A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Navajo County

Year Ended June 30, 2008

Debra K. Davenport
Auditor General

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Navajo County
Single Audit Reporting Package
Year Ended June 30, 2008

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Navajo County
Single Audit Reporting Package
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STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
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 have audited 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, 2008, which collectively comprise the County's financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of Navajo County as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County implemented the provisions of the Governmental Accounting Standards Board (GASB) Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions;* 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues;* and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27*), for the year ended June 30, 2008, which represent changes in accounting principles.

The Management's Discussion and Analysis on pages i through vii, the Budgetary Comparison Schedules on pages 37 through 42, and the Schedule of Agent Retirement Plans' Funding Progress on page 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2010, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Debbie Davenport
Auditor General

July 19, 2010

Navajo County
Management's Discussion and Analysis
June 30, 2008

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, 2008. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The assets of the County exceeded its liabilities at the close of the current fiscal year by $102.2 million (net assets). Of this amount, $16.1 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The total increase in the County's net assets was $1.7 million in fiscal year 2008.
- At the close of fiscal year 2008, the County's governmental funds reported combined ending fund balances of $43.8 million, a decrease of $2.3 million in comparison with the prior year's balances of $46.2 million. Approximately 89.8 percent of the fund balances, $39.4 million, is unreserved fund balances available for spending at the County's discretion.
- At the end of the current fiscal year, unreserved fund balances for the general fund were $10.9 million, or 26 percent, of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains other required supplementary information in addition to the basic financial statements.

Government–wide financial statements

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

One of the most important questions asked about the County's finances is, "Is the County as a whole better off or worse as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps answer this question. These statements include all nonfiduciary assets and liabilities using the accrual basis of accounting.

The *Statement of Net Assets* presents information on all of the 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 the County is improving or deteriorating. In addition to this change, other nonfinancial factors will need to be considered.

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

All of the County's basic services are considered to be governmental activities, including general government, public safety, highways and streets, health and welfare, culture and recreation, education, conservation and urban redevelopment, and housing. Sales taxes, property taxes, intergovernmental revenues, and user fees finance most of these activities. *The government-wide financial statements can be found on pages 1-2 of this report.*

Fund financial statements

The fund financial statements provide detailed information about the most significant county funds—not the County as a whole. 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. Some funds are required to be established by state law or by bond covenants. However, the Board of Supervisors established many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. All of the County's funds can be divided into three categories: *governmental, proprietary, and fiduciary.*

Governmental funds—Most of the County's basic services are reported in governmental funds, which focus on near-term inflows and outflows of spendable resources and the balances of spendable resources available at year-end. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the County's operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs.

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 the governmental funds with similar information presented for the governmental activities in the government-wide financial statements. Reconciliations between governmental activities as reported in the Statement of Net Assets and the Statement of Activities and the governmental funds as reported in the fund financial statements is provided to facilitate this comparison.

The County maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Works/HURF Fund, and the Flood Control District Fund, which are considered major funds. Data from the other governmental funds is combined into a single aggregated presentation. *The governmental fund financial statements can be found on pages 3 through 7 of this report.*

Proprietary funds—The County uses one type of proprietary fund, an internal service fund, to account for self-insured employee benefits provided to county departments on a cost-reimbursement basis. The County's internal service fund provides services only to county departments so it is reported as a governmental activity in the Statement of Net Assets and the Statement of Activities. *The proprietary fund financial statements can be found on pages 8-10 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 the County's programs. *The fiduciary funds financial statements can be found on pages 11-12 of this report.*

Notes to the financial statements—The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. *The notes to the financial statements can be found on pages 13-35 of this report.*

Required supplementary information—In addition to the basic financial statements and accompanying notes, the report presents required supplementary information on the County's budgeting and budgetary control and the County's progress in funding its obligation to provide pension benefits to its employees. *Required supplementary information can be found on pages 37-44 of this report.*

Government-wide Financial Analysis

Statement of Net Assets

Net assets may serve over time as a useful indicator of a County's financial position. The following table reflects the condensed Statement of Net Assets of the County as of June 30, 2008, compared to the prior year.

	Governmental Activities	
	2008	2007
Current and other assets	$ 50,686,558	$ 49,092,565
Capital assets	70,055,062	61,266,233
Total assets	120,741,620	110,358,798
Other liabilities	4,495,398	3,408,078
Long-term liabilities outstanding	14,047,855	7,866,839
Total liabilities	18,543,253	11,274,917
Net Assets:		
Invested in capital assets, net of related debt	61,704,323	55,332,385
Restricted	24,374,755	21,309,950
Unrestricted	16,119,289	22,441,546
Total net assets	$102,198,367	$99,083,881

The County's capital assets increased by $8.8 million net of accumulated depreciation or 14.3 percent this fiscal year. The increase was due to $5.4 million of improvements to roads and bridges, $2.7 million for construction of a new facility and other improvements, and $2.8 million of new machinery, equipment, and vehicles.

The County's long-term liabilities outstanding increased by $6.2 million, or 78.6 percent, in the current fiscal year. This increase was mainly due to the issuance of $6.6 million of revenue bonds for the acquisition, construction, and improvements of county buildings and facilities.

The County's net assets from governmental activities at the end of the fiscal year were $102.2 million. The increase of $3.1 million is primarily due to revenues exceeding expenditures in the current fiscal year.

A large portion of the County's net assets, 60.4 percent ($61.7 million), reflects its investment in capital assets net of accumulated depreciation and related debt. The County uses these assets to provide services to citizens and, therefore, they are not available for future spending.

23.9 percent of the County's net assets ($24.4 million) are subject to external restrictions on how they may be used. The County's restricted net assets increased by 14.4 percent ($3.1 million) in the current fiscal year, due to unspent bonds.

The remaining balance of the County's net assets, 15.7 percent ($16.1 million), is unrestricted and may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants or other legal requirements.

Statement of Activities

The Statement of Activities presents information on how the County's net assets changed during the most current fiscal year. The following table reflects the condensed Statement of Activities of the County for the fiscal year 2008 compared to the prior year:

	Governmental Activities	
	2008	2007
Program revenues:		
Charges for services	$ 4,448,992	$ 8,004,536
Operating grants and contributions	14,053,207	12,698,613
Capital grants and contributions	12,361,020	12,956,489
Total program revenues	30,863,219	33,659,638
General revenues:		
Property taxes	9,707,389	8,636,394
Sales taxes	7,083,165	6,917,401
State shared revenues	13,302,354	13,382,059
Grants and contributions not restricted to specific programs	3,922,712	1,433,848
Investment earnings	1,624,746	1,733,012
Gain on disposal of capital assets	11,971	104,656
Miscellaneous	1,207,819	1,016,509
Total general revenues	36,860,156	33,223,879
Total revenues	67,723,375	66,883,517

	Governmental Activities	
	2008	2007
Program expenses:		
General government	$ 20,503,496	$19,745,840
Public safety	17,570,231	14,534,493
Highways and streets	12,960,992	10,990,269
Sanitation		18,880
Economic opportunity		2,162
Health and welfare	6,809,907	6,274,590
Culture and recreation	472,151	554,419
Education	7,119,026	4,883,527
Conservation	234,078	
Urban redevelopment and housing	5,000	
Interest on long-term debt	349,677	179,518
Total program expenses	66,024,558	57,183,698
Change in net assets	1,698,817	9,699,819
Net assets, beginning, as restated	100,499,550	89,384,062
Net assets, ending	$102,198,367	$99,083,881

Overall revenues increased by 1.3 percent and program expenses increased by 15.5 percent in the current fiscal year.

Charges for services decreased by $3.6 million, or 44.4 percent, in the current fiscal year resulting from a rapid downturn in the economy and housing starts.

Highways and streets expenses increased by $2 million, or 17.9 percent, in the current fiscal year resulting from increased expenditures for construction of roads and bridges.

Public safety expenses increased by $3 million, or 20.9 percent, in the current fiscal year resulting from increased expenditures for the operation of the county jail.

Education expenses increased by $2.2 million, or 45.8 percent, in the current fiscal year. This increase was mainly due to increased program grant revenues and the corresponding increase in expenditures.

Financial Analysis of the County's Funds

The County reported three major funds for this fiscal year–General Fund, Public Works/HURF Fund, and Flood Control District Fund. At year-end, the County's governmental funds reported combined fund balances of $43.8 million, which is a decrease of $2.3 million from last year or a change of 5 percent. Of the total, $39.4 million constitutes unreserved fund balances.

Revenues for governmental functions overall increased by $816,000, an increase of 1.2 percent, and expenditures for governmental functions increased by about $18 million, an increase of 30.6 percent in the current fiscal year. Governmental function expenditures exceeded revenues by $9.1 million in the current fiscal year.

The General Fund is the County's primary operating fund. At the end of the current fiscal year, the unreserved fund balances of the General Fund totaled $10.9 million. Unreserved fund balances represents 25.6 percent of total General Fund expenditures and transfers out. This ratio indicates a strong fund balance position in comparison to expenditures. The General Fund's unreserved fund balances decreased by $5.2 million over the previous fiscal year primarily due to capital expenditures and declining economic conditions.

The Public Works/HURF Fund's fund balances decreased by $2.3 million in the current fiscal year. The primary factor for the decrease was declining revenues and completion of road and bridge projects.

General Fund Budgetary Highlights

For the General Fund, actual revenues exceeded the original and final budget by $337,000 while the actual expenditures were $3.8 million less than the amount budgeted. The budget variance for revenues in the General Fund was primarily due to conservative budgeting practices.

Capital Assets and Debt Administration

Capital Assets

During the current fiscal year, the County purchased capital assets and continued or completed various construction projects that added $2.8 million to the County's building inventory, $2.9 million to the County's machinery and equipment inventory, and $5.4 million to the County's infrastructure inventory. *Additional information on capital assets can be found in Notes 6 and 7 on page 24 of this report.*

Debt Administration

At the end of the current fiscal year, the County had total long-term liabilities outstanding of $14 million, which included certificates of participation outstanding of $5.6 million that financed the construction of jail facilities and $6.6 million in revenue bonds that financed the acquisition, construction, and improvements of county buildings and facilities. Included in long-term liabilities is $1.7 million for the future payment of compensated absences for unused employee vacation leave. The remainder of the long-term liabilities consists of capital leases, and estimated landfill closure, and post-closure care costs. There were no significant changes to the County's credit ratings or debt limitations during the current fiscal year. *Additional information on long-term debt can be found in Note 8 on pages 25-27 of this report.*

Economic Factors and Next Year's Budget

There has been a significant downturn in the national and state economy beginning in the latter part of 2008. Certain economists are predicting an end to the recession at the end of 2010 with a very modest recovery during 2011. The County remains in a relatively strong financial position and has adequate cash reserves. The County continues to closely monitor revenues and applicable economic indicators to ensure that the County remains fiscally strong. The County continues to budget conservatively for revenue estimates and other factors affecting the County.

Requests for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Navajo County Finance Department, P.O. Box 668, 100 East Carter Drive, Holbrook, AZ 86025.

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Financial Statements

Navajo County
Statement of Net Assets
June 30, 2008

	Governmental Activities
Assets	
Cash and investments	$ 39,392,799
Cash and investments held by trustee	5,279,968
Receivables:	
Property taxes	554,765
Accrued interest	287,519
Loans	65,750
Other	6,799
Due from other governments	3,952,360
Inventories	500,703
Restricted assets:	
Cash and investments held by trustee	645,895
Capital assets, not being depreciated	8,922,358
Capital assets, being depreciated, net	61,132,704
Total assets	120,741,620
Liabilities	
Accounts payable	3,196,057
Accrued payroll and employee benefits	856,917
Incurred but not reported (IBNR) claims	423,000
Due to other governments	19,424
Noncurrent liabilities	
Due within 1 year	1,704,013
Due in more than 1 year	12,343,842
Total liabilities	18,543,253
Net Assets	
Invested in capital assets, net of related debt	61,704,323
Restricted for:	
Highways and streets	12,603,536
Public safety	5,945,195
Debt service	1,777,950
Capital projects	3,982,324
Other purposes	65,750
Unrestricted	16,119,289
Total net assets	$ 102,198,367

See accompanying notes to financial statements.

Navajo County
Statement of Activities
Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and and Changes in Net Assets: Governmental Activities
Primary government:					
Governmental activities:					
General government	$20,503,496	$ 3,746,695	$ 1,851,358		$ (14,905,443)
Public safety	17,570,231	541,256	3,063,868		(13,965,107)
Highways and streets	12,960,992	83,076		$ 12,361,020	(516,896)
Health and welfare	6,809,907	77,965	1,751,447		(4,980,495)
Culture and recreation	472,151		38,102		(434,049)
Education	7,119,026		7,186,346		67,320
Conservation	234,078		162,086		(71,992)
Urban redevelopment and housing	5,000				(5,000)
Interest on long-term debt	349,677				(349,677)
Total governmental activities	$66,024,558	$ 4,448,992	$ 14,053,207	$ 12,361,020	(35,161,339)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	5,480,887
Property taxes, levied for flood control	2,028,924
Property taxes, levied for public health district	1,656,003
Property taxes, levied for library district	420,392
Property taxes, levied for White Mountain Lake recreation district	121,183
General county sales tax	7,083,165
Shared revenues—state sales tax	10,915,470
Shared revenues—state vehicle license tax	2,386,884
Grants and contributions not restricted to specific programs	3,922,712
Investment earnings	1,624,746
Gain on disposal of capital assets	11,971
Miscellaneous	1,207,819
Total general revenues	36,860,156
Change in net assets	1,698,817
Net assets, July 1, 2007, as restated	100,499,550
Net assets, June 30, 2008	$ 102,198,367

See accompanying notes to financial statements.

Navajo County
Balance Sheet
Governmental Funds
June 30, 2008

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	$ 10,641,743	$ 12,302,919	$ 5,926,727	$ 8,153,216	$ 37,024,605
Cash and investments held by trustee	3,957,781			1,322,187	5,279,968
Receivables:					
Property taxes	281,073		127,167	146,525	554,765
Accrued interest	63,800	86,598	40,334	91,590	282,322
Other				6,799	6,799
Due from other governments	1,806,226	1,158,645		987,489	3,952,360
Inventories		500,703			500,703
Restricted assets:					
Cash and investments held by trustee				645,895	645,895
Total assets	$ 16,750,623	$ 14,048,865	$ 6,094,228	$ 11,353,701	$ 48,247,417
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 1,078,850	$ 1,778,923	$ 53,219	$ 285,065	$ 3,196,057
Accrued payroll and employee benefits	572,214	103,043	5,357	176,303	856,917
Due to other governments	19,424				19,424
Deferred revenue	182,659		73,187	97,678	353,524
Total liabilities	1,853,147	1,881,966	131,763	559,046	4,425,922
Fund balances:					
Reserved for:					
Inventories		500,703			500,703
Capital projects	3,957,781				3,957,781
Unreserved, reported in:					
General fund	10,939,695				10,939,695
Special revenue funds		11,666,196	5,962,465	8,992,162	26,620,823
Debt service funds				1,777,950	1,777,950
Capital projects funds				24,543	24,543
Total fund balances	14,897,476	12,166,899	5,962,465	10,794,655	43,821,495
Total liabilities and fund balances	$ 16,750,623	$ 14,048,865	$ 6,094,228	$ 11,353,701	$ 48,247,417

See accompanying notes to financial statements.

Navajo County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2008

Fund balances—total governmental funds	$ 43,821,495
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.	70,055,062
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	353,524
The internal service fund accounts for self-insured employee benefits provided to county departments on a cost-reimbursement basis. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.	1,950,391
Some assets are not available in the current period and, therefore, are not reported in the funds.	65,750
Some liabilities, including bonds and certificates of participation payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(14,047,855)
Net assets of governmental activities	$ 102,198,367

See accompanying notes to financial statements.

Navajo County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	$ 5,355,312		$ 2,028,923	$ 2,197,578	$ 9,581,813
Licenses and permits	616,216			26,816	643,032
Fines and forfeits	1,063,317			226,684	1,290,001
Intergovernmental	24,343,332	$ 12,361,021		13,961,151	50,665,504
Charges for services	1,250,738	83,076		1,182,144	2,515,958
Investment earnings	465,931	533,184	221,136	404,495	1,624,746
Contributions				56,956	56,956
Miscellaneous	573,208	366,238		283,483	1,222,929
Total revenues	33,668,054	13,343,519	2,250,059	18,339,307	67,600,939
Expenditures:					
Current:					
General government	19,883,586			2,987,829	22,871,415
Public safety	12,255,474		1,311,047	3,958,771	17,525,292
Highways and streets		14,633,493		159,254	14,792,747
Health and welfare	3,374,957			3,438,112	6,813,069
Culture and recreation	57,739			413,603	471,342
Education	299,084			6,820,207	7,119,291
Conservation				234,078	234,078
Urban redevelopment and housing				5,000	5,000
Debt service:					
Principal				303,173	303,173
Interest and other charges				349,677	349,677
Capital outlay	6,238,140				6,238,140
Total expenditures	42,108,980	14,633,493	1,311,047	18,669,704	76,723,224
Excess (deficiency) of revenues over expenditures	(8,440,926)	(1,289,974)	939,012	(330,397)	(9,122,285)

(Continued)

See accompanying notes to financial statements.

Navajo County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008
(Continued)

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):					
Revenue bonds issued	$ 6,600,000				$ 6,600,000
Capital lease agreements				$ 77,845	77,845
Sale of capital assets	11,971				11,971
Transfers in	1,240,213			605,519	1,845,732
Transfers out	(605,519)	$ (1,132,000)	$ (108,213)		(1,845,732)
Total other financing sources and uses	7,246,665	(1,132,000)	(108,213)	683,364	6,689,816
Net change in fund balances	(1,194,261)	(2,421,974)	830,799	352,967	(2,432,469)
Fund balances, July 1, 2007, as restated	16,091,737	14,485,870	5,131,666	10,441,688	46,150,961
Increase in reserve for inventories		103,003			103,003
Fund balances, June 30, 2008	$ 14,897,476	$ 12,166,899	$ 5,962,465	$ 10,794,655	$ 43,821,495

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, 2008

Net change in fund balances—total governmental funds		$ (2,432,469)
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	$ 13,820,229	
Depreciation expense	(4,947,146)	8,873,083
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		26,211
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt issued	(6,677,845)	
Principal repaid	303,173	(6,374,672)
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 are reported regardless of when the financial resources are available.		
Increase in compensated absences	(7,233)	
Decrease in landfill closure and postclosure care costs	889	
Decrease in claims and judgments	200,000	193,656
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		103,003
The internal service fund accounts for self-insured employee benefits provided to county departments on a cost-reimbursement basis. The net revenue of the internal service fund is reported with governmental activities in the Statement of Activities.		1,310,005
Change in net assets of governmental activities		$ 1,698,817

See accompanying notes to financial statements.

Navajo County
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Governmental Activities— Internal Service Fund
Assets	
Current assets:	
Cash and investments	$ 2,368,194
Accrued interest receivable	5,197
Total current assets	2,373,391
Total assets	2,373,391
Liabilities	
Current liabilities:	
Incurred but not reported (IBNR) claims	423,000
Total current liabilities	423,000
Total liabilities	423,000
Net Assets	
Unrestricted	1,950,391
Total net assets	$ 1,950,391

See accompanying notes to financial statements.

Navajo County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2008

	Governmental Activities— Internal Service Fund
Operating revenues:	
Charges for services—insurance premiums	$ 5,031,886
Total operating revenues	5,031,886
Operating expenses:	
Medical and dental claims and services	2,951,641
Insurance premiums	299,222
Claims administration	349,536
General operating	184,815
Total operating expenses	3,785,214
Operating income	1,246,672
Nonoperating revenues:	
Investment earnings	21,537
Miscellaneous revenue	41,796
Total nonoperating revenues	63,333
Increase in net assets	1,310,005
Net assets, July 1, 2007	640,386
Net assets, June 30, 2008	$ 1,950,391

See accompanying notes to financial statements.

Navajo County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2008

	Governmental Activities— Internal Service Fund
Cash flows from operating activities:	
Receipts from other funds for insurance premiums	$ 5,031,886
Payments to suppliers and providers of goods and services	(4,048,214)
Net cash provided by operating activities	983,672
Cash flows from noncapital financing activities:	
Other receipts	41,796
Net cash flows provided by noncapital financing activities	41,796
Cash flows from investing activities:	
Interest received on investments	21,985
Net cash provided by investing activities	21,985
Net increase in cash and cash equivalents	1,047,453
Cash and cash equivalents, July 1, 2007	1,320,741
Cash and cash equivalents, June 30, 2008	$ 2,368,194
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 1,246,672
Changes in assets and liabilities:	
Decrease in liability for incurred but not reported (IBNR) claims	(263,000)
Net cash provided by operating activities	$ 983,672

See accompanying notes to financial statements.

Navajo County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2008

	Investment Trust Funds	Agency Funds
Assets		
Cash and investments	$ 84,767,497	$ 14,186,328
Interest receivable	584,049	82,534
Total assets	85,351,546	$ 14,268,862
Liabilities		
Due to other governments		$ 13,310,971
Deposits held for other parties		957,891
Total liabilities		$ 14,268,862
Net Assets		
Held in trust for investment trust participants	$ 85,351,546	

See accompanying notes to financial statements.

Navajo County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2008

	Investment Trust Funds
Additions:	
Contributions from participants	$ 238,682,527
Net investment income	3,313,455
Total additions	241,995,982
Deductions:	
Distributions to participants	262,012,611
Change in net assets	(20,016,629)
Net assets, July 1, 2007	105,368,175
Net assets, June 30, 2008	$ 85,351,546

See accompanying notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

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

For the year ended June 30, 2008, the County implemented the provisions of GASB Statement Nos. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions;* 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues;* and 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and No. 27*). GASB Statement No. 45 establishes governmental employer accounting and financial reporting requirements for postemployment benefits other than pensions. GASB Statement No. 48 establishes note disclosure requirements for governments that pledge future revenues as security for its debt. GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 to require governmental employers to present certain additional pension disclosures in the notes and additional required supplementary information.

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 government-wide 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.

The following table describes the County's component units:

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

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Little Colorado Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Navajo County Library District	A tax-levying district that provides and maintains library services for the County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Navajo County Health District	A tax-levying district that provides health services for the County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Navajo County Municipal Property Corporation	A nonprofit corporation that assists in the acquisition of tangible real and personal property; exists only to serve the County	Blended	Not available
Navajo County Employee Benefits Trust	A trust created to provide and administer a self-insured program for employee health benefits	Blended	Not available

The Navajo County Municipal Property Corporation was formed to finance the construction of the Navajo County Jail Facility. Because the County Board of Supervisors serves as the Board of Directors of this corporation, it is reported as a blended component unit of the County. The Corporation issued certificates of participation that evidenced undivided proportionate interests in rent payments to be made under a lease agreement, with an option to purchase, between Navajo County and the Corporation. Since this debt is in substance the County's obligation, these liabilities and resulting assets are reported in the government-wide statement of net assets.

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.

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 allocates indirect expenses to the Public Works/HURF and Flood Control District funds. Program revenues include:

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

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

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

Fund financial statements—Provide information about the County's funds, including fiduciary funds and blended component units. Separate statements are presented for the governmental, proprietary, 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.

Proprietary fund revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from transactions associated with the fund's principal activity. Accordingly, revenues, such as user charges and insurance premiums in which each party receives and gives up essentially equal values, are operating revenues. Other revenues, such as subsidies, result from transactions in which the parties do not exchange equal values and are considered nonoperating revenues along with investment earnings and revenues generated by ancillary activities. Operating expenses include the cost of services and administrative expenses. Other expenses, such as interest expense, are considered to be nonoperating expenses.

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 highway user revenues and vehicle license taxes.

The Flood Control District Fund is used to provide flood control facilities and regulates floodplains and drainage to prevent flooding of property in Navajo County and is funded by secondary property taxes.

The County reports the following fund types:

The internal service fund accounts for self-insured employee benefits provided to county departments on a cost-reimbursement basis.

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 and various local governments, such as local school districts, community college districts, special districts, and other parties.

C. Basis of Accounting

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

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when they become both measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The County's major revenue sources that are susceptible to accrual are property taxes, intergovernmental, and charges for services. 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.

The County's internal service fund follows FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The County has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

D. Cash and Investments

For the purposes of its statement of cash flows, the County considers cash on hand, demand deposits, cash on deposit with the County Treasurer, and only those highly liquid investments with a maturity of 3 months or less when purchased to be cash equivalents.

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participating 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.

E. Inventories

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.

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

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 or estimated historical cost if historical records are not available. Donated assets are reported at estimated fair value at the time received.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	$10,000	N/A	N/A
Buildings and improvements	10,000	Straight-line	15-40 years
Machinery and equipment	5,000	Straight-line	3-7 years
Infrastructure	10,000	Straight-line	35 years

H. Investment Earnings

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

I. Compensated Absences

Compensated absences payable consists of unused annual leave. Employees may accumulate up to 488 hours during a calendar year (depending on years of service) with a maximum carry forward of 320 hours as of December 31 of each year. Upon termination of employment, all unused vacation benefits up to a maximum of 320 hours (488 upon retirement) are paid to the employee. Accordingly, annual leave benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds' financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative and do not vest with employees. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement 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. The County has not accrued a liability for these sick leave benefits.

Note 2 - Beginning Balances Restated

On July 1, 2007, the County restated net assets of the Governmental Activities' and beginning fund balances of the governmental funds' financial statements to correct prior period errors totaling $586,331 for various funds that were misclassified between the agency and governmental funds. In addition, Governmental Activities' net assets and the Other Governmental Funds' fund balances were restated in the amount of $829,338 to correct prior period errors related to education activity. Beginning net assets and fund balances were adjusted for the above, as follows:

	Government-Wide Statements	Fund Statements			
	Governmental Activities	General Fund	Public Works/HURF Fund	Flood Control District Fund*	Other Governmental Funds*
Net assets/fund balances as of June 30, 2007, as previously reported	$ 99,083,881	$16,110,913	$14,648,356	$4,631,131	$ 9,344,892
Fund reclassifications (net)	586,331	(19,176)	(162,486)	500,535	267,458
Prior period correction (education activity)	829,338				829,338
Net assets/fund balances as of July 1, 2007, as restated	$100,499,550	$16,091,737	$14,485,870	$5,131,666	$10,441,688

*The fund balances for the Other Governmental Funds does not include the Flood Control District Fund, which became a major governmental fund for the year ended June 30, 2008.

Note 3 - Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2008, the following funds reported deficits in fund balances in excess of $20,000, which violate state statutes:

Fund	Deficit
Governmental funds:	
Child Support IV-D	$872,548
Forest Management	634,322
WIC – Women, Infants & Children	149,174
Diversion Intake	137,122
IT Communications	121,810
Drug Enforcement (Superior Court)	121,440
Drug Enforcement (Sheriff)	104,623
JIPS – Juv Intensive Prob Srvcs	102,964
WIA SAS – Set Aside	96,359
Victim's Rights	88,474
Juvenile Standard Probation	86,025
Gun Violence Prosecution	76,038
Fire Management	74,897
BYRNE – Drug Enforcement	68,029
HOME Housing Rehabilitation	61,960
Victim Assistance	58,973
FTG State – Public Defender	51,212
COPS Grants	47,440
Bio-terrorism	47,412
Smoke-Free Arizona	43,990
CASA	43,984
Juvenile Treatment Services	42,916
LLEBG	40,687
AIPS – Adult Intensive Prob Srvc	27,596
Public Health Coronary	27,326
FTG State – Superior Courts	25,381
County JP Ordinance	24,042
Teen Pregnancy Prevention	22,908
WIA Intergovernmental	20,279

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.

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, 2008, the carrying amount of the County's deposits was $24,530,549 and the bank balance was $23,797,281. The County's formal policy is to follow collateralization requirements set forth in the A.R.S. §35-323 as described above.

At June 30, 2008, $23,055,837 of the County's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	$ 6,258
Uninsured with collateral held by the pledging financial institution	23,049,579
	$23,055,837

Investments—The County's investments at June 30, 2008, were as follows:

Investment Type	Amount
U.S. agency securities	$104,369,463
Repurchase agreements	7,366,341
U.S. Treasury money market funds	7,917,184
	$119,652,988

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, 2008, credit risk for the County's investments were as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard & Poor's	$104,369,463
Repurchase agreements	Aaa	Moody's	7,366,341
U.S. Treasury money market funds	AAAm	Standard & Poor's	7,917,184
			$119,652,988

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. At June 30, 2008, the County had $7,917,184 of Treasury money market funds that were uninsured and held by the counterparty not in the County's name and $7,366,341 of repurchase agreements that were uninsured and held by the counterparty's trust department or agent not in the County's name.

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 its agencies or sponsored agencies. The County had investments at June 30, 2008, of 5 percent or more in repurchase agreements (Commercial Industrial Finance Corporation), Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, and Federal Farm Credit Banks. These investments were 6.16 percent, 35.34 percent, 6.50 percent, 34.52 percent, and 10.86 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, 2008, the County had the following investments in debt securities:

Investment	Amount	Weighted Average Maturity (In Years)
U.S. agency securities	$104,369,463	1.532
Repurchase agreements	7,366,341	.003
U.S. Treasury money market funds	7,917,184	.132
	$119,652,988	

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

Cash, deposits, and investments:

Cash on hand	$ 88,950
Amount of deposits	24,530,549
Amount of investments	119,652,988
Total	$144,272,487

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and investments	$39,392,799	$84,767,497	$14,186,328	$138,346,624
Cash and investments held by trustee	5,279,968			5,279,968
Restricted assets—cash and investments held by trustee	645,895			645,895
Total	$45,318,662	$84,767,497	$14,186,328	$144,272,487

Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2008, include $1,507,412 in state and county sales taxes, $456,287 in vehicle license taxes from the State of Arizona, $755,715 in state-shared revenue from highway user taxes, and $1,232,946 in various grants from the state and federal governments.

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 5,144,406	$ 283,525		$ 5,427,931
Construction in progress	1,005,252	2,571,175	$ 82,000	3,494,427
Total capital assets, not being depreciated	6,149,658	2,854,700	82,000	8,922,358
Capital assets, being depreciated:				
Buildings and improvements	22,860,041	2,752,869	88,173	25,524,737
Infrastructure	60,991,427	5,419,371		66,410,798
Machinery and equipment	20,908,735	2,875,289	179,251	23,604,773
Total capital assets, being depreciated	104,760,203	11,047,529	267,424	115,540,308
Less: accumulated depreciation for:				
Buildings and improvements	10,891,923	1,096,520	3,919	11,984,524
Infrastructure	24,083,173	1,873,857		25,957,030
Machinery and equipment	14,668,532	1,976,769	179,251	16,466,050
Total accumulated depreciation	49,643,628	4,947,146	183,170	54,407,604
Total capital assets, being depreciated, net	55,116,575	6,100,383	84,254	61,132,704
Governmental activities capital assets, net	$ 61,266,233	$ 8,955,083	$166,254	$ 70,055,062

Depreciation expense was charged to functions as follows:

Governmental Activities:	
General government	$ 683,749
Public safety	1,529,783
Highways and streets	2,583,084
Health and welfare	140,870
Culture and recreation	9,660
Total governmental activities depreciation expense	$4,947,146

Note 7 - Construction and Other Significant Commitments

The County had major contractual commitments related to various capital projects at June 30, 2008, for the construction of roads and bridges. At June 30, 2008, the County had spent $3,494,427 on these projects and had remaining contractual commitments with contractors of $10,126,395. These projects are being primarily financed through Highway User Revenue Fund (HURF) and Revenue Bonds monies.

Note 8 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2008:

Governmental Activities	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within 1 year
Revenue bonds payable		$6,600,000		$ 6,600,000	
Certificates of participation payable	$5,915,000		$ 280,000	5,635,000	$ 295,000
Capital lease payable	18,848	77,845	23,173	73,520	24,558
Landfill closure and post-closure care costs payable	13,204		889	12,315	724
Compensated absences payable	1,719,787	1,390,964	1,383,731	1,727,020	1,383,731
Claims and judgments payable	200,000		200,000		
Total governmental activities long-term liabilities	$7,866,839	$8,068,809	$1,887,793	$14,047,855	$1,704,013

There are various special assessment districts within Navajo County that have issued debt to finance the construction or improvement of roads, water and wastewater systems, and community facilities. The County functions as an agent for the property owners by collecting assessments and forwarding collections to the special assessment debt-holders; however, the County is in no manner obligated to repay the special assessment debt. Therefore, the debt of these districts is not recorded on the County's financial statements, and these districts are included as agency funds on the County's Statement of Fiduciary Net Assets. At June 30, 2008, the amount of special assessment debt outstanding was $2,442,125.

Revenue bonds—The County has issued revenue bonds that are generally callable with interest payable semiannually. The bonds were issued to acquire a new regional county service center in Show Low, construct a new county administrative building in Heber-Overgaard, and to make improvements to the water facility and electrical system at the county complex.

Bonds outstanding at June 30, 2008, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Navajo County Pledged Revenue Obligations, Series 2008	$6,600,000	2009 – 2024	3.50 – 4.00%	$6,600,000

The following schedule details debt service requirements to maturity for the County's revenue bonds payable at June 30, 2008:

	Governmental Activities	
	Principal	Interest
Year ending June 30		
2009		$ 131,432
2010	$ 335,000	240,573
2011	350,000	228,585
2012	370,000	215,985
2013	380,000	202,860
2014-18	2,095,000	804,106
2019-23	2,505,000	375,574
2024	565,000	11,583
Total	$6,600,000	$2,210,698

The County has pledged a portion of its excise tax revenues toward the payment of debt related to revenue bonds outstanding at June 30, 2008. The related revenue bonds are primarily for acquisition of a new regional county service center in Show Low, construction of a new administrative building in Heber-Overgaard, and to make improvements to the water facility and electrical system at the county complex. At June 30, 2008, pledged revenues totaled $8,810,698 ($6,600,000 principal and $2,210,698 interest). There was no current year debt service; however, future principal and interest payments are expected to require less than 4% of excise tax revenues. Future pledged revenues required to pay all remaining debt service for revenue bonds through final maturity of July 1, 2024, is $8,810,698.

Funding responsibility for the June 30, 2008, outstanding debt

	Current	Noncurrent	Total
From Navajo County excise tax revenues	$0	$8,810,698	$8,810,698

The 2008 Revenue Bonds with maturity on or after July 1, 2014, are subject to optional redemption prior to maturity without premium pursuant to the debt documents. The 2008 Revenue Bonds maturing on July 1, 2023, are subject to mandatory sinking fund redemption without premium, plus the interest accrued to the redemption date pursuant to the debt documents.

Certificates of participation—The County has issued certificates of participation that are generally noncallable with interest payable semiannually to finance the construction of jail facilities. The original amount of certificates issued in prior years was $7,320,000.

Certificates outstanding at June 30, 2008, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Navajo County, Arizona Municipal Property Corporation Jail Facility Bonds, Series 2000	$7,320,000	2009 – 2020	5.00 – 6.25%	$5,635,000

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2008:

	Governmental Activities	
	Principal	Interest
Year ending June 30		
2009	$ 295,000	$ 333,010
2010	310,000	316,031
2011	330,000	298,031
2012	355,000	278,100
2013	375,000	256,200
2014-18	2,250,000	900,438
2019-21	1,720,000	166,250
Total	$5,635,000	$2,548,060

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2008, the County paid for compensated absences as follows: 66 percent from the General Fund, 12 percent from the Public Works/HURF Fund, 1 percent from the Flood Control District Fund, and 21 percent from the Other Governmental Funds.

Note 9 - Risk Management

Public entity risk pools—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 $10,000 per occurrence for property claims and $50,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of $100 million per occurrence for property claims and $15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. 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 every 5 years. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

Employee Benefits Trust—Pursuant to A.R.S. §11-981, the Employee Benefits Trust (an Internal Service Fund) was established to account for the financing of certain self-insured employee health benefits (medical, prescription, and dental) to eligible employees and their dependents. Under this program, the Trust provides annual coverage for up to a maximum of $85,000 for each covered employee's incurred medical and prescription claims plus an additional $45,000 before reinsurance reimbursement is provided through a commercial carrier. The Trust purchases commercial specific reinsurance for individual claims in excess of this coverage. There were no settled claims that exceeded this commercial insurance coverage for the years ended June 30, 2008 and 2007. The Trust was reimbursed $116,219 and $36,843 for the years ended June 30, 2008 and 2007, respectively, for amounts exceeding the stop loss reinsurance maximums. Information prior to July 1, 2006, is not known as a different administrator and underwriter was used.

The insurance claims payable liability of the Trust totaling $423,000 at June 30, 2008, is the estimated ultimate cost of settling claims that have been incurred but not reported (IBNR). This estimate is based on actuarial estimates. Changes in the Trust's claims payable for the year ended June 30, 2008 and 2007, were as follows:

	Fiscal Year 2008	Fiscal Year 2007
Claims payable, beginning of year	$ 686,000	$ 697,000
Current-year claims and changes in estimates	2,951,641	3,408,766
Claims payments	(3,214,641)	(3,419,766)
Claims payable, end of year	$ 423,000	$ 686,000

Note 10 - 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 $77,894 for the year ended June 30, 2008. The operating leases have remaining noncancelable terms from 1 to 15 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2008, were as follows:

	Governmental Activities
Year ending June 30	
2009	$ 68,391
2010	47,238
2011	37,965
2012	24,600
2013	24,600
2014 – 2018	123,000
2019 – 2022	98,400
Total minimum lease payments	$424,194

Note 11 - Pensions and Other Postemployment Benefits

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

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

The *Public Safety Personnel Retirement System* (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona 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) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers certain employees of the State of Arizona's Department of Corrections and Department of 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.

The *Elected Officials Retirement Plan* (EORP) administers a cost-sharing, multiple-employer defined benefit pension plan and a cost-sharing, multiple-employer defined benefit health insurance premium plan that covers State of Arizona and county elected officials and judges, and elected officials of participating cities. The EORP is governed by The Fund Manager of PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 3. Because the health insurance premium plan benefit of the EORP is not established as a formal trust, the EORP is reported in accordance with GASB Statement No. 45 as an agent multiple-employer defined benefit plan. Accordingly, the disclosures that follow reflect the EORP as if it were an agent multiple-employer defined benefit plan.

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

ASRS	PSPRS, CORP, and EORP
3300 North Central Avenue	3010 East Camelback Road, Suite 200
P.O. Box 33910	Phoenix, AZ 85016-4416
Phoenix, AZ 85067-3910	(602) 255-5575
(602) 240-2000 or 1-800-621-3778	

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

Cost-sharing plans—For the year ended June 30, 2008, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.6 percent (9.1 percent for retirement and 0.5 percent long-term disability) of the members' annual covered payroll and the County was required by statute to contribute at the actuarially determined rate of 9.6 percent (8.05 percent for retirement, 1.05 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll.

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

	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
Year ended June 30			
2008	$1,402,691	$182,620	$87,106
2007	1,320,765	183,603	84,476
2006	954,523	171,283	81,579

Agent plans—For the year ended June 30, 2008, 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 17.64 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at

0.61 percent of covered payroll. Active CORP members were required by statute to contribute 7.96 percent of the members' annual covered payroll and the County was required to contribute 5.00 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.54 percent of covered payroll. Active EORP members were required by statute to contribute 7.00 percent of the members' covered payroll, and the County was required to remit a designated portion of certain court fees plus additional contributions at the actuarially determined rate of 12.84 percent of the members' annual covered payroll. The health insurance premium portion of the contribution rate for normal cost was actuarially set at 1.05 percent of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2008, were established by the June 30, 2006, actuarial valuations, and those actuarial valuations were based on the following actuarial methods and assumptions.

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

Projections of benefits are based on 1) the plans as understood by the County and plans' members and include the types of benefits in force at the valuation date, and 2) the pattern of sharing benefit costs between the County and plans' members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The significant actuarial methods and assumptions used are the same for all plans and related benefits (unless noted), and the actuarial methods and assumptions used to establish the fiscal year 2008 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	30 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50% - 8.50% for PSPRS and CORP; 5.00% for EORP
Includes inflation at	5.00%

Annual Pension/OPEB Cost—The County's pension/OPEB cost for the agent plans for the year ended June 30, 2008, and related information follows:

	PSPRS		CORP		EORP	
	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance
Annual pension/OPEB costs	$334,908	$11,838	$68,860	$8,514	$178,060	$15,858
Contributions made	334,908	11,838	68,860	8,514	178,060	15,858

Trend Information—Annual pension cost information for the current and 2 preceding years follows for each of the agent plans. Annual OPEB cost information for the current year (i.e., transition year) is as follows. Information about preceding years will be added over the next 2 years.

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
PSPRS				
Pension	2008	$334,908	100%	$0
Health insurance	2008	11,838	100%	0
Pension and health	2007	254,553	100%	0
insurance	2006	219,877	100%	0
CORP				
Pension	2008	$68,860	100%	$0
Health insurance	2008	8,514	100%	0
Pension and health	2007	69,119	100%	0
insurance	2006	52,292	100%	0
EORP				
Pension	2008	$178,061	100%	$0
Health insurance	2008	15,858	100%	0
Pension and health	2007	157,576	100%	0
insurance	2006	176,540	100%	0

Funded Status—The funded status of the plans as of the most recent valuation date, June 30, 2008, along with the actuarial assumptions and methods used in those valuations follow. The EORP, by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Fund Manager obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government is not available.

	PSPRS		CORP	
	Pension	Health Insurance	Pension	Health Insurance
Actuarial accrued liability (a)	$9,957,770	$372,652	$1,948,603	$80,646
Actuarial value of assets (b)	5,911,599	0	2,100,462	0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	4,046,171	372,652	(151,859)	80,646
Funded ratio (b)/(a)	59.4%	0.0%	107.8%	0.0%
Covered payroll (c)	$2,033,947	$2,033,947	$1,743,730	$1,743,730
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a)- (b)]/(c))	198.9%	18.32%	0.0%	4.62%

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

Actuarial valuation date	June 30, 2008
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	28 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	Smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	5.50–8.50% for PSPRS and CORP; 5.00% for EORP
Includes inflation at	5.50% for PSPRS and CORP; 5.00% for EORP

Note 12 - Interfund Activity

Interfund transfers—Interfund transfers for the year ended June 30, 2008, were as follows:

	Transfers to		
Transfer from	General Fund	Other Governmental Funds	Total
General Fund		$605,519	$ 605,519
Public Works/HURF Fund	$1,132,000		1,132,000
Flood Control District Fund	108,213		108,213
Total	$1,240,213	$605,519	$1,845,732

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 13 - County Treasurer's Investment Pool

Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. The Treasurer has a fiduciary responsibility to administer those and the County's monies under 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 earnings to each of the pool's participants.

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for $2,771,242 in deposits and $5,925,863 of investments in U.S. Treasury money market funds. Therefore, the deposit and investment risks of the Treasurer's investment pool are substantially the same as the County's deposit and investment risks. See Note 4 for disclosure of the County's deposit and investment risks.

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
U.S. agency securities	$104,369,463	1.95-5.38%	07/08 – 03/13	$104,198,604
Repurchase agreements	7,366,341	1.39%	07/08	7,366,341
U.S. Treasury money market funds	1,991,321	2.18%	N/A	1,991,419

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

Statement of Net Assets	
Assets	$136,529,484
Net assets	$136,529,484
Net assets held in trust for:	
Internal participants	$ 51,177,938
External participants	85,351,546
Total net assets held in trust	$136,529,484
Statement of Changes in Net Assets	
Total additions	$326,245,214
Total deductions	349,640,107
Net increase (decrease)	(23,394,893)
Net assets held in trust:	
July 1, 2007	159,924,377
June 30, 2008	$136,529,484

Other Required Supplementary Information

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Property taxes	$ 5,698,144	$ 5,355,312	$ (342,832)
Licenses and permits	943,888	616,216	(327,672)
Fines and forfeits	1,149,363	1,063,317	(86,046)
Intergovernmental	23,025,500	24,343,332	1,317,832
Charges for services	1,481,239	1,250,738	(230,501)
Investment earnings	351,611	465,931	114,320
Miscellaneous	681,040	573,208	(107,832)
Total revenues	33,330,785	33,668,054	337,269
Expenditures:			
General government			
Board of supervisors	564,671	704,429	(139,758)
Administration	1,835,607	1,663,179	172,428
Buildings and grounds	2,026,909	1,875,024	151,885
Elections	575,430	415,335	160,095
Planning and zoning	1,088,874	867,221	221,653
Recorder	286,497	208,129	78,368
Voter registration	197,830	130,267	67,563
Assessor	1,314,920	1,155,417	159,503
Information technology	774,594	868,644	(94,050)
Treasurer	483,516	402,837	80,679
Personnel commission	-	10,005	(10,005)
Miscellaneous	1,741,795	2,103,953	(362,158)
Legal defender	399,552	391,627	7,925
County attorney	2,098,368	2,115,965	(17,597)
Superior court	2,658,628	2,807,808	(149,180)
Public defender	1,090,357	999,941	90,416
Clerk of court	1,307,181	1,183,360	123,821
Holbrook justice court	307,698	345,311	(37,613)
Winslow justice court	318,559	320,215	(1,656)
Snowflake justice court	346,949	358,886	(11,937)
Show Low justice court	275,907	290,662	(14,755)
Pinetop justice court	328,840	326,447	2,393
Kayenta justice court	117,200	121,334	(4,134)

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008
(Continued)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Kayenta constable	$ 28,880	$ 25,437	$ 3,443
Pinetop constable	48,703	49,002	(299)
Snowflake constable	28,880	34,750	(5,870)
Holbrook constable	28,880	27,084	1,796
Winslow constable	28,980	30,953	(1,973)
Show Low constable	48,103	50,364	(2,261)
Total general government	20,352,308	19,883,586	468,722
Public safety			
Juvenile detention	1,082,167	1,069,553	12,614
Juvenile probation	497,763	422,755	75,008
Adult probation	646,784	579,714	67,070
Jail operations	3,139,335	5,264,383	(2,125,048)
Sheriff	4,999,399	4,919,069	80,330
Total public safety	10,365,448	12,255,474	(1,890,026)
Health and welfare			
Public fiduciary	496,388	389,120	107,268
Indigent health	3,417,300	2,985,837	431,463
Total health and welfare	3,913,688	3,374,957	538,731
Culture and recreation	-	57,739	(57,739)
Education			
School superintendent	311,596	299,084	12,512
Capital outlay			
Capital outlay	3,320,000	4,780,622	(1,460,622)
Construction projects	3,150,000	1,457,518	1,692,482
Total capital outlay	6,470,000	6,238,140	231,860

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2008
(Continued)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Contingency	$ 4,500,000	$ -	$ 4,500,000
Total expenditures	45,913,040	42,108,980	3,804,060
Excess (deficiency) of revenues over expenditures	(12,582,255)	(8,440,926)	4,141,329
Other financing sources (uses):			
Revenue bonds issued		6,600,000	6,600,000
Sale of capital assets	56,122	11,971	(44,151)
Transfers in	678,000	1,240,213	562,213
Transfers out	(458,175)	(605,519)	(147,344)
Total other financing sources and uses	275,947	7,246,665	6,970,718
Net change in fund balances	(12,306,308)	(1,194,261)	11,112,047
Fund balances, July 1, 2007, as restated	12,306,308	16,091,737	3,785,429
Fund balances, June 30, 2008	$ -	$ 14,897,476	$ 14,897,476

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule
Public Works/HURF Fund
Year Ended June 30, 2008

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Intergovernmental	$ 12,370,000	$ 12,361,021	$ (8,979)
Charges for services		83,076	83,076
Investment earnings	250,000	533,184	283,184
Miscellaneous	980,000	366,238	(613,762)
Total revenues	13,600,000	13,343,519	(256,481)
Expenditures:			
Highways and streets	28,229,659	14,633,493	13,596,166
Total expenditures	28,229,659	14,633,493	13,596,166
Excess (deficiency) of revenues over expenditures	(14,629,659)	(1,289,974)	13,339,685
Other financing sources (uses):			
Transfers in	330,000		(330,000)
Transfers out	(678,000)	(1,132,000)	(454,000)
Total other financing sources and uses	(348,000)	(1,132,000)	(784,000)
Net change in fund balances	(14,977,659)	(2,421,974)	12,555,685
Fund balances, July 1, 2007, as restated	14,977,659	14,485,870	(491,789)
Increase in reserve for inventories	-	103,003	103,003
Fund balances, June 30, 2008	$ -	$ 12,166,899	$ 12,166,899

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule
Flood Control District Fund
Year Ended June 30, 2008

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Property taxes	$ 2,052,276	$ 2,028,923	$ (23,353)
Investment earnings	87,000	221,136	134,136
Miscellaneous	100,000	-	(100,000)
Total revenues	2,239,276	2,250,059	10,783
Expenditures:			
Current:			
Public safety	6,400,355	1,311,047	5,089,308
Total expenditures	6,400,355	1,311,047	5,089,308
Excess (deficiency) of revenues over expenditures	(4,161,079)	939,012	5,100,091
Other financing sources (uses):			
Transfers out	-	(108,213)	(108,213)
Total other financing sources and uses	-	(108,213)	(108,213)
Net change in fund balances	(4,161,079)	830,799	4,991,878
Fund balances, July 1, 2007, as restated	4,161,079	5,131,666	970,587
Fund balances, June 30, 2008	$ -	$ 5,962,465	$ 5,962,465

See accompanying notes to budgetary comparison schedule.

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, 2008, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

Fund/Department	Excess
General Fund:	
Board of supervisors	$ 139,758
Information technology	94,050
Personnel commission	10,005
Miscellaneous	362,158
County attorney	17,597
Superior court	149,180
Holbrook justice court	37,613
Winslow justice court	1,656
Snowflake justice court	11,937
Show Low justice court	14,755
Kayenta justice court	4,134
Pinetop constable	299
Snowflake constable	5,870
Winslow constable	1,973
Show Low constable	2,261
Jail operations	2,125,048
Capital outlay	1,460,622

These amounts are due to unanticipated expenditures and departments' exceeding the budget. The Finance Department will continue to work with departments to improve the accuracy of the budget and improve budgetary control. 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, 2008

Public Safety Personnel Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Pension						
6/30/08	$5,911,599	$9,957,770	$(4,046,171)	59.4%	$2,033,947	198.9%
Health Insurance						
6/30/08	0	372,652	(372,652)	0.0%	2,033,947	18.32%
Pension and Health Insurance						
6/30/07	5,860,943	10,435,475	(4,574,532)	56.2%	1,781,185	256.8%
6/30/06	6,727,508	9,768,836	(3,041,328)	68.9%	1,505,961	202.0%

Correction Officer Retirement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
Pension						
6/30/08	$2,100,462	$1,948,603	$151,859	107.8%	$1,743,730	N/A
Health Insurance						
6/30/08	0	80,646	(80,646)	0.0%	1,743,730	4.62%
Pension and Health Insurance						
6/30/07	1,901,156	1,770,024	131,132	107.4%	1,608,605	N/A
6/30/06	1,611,909	1,387,121	224,788	116.2%	1,323,877	N/A

Navajo County
Required Supplementary Information
Notes to Schedule of Agent Retirement Plans' Funding Progress
June 30, 2008

Note 1 - Actuarial Information Available

For valuation years prior to 2008, which was prior to the implementation of GASB Statement Nos. 43 and 45, the actuarial measurements were made in the aggregate as to pension and health insurance benefits. In future years when GASB Statement Nos. 43 and 45 measurements are made and reported, the pension and health insurance benefits information will be disaggregated and reported separately. The Elected Official Retirement Plan (EORP), by statute, is a cost-sharing plan. However, because of its statutory construction, in accordance with GASB Statement No. 43, paragraphs 5 and 41, the EORP is reported for such purposes as an agent multiple-employer plan. The Fund Manager obtains an actuarial valuation for the EORP on its statutory basis as a cost-sharing plan and, therefore, actuarial information for the County, as a participating government, is not available.

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Supplementary Information

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
Special Supplemental Nutrition Program for Women, Infants, and Children, passed through the Arizona Department of Health Services	10.557	HG361082, HG861085	$ 333,316
Food Stamp Cluster:			
State Administrative Matching Grants for Supplemental Nutrition Assistance Program, passed through the Arizona Department of Health Services	10.561	HG661039	99,450
Total Food Stamp Cluster			99,450
Cooperative Forestry Assistance, passed through the Arizona State Land Department	10.664	SFA 5-5, SFA 5009, SFA 08-003	229,953
Schools and Roads—Grants to States	10.665		644,602
Total U.S. Department of Agriculture			1,307,321
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		831,043
Distributions of Receipts to State and Local Governments	15.227		6,510
Community Wildfire Protection Plan, passed through the Arizona State Land Department	AZ934-252R-2824DD-CE12	WWP 02	4,125
Total U.S. Department of the Interior			841,678
U.S. Department of Justice			
Federal Equitable Sharing Agreement	16.unknown		47,583
Domestic Cannabis Eradication/Suppression Program	16.unknown		10,000
Crime Victim Assistance, passed through the Arizona Department of Public Safety	16.575	2006-143	48,043
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-08-058	17,980
Bulletproof Vest Partnership Program, passed through the Arizona Department of Public Safety	16.607	OMB#1121-0235	4,005
Public Safety Partnership and Community Policing Grants, passed through the Office of Community Oriented Policing Services	16.710	None	93,821
Edward Byrne Memorial Justice Assistance Grant Program, passed through the Arizona Criminal Justice Commission	16.738	AC-08-180, PC-08-140	147,866
Total U.S. Department of Justice			369,298
U.S. Department of Labor			
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE070300001, DE081032001, E5705009, E5706009	160,106
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE070300001, DE081032001, E5705009, E5706009	157,532
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE070300001, DE081032001, E5705009, E5706009	266,052
Total WIA Cluster			583,690
Total U.S. Department of Labor			583,690

(Continued)

See accompanying notes to schedule.

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Transportation			
Reservation Roadway Maintenance, passed through the Arizona Department of Transportation	20.unknown	KR06-0664TRN, JPA 06-017T	$ 110,880
Highway Planning and Construction Cluster:			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	KR06-0086TRN, JPA 05-130, JP08-008T	461,487
Total Highway Planning and Construction Cluster			461,487
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Department of Emergency and Military Affairs	20.703	211832896	8,782
Total U.S. Department of Transportation			581,149
Institute of Museum and Library Services			
Grants to States, passed through the Arizona State Library, Archives and Public Records	45.310	271-5-1(07), 981-1-8(7)	11,763
U.S. Department of Education			
Title I Program for Neglected and Delinquent Children, passed through the Arizona State Supreme Court	84.013	29881	28,679
Special Education Cluster:			
Special Education—Grants to States, passed through the Arizona State Department of Education	84.027	H027A05007, H027A07007	19,742
Special Education—Grants to States, passed through the Arizona Supreme Court	84.027	29881	17,163
Total Special Education Cluster			36,905
Safe and Drug-Free Schools and Communities—State Grants, passed through the Arizona State Supreme Court	84.186	29881	51
Fund for the Improvement of Education	84.215		118,964
State Grants for Innovative Programs, passed through the Arizona State Supreme Court	84.298	29881	392
Education Technology State Grants, passed through Pima County	84.318	S318X070003	65,141
Mathematics and Science Partnerships, passed through the Arizona Department of Education	84.366	S366B070003	197,643
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	S367A060049	46,478
Improving Teacher Quality State Grants, passed through the Arizona State Supreme Court	84.367	29881	5,667
Total Improving Teacher Quality State Grants			52,145
Total U.S. Department of Education			499,920
U.S. Election Assistance Commission			
Help America Vote Act Requirements Payments, passed through the Arizona Secretary of State	90.401	None	70,347
U.S. Department of Health and Human Services			
Public Health Emergency Preparedness, passed through the Arizona Department of Health Services	93.069	HG754201	178,510

(Continued)

See accompanying notes to schedule.

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
Family Planning Services, passed through the Arizona Department of Health Services	93.217	HG361315/HG854251	$ 36,873
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG352200/HG854290	47,697
Centers for Disease Control and Prevention—Investigations and Technical Assistance, passed through the Arizona Department of Health Services	93.283	HG754201	89,855
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	G-04-04-AZ-4004	553,977
Voting Access for Individuals with Disabilities—Grants to States, passed through the Arizona Secretary of State	93.617	None	65,345
Children's Justice Grants to States, passed through the Arizona Governor's Office	93.643	CJ-WSG-07-7293-04	1,579
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	HG352259/HG852272	9,168
Preventive Health Services—Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	HG354250/HG854320	3,734
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	HG354183/HG854373	46,412
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG754060-008	68,473
Total U.S. Department of Health and Human Services			1,101,623
U.S. Department of Homeland Security			
Emergency Management Performance Grants, passed through the Arizona Department of Emergency and Military Affairs	97.042	None	77,902
Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs	97.067	2006-GE-T6-0007, 222107-03, 333100-03	24,079
Total U.S. Department of Homeland Security			101,981
Total Expenditures of Federal Awards			$ 5,468,770

See accompanying notes to schedule.

Navajo County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

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 a modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2008 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program and when there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” were used.

Note 3 - Subrecipients

Navajo County did not have any subrecipients for the year ended June 30, 2008.

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

Members of the Arizona State Legislature

The Board of Supervisors of
Navajo County, Arizona

We have audited the 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, 2008, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 19, 2010. Our report was modified as to consistency because of the implementation of Governmental Accounting Standards Board Statement Nos. 45, 48, and 50. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's basic financial statements that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 08-01 through 08-10 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-01 through 08-03, 08-05, and 08-07 through 08-10 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Findings and Questioned Costs as items 08-11 and 08-12.

Navajo County's responses to the findings identified in our audit are presented on pages 76 through 84. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

Debbie Davenport
Auditor General

July 19, 2010

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

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, 2008. The County's major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

As described in the following table, the County did not comply with certain compliance requirements that are applicable to its major federal programs. Compliance with such requirements is necessary, in our opinion, for the County to comply with the requirements applicable to those programs.

Program Title (CFDA Number)	Compliance Requirement	Finding Number
Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)	Eligibility	08-103
Cooperative Forestry Assistance (10.664)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	08-104
Child Support Enforcement (93.563)	Allowable Costs/Cost Principles and Matching	08-106, 08-107

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In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and are described in the accompanying Schedule of Findings and Questioned Costs as items 08-101, 08-102, and 08-105.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the County's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in the County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control. We consider items 08-101 through 08-108 described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over compliance.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 08-101 through 08-104, 08-106, and 08-107 to be material weaknesses.

Navajo County's responses to the findings identified in our audit are presented on pages 76 through 84. We did not audit the County's responses and, accordingly, we express no opinion on them.

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

Debbie Davenport
Auditor General

July 19, 2010

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified	
	Yes	**No**
Material weaknesses identified in internal control over financial reporting?	X	
Significant deficiencies identified not considered to be material weaknesses?	X	
Noncompliance material to the financial statements noted?		X

Federal Awards

	Yes	No
Material weaknesses identified in internal control over major programs?	X	
Significant deficiencies identified not considered to be material weaknesses?	X	

Type of auditors' report issued on compliance for major programs:
Unqualified for all major programs except for the Special Supplemental Nutrition Program for Women, Infants, and Children; Cooperative Forestry Assistance; and Child Support Enforcement programs, which were qualified.

	Yes	No
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.664	Cooperative Forestry Assistance
10.665	Schools and Roads—Grants to States
15.226	Payments in Lieu of Taxes
17.258, 17.259, 17.260	WIA Cluster
93.069	Public Health Emergency Preparedness
93.563	Child Support Enforcement

	Yes	No
Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?		X

Other Matters

	Yes	No
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X	

Financial Statement Findings

08-01
The County should continue improving its procedures to prepare accurate and timely financial statements

Criteria: The County must issue accurate and timely financial statements to satisfy the audit requirements imposed by federal and state laws and regulations, grant contracts, and long-term debt covenants.

Condition and context: The County took 25 months after year-end to issue its financial statements. In addition, the County did not implement required accounting principles that became effective for the year; however, the County's financial statements were adjusted for this error. Auditors did note that the County has allocated resources to prepare and issue more timely financial statements and to correct prior-year material weaknesses.

Effect: The federal reporting deadline for the County's fiscal year 2008 Single Audit Reporting Package was March 31, 2009; however, the County did not issue its Single Audit Reporting Package until July 2010. This finding is a material weakness in internal control over financial reporting.

Cause: In prior years, the County lacked the resources to compile its financial statements and correct internal control deficiencies noted by auditors, which contributed to late issuance of reports. In an effort to prepare financial statements and supporting schedules and issue them in a timely manner, the County hired consultants to help compile the financial statements and address the deficiencies noted in prior years.

Recommendation: To help ensure that financial statements are prepared accurately and issued in a timely manner, the County should continue to allocate resources to:

- Research all accounting and reporting requirements to ensure the financial statements are properly presented in accordance with authoritative pronouncements.
- Establish and follow written procedures for compiling the information and preparing the financial statements and accompanying notes. These procedures should include detailed instructions for obtaining information from the accounting system, as well as obtaining information not readily available from the accounting system but necessary for financial statement preparation.
- Assign employees specific responsibilities, and establish completion dates.
- Require an employee not responsible for financial statement preparation to review the statements and accompanying notes. This reviewer should ensure that the amounts are accurate and properly supported and the financial statements are presented in accordance with generally accepted accounting principles.

This finding was similar to a prior-year finding.

08-02
The County should strengthen computer access controls

Criteria: The County maintains computer systems that process a significant amount of transactions, such as those used as the source for the County's financial statements and those by the Treasurer to account for investment pool participants' monies and property taxes. Access to these systems should be limited to those employees authorized to process transactions or maintain a particular system and should be compatible with employees' job responsibilities. Additionally, the County should ensure that no one individual has the ability to modify data without an independent review. Further, password controls should be used to help ensure that only authorized users have access to read, create, or modify data in a system.

Condition and context: The County did not adequately limit logical access to its general ledger and property tax systems during the year. Specifically, the County did not ensure that users of its general ledger systems were granted appropriate access rights for their job responsibilities. In addition, auditors noted that there was no formal process for new employees to gain access to the Treasurer's general ledger and property tax systems. Consequently, all three Treasurer's Office employees having access to the general ledger system had the ability to record the receipt of monies, enter journal entries, and process and approve warrants. Further, user activity within the Treasurer's system was not reported in the database, and therefore, could not be monitored. As a result, unauthorized use may not be detected. Finally, the Treasurer's Office allowed 21 users access to its property tax system, but did not monitor these users' activities and did not maintain a user list and documentation to support that users' access had been authorized. Specifically, auditors noted that all four administrative users could process tax payments, run reports, and modify the underlying data tables, such as the tax apportionment percentages, without an independent review. Auditors also noted that users of the Treasurer's general ledger and property tax systems were not required to change their passwords on a regular basis and create passwords of a specified length or type of characters. Also, the systems did not lock out users after multiple failed access attempts.

Effect: Users may have access to unauthorized information and the ability to perform unauthorized functions. Excessive access rights may allow users to perpetrate and conceal errors and irregularities, resulting in fraud and the possible misstatement of financial information. Ineffective password controls increase the risk of passwords being discovered and used by unauthorized users. This finding is a material weakness in internal control over financial reporting.

Cause: The County did not establish policies and procedures to ensure security over its computer systems and the data they contain to prevent or detect unauthorized use, damage, loss, or modification of programs, and misuse of information. In addition, the County did not require users to change their passwords regularly and to use passwords having restricted characteristics, and did not enable the systems to lock out users after a number of failed access attempts.

Recommendation: The County should establish policies and procedures that strengthen system access controls to prevent or detect unauthorized use, damage, loss, or modification of programs, and misuse of information. These procedures should include the following:

- Limit logical access to authorized users of the County's and the County Treasurer's general ledger and property tax systems.
- Use a standardized access request form for approval for access to the systems, and retain all access request forms with the supervisor's approval.
- Eliminate access to all computer systems promptly when an employee leaves the County.
- Ensure access is compatible with each employee's job responsibilities.
- Require users to change passwords at regular intervals, such as every 3 months, and to set passwords that include special characters and minimum length.
- Implement system controls to lock out users after multiple failed access attempts.

This finding was similar to a prior-year finding.

08-03
The County should strengthen computer change controls

Criteria: The County should have effective policies and procedures to ensure that computer systems function properly and that the integrity of the systems' information is protected against unauthorized system and program changes. Additionally, a separation of responsibilities between the programmers who develop and test changes and the individuals who implement the changes should exist.

Condition and context: The County did not ensure that changes to systems, programs, and data were authorized, met user needs, and were subject to independent review and approval prior to being put into use. Specifically, auditors noted that only one employee was authorized to make changes for the County Treasurer's property tax system, and, therefore, could approve, write, and implement changes without an independent review.

Effect: Inadequate change management controls could lead to unauthorized changes to systems and programs and to the manipulation of data they contain. This finding is a material weakness in internal control over financial reporting.

Cause: The County does not have policies and procedures in place for making changes to its systems and programs and the data they contain.

Recommendation: To help ensure that changes to systems and programs and the data they contain is authorized, the County should establish policies and procedures to:

- Require that requests for changes to systems and programs be documented, authorized, tested, reviewed, and approved prior to being put into use.
- Separate the responsibilities for developing and implementing changes from the responsibilities of authorizing, testing, and approving the changes. Changes initiated by users should also be approved by users.
- Maintain documentation for testing changes and the results.

This finding was similar to a prior-year finding.

08-04
The County should have a complete and tested disaster recovery plan for its computer systems

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

Condition and context: The County had a disaster recovery plan; however, auditors noted that the plan was not complete because it did not address critical items, such as risks for critical applications and off-site storage locations, or include a current emergency contact listing.

Effect: The County may not be able to process and record transactions in the event of a system or equipment failure or interruption. This finding is a significant deficiency in internal control over financial reporting.

Cause: The County did not have a complete disaster recovery plan until April 2008, when it signed a mutual-aid agreement with other counties to assist the County in the event of a disaster.

Recommendation: The County should ensure that it has an updated and tested disaster recovery plan and should appropriately safeguard backup files. In addition, the County should evaluate its disaster recovery plan annually and perform the following:

- Perform an analysis identifying and prioritizing critical applications and risks for each, including the potential impact to the County.
- Communicate and distribute copies of the disaster recovery plan to all affected employees, ensuring a copy of the plan is kept off-site.
- Secure off-site storage locations and a designated physical recovery facility, and provide the needed hardware and software.
- Maintain a current listing of employees assigned to disaster teams, including emergency telephone numbers; procedures for processing critical transactions, including forms or other documents to use; and documentation of testing procedures and results, including resolutions to problems encountered or failed tests.

This finding was similar to a prior-year finding.

08-05
The County should reconcile its cash and investments balances to the Treasurer's records

Criteria: The County should reconcile the activity recorded on its general ledger system and the detailed cash and investments balances for each fund to the Treasurer's Office system and records at least monthly.

Condition and context: The County had approximately $36 million invested with the County Treasurer who is responsible for safeguarding and investing county monies and acts as a bank for the County. However, the County did not prepare monthly reconciliations of its cash and investment balances to the County Treasurer's records during the year, but did reconcile the June 30, 2008, balances during the financial statement preparation process.

Effect: There is the potential for misstatements in balances reported for cash and investments in the County's general ledger system and financial statements to go undetected. This finding is a material weakness in internal control over financial reporting.

Cause: The County did not have the resources to prepare monthly reconciliations by fund during the fiscal year because the transactions recorded on the Treasurer's system did not have unique identifying numbers to match those transactions recorded in the County's system. The County began daily reconciliations by fund and posting adjustments to the general ledger system in February 2009.

Recommendation: The County should reconcile each fund's cash and investment balances and related activity to the County Treasurer's system and records at least monthly. Differences noted should be investigated and appropriate adjustments made to either the County's accounting system or the County Treasurer's system.

This finding was similar to a prior-year finding.

08-06
The County should properly value and report its cash and investments

Criteria: Generally accepted accounting principles (GAAP) require the County, including the County Treasurer, to value investments at fair value and make certain disclosures about deposits and investments in the notes to financial statements. In addition, GAAP require that monies held in a fiduciary capacity for other entities be properly classified and cash and investments with external legal or contractual restrictions be classified in the financial statements as restricted assets.

Condition and context: The County had approximately $144 million in cash and investments for the year, but did not accurately report and classify these balances in its financial statements. For example, the County did not value the majority of its investments at fair value and did not record the change in fair value as investment earnings. Further, the County did not properly restrict a portion of its cash held by trustee. In addition, the County did not properly calculate its concentration of credit risk, because money market funds were erroneously included in the calculation, and did not correctly disclose the amount of deposits that were uninsured and uncollateralized.

Effect: The County overstated its cash and investments at year-end by more than $175,000, because it did not adjust most of its investments to fair value, and misclassified restricted cash and investments held by trustee in the amount of $646,000. In addition, the County misclassified $13.3 million of monies held for other governments within its agency fund. Further, the concentration of credit risk disclosure in the notes to financial statements was inaccurate as the County included $7.9 million in money market funds in the calculation. Finally, the County understated deposits that were uninsured and uncollateralized by $215,000 for its custodial risk disclosure. The County's financial statements and accompanying notes were adjusted for all significant errors. This finding is a significant deficiency in internal control over financial reporting.

Cause: The County did not value its investments at fair value at year-end due to the lack of resources needed to allocate these amounts to the various county funds and external participants. In addition, the County did not always correctly apply GAAP when classifying monies held in a fiduciary capacity and when preparing the notes to financial statements for its deposits and investments.

Recommendation: The County should implement procedures to value investments at fair value at year-end and record the change in fair value as investment earnings. In addition, the County should correctly classify deposits and investments held in a fiduciary capacity and any externally restricted balances in the financial statements and accompanying notes in accordance with GAAP. Further, the County should review the amounts used to calculate certain disclosures in the notes to financial statements to help ensure they are accurate.

This finding was similar to a prior-year finding.

08-07
The County should improve procedures for capital assets reporting

Criteria: The County should accurately report capital assets in its financial statements to its lenders, the public, and other interested parties in accordance with generally accepted accounting principles. To accomplish this, the County should maintain a reliable capital assets system and have procedures in place to accurately identify, record, and value capital assets.

Condition and context: Over 57 percent of the County's total assets consist of capital assets. However, the County did not ensure its capital assets were properly reported in the financial statements. Specifically, auditors noted the following:

Land, buildings, and improvements—The County incorrectly classified the entire Show Low Complex as a building addition, when a portion consisted of land. This error overstated building additions and understated land additions by approximately $280,000. In addition, the County incorrectly calculated the depreciation expense associated with its building improvements, resulting in an understatement of depreciation expense and an overstatement of buildings and improvements, net of the accumulated depreciation, in the amount of $510,000.

Construction in progress and infrastructure—The County overstated capital asset additions by over $3.2 million for capital assets that were constructed and completed during the year because they were classified as both construction in progress and infrastructure. This error affected the increases and decreases reported in the notes to financial statements and not the ending balances reported for capital assets. In addition, the County understated infrastructure and capital expenditures for the Public Works/HURF Fund by more than $640,000 because two projects, which were completed prior to June 30 but not paid until the following year, were mistakenly omitted. This error also caused an overstatement in the amount of contractual commitments disclosed in the financial statements.

Machinery and equipment—The County incorrectly valued machinery and equipment because of various errors, such as improperly deducting the trade-in value from the costs of new assets and recording assets twice on the listing. These errors resulted in misstatements of approximately $75,000 and $50,000, respectively. In addition, the County did not maintain adequate supporting documentation for the disposal of one item. These errors also affected the amounts reported as increases and decreases for machinery and equipment and the related depreciation expense in the notes to financial statements.

Effect: The County adjusted its financial statements and accompanying notes for all significant errors. This finding is a material weakness in internal control over financial reporting.

Cause: The County did not have policies and procedures in place to ensure that its capital assets were accurately identified, recorded, and valued.

Recommendation: To help ensure that capital assets are properly reported, the County should:

- Perform a detailed review of the schedules supporting capital asset additions, deletions, and depreciation expense to ensure that they are accurate. Schedules for land, buildings, and construction in progress should be independently reviewed against the project files, invoices, and other detailed records to ensure they are correctly classified and complete.
- Reconcile capital expenditures, including those for construction in process, to total capital additions for the year for each capital asset type.
- Retain supporting documentation for all capital assets.
- Develop policies and procedures for calculating depreciation expense on building improvements.

This finding was similar to a prior-year finding.

08-08
The County should accurately record, classify, and accrue revenues and expenditures

Criteria: The County should have adequate internal controls to help ensure that revenues and expenditures are accurately recorded on its general ledger system, classified in the correct accounts, and properly accrued and recognized in the proper fiscal year in accordance with GAAP.

Condition and context: Intergovernmental and miscellaneous revenues combined comprise approximately 77 percent of the County's governmental funds' revenues. In addition, public safety and education expenditures comprise approximately 23 percent and 9 percent, respectively, of the County's governmental funds' total expenditures. Therefore, these transactions should be accurately reported; however, while testing the balances for amounts due from other governments, auditors noted that the County did not correctly classify the related intergovernmental and miscellaneous revenues. In addition, the County misclassified public safety expenditures for flood control activities. Further, the County did not correctly record the intergovernmental revenues and education expenditures for the County School Superintendent's Office activities. Specifically, education-related activities were not recorded in the proper accounts or fiscal year, and were not recorded as receivables and payables for revenues and expenditures incurred but received or disbursed after June 30. These transactions were originally recorded on the County School Superintendent's Office's general ledger system and were provided to the Finance Department to compile the County's financial statements.

Effect: The errors caused the following misstatements in the governmental funds' financial statements:

- Intergovernmental revenues were understated by $35,000 and miscellaneous revenues were overstated by this same amount in the General Fund.

- Intergovernmental revenues were understated by approximately $100,000 and miscellaneous revenues were overstated by this same amount in the Public Works/HURF Fund.
- Public safety expenditures were understated by $200,000 and debt service principal expenditures were overstated by this same amount in the Flood Control District Fund.
- Intergovernmental revenues processed on the County's general ledger system, and the related due from other governments, were understated by approximately $119,000 in the Other Governmental Funds. In addition, amounts recorded for the activity of the County School Superintendent's Office misstated the Other Governmental Funds. Specifically, due from other governments and other receivables were understated by $887,000; accounts payable were understated by $57,000; beginning fund balances were misstated by $830,000; and intergovernmental revenues and education expenditures were understated by more than $620,000.

The County's financial statements were adjusted for these errors. This finding is a material weakness in internal control over financial reporting.

Cause: The County lacked the resources and policies and procedures to adequately monitor, detect, and correct errors that occurred when recording and classifying transactions on its system. Additionally, the County did not perform a detailed review of information maintained on separate general ledger systems to ensure that they followed GAAP.

Recommendation: To help ensure that revenues and expenditures are properly reported, the County should establish policies and procedures to periodically review and monitor financial reports so that errors can be identified and corrected in a timely manner. In addition, these policies and procedures should require a detailed review of the information provided by county departments that is used to compile the County's financial statements.

This finding was similar to a prior-year finding.

08-09
The County should establish written policies and procedures over its transaction cycles

Criteria: Written policies and procedures provide the basic framework needed for establishing employee accountability. They serve as a reference tool for employees seeking guidance on how to handle complex or infrequent transactions and situations. Additionally, they offer guidance for controlling daily operations and ensuring that the responsibilities for processing financial transactions are properly separated and require the approval of all transactions to be documented.

Condition and context: The County lacked up-to-date policies and procedures. Specifically, employees have no current guidance for the following: payroll, purchasing, receiving, accounts payable, operating transfers, journal entries, cash disbursements, cash receipts, financial statement preparation, and conflict-of-interest disclosure statements. Also, auditors noted that a proper separation of responsibilities did not exist for processing and recording county cash receipts and for various transaction cycles in the County School Superintendent's Office. Further, the County did not document the review and approval of journal entry transactions posted to the general ledger.

Effect: The lack of current policies and procedures, improper separation of responsibilities and insufficient documentation of approvals increases the risk of errors and irregularities, theft, fraud, and misuse of public monies. This finding is a material weakness in internal control over financial reporting.

Cause: The County had not allocated resources to establish formal policies and procedures and did not always require the documented approval of the transactions. During fiscal year 2010, the County had begun efforts to develop written policies and procedures.

Recommendation: The County should continue to develop written policies and control procedures that include:

- Separating responsibilities to help ensure that no one person controls both record-keeping and transaction processing activities.
- Documenting review and approval of all transactions processed and posted to the system to prevent duplicate or inappropriate transactions from occurring.
- Maintaining accounting records to help ensure that all transactions are valid and recorded accurately and in a timely manner, and to help ensure that no valid transactions have been omitted from the accounting records.
- Maintaining physical control over assets and accounting records to help ensure that access to physical assets and information are controlled and properly restricted to authorized employees.
- Resolving errors to help ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.
- Monitoring activities to help ensure that internal control procedures are placed into operation and continue to operate effectively.

This finding was similar to a prior-year finding.

08-10

The County should establish policies and procedures for identifying conflicts of interest and disclosing related party transactions

Criteria: Arizona Revised Statutes (A.R.S.) §38-503 requires that the County's board members, elected officers, and employees make known any substantial interest they have in any contract, sale, purchase, or service, and refrain from voting or participating in such a decision. In addition, Statement of Financial Accounting Standards Board Statement No. 57 requires the disclosure of material related party transactions in the financial statements.

Condition and context: The County's elected officials and four employees were involved in purchasing decisions for 32 contracts totaling more than $10.6 million during fiscal year 2008. However, the County did not require these individuals to complete conflict-of-interest statements. Further, the County did not have procedures for ensuring related party transactions were identified and disclosed in the financial statements, if material.

Effect: There is the risk for potential noncompliance with A.R.S. §38-503. Also, the County may enter into transactions that are not at arm's length, and which may not be the most advantageous to the County. Further, these transactions may not be detected or disclosed. This finding is a material weakness in internal control over financial reporting.

Cause: The County did not have formal policies and procedures in place to identify, avoid, and manage conflicts of interest and disclose related party transactions.

Recommendation: The County should establish written policies and procedures requiring its board members, elected officers, and employees involved in purchasing decisions to disclose conflicts of interest and to update these disclosures annually. In addition, the County should maintain a file of the disclosure statements and implement procedures to identify and disclose material related party transactions in the notes to financial statements.

This finding was similar to a prior-year finding.

08-11
The County should restrict use of public monies to allowed purposes and establish contracts with senior centers

Criteria: Arizona Constitution, Article IX, §7, prohibits a county from giving or loaning its credit. In addition, A.R.S. §35-301 prohibits the unlawful disbursement of public monies. Further, A.R.S. §11-267 allows counties to implement programs to provide services to disabled or elders 60 or older. However, to provide these programs, the County should formally contract with federal, state, local, or other providers and demonstrate the public purpose when spending monies for such programs.

Condition and context: The County was temporarily responsible for administering the Sun Valley Fire District's account with the County Treasurer in a fiduciary capacity. However, the County inappropriately loaned public monies to the Fire District when it used over $98,000 of county monies to pay vendors on behalf of the Fire District. Rather, the Fire District's expenses should have been paid with the Fire District's own monies. The Fire District reimbursed the County for all county monies expended on its behalf. In addition, auditors noted that the County distributed $109,000 of public monies to 16 senior centers during the year with no written contracts to ensure that the monies were spent for a public purpose and for the programs intended under A.R.S. §11-267.

Effect: The County did not comply with Arizona Constitution, Article IX, §7, and A.R.S. §35-301.

Cause: The County did not have controls in place to help ensure that it complied with state laws governing the use of public monies. Specifically, the County did not ensure that payments made in a fiduciary capacity on behalf of the Fire District were made directly from the Fire District's account with the County Treasurer. In addition, the County did not have procedures in place to ensure that it documented the public purpose, obtained formal board approval, and negotiated written contracts with senior centers prior to spending public monies to provide services under A.R.S. §11-267.

Recommendation: The County should establish the necessary controls for ensuring that county monies are not inappropriately used when it is administering the accounts of other parties in a fiduciary capacity. In addition, the County should establish policies and procedures requiring that it records and demonstrates the public purpose for all county expenditures. Further, it should obtain formal board approval and enter into written contracts when spending public monies to provide services under A.R.S. §11-267.

This finding was similar to a prior-year finding

08-12
The County should submit its Annual Expenditure Limitation Report in a timely manner

Criteria: A.R.S. §41-1279.07(C) requires the County to submit an Annual Expenditure Limitation Report (AELR) to the Auditor General's Office within 4 months after fiscal year-end, or by February 28 if the Auditor General grants a 120-day extension.

Condition and context: The AELR discloses whether the County complied with constitutional spending limits established by the Arizona Department of Revenue's Economic Estimates Commission. However, the County failed to submit its AELR for the year ended June 30, 2008, in a timely manner. The AELR was issued more than 20 months past the prescribed statutory October 31, 2008, deadline. As discussed in item 08-01, prior-year material weaknesses in financial reporting contributed to the late report submission.

Effect: The County could face sanctions if the County continues to not submit its AELR by the deadline. This finding is an instance of noncompliance with A.R.S. §41-1279.07(C).

Cause: The County's delays in issuing its financial statements have also caused the late AELR submission.

Recommendation: The County should submit the reports required by the *Uniform Expenditure Reporting System* to the Auditor General of the State of Arizona each year by October 31, or by February 28 if a 120-day extension is granted.

This finding was similar to a prior-year finding.

Federal Award Findings and Questioned Costs

08-101
CFDA No.: Not applicable
Questioned Cost: N/A

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

Condition and context: The County's Single Audit Reporting Package was due on March 31, 2009; however, the County did not issue its Single Audit Reporting Package until July 2010. In addition, the County's federal oversight agency did not approve an extension for late submission of the 2008 Single Audit Reporting Package.

Effect: The County did not meet OMB Circular A-133 audit requirements. The late submission of the Single Audit Reporting Package affects all federal programs administered by the County. This finding is considered a material weakness in internal control over compliance and material noncompliance with OMB Circular A-133, §.320. However, this finding does not result in a control deficiency in internal control over compliance or noncompliance for individual federal programs.

Cause: As discussed in item 08-01, the County had several prior-year material weaknesses over financial reporting that contributed to the late submission of its Single Audit Reporting Package.

Recommendation: The County should improve its financial reporting process so that it can submit its Single Audit Reporting Package by the required deadline.

This finding was similar to a prior-year finding.

08-102
CFDA No.: 10.665 Schools and Roads—Grants to States
U.S. Department of Agriculture
Award Year: July 1, 2007 through June 30, 2008
Award Numbers: None

WIA Cluster:
CFDA No.: 17.258 WIA Adult Program
17.259 WIA Youth Activities
17.260 WIA Dislocated Workers
U.S. Department of Labor
Passed through the Arizona Department of Economic Security
Award Year: April 1, 2004 through June 30, 2009
Award Numbers: DE070300001, DE081032001, E5705009, E5706009

CFDA No.: 93.069 Public Health Emergency Preparedness
U.S. Department of Health and Human Services
Passed through the Arizona Department of Health Services
Award Year: September 1, 2007 through June 30, 2009
Award Number: HG754201

CFDA No.: 93.563 Child Support Enforcement
U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Award Year: October 1, 2005 through September 30, 2010
Award Number: G-04-04-AZ-4004

Questioned Cost: N/A

Criteria: OMB Circular A-133, §.300 and 2 Code of Federal Regulations (CFR), Appendix A to Part 225 require the County to identify, in its accounts, all federal awards received and expended and the federal programs under which they were received, and prepare appropriate financial statements, including a Schedule of Expenditures of Federal Awards (SEFA). The SEFA should report federal award expenditures in accordance with generally accepted accounting principles (GAAP). In addition, OMB Circular A-133, §.310(b) requires the SEFA to include the Catalog of Federal Domestic Assistance (CFDA) title and number, amount expended, name of the federal awarding agency, and if applicable, name and identifying number of the pass-through grantor, for each of the County's federal awards.

Condition and context: The County did not properly identify federal awards in its records and accounting system so that it could prepare an accurate and complete SEFA. Specifically, auditors noted the County incorrectly reported expenditures or other required information for 19 of its federal programs; 3 of these programs' expenditures were omitted from the SEFA and affected the determination of major programs. The County misstated its federal award expenditures by a net amount of approximately $966,000. Specifically, the County misstated program expenditures for the following major programs:

- Schools and Roads—Grants to States program expenditures were understated by $619,000.
- WIA Cluster expenditures were understated by $316,000.
- Public Health Emergency Preparedness program expenditures were understated by $179,000.
- Child Support Enforcement Program expenditures were overstated by $150,000.

Effect: The County adjusted its SEFA for these errors. This finding is a material weakness in internal control over compliance and noncompliance with OMB Circular A-133 reporting requirements.

Cause: The County did not have policies and procedures in place to ensure that federal monies are identifiable in its accounting system and properly recorded on the SEFA. Federal award expenditures were misstated because county departments did not reconcile federal expenditures to amounts reimbursed, did not follow GAAP, did not record expenditures in the proper fiscal year, or did not provide sufficient detail to the Finance Department to correctly prepare the SEFA.

Recommendation: To help ensure that the County prepares its SEFA in compliance with OMB Circular A-133, the County should require departments to reconcile federal award expenditures on the general ledger system to accounting records and reimbursements and record expenditures when goods or services are received. In addition, the County should require departments to provide sufficient detail to the Finance Department to accurately report this information on the SEFA.

This finding was similar to a prior-year finding.

08-103
CFDA No.:10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
U.S. Department of Agriculture
Passed through the Arizona Department of Health Services
Award Year: October 1, 2002 through September 30, 2007
October 1, 2007 through September 30, 2012
Award Numbers: HG361082, HG861085
Eligibility
Questioned Cost: Unknown

Criteria: 7 CFR §246.7(i)(9)(10) requires the participant, parent, or caretaker to sign the rights and responsibilities form to certify that they have been advised of their rights and obligations under the program. The rights and responsibilities form should also be approved and signed by a competent professional authority who determines the participant's eligibility. These records should be retained for both active and inactive participants in accordance with the grant agreement and the pass-through grantor's policies and procedures, which require that all records be retained for 5 years and 5 months after the federal fiscal year ends, unless otherwise specified. Further, internal control procedures should require an independent employee to verify the accuracy of information used to determine eligibility to ensure the County's managing federal awards in compliance with laws and regulations as required by OMB Circular A-133, §300(b).

Condition and context: Auditors were able to verify eligibility using the Arizona Department of Health Services' Arizona In Motion (AIM) system for the 48 participant case files tested. However, for 2 of the 48 case files tested, the case worker did not approve the rights and responsibilities form; for 1 of the 48 files tested, the participant did not sign the rights and responsibilities form acknowledging that they had been advised of their rights and obligations under the program; and for 1 of 48 files tested, the rights and responsibilities form could not be located. In addition, the County did not always adequately separate employees' responsibilities since the same employee could prepare the application, determine eligibility, and input the initial eligibility information into the AIM system without an independent review.

Effect: The County did not retain complete records related to participants' eligibility as required by the pass-through grantor. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's eligibility requirements.

Cause: The County did not follow federal requirements or the pass-through grantor's policies for preparing and retaining all necessary eligibility documentation to ensure that program benefits were provided to only those eligible to receive them. In addition, the County did not have policies and procedures requiring another employee to review eligibility information input into the AIM system.

Recommendation: To help ensure that program benefits are not provided to those who were not eligible to receive them, the County should follow federal requirements and the pass-through grantor's policies and procedures for preparing and retaining records related to eligibility determination. In addition, the County should develop policies and procedures requiring another employee to review eligibility information input into the AIM system.

This finding was similar to a prior-year finding.

08-104
CFDA No.: 10.664 Cooperative Forestry Assistance
U.S. Department of Agriculture
Passed through the Arizona State Land Department
Award Year: July 11, 2005 through September 30, 2007 and
May 8, 2008 through July 31, 2011
Award Numbers: SFA 5009, SFA 5-5, SFA 08-003
Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Reporting
Questioned Cost: $18,716

Criteria: In accordance with 7 CFR §3016.20(b)(6), federal award expenditures must be supported by source documentation, such as invoices, employee time and attendance records, and contract and subgrant award documents. In addition, the County should retain supporting documentation in accordance with 7 CFR §3016.42(b)(1) and (c). Further, internal control procedures should require an independent employee to verify the accuracy of federal expenditures.

Condition and context: The County did not ensure that supporting documentation was maintained for all program expenditures. Specifically, for 11 of 55 expenditure transactions tested, the County did not maintain the original supporting documentation. Furthermore, there was no evidence that an independent review of the expenditures or quarterly reimbursement requests had taken place prior to requesting reimbursement from the grantor. Auditors obtained summary schedules supporting the 11 expenditure transactions totaling $18,716 and determined that the costs appeared reasonable, but were unable to verify that payments were made to qualifying landowners and for allowable expenditures.

Effect: The lack of supporting documentation and review could result in unallowable charges to the program and errors in reporting. This finding is a material weakness in internal control over compliance with the program's activities allowed or unallowed, allowable costs/cost principles, cash management, and reporting requirements, and material noncompliance with the program's activities allowed or unallowed and allowable costs/cost principles requirements.

Cause: The County disposed of all supporting documentation once the related grants were closed out since employees were not aware that they needed to retain supporting documentation for all transactions.

Recommendation: The County should retain all supporting documentation for all program expenditures in accordance with federal requirements. In addition, the County should require an independent, supervisory review of program expenditures and reports prior to submission for reimbursement.

08-105
CFDA No.: 93.069 Public Health Emergency Preparedness
U.S. Department of Health and Human Services
Passed through the Arizona Department of Health Services
Award Year: September 1, 2007 through June 30, 2009
Award Number: HG754201
Cash Management and Reporting
Questioned Cost: None

Criteria: 45 CFR §92.20(b)(1) and (2) requires that financial reports be complete and accurate and that program expenditures be supported and maintained in the accounting records.

Condition and context: The County did not ensure that expenditures reported on monthly Contractor's Expenditure Reports (CERs) and submitted to the pass-through grantor were accurate. Specifically, for three of four CERs tested, expenditures in the County's accounting records were approximately $3,700 more than the amounts reported on the CERs.

Effect: The County did not report and request reimbursement from the pass-through grantor for all program expenditures. No questioned costs resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's cash management and reporting requirements.

Cause: The County did not receive federal reimbursement for all program expenditures because it did not have adequate policies and procedures in place to ensure that program expenditures reported on CERs were accurate and agreed to the accounting records.

Recommendation: The Department should establish policies and procedures to ensure that expenditures reported on the CERs agree to the accounting records. In addition, the County should ensure that the CERs are reviewed by another employee prior to submitting them to the pass-through grantor to ensure that they are accurate and complete.

08-106
CFDA No.: 93.563 Child Support Enforcement
U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Award Period: October 1, 2005 through September 30, 2010
Award Number: G-04-04-AZ-4004
Matching

Questioned Costs: Unknown

Criteria: In accordance with its grant agreement, the County is required to match 34 percent of total program expenditures with nonfederal monies. The amount matched by the County should be supported by its records to comply with 45 CFR §74.23(a)(1). In addition, for the period of October 1, 2007 through June 30, 2008, the County was not allowed to use Child Support Enforcement federal incentive monies for matching program expenditures as provided by the Deficit Reduction Act of 2005, Section 7309.

Condition and context: The County did not adequately monitor the federal program to ensure that federal award expenditures were matched with allowable nonfederal sources. During the year, the County relied on its federal and state-shared retained earnings, incentive monies, and local sources, including the County's indirect costs, to match program expenditures. However, the County did not maintain adequate records during the year to demonstrate that allowable state and local funding sources were used to meet the program's matching requirement because it relied on federal incentive monies that were not allowed to be used to match the program. During the audit, the County prepared documentation that demonstrated that the County met its matching expenditures; however, auditors were not able to verify that $148,112 of these expenditures were allowable expenditures. For example, the County did not remit monies received for its indirect costs to the General Fund and applied these resources as matching expenditures, but as noted in item 08-107, the County did not have support for the indirect costs incurred for the program. In addition, the County applied the salary costs paid from local monies for an employee who had worked on the program, but who had not been correctly designated to the program in the system. Also, the County did not have documentation supporting that the employee had worked solely for the program.

Effect: The County was unable to demonstrate that it had fully met its matching requirement for the federal program. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's matching requirements.

Cause: County personnel did not realize that the program's federal requirements disallowed the use of federal incentive monies to match the federal award expenditures for the period of October 1, 2007 through June 30, 2008. In addition, the County did not adequately monitor its level of spending of state and local funding sources to ensure that sufficient nonfederal monies were used to meet the matching requirement.

Recommendation: To comply with 45 CFR §74.23(a)(1) and the Deficit Reduction Act of 2005, Section 7309, the County should establish policies and procedures to monitor the program's matching requirements, and the level of state and local monies spent for the program. This would help ensure that only allowable funding sources are used to match federal expenditures and that the matching requirement is met. All monies used to match the program's federal award expenditures should be transferred into the designated program fund during the period of time when the expenditures are incurred. Further, the County should retain documentation to demonstrate that matching requirements are met.

08-107
CFDA No.: 93.563 Child Support Enforcement Program
U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Award Period: October 1, 2005 through September 30, 2010
Award Number: G-04-04-AZ-4004
Allowable Costs/Cost Principles and Matching
Questioned Costs: Unknown

Criteria: In accordance with 2 CFR Part 225, indirect costs charged to federal programs should be supported by a formal cost allocation plan or a written agreement with the grantor. In addition, according to the County's grant agreement with the pass-through grantor, the County was required to submit a cost allocation plan for approval to the pass-through grantor prior to requesting reimbursement for indirect costs.

Condition and context: The County did not have a cost allocation plan or a written agreement with the grantor to support the indirect costs reimbursed for the program for fiscal year 2008. The County was reimbursed $89,482 in indirect costs from its pass-through grantor during the year. Although the same indirect cost rates had been used by the County for several fiscal years and informally accepted by the pass-through grantor, auditors were unable to determine whether the indirect costs were allowable and the rates used were reasonable. Further, as noted in item 08-106, the County used the indirect costs to match the program's federal award expenditures.

Effect: Indirect costs charged to the federal program were not supported by a cost allocation plan or a written agreement with the pass-through grantor. Further, the County had not complied with its grant agreement because it was required to submit a cost allocation plan to the pass-through grantor for approval. If all of the indirect costs charged to the program were not allowable, there is also the potential that the County may not have met the program's matching requirement for that portion of the indirect costs that were used to match the program's federal award expenditures. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's allowable costs/cost principles and matching requirements. This finding could also affect other federal programs that the County administered for which indirect costs were reimbursed.

Cause: The County did not prepare a formal cost allocation plan for fiscal year 2008 and did not have any other documentation to support the indirect cost rates used for the program. The County believed that the pass-through grantor had approved the rates that had been used, but did not retain these records.

Recommendation: To comply with the requirements of 2 CFR Part 225 and its grant agreements, the County should establish policies and procedures to ensure that it has a formal cost allocation plan or written agreement with its grantors prior to requesting reimbursement for indirect costs.

08-108
CFDA No.: 93.563 **Child Support Enforcement Program**
U.S. Department of Health and Human Services
Passed through the Arizona Department of Economic Security
Award Period: October 1, 2005 through September 30, 2010
Award Number: G-04-04-AZ-4004
Cash Management and Reporting

Questioned Costs: None

Criteria: In accordance with 45 CFR §92.20(b)(3), the County should maintain an effective internal control system to adequately separate accounting responsibilities in the financial reporting process. The County's grant agreement with its pass-through grantor requires the County to submit financial reports within 28 days following the end of each month. Reports submitted after 45 days may result in the County's being denied reimbursement for expenditures incurred for the program.

Condition and context: The County did not ensure that financial reports used to request federal reimbursement for expenditures and demonstrate program funding levels were independently reviewed for accuracy and approved prior to submitting them to the pass-through grantor. In addition, the County did not always submit the reports on time and retain copies of the reports submitted. However, auditors were able to obtain copies of the reports directly from the pass-through grantor and noted that for one of four reports tested, the report was submitted approximately 4 months late.

Effect: The County risks reporting incorrect information to its pass-through grantor due to the lack of an independent review of the financial reports. It also risks being denied federal reimbursement for expenditures that it incurs for the program if reports are submitted more than 45 days after each month's end. This finding is a significant deficiency in internal control over compliance with the program's cash management and reporting requirements.

Cause: The County did not have sufficient resources to adequately separate accounting responsibilities over the financial reporting process and ensure the reports are completed on time.

Recommendation: To help ensure that the County complies with 45 CFR §92.20(b)(3) and reports correct information, the County should establish procedures requiring a person independent of the financial reports' preparation to review the reports for accuracy prior to submitting them to the pass-through grantor. In addition, to help ensure that the County receives federal reimbursement for all eligible expenditures incurred for the program, it should submit financial reports within 28 days following the end of each month as required by its grant agreement.

NAVAJO COUNTY

Finance Department

James Menlove • Finance Director Mary Springer • Deputy Finance Director

"Proudly Serving, Continuously Improving"

July 19, 2010

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by 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,

James Menlove
Finance Director

• 928.524.4000 • Fax: 928.524.4239 • P.O. Box 668 • Holbrook, AZ 86025 •

• www.navajocountyaz.gov •

Navajo County
Corrective Action Plan
Year Ended June 30, 2008

Financial Statement Findings

08-01
The County should continue improving its procedures to report accurate and timely financial statements to meet audit requirements
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. To help ensure that financial statements are prepared accurately and issued in a timely manner, the County will allocate resources to:

- Research all accounting and reporting requirements to ensure the financial statements are properly presented in accordance with authoritative pronouncements.
- Establish and follow written procedures for compiling the information and preparing the financial statements and accompanying notes. These procedures should include detailed instructions for obtaining information from the accounting system, as well as obtaining information not readily available from the accounting system but necessary for financial statement preparation.
- Assign employees specific responsibilities, and establish completion dates.
- Require an employee not responsible for financial statement preparation to review the statements and accompanying notes. This reviewer should ensure that the amounts are accurate and properly supported and the financial statements are presented in accordance with generally accepted accounting principles.

08-02
The County should strengthen computer access controls
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. The County will establish policies and procedures that strengthen system access controls to prevent or detect unauthorized use, damage, loss, or modification of programs, and misuse of information. These procedures will:

- Limit logical access to authorized users of the County's and the County Treasurer's general ledger and property tax systems.
- Use a standardized access request form for approval for access to the systems, and retain all access request forms with the supervisor's approval.
- Eliminate access to all computer systems promptly when an employee leaves the County.
- Ensure access is compatible with each employee's job responsibilities.
- Require users to change passwords at regular intervals, such as every 3 months and to set passwords that include special characters and minimum length.
- Implement system controls to lock out users after multiple failed attempts.

08-03
The County should strengthen computer change controls
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. To help ensure that changes to systems and programs and the data they contain is authorized, the County will establish policies and procedures to:

- Require that requests for changes to systems and programs be documented, authorized, tested, reviewed, and approved prior to being put into use. Separate the responsibilities for developing and implementing changes. These responsibilities should be separated from the responsibilities of authorizing, testing, and approving the changes. Changes initiated by users should also be approved by users.
- Maintain documentation for testing changes and the results.

08-04
The County should have a complete and tested disaster recovery plan for its computer systems
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. The County will ensure that it has an updated and tested disaster recovery plan and will appropriately safeguard backup files. In addition, the County will evaluate its disaster recovery plan annually and ensure its policies and procedures include:

- Performing an analysis identifying and prioritizing critical applications and risks for each, including the potential impact to the County.
- Communicating and distributing a copy of the disaster recovery plan to all affected employees, ensuring a copy of the plan is kept off-site.
- Planning to secure off-site storage locations and a designated physical recovery facility, and supporting the needed hardware and software requirements.
- Maintaining a current listing of employees assigned to disaster teams, including emergency telephone numbers, procedures for processing critical transactions, including forms or other documents used, and documentation of test procedures and results, including any resolutions to problems encountered or failed tests.

08-05
The County should reconcile its cash and investments records to the Treasurer's records
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. The County will reconcile each fund's cash and investment balances and related activity to the County Treasurer's system and records at least monthly. Differences noted should be investigated and appropriate adjustments made to either the County's accounting system or the County Treasurer's system.

Navajo County
Corrective Action Plan
Year Ended June 30, 2008

08-06
The County should properly value and report its cash and investments
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. The County will value investments at fair value at year end and make adjustments to record the change in fair value. In addition, the County will classify deposits and investments, including any externally restricted balances, in the financial statements and accompanying notes in accordance with GAAP, and ensure that amounts used to calculate certain disclosures in the notes to financial statements are accurate.

08-07
The County should improve procedures for capital assets reporting
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. To help ensure that capital assets are properly reported, the County will:

- Perform a detailed review of the schedules supporting capital asset additions and deletions and depreciation to ensure that they are accurate. Schedules for land, buildings, and construction in progress will be independently reviewed against the project files, invoices, and other detailed records to ensure they are correctly classified and complete.
- Reconcile all capital expenditures, including those for construction in process, to total capital additions for the year for each capital asset type.
- Retain supporting documentation for all capital assets.

08-08
The County should accurately record, classify, and accrue revenues and expenditures
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. To help ensure that revenues and expenditures are properly reported, the County will establish policies and procedures to periodically review and monitor financial reports so that errors can be identified and corrected in a timely manner. In addition, these policies and procedures should require a person with knowledge on GAAP to review the information provided by county departments that is used to compile the County's financial statements.

Navajo County
Corrective Action Plan
Year Ended June 30, 2008

08-09
The County should establish formal written policies and procedures over its transaction cycles and ensure proper separation of duties
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. The County will continue to develop written policies and control procedures that include:

- Separating responsibilities to help ensure that no one person controls both recordkeeping and transaction processing activities.
- Authorizing transactions to help ensure that responsible employees approve all transactions.
- Maintaining accounting records to help ensure that all transactions are valid and recorded accurately and in a timely manner, and to ensure that no valid transactions have been omitted from the accounting records.
- Maintaining physical control over assets and accounting records to help ensure that access to physical assets and information are controlled and properly restricted to authorized employees.
- Resolving errors to help ensure that errors detected at any stage of processing receive prompt corrective action and are reported to the appropriate level of management.
- Monitoring activities to help ensure that internal control procedures are placed into operation and continue to operate effectively.

08-10
The County should establish policies and procedures for identifying and disclosing conflicts of interest and related party transactions
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. The County will establish written policies and procedures requiring its board members, elected officers, and employees involved in purchasing decisions to disclose conflicts of interest and will verify these disclosures annually. In addition, the County will maintain a file of disclosures and implement procedures to identify and disclose material related party transactions in the notes to financial statements.

08-11
The County should restrict use of public monies to allowed purposes and establish contracts with senior centers
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

Corrective Action Plan: Concur. The County will ensure that it records and demonstrates the public purpose for all county expenditures and enters into written contracts when spending public monies.

Navajo County
Corrective Action Plan
Year Ended June 30, 2008

08-12
The County should submit its Annual Expenditure Limitation Report in a timely manner
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: February 28, 2012

Corrective Action Plan: Concur. The County will submit the reports required by the *Uniform Expenditure Reporting System* to the Auditor General of the State of Arizona each year by October 31 or by February 28, if a 120-day extension is granted.

Navajo County
Corrective Action Plan
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

08-101
CFDA No.: Not applicable
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: March 31, 2012

The County will improve its financial reporting process so that it can submit its Single Audit Reporting Package by the required deadline.

08-102
CFDA No.: 10.665 Schools and Roads – Grants to States
WIA Cluster:
CFDA No.: 17.258 WIA Adult Program
17.259 WIA Youth Activities
17.260 WIA Dislocated Workers
CFDA No.: 93.069 Public Health Emergency Preparedness
CFDA No.: 93.563 Child Support Enforcement
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

To help ensure that the County prepares its SEFA in compliance with OMB Circular A-133, the County will require departments to reconcile federal award expenditures on the general ledger system to accounting records and reimbursements and follow GAAP and the County's reporting fiscal year when reporting federal award expenditures. In addition, the County will require departments to provide sufficient detail to the Finance Department to accurately report this information on the SEFA.

08-103
CFDA No.:10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

To help ensure that program benefits are not provided to those who were not eligible to receive them, the County will follow federal requirements and the pass-through grantor's policies and procedures for preparing and retaining records related to eligibility determination. In addition, the County will develop policies and procedures requiring another employee to review eligibility information input into the AIM system.

08-104
CFDA No.:10.664 Cooperative Forestry Assistance
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

The County will retain all supporting documentation for all program expenditures in accordance with federal requirements. In addition, the County will require an independent, supervisory review of program expenditures prior to submission for reimbursement.

08-105
CFDA No.: 93.069 Public Health Emergency Preparedness
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

The Department will establish policies and procedures to ensure that expenditures reported on the CERs agree to the accounting records. In addition, the County will ensure that the CERs are reviewed by another employee prior to submitting them to the pass-through grantor to ensure that they are accurate and complete.

08-106
CFDA No.: 93.563 Child Support Enforcement Program
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

The County will establish policies and procedures to monitor the level of state and local monies spent on the program to ensure that only allowable funding sources are used to match the program's federal expenditures and that the matching requirement is met. All monies used to match the program's federal award expenditures will be transferred into the designated program fund during the period of time when the expenditures have been incurred. Further, the County will retain documentation to demonstrate that matching requirements were met.

08-107
CFDA No.: 93.563 Child Support Enforcement Program
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

To comply with the requirements of 2 CFR Part 225 and its grant agreements, the County will establish policies and procedures to ensure that it has a formal cost allocation plan or written agreement with its grantors prior to requesting reimbursement for indirect costs.

Navajo County
Corrective Action Plan
Year Ended June 30, 2008

08-108
CFDA No.: 93.563 Child Support Enforcement Program
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

To help ensure that the County complies with 45 CFR §92.20, (b)(3) and reports correct information, the County will establish procedures requiring a person independent of the financial reports' preparation to review the reports for accuracy prior to submitting them to the pass-through grantor. In addition, to help ensure that the County receives federal reimbursement for all eligible expenditures incurred for the program, financial reports will be submitted within 28 days following the end of each month as required by its grant agreement.

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NAVAJO COUNTY

Finance Department

James Menlove • Finance Director Mary Springer • Deputy Finance Director

"Proudly Serving, Continuously Improving"

July 19, 2010

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

Dear Ms. Davenport:

The accompanying Summary Schedule of Prior Audit Findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's Schedule of Findings and Questioned Costs related to federal awards. This schedule also includes audit findings reported in the prior audit's Summary Schedule of Prior Audit Findings that were not corrected.

Sincerely,

James Menlove
Finance Director

• 928.524.4000 • Fax: 928.524.4239 • P.O. Box 668 • Holbrook, AZ 86025 •

• www.navajocountyaz.gov •

Navajo County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Status of Federal Award Findings and Questioned Costs

03-105
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
10.904 Watershed Protection and Flood Prevention
14.228 Community Development Block Grants/State's Program
14.239 HOME Investments Partnerships Program
Workforce Investment Act Cluster:
17.258 WIA Adult Program
17.259 WIA Youth Activities
17.260 WIA Dislocated Workers
83.554 Public Assistance Grant
83.566 Fire Management Assistance Grant
93.563 Child Support Enforcement Grant
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will improve its financial reporting process so that it can submit its Single Audit Reporting Package by the required deadline.

04-101
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
15.226 Payments in Lieu of Taxes
16.579 Byrne Formula Grant Program
Workforce Investment Act Cluster:
17.258 WIA Adult Program
17.259 WIA Youth Activities
39.011 Election Reform Payments
93.563 Child Support Enforcement Grant
97.004 State Domestic Preparedness Equipment Support Program
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will improve its financial reporting process so that it can submit its Single Audit Reporting Package by the required deadline.

04-102
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Status: Not Corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will work to ensure that established policies and procedures for eligibility determination are followed. We will also retain all certification forms and supporting documentation.

Navajo County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

05-101
CFDA No.: 15.226 Payments in Lieu of Taxes
16.579 Byrne Formula Grant Program
Workforce Investment Act Cluster:
17.258 WIA Adult Program
17.259 WIA Youth Activities
93.283 Centers for Disease Control and Prevention — Investigations and Technical Assistance
93.563 Child Support Enforcement Grant
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will improve its financial reporting process so that it can submit its Single Audit Reporting Package by the required deadline.

05-104
CFDA No.: 93.283 Centers for Disease Control and Prevention — Investigations and Technical Assistance
Status: Fully corrected

06-101
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
10.923 Emergency Watershed Protection Program
14.228 Community Development Block Grants/State's Program
15.226 Payments in Lieu of Taxes
93.283 Centers for Disease Control and Prevention — Investigations and Technical Assistance
93.563 Child Support Enforcement Grant
Homeland Security Grant Program Cluster:
97.004 State Domestic Preparedness Equipment Support Program
97.067 Homeland Security Grant Program
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will improve its financial reporting process so that it can submit its Single Audit Reporting Package by the required deadline.

06-103
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
10.923 Emergency Watershed Protection Program
14.228 Community Development Block Grants/State's Program
15.226 Payments in Lieu of Taxes
93.283 Centers for Disease Control and Prevention — Investigations and Technical Assistance
93.563 Child Support Enforcement Grant
Homeland Security Grant Program Cluster:
97.004 State Domestic Preparedness Equipment Support Program
97.067 Homeland Security Grant Program
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will establish written policies and procedures to help ensure the proper recording of federal program expenditures in our accounting system and for preparing the SEFA. On July 1, 2008, the County implemented a new chart of accounts to help ensure our account code structure can accommodate the proper recording and reporting of all county transactions. Additionally, in August 2009, the County hired a grant administrator to help ensure the County's SEFA is prepared accurately and submitted timely and that other federal reporting requirements are met.

06-105
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Status: Not Corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will work to ensure that established policies and procedures for eligibility determination are followed and that the intake and eligibility determination functions are properly segregated including increased supervisory reviews as necessary. Additionally, a supervisor will ensure that all rights and responsibilities forms are complete, approved, and maintained in the participants' file.

06-106
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Status: Not Corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will implement procedures to ensure that expenditures for CERs are accurate.

06-107
CFDA No.: 10.923 Emergency Watershed Protection Program
Homeland Security Grant Program Cluster:
97.004 State Domestic Preparedness Equipment Support Program
97.067 Homeland Security Grant Program
Status: Partially Corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

In April 2008, the County incorporated standard suspension and debarment language into all bid documents. The County will enforce written policies and procedures for procurement, suspension, and debarment and to ensure that all applicable personnel are aware of these requirements.

06-108
CFDA No.: 14.228 Community Development Block Grants/State's Program
Status: Not Corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County did not process any grant awards during fiscal year 2008 for this program. However, in response to the auditor's finding, internal procedures have been updated in accordance with the Arizona Department of Housing's handbook guidelines to ensure an environmental review is performed on all contractors and that documentation is retained.

Navajo County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

06-109
CFDA No.: 14.228 Community Development Block Grants/State's Program
Homeland Security Grant Program Cluster:
97.004 State Domestic Preparedness Equipment Support Program
97.067 Homeland Security Grant Program
Status: Partially Corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County adopted the state procurement policies, and this was formalized with the Board of Supervisors. The County will ensure all applicable personnel follow these policies to ensure that goods and services are purchased through a competitive process and that applicable supporting documentation is maintained.

06-110
CFDA No.: 93.283 Centers for Disease Control and Prevention — Investigations and Technical Assistance
Status: Fully corrected

06-112
CFDA No.: 93.563 Child Support Enforcement Grant
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will implement procedures to ensure that that monthly financial reports are prepared accurately and submitted to the pass-through grantor agency timely.

07-101
CFDA No.: Not applicable
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will improve its financial reporting process so that it can submit its Single Audit Reporting Package by the required deadline.

07-102
CFDA No.: 10.664 Cooperative Forestry Assistance
93.268 Immunization Grants
93.283 Centers for Disease Control and Prevention—Investigations & Technical Assistance
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will establish written policies and procedures to help ensure the proper recording of federal program expenditures in our accounting system and for preparing the SEFA. On July 1, 2008, the County implemented a new chart of accounts to help ensure our account code structure can accommodate the proper recording and reporting of all county transactions. Additionally, in August 2009, the County hired a grant administrator to help ensure the County's SEFA is prepared accurately and submitted timely and that other federal reporting requirements are met.

07-103
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Status: Partially corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will implement procedures to ensure that expenditures for CERs are accurate.

07-104
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4343

The County will work to ensure that established policies and procedures for eligibility determination are followed and that the intake and eligibility determination functions are properly segregated including increased supervisory reviews as necessary. Additionally, a supervisor will ensure that all rights and responsibilities forms are complete, approved, and maintained in the participants' file.

07-105
CFDA No.: 93.283 Centers for Disease Control and Prevention—Investigations & Technical Assistance
Status: Fully corrected

07-106
CFDA No.: 93.283 Centers for Disease Control and Prevention—Investigations & Technical Assistance
Status: Fully corrected

07-107
CFDA No.: 93.283 Centers for Disease Control and Prevention—Investigations & Technical Assistance
Status: Fully corrected