as of June 30, 2004	\$72,555,409	\$8,283,637	\$5,741,658	\$7,663,153	\$82,436,776
Miscellaneous Corrections	<u>2,009,208</u>	<u>696,552</u>	<u>989</u>	<u>36,017</u>	<u>(26,907)</u>
Net assets and fund balances as of July 1, 2004, as restated	<u>\$74,564,617</u>	<u>\$8,980,189</u>	<u>\$5,724,647</u>	<u>\$7,699,170</u>	<u>\$82,463,683</u>

Navajo County  
Notes to Financial Statements  
June 30, 2005

**Note 3 - Stewardship, Compliance, and Accountability**

At June 30, 2005, the following funds reported deficits in fund balances in excess of \$20,000, which violate state statutes:

Fund	Deficit
Governmental funds:	
Jail - 64 Bed Extension	\$ 582,494
Child Support IV-D	272,419
Home Housing Rehab - #307-04	172,265
W.I.C.	165,358
Penrod Rd - SL - 30%	129,614
CDBG- 142-04 - 02-03	53,348
WIA- E5705009 - ACP PY04 & FY04	30,759
WIA - E5705009 - Youth PY04	68,710
WIA - E5705009- Adult PY04 & FY 04	29,130
WIA - E5705009 - TANF - SAS - PY04	43,861
Self Insurance Retention Reserve	37,366
Comm. Gun Violence Prosecution	67,636
Drug Enforce. Attorney	65,090
Bio Terrorism - Phases I & II	86,839
Nutrition Network	25,896
T.B.	32,848
Animal Control	33,251
Drug Enforce. Sheriff	78,654
ODP - Homeland Sec. - 03 Supl	31,871
Drug Enforce. Sup CT/AD Prob	40,176
Noticing & Court Clerk - GPT0407FTG102	44,241

These fund deficits resulted either from operations or a carryover deficit from prior years but are expected to be corrected through normal operations or through general fund operating transfers in future years.

**Note 4 - Deposits and Investments**

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

Navajo County  
Notes to Financial Statements  
June 30, 2005

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow foreign investments.

**Deposits**—At June 30, 2005, the carrying amount of the County's deposits was \$(100,398), and the bank balance was \$1,001,560. The County's formal policy stipulates that securities that are held in a custody or safekeeping account must be held under the name of Navajo County or Navajo County Treasurer.

**Investments**—The County's investments at June 30, 2005, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 99,920,000
Certificates of deposit	400,000
Repurchase agreements	<u>16,020,540</u>
	<u>\$116,340,540</u>

Navajo County  
Notes to Financial Statements  
June 30, 2005

**Credit Risk** – The County's formal policy is to limit its portfolio to investments with the top rating issued by nationally recognized statistical rating organizations. As of June 30, 2005, credit risk for the County's investments were as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard & Poors	\$ 99,920,000
Certificates of deposit	Unrated	Not applicable	400,000
Repurchase agreements	Unrated	Not applicable	<u>16,020,540</u>
			<u>\$116,340,540</u>

**Custodial credit risk** – For an investment, custodial credit risk is the risk that in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's formal policy stipulates that securities that are held in a custody or safekeeping account must be held under the name of Navajo County or Navajo County Treasurer.

**Concentration of credit risk** - The County's formal policy stipulates that the County will diversify the investment portfolio by limiting investments to avoid over-concentration in securities from a specific issuer, excluding obligations issued or guaranteed by the United States or any of the senior debt of it agencies or sponsored agencies. The County had investments at June 30, 2005, of 5 percent or more in repurchase agreements, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association and the Federal Home Loan Bank. These investments were 9.47 percent, 5.16 percent, 21.49 percent and 56.66 percent, respectively, of the County's total investments.

**Interest rate risk** – The County's formal policy is to purchase a combination of short, medium, and long term investments such that maturities occur evenly over time as necessary to provide the cash flow needed for operations. At June 30, 2005, the County had the following investments in debt securities:

Investment	Amount	Weighted Average Maturity (In Years)
U.S. agency securities	\$ 99,920,000	2.40
Certificate of deposits	400,000	1.27
Repurchase agreements	<u>16,020,540</u>	.01
	<u>\$116,340,540</u>	

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

Navajo County  
Notes to Financial Statements  
June 30, 2005

Cash, deposits, and investments:

Cash on hand	\$ 24,097
Amount of deposits	(100,398)
Amount of investments	<u>116,340,540</u>
Total	<u>\$116,264,239</u>

Statement of Net Assets:

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and cash equivalents	<u>\$25,697,909</u>	<u>\$82,717,824</u>	<u>\$7,848,506</u>	<u>\$116,264,239</u>

#### Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2005, include \$700,468 in State and County sales taxes, \$226,479 in vehicle license taxes from the State of Arizona, \$849,797 in state-shared revenue from highway user taxes and \$199,516 in various grants from the state and federal governments.

#### Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 5,977,441			\$ 5,977,441
Construction in progress	<u>689,101</u>			<u>689,101</u>
Total capital assets, not being depreciated	<u>6,666,542</u>			<u>6,666,542</u>
Capital assets, being depreciated:				
Buildings	52,183,595	\$1,438,107		53,621,702
Infrastructure	14,786,576	2,677,364		17,463,940
Improvements other than buildings	118,505	17,429		135,934
Machinery and equipment	<u>8,657,752</u>	<u>2,391,555</u>		<u>11,049,307</u>
Total capital assets, being depreciated	<u>75,746,428</u>	<u>6,524,455</u>		<u>82,270,883</u>
Less: accumulated depreciation for:				
Buildings	18,856,105	558,057		19,414,162
Infrastructure	1,584,964	458,242		2,043,206
Improvements other than buildings	27,704	6,093		33,797
Machinery and equipment	<u>3,996,154</u>	<u>1,627,083</u>		<u>5,623,237</u>
Total accumulated depreciation	<u>24,464,927</u>	<u>2,649,475</u>		<u>27,114,402</u>
Total capital assets, being depreciated, net	<u>51,281,501</u>	<u>3,874,980</u>		<u>55,156,481</u>
Governmental activities capital assets, net	<u>\$57,948,043</u>	<u>\$3,874,980</u>	<u>\$</u>	<u>\$61,823,023</u>

Navajo County  
Notes to Financial Statements  
June 30, 2005

Depreciation expense as of June 30, 2005 was charged to governmental functions as follows:

General government	\$ 986,222
Public safety	416,158
Highways and streets	1,133,769
Sanitation	30,077
Health	27,655
Welfare	23,498
Culture and recreation	20,360
Education	<u>11,736</u>
Total	<u>\$2,649,475</u>

## Note 7 - Changes in Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2005:

<b>Governmental Activities</b>	<b>Balance July 1, 2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2005</b>	<b>Due within 1 year</b>
Compensated absences payable	\$1,250,085	\$ 770,318	\$ 591,487	\$ 1,428,916	
Certificates of participation payable	6,430,000		250,000	6,180,000	\$265,000
Capital lease payable	70,198	63,086	71,588	61,696	19,822
Landfill closure and post-closure care costs payable	15,195		723	14,472	723
Claims and judgments payable	<u>81,572</u>	<u>1,400,000</u>	<u>400,000</u>	<u>1,081,572</u>	<u>400,000</u>
Total	<u>\$7,847,050</u>	<u>\$2,233,404</u>	<u>\$1,313,798</u>	<u>\$8,766,656</u>	<u>\$685,545</u>

## Note 8 - Certificates of Participation

The County has issued certificates of participation that are generally non-callable with interest payable semiannually to finance the construction of jail facilities. The original amount of certificates issued was \$7,320,000.

Certificates outstanding at June 30, 2005, were as follows:

<b>Description</b>	<b>Original Amount</b>	<b>Maturity Ranges</b>	<b>Interest Rates</b>	<b>Outstanding Principal</b>
Navajo County, Arizona Municipal Property Corporation Jail Facility Bonds, Series 2000	\$7,320,000	2006 – 2020	5.00 – 6.25%	<u>\$6,180,000</u>

Navajo County  
Notes to Financial Statements  
June 30, 2005

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2005:

	<u>Governmental Activities</u>	
	Principal	Interest
Year ending June 30		
2006	\$ 265,000	\$ 371,245
2007	280,000	356,670
2008	295,000	341,270
2009	310,000	324,750
2010-14	1,885,000	1,329,413
2015-19	2,530,000	684,825
2020-24	<u>615,000</u>	<u>38,438</u>
Total	<u>\$6,180,000</u>	<u>\$3,446,611</u>

## Note 9 - Capital Lease Payable

The County has acquired computers under the provisions of a long-term lease agreement classified as capital lease for accounting purposes because it provides 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:

	<u>Governmental Activities</u>
Machinery and equipment	\$63,086
Less: accumulated depreciation	<u>2,103</u>
Carrying value	<u>\$60,983</u>

The following schedule details debt service requirements to maturity for the County's capital lease payable at June 30, 2005:

	<u>Governmental Activities</u>
Year ending June 30, 2005:	
Total minimum lease payments	\$65,221
Less amount representing interest	<u>3,525</u>
Present value of net minimum lease payments	<u>\$61,696</u>

Navajo County  
Notes to Financial Statements  
June 30, 2005

Note 10 - Landfill Closure and Post Closure Care Costs

These costs will be paid from the General Fund. The closure and post-closure care costs were estimated and reported as a liability in the Statement of Net Assets. The \$14,472 reported as landfill closure and post-closure care liability is the estimated cost of closure and post-closure, less payments thereon made to date. These amounts are based on what it would cost to perform all closure and post-closure care in fiscal year 2005. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Note 11 - 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 \$81,572, which has been accrued as a noncurrent liability in the accompanying financial statements. The County's general fund has typically paid all claims and judgments.

On October 15, 2004, Navajo County settled the lawsuit Hancock vs. Navajo County. The lawsuit was the result of flooding of the Little Colorado River because there was a breach in the Winslow levy. In conjunction with the settlement agreement, Navajo County agreed to pay the plaintiffs \$1.4 million.

The following schedule details the remaining annual payments under this settlement agreement:

October 1, 2005	\$ 400,000
October 1, 2006	400,000
October 1, 2007	<u>200,000</u>
Total	<u>\$1,000,000</u>

Note 12 - Compensated Absences

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2005, the County paid for compensated absences as follows: 65 percent from the General Fund, 13 percent from the Public Works/HURF Fund, and 22 percent from Other Governmental Funds.



Navajo County  
Notes to Financial Statements  
June 30, 2005

Note 13 - 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 \$36,701 for the year ended June 30, 2005. The operating leases have remaining non-cancelable terms from one to seventeen years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2005, were as follows:

Year ending June 30	
2006	\$ 23,019
2007	14,400
2008	14,400
2009	14,400
2010 – 2014	72,000
2015 – 2019	72,000
2020 – 2022	<u>38,400</u>
Total minimum lease payments	<u>\$248,619</u>

Note 14 - 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 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 \$50,000 for each occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$10 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.

Navajo County  
Notes to Financial Statements  
June 30, 2005

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.

In addition, the Employee Benefits Fund (Fund) (a part of the General Fund) accounts for the financing of 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 years.

## Note 15 - Retirement Plans

***Plan Descriptions***—The County contributes to the four plans described below. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits.

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

The *Public Safety Personnel Retirement System* (PSPRS) is an agent multiple-employer defined benefit pension plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona or participating political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and participating 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 and participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 6.

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The *Elected Officials Retirement Plan* (EORP) is a cost-sharing multiple-employer defined benefit pension plan that covers elected officials and judges of certain state and local governments. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3.

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	PSPRS, CORP, and EORP
3300 North Central Avenue	3010 East Camelback Road, Suite 200
P.O. Box 33910	Phoenix, AZ 85016 - 4416
Phoenix, AZ 85012-3910	
(602) 240-2000 or (800) 621-3778	(602) 255-5575

**Funding Policy**—The Arizona State Legislature establishes and may amend active plan members' and the County's contribution rates.

**Cost-sharing plans**—For the year ended June 30, 2005, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2005, 2004 and 2003 were \$843,040, \$828,833 and \$373,421, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was required to remit a designated portion of court docket fees plus additional contributions of 14.54 percent of the member's annual covered payroll, as determined by actuarial valuation. The County's contributions to EORP for the years ended June 30, 2005, 2004, and 2003 were \$76,198, \$73,206 and \$846, respectively, which were equal to the required contributions for the year.

**Agent plans**—For the year ended June 30, 2005, 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 11.4 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 2.06 percent.

Navajo County  
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June 30, 2005

**Annual Pension Cost**—The County's pension cost for the two agent plans for the year ended June 30, 2005, and related information follows.

	PSPRS	CORP
Contribution rates:		
County	11.4%	2.06%
Plan members	7.65%	8.50%
Annual pension costs	\$161,564	\$21,455
Contributions made	\$161,564	\$21,455

The current-year annual required contribution for the PSPRS and CORP were determined as a part of their June 30, 2003, 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 (excess) actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2003, was 20 years.

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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2005	\$161,564	100%	\$ -
	2004	102,839	100%	-
	2003	39,505	100%	-
CORP	2005	\$ 21,455	100%	\$ -
	2004	20,758	100%	-
	2003	17,267	100%	-

## Note 16 - Interfund Activity

**Interfund transfers**—Interfund transfers for the year ended June 30, 2005, were as follows:

Navajo County  
Notes to Financial Statements  
June 30, 2005

Transfer from	Transfers to			
	General Fund	Public Works/ HURF Fund	Other Governmental Funds	Total Governmental Funds
General Fund	\$ 500,000	\$46,336	\$1,529,069	\$2,075,405
Public Works/HURF Fund	550,000		42,843	592,843
Flood Control District Fund	242,000			242,000
Other Governmental funds	101,514		508,189	609,703
Total	<u>\$1,393,514</u>	<u>\$46,336</u>	<u>\$2,080,101</u>	<u>\$3,519,951</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments are due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

## Note 17 - Condensed Financial Statements of 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 fair market 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 earning to each of the pool's participants.

At June 30, 2005, the carrying amount of the County Treasurer's investment pool deposits was (\$767,561) because the County invested available cash relating to outstanding checks in a cash sweep investment account, which consists of repurchase agreements, and the bank balance was \$1,162,024.

Navajo County  
Notes to Financial Statements  
June 30, 2005

All deposits and investments of the County's primary government are included in the County Treasurer's investment pool; therefore, the deposit and investment risks of the Treasurer's investment pool are the same as the County's deposit and investment risks, see Note 4 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rate(s)	Maturities	Fair Value
U.S. agency securities	\$99,920,000	2.00-4.80%	06/06 – 02/10	\$98,526,531
Certificates of deposit	400,000	2.05-3.10%	11/05 – 01/08	400,000
Repurchase agreements	16,020,540	2.39 – 2.90%	07/05	16,020,540

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

**Statement of Net Assets**

Assets	<u>\$115,572,979</u>
Net assets	<u>\$115,572,979</u>

Net assets held in trust for:

Internal participants	\$ 35,164,584
External participants	<u>80,408,395</u>
Total net assets held in trust	<u>\$115,572,979</u>

**Statement of Changes in Net Assets**

Total additions	\$300,516,026
Total deductions	<u>298,836,113</u>
Net increase	<u>1,679,913</u>
Net assets held in trust:	
July 1, 2004	<u>113,893,066</u>
June 30, 2005	<u>\$115,572,979</u>

Other Required Supplementary Information

Navajo County  
Required Supplementary Information  
Budgetary Comparison Schedule—General Fund  
Year Ended June 30, 2005

	Original and Final Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Taxes	\$ 2,780,000	\$ 4,139,338	\$ 1,359,338
Licenses and permits	611,000	694,492	83,492
Fines and forfeits	748,000	787,103	39,103
Intergovernmental	16,210,832	18,554,353	2,343,521
Charges for services	1,333,500	3,548,369	2,214,869
Investments and earnings	100,000	747,216	647,216
Miscellaneous	154,500	300,537	146,037
Total revenues	<u>21,937,832</u>	<u>28,771,408</u>	<u>6,833,576</u>
Expenditures:			
General government			
Board of supervisors	500,414	491,923	8,491
County manager	1,293,424	1,209,521	83,903
Buildings and grounds	1,335,895	1,402,481	(66,586)
Elections	308,553	408,555	(100,002)
Planning and building	658,064	612,355	45,709
Recorder	228,840	187,036	41,804
Voter registration	129,128	130,339	(1,211)
Assessor	880,171	815,345	64,826
MIS	500,830	684,418	(183,588)
Treasurer	349,625	344,973	4,652
Contingency	3,000,000	46	2,999,954
Legal defender	309,093	318,167	(9,074)
County attorney	1,543,429	1,538,487	4,942
Superior courts	1,656,661	1,827,729	(171,068)
Public defenders	826,151	798,814	27,337
Clerk of superior court	759,450	755,464	3,986
Holbrook justice court	206,323	204,071	2,252
Winslow justice court	214,814	220,327	(5,513)
Snowflake justice court	276,450	288,156	(11,706)
Show Low justice court	213,738	214,347	(609)
Pinetop justice court	244,810	256,931	(12,121)
Kayenta justice court	100,460	101,403	(943)
Holbrook constable	10,650	15,428	(4,778)

(Continued)

See accompanying notes to budgetary comparison schedule.



Navajo County  
Required Supplementary Information  
Budgetary Comparison Schedule—General Fund  
Year Ended June 30, 2005  
(Continued)

	Original and Final Amounts	Actual Amounts	Variance with Final Budget
Winslow constable	\$ 11,350	\$ 17,080	\$ (5,730)
Snowflake constable	11,000	15,020	(4,020)
Show Low constable	10,975	16,770	(5,795)
Pinetop constable	31,555	36,739	(5,184)
Kayenta constable	9,100	12,693	(3,593)
Miscellaneous	<u>1,075,800</u>	<u>1,088,372</u>	<u>(12,572)</u>
Total general government	<u>16,696,753</u>	<u>14,012,990</u>	<u>2,683,763</u>
Public safety			
Juvenile probation	943,058	1,080,526	(137,468)
Adult probation	494,501	475,893	18,608
Jail operations	2,287,938	3,404,681	(1,116,743)
Sheriff	<u>3,272,366</u>	<u>3,432,393</u>	<u>(160,027)</u>
Total public safety	<u>6,997,863</u>	<u>8,393,493</u>	<u>(1,395,630)</u>
Sanitation			
Sanitation landfill	<u>60,000</u>	<u>64,518</u>	<u>(4,518)</u>
Welfare			
Public fiduciary	390,998	380,452	10,546
Indigent health	<u>2,999,923</u>	<u>2,559,320</u>	<u>440,603</u>
Total welfare	<u>3,390,921</u>	<u>2,939,772</u>	<u>451,149</u>
Culture and recreation			
Parks and recreation	<u>173,513</u>	<u>183,000</u>	<u>(9,487)</u>
Total culture and recreation	<u>173,513</u>	<u>183,000</u>	<u>(9,487)</u>
Education			
Superintendent of schools	<u>245,979</u>	<u>252,173</u>	<u>(6,194)</u>
Capital Outlay	<u>2,500,000</u>	<u>746,474</u>	<u>1,753,527</u>
Total expenditures	<u>30,065,029</u>	<u>26,592,420</u>	<u>3,472,609</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County  
Required Supplementary Information  
Budgetary Comparison Schedule—General Fund  
Year Ended June 30, 2005  
(Concluded)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (8,127,197)</u>	<u>\$ 2,178,988</u>	<u>\$ 10,306,185</u>
Other financing sources (uses):			
Sale of capital assets		18,190	18,190
Transfers in		1,393,514	1,393,514
Transfers out	<u>(1,637,345)</u>	<u>(2,075,405)</u>	<u>(438,060)</u>
Total other financing sources and uses	<u>(1,637,345)</u>	<u>(663,701)</u>	<u>973,644</u>
Net change in fund balances	(9,764,542)	1,515,287	11,279,829
Fund balance, July 1, 2004, as restated	9,764,542	8,980,189	(784,353)
Decrease in reserve for inventories		(2)	(2)
Increase in reserve for prepaid items	<u>-</u>	<u>15,338</u>	<u>15,338</u>
Fund balance, June 30, 2005	<u><u>\$ -</u></u>	<u><u>\$ 10,510,812</u></u>	<u><u>\$ 10,510,812</u></u>

See accompanying notes to budgetary comparison schedule.

Navajo County  
Required Supplementary Information  
Budgetary Comparison Schedule—Public Works/HURF Fund  
Year Ended June 30, 2005

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Intergovernmental	\$ 10,583,013	\$ 11,051,053	\$ 468,040
Charges for services	1,010		(1,010)
Investment earnings	186,544	190,934	4,390
Miscellaneous	<u>162,635</u>	<u>84,061</u>	<u>(78,574)</u>
Total revenues	<u>10,933,202</u>	<u>11,326,048</u>	<u>392,846</u>
Expenditures:			
Highways and streets	<u>15,334,050</u>	<u>10,017,908</u>	<u>5,316,142</u>
Total expenditures	<u>15,334,050</u>	<u>10,017,908</u>	<u>5,316,142</u>
Excess (deficiency) of revenues over expenditures	<u>(4,400,848)</u>	<u>1,308,140</u>	<u>5,708,988</u>
Other financing sources (uses):			
Sale of capital assets	57,846	69,941	12,095
Transfers in		46,336	46,336
Transfers out	<u>-</u>	<u>(592,843)</u>	<u>(592,843)</u>
Total other financing sources and uses	<u>57,846</u>	<u>(476,566)</u>	<u>(534,412)</u>
Net change in fund balances	<u>(4,343,002)</u>	<u>831,574</u>	<u>5,174,576</u>
Fund balance, July 1, 2004, as restated	4,343,002	5,742,647	1,399,645
Increase in reserve for inventories	<u>-</u>	<u>123,487</u>	<u>123,487</u>
Fund balance, June 30, 2005	<u>\$ -</u>	<u>\$ 6,697,708</u>	<u>\$ 6,697,708</u>

See accompanying notes to budgetary comparison schedule.

Navajo County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2005

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2005, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Buildings and grounds	\$ 66,586
Elections	100,002
Voter registration	1,211
MIS	183,588
Legal defender	9,074
Superior courts	171,068
Winslow justice court	5,513
Snowflake justice court	11,706
Show Low justice court	609
Pinetop justice court	12,121
Kayenta justice court	943
Holbrook constable	4,778
Winslow constable	5,730
Snowflake constable	4,020
Show Low constable	5,795
Pinetop constable	5,184
Kayenta constable	3,593
Miscellaneous	12,572
Juvenile probation	137,468
Jail operations	1,116,743
Sheriff	160,027
Sanitation landfill	4,518

Navajo County  
Required Supplementary Information  
Notes to Budgetary Comparison Schedules  
June 30, 2005

<u>Fund/Department</u>	<u>Excess</u>
Parks and recreation	\$ 9,487
Superintendent of schools	6,194
Transfers out	438,060
Public Works/Hurf Fund:	
Transfers out	592,843

These amounts are due to unanticipated expenditures and departments exceeding the budget. The Finance Department will continue to work with departments to improve the accuracy of the budget and improve budget control. Material unbudgeted expenditures will be referred to the board of supervisors for approval of a budget transfer from contingency or other appropriate funds.

Navajo County  
Required Supplementary Information  
Schedule of Agent Retirement Plans' Funding Progress  
June 30, 2005

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2005	\$6,965,517	\$9,411,526	\$(2,446,009)	74.0%	\$1,350,914	181.1%
6/30/2004	7,243,811	8,385,467	(1,141,656)	86.4	1,444,236	79.0
6/30/2003	7,633,483	7,967,044	(333,561)	95.8	1,364,613	24.4

Correction Officer Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2005	\$1,611,909	\$1,298,458	\$313,451	124.1%	\$1,323,877	N/A
6/30/2004	1,488,781	1,110,061	378,720	134.1	859,061	N/A
6/30/2003	1,547,657	978,320	569,337	158.2	899,408	N/A