A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Single Audit

Navajo County

Year Ended June 30, 2009

STATE OF ARIZONA
OFFICE OF THE
AUDITOR
GENERAL

Debra K. Davenport
Auditor General

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Navajo County
Single Audit Reporting Package
Year Ended June 30, 2009

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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

MELANIE M. CHESNEY
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, 2009, 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, 2009, 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.

The Management's Discussion and Analysis on pages i through vii, the Budgetary Comparison Schedules on pages 39 through 44, and the Schedule of Agent Retirement Plans' Funding Progress on pages 45 and 46 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 September 30, 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

September 30, 2010, except for the
restatement of the Other Required
Supplementary Information—Budgetary
Comparison Schedules, general fund and
the restatement of Note 2 to describe the
effects and reasons of the restatement,
for which the date is May 6, 2011

Navajo County
Management's Discussion and Analysis
June 30, 2009

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, 2009. 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 $107.8 million (net assets). Of this amount, $15.0 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 $3.1 million in fiscal year 2009.
- At the close of fiscal year 2009, the County's governmental funds reported combined ending fund balances of $38.9 million, a decrease of $4.9 million in comparison with the prior year's balances of $43.8 million. Approximately 90.9 percent of the fund balances, $35.3 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 $7.6 million, or 19.4 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, and conservation. 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 through 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 are 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 through 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 through 12 of this report.*

Notes to the financial statements—The notes to the financial statements provide additional information that is essential to fully understand the data provided in the government-wide and fund financial statements. *The notes to the financial statements can be found on pages 13 through 36 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 38 through 46 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, 2009, compared to the prior year.

	Governmental Activities	
	2009	2008, as restated
Current and other assets	$ 44,391,020	$ 51,613,037
Capital assets	82,838,534	73,463,425
Total assets	127,229,554	125,076,462
Other liabilities	3,345,524	4,495,398
Long-term liabilities outstanding	16,107,326	15,916,090
Total liabilities	19,452,850	20,411,488
Net Assets:		
Invested in capital assets, net of related debt	73,728,006	65,112,686
Restricted	19,040,878	24,374,755
Unrestricted	15,007,820	15,177,533
Total net assets	$107,776,704	$104,664,974

The County's capital assets increased by $9.4 million net of accumulated depreciation or 18.2 percent. The increase was primarily due to $4.7 million of improvements to roads and bridges, $3.0 million in construction in progress, and $3.2 million for construction of a new facility and other improvements and a net decrease in machinery and equipment of $.5 million.

The County's net assets from governmental activities at the end of the fiscal year were $107.8 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, 68.4 percent ($73.7 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.

17.7 percent of the County's net assets ($19.0 million) are subject to external restrictions on how they may be used. The County's restricted net assets decreased by 21.9 percent ($5.3 million) in the current fiscal year due to investment in highways and streets.

The remaining balance of the County's net assets, 13.9 percent ($15.0 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 2009 compared to the prior year:

	Governmental Activities	
	2009	2008, as restated
Program revenues:		
Charges for services	$ 4,360,848	$ 4,448,992
Operating grants and contributions	15,300,801	14,053,207
Capital grants and contributions	12,393,158	12,361,020
Total program revenues	32,054,807	30,863,219
General revenues:		
Property taxes	10,933,578	9,707,389
Sales taxes	6,330,588	7,083,165
State shared revenues	12,017,517	13,302,354
Grants and contributions not restricted to specific programs	6,444,858	3,922,712
Investment earnings	750,742	1,624,746
Gain on disposal of capital assets	23,895	11,971
Miscellaneous	1,466,751	1,207,819
Total general revenues	37,967,929	36,860,156
Total revenues	70,022,736	67,723,375

	Governmental Activities	
	2009	2008, as restated
Program expenses:		
General government	$ 19,392,043	$ 19,503,496
Public safety	19,182,119	17,570,231
Highways and streets	14,058,305	12,960,992
Health and welfare	7,219,915	6,809,907
Culture and recreation	510,035	472,151
Education	5,723,104	5,652,419
Conservation	231,225	234,078
Urban redevelopment and housing	0	5,000
Interest on long-term debt	594,260	349,677
Total program expenses	66,911,006	63,557,951
Change in net assets	3,111,730	4,165,424
Net assets, beginning, as restated	104,664,974	100,499,550
Net assets, ending	$107,776,704	$104,664,974

Overall revenues increased by 3.4 percent and program expenses increased by 5.3 percent in the current fiscal year.

Operating grants and contributions increased by $1.2 million, or 8.9 percent, in the current year due to an increase in grants related to Homeland Security and an intergovernmental agreement with the Navajo Nation.

Property taxes increased by $1.2 million, or 12.6 percent, due to the change in assessed valuation and increase in levy as allowed by statute.

Sales taxes decreased by $0.8 million, or 10.6 percent, due to the poor economic conditions.

State shared revenues decreased by $1.3 million, or 9.7 percent, in the current year due to the recession and general economic downturn in the federal and state economies.

Grants and contributions not restricted to specific programs increased by $2.5 million, or 64.3 percent, in the current year due an increase in Payments in Lieu of Taxes (PILT).

Public safety expenses increased by $1.6 million, or 9.2 percent, in the current fiscal year resulting from increased expenses for the operation of the county jail.

Highways and streets expenses increased by $1.1 million, or 8.5 percent, in the current fiscal year due to the completion of projects and correction of a prior period error related to special assessment districts.

Financial Analysis of the County's Funds

The County reported three major funds for this fiscal year: the General Fund, Public Works/HURF Fund, and Flood Control District Fund. At year-end, the County's governmental funds reported combined fund balances of $38.9 million, which is a decrease of $4.9 million from last year or a change of 11.2 percent. Of the total, $35.3 million constitutes unreserved fund balances.

Revenues for governmental functions overall increased by $2.2 million, an increase of 3.3 percent, and expenditures for governmental functions decreased by about $0.9 million, a decrease of 1.2 percent in the current fiscal year. Governmental function expenditures exceeded revenues by $5.9 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 $7.6 million. Unreserved fund balances represents 19.4 percent of total General Fund expenditures and other financing sources. This ratio indicates a strong fund balance position in comparison to expenditures. The General Fund's unreserved fund balances decreased by $3.4 million over the previous fiscal year primarily due to declining economic conditions and investment in capital assets.

The Public Works/HURF Fund's fund balances decreased by $4.7 million, a decrease of 38.2 percent in the current fiscal year. The primary factor for the decrease was declining revenues and completion of road and bridge projects and reduced spending due to declining economic conditions.

The Flood Control District Fund's fund balance increased by $1.0 million, or 16.3 percent, in the current fiscal year. The primary factor for the increase was due to revenues exceeding expenditures. The County is accumulating financial resources for the future rehabilitation of the Winslow levy and other planned flood control projects.

General Fund Budgetary Highlights

For the General Fund, actual revenues were less than the original and final budget amounts by $1.3 million while the actual expenditures were $14.6 million less than the amount budgeted. The budget variance for expenditures in the General Fund was primarily due to conservative budgeting practices and reduced spending due to declining economic conditions.

Capital outlay expenditures were less than budgeted by $4.7 million, or 61.0 percent, in the current year due the delay of certain budgeted capital projects.

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 $4.0 million to the County's building inventory, $0.7 million to the County's machinery and equipment inventory, and $6.6 million to the County's infrastructure inventory. *Additional information on capital assets can be found in Notes 6 and 7 on pages 24 and 25 of this report.*

Debt Administration

At the end of the current fiscal year, the County had total long-term liabilities outstanding of $16.1 million, which included certificates of participation outstanding of $5.3 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 of special assessment debt with governmental commitment and $2.4 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 25-28 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, 2009

	Governmental Activities
Assets	
Cash and investments	$ 33,278,754
Cash and investments held by trustee	4,034,483
Receivables (net of allowances for uncollectibles):	
Property taxes	637,076
Accrued interest	68,787
Other	37,049
Due from other governments	4,838,573
Inventories	487,598
Prepaid items	355,262
Restricted assets:	
Cash and investments held by trustee	653,438
Capital assets, not being depreciated	11,964,140
Capital assets, being depreciated, net	70,874,394
Total assets	127,229,554
Liabilities	
Accounts payable	1,793,250
Accrued payroll and employee benefits	982,850
Claims payable	550,000
Due to other governments	19,424
Noncurrent liabilities:	
Due within 1 year	2,333,086
Due in more than 1 year	13,774,240
Total liabilities	19,452,850
Net Assets	
Invested in capital assets, net of related debt	73,728,006
Restricted for:	
Highways and streets	7,228,416
Public safety	6,913,257
Debt service	2,016,046
Capital projects	2,883,159
Unrestricted	15,007,820
Total net assets	$ 107,776,704

See accompanying notes to financial statements.

Navajo County
Statement of Activities
Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary government:					
Governmental activities:					
General government	$ 19,392,043	$ 3,473,303	$ 3,719,202		$ (12,199,538)
Public safety	19,182,119	765,083	3,599,091		(14,817,945)
Highways and streets	14,058,305			$ 12,393,158	(1,665,147)
Health and welfare	7,219,915	122,462	2,199,624		(4,897,829)
Culture and recreation	510,035		64,885		(445,150)
Education	5,723,104		5,512,115		(210,989)
Conservation	231,225		205,884		(25,341)
Interest on long-term debt	594,260				(594,260)
Total governmental activities	$ 66,911,006	$ 4,360,848	$ 15,300,801	$ 12,393,158	(34,856,199)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	5,936,682
Property taxes, levied for flood control	2,431,477
Property taxes, levied for public health district	1,930,652
Property taxes, levied for library district	491,711
Property taxes, levied for White Mountain Lake recreation district	143,056
General county sales tax	6,330,588
Shared revenues—state sales tax	9,844,544
Shared revenues—state vehicle license tax	2,172,973
Grants and contributions not restricted to specific programs	6,444,858
Investment earnings	750,742
Gain on disposal of capital assets	23,895
Miscellaneous	1,466,751
Total general revenues	37,967,929
Change in net assets	3,111,730
Net assets, July 1, 2008, as restated	104,664,974
Net assets, June 30, 2009	$ 107,776,704

See accompanying notes to financial statements.

Navajo County
Balance Sheet
Governmental Funds
June 30, 2009

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	$ 6,081,190	$ 6,677,116	$ 6,940,934	$ 11,391,937	$ 31,091,177
Cash and investments held by trustee	2,883,159			1,151,324	4,034,483
Receivables:					
Property taxes	300,178		157,418	179,480	637,076
Accrued interest	9,169	13,806	14,029	30,245	67,249
Other				37,049	37,049
Due from other governments	2,749,201	1,052,786		1,036,586	4,838,573
Due from other funds	6,125			9,937	16,062
Inventories		487,598			487,598
Prepaid items				355,262	355,262
Restricted assets:					
Cash and investments held by trustee				653,438	653,438
Total assets	$ 12,029,022	$ 8,231,306	$ 7,112,381	$ 14,845,258	$ 42,217,967
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 685,829	$ 594,572	$ 48,374	$ 464,475	$ 1,793,250
Accrued payroll and employee benefits	641,130	120,327	4,943	216,450	982,850
Due to other governments	19,424				19,424
Due to other funds	9,926	11		6,125	16,062
Deferred revenue	239,339		121,809	145,263	506,411
Total liabilities	1,595,648	714,910	175,126	832,313	3,317,997
Fund balances:					
Reserved for:					
Inventories		487,598			487,598
Capital projects	2,883,159				2,883,159
Debt service				192,043	192,043
Unreserved, reported in:					
General fund	7,550,215				7,550,215
Special revenue funds		7,028,798	6,937,255	11,996,899	25,962,952
Debt service funds				1,824,003	1,824,003
Total fund balances	10,433,374	7,516,396	6,937,255	14,012,945	38,899,970
Total liabilities and fund balances	$ 12,029,022	$ 8,231,306	$ 7,112,381	$ 14,845,258	$ 42,217,967

See accompanying notes to financial statements.

Navajo County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2009

Fund balances—total governmental funds	$ 38,899,970
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.	82,838,534
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	506,411
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.	1,639,115
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.	(16,107,326)
Net assets of governmental activities	$ 107,776,704

See accompanying notes to financial statements.

Navajo County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	$ 5,783,795		$ 2,431,477	$ 2,565,420	$ 10,780,692
Licenses and permits	445,396			67,685	513,081
Fines and forfeits	1,035,910			527,472	1,563,382
Intergovernmental	25,175,294	$ 12,036,840		14,892,554	52,104,688
Charges for services	1,021,494			1,262,890	2,284,384
Investment earnings	186,681	209,592	130,627	223,841	750,741
Special assessments				356,318	356,318
Contributions				25,916	25,916
Miscellaneous	572,995	379,345	562	513,849	1,466,751
Total revenues	34,221,565	12,625,777	2,562,666	20,435,945	69,845,953
Expenditures:					
Current:					
General government	19,737,802			2,422,405	22,160,207
Public safety	12,853,146		1,478,574	4,072,013	18,403,733
Highways and streets		16,744,140		1,034,714	17,778,854
Health and welfare	3,034,648			4,039,673	7,074,321
Culture and recreation				501,738	501,738
Education	319,195			5,195,952	5,515,147
Conservation				231,225	231,225
Debt service:					
Principal				487,701	487,701
Interest and other charges				594,260	594,260
Capital outlay	3,030,157				3,030,157
Total expenditures	38,974,948	16,744,140	1,478,574	18,579,681	75,777,343
Excess (deficiency) of revenues over expenditures	(4,753,383)	(4,118,363)	1,084,092	1,856,264	(5,931,390)

(Continued)

See accompanying notes to financial statements.

Navajo County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009
(Continued)

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Other financing sources (uses):					
Capital lease agreements				$ 6,846	$ 6,846
Sale of capital assets	$ 23,895				23,895
Transfers in	1,242,656	$ 129,509		931,847	2,304,012
Transfers out	(977,270)	(648,544)	$ (109,302)	(568,896)	(2,304,012)
Total other financing sources and uses	289,281	(519,035)	(109,302)	369,797	30,741
Net change in fund balances	(4,464,102)	(4,637,398)	974,790	2,226,061	(5,900,649)
Fund balances, July 1, 2008, as restated	14,897,476	12,166,899	5,962,465	11,786,884	44,813,724
Decrease in reserve for inventories		(13,105)			(13,105)
Fund balances, June 30, 2009	$ 10,433,374	$ 7,516,396	$ 6,937,255	$ 14,012,945	$ 38,899,970

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, 2009

Net change in fund balances—total governmental funds		$ (5,900,649)
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	$ 14,378,062	
Depreciation expense	(5,002,953)	9,375,109
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		152,887
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	(6,846)	
Principal repaid	487,701	480,855
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	(672,815)	
Decrease in landfill closure and postclosure care costs	724	(672,091)
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.		
Decrease in inventories		(13,105)
The internal service fund accounts for self-insured employee benefits provided to county departments on a cost-reimbursement basis. The net expense of the internal service fund is reported with governmental activities in the Statement of Activities.		(311,276)
Change in net assets of governmental activities		$ 3,111,730

See accompanying notes to financial statements.

Navajo County
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Governmental Activities— Internal Service Fund
Assets	
Current assets:	
Cash and investments	$ 2,187,577
Accrued interest receivable	1,538
Total current assets	2,189,115
Total assets	2,189,115
Liabilities	
Current liabilities:	
Claims payable	550,000
Total current liabilities	550,000
Total liabilities	550,000
Net Assets	
Unrestricted	1,639,115
Total net assets	$ 1,639,115

See accompanying notes to financial statements.

Navajo County
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2009

	Governmental Activities— Internal Service Fund
Operating revenues:	
Charges for services—insurance premiums	$ 4,842,131
Total operating revenues	4,842,131
Operating expenses:	
Medical and dental claims and services	4,418,252
Insurance premiums	337,160
Claims administration	324,578
General operating	126,840
Total operating expenses	5,206,830
Operating loss	(364,699)
Nonoperating revenues:	
Investment earnings	10,611
Miscellaneous revenue	42,812
Total nonoperating revenues	53,423
Decrease in net assets	(311,276)
Net assets, July 1, 2008	1,950,391
Net assets, June 30, 2009	$ 1,639,115

See accompanying notes to financial statements.

Navajo County
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2009

	Governmental Activities— Internal Service Fund
Cash flows from operating activities:	
Receipts from other funds for insurance premiums	$ 4,842,131
Payments to suppliers and providers of goods and services	(5,079,830)
Net cash used for operating activities	(237,699)
Cash flows from noncapital financing activities:	
Other receipts	42,812
Net cash provided by noncapital financing activities	42,812
Cash flows from investing activities:	
Interest received on investments	14,270
Net cash provided by investing activities	14,270
Net decrease in cash and cash equivalents	(180,617)
Cash and cash equivalents, July 1, 2008	2,368,194
Cash and cash equivalents, June 30, 2009	$ 2,187,577
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (364,699)
Changes in assets and liabilities:	
Claims payable	127,000
Net cash used for operating activities	$ (237,699)

See accompanying notes to financial statements.

Navajo County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	Investment Trust Funds	Agency Funds
Assets		
Cash and investments	$ 87,667,178	$ 13,124,968
Interest receivable	273,987	25,327
Total assets	87,941,165	$ 13,150,295
Liabilities		
Due to other governments		$ 12,514,076
Deposits held for other parties		636,219
Total liabilities		$ 13,150,295
Net Assets		
Held in trust for investment trust participants	$ 87,941,165	

See accompanying notes to financial statements.

Navajo County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2009

	Investment Trust Funds
Additions:	
Contributions from participants	$ 231,002,476
Net investment income	1,764,901
Total additions	232,767,377
Deductions:	
Distributions to participants	230,177,758
Change in net assets	2,589,619
Net assets, July 1, 2008	85,351,546
Net assets, June 30, 2009	$ 87,941,165

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, 2009, the County implemented the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* GASB Statement No. 49 establishes standards for accounting and financial reporting, including note disclosure requirements, for pollution remediation obligations. The implementation of this Statement did not have a material effect on the County's financial statements.

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
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

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
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
White Mountain Lake Recreation District	A tax-levying district that provides for recreational services for the White Mountain Lake Community; 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
Navajo County Special Assessment Districts	Legally separate entities that provide improvements to various properties within the County; the County's Board of Supervisors serves as the board of directors	Blended	Not available

The Navajo County Municipal Property Corporation was formed to finance the construction of the Navajo County Jail Facility. Because the County's Board of Supervisors serves as the Board of Directors for 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, including special assessments.

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 carryforward 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 service will receive a partial sick leave payment, not to exceed $5,000, 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, 2008, the County restated net assets of Governmental Activities to correct prior years' errors related to capital assets and special assessment districts. Beginning net assets/fund balances were adjusted, as follows:

	Government-Wide Statements	Fund Statements
	Governmental Activities	Other Governmental Funds
Net assets/fund balances as of June 30, 2008, as previously reported	$102,198,367	$10,794,655
To record capital assets, net of accumulated depreciation	3,408,363	
To reclassify special assessment districts	(941,756)	992,229
Net assets/fund balances as of July 1, 2008, as restated	$104,664,974	$11,786,884

Note 3 - Stewardship, Compliance, and Accountability

Deficit fund balances—At June 30, 2009, certain funds reported deficit fund balances, which violate state statutes. The following funds had fund deficits in excess of $20,000:

Fund	Deficit
Governmental funds:	
WIC – Women, Infants & Children	$137,355
Pledged Revenue Obligations	122,583
Navajo County Grant Reserve	110,248
County JP Ordinance	107,004
WIA FY09	96,300

Fund	Deficit
WIA Stimulus	$ 67,152
IT Communications	67,089
Drug Enforcement	65,029
Smoke Free Arizona	63,347
HOME Housing Rehabilitation	63,287
WIA PY08	62,550
Reservation Roads	57,240
Library Maintenance & Repair	50,128
FTG State – Superior Courts	38,670
FTG State – Public Defender	38,595
Teen Pregnancy Prevention	28,222
ODP Homeland Security	24,393

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 deposits have a maximum maturity of 5 years and that public operating fund monies invested in securities and deposits 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, 2009, the carrying amount of the County's deposits was $1,501,768 and the bank balance was $3,306,727. The County's formal policy is to follow collateralization requirements set forth in A.R.S. §35-323 as described above.

In October 2008, the FDIC's Board of Directors authorized the publication in the federal register (73 FR 64179) of an interim rule that outlined the structure of a new program called the Temporary Liquidity Guarantee Program (TLGP). This program was designed to assist in the stabilization of the nation's financial system. Under the Transaction Account Guarantee program, a component of the TLGP, the FDIC guarantees all monies held in qualifying noninterest-bearing transaction accounts at participating insured depository institutions. Therefore, as of June 30, 2009, no cash in bank balance was uninsured and uncollateralized. On November 26, 2008, the final rule was published in the Federal Register (73 FR 72244). Effective October 1, 2009, an amendment to 12 CFR 370, in part, extended the TAG program for 6 months until June 30, 2010.

Investments—The County's investments at June 30, 2009, were as follows:

Investment Type	Amount
U.S. agency securities	$103,439,680
Repurchase agreements	21,071,407
Corporate bonds	4,999,425
Bank notes	3,000,000
U.S. Treasury money market funds	4,692,921
	$137,203,433

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, 2009, credit risk for the County's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard and Poor's	$103,439,680
Repurchase agreements	Aaa	Moody's	21,071,407
Corporate bonds	AAA	Standard and Poor's	4,999,425
Bank notes	AAA	Standard and Poor's	3,000,000
U.S. Treasury money market funds	AAAm	Standard and Poor's	4,692,921
			$137,203,433

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, 2009, the County had $4,687,921 of Treasury money market funds that were uninsured and held by the counterparty not in the County's name and $21,071,407 of repurchase agreements (secured by federal agency securities) 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, 2009, of 5 percent or more in Federal Home Loan Bank (including repurchase agreements), Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. These investments were 57.58 percent, 25.29 percent, and 5.46 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, 2009, the County had the following investments in debt securities:

Investment	Amount	Weighted Average Maturity (In Years)
U.S. agency securities	$103,439,680	1.009
Repurchase agreements	21,071,407	.003
Corporate bonds	4,999,425	1.523
Bank notes	3,000,000	2.923
U.S. Treasury money market funds	4,692,921	.151
	$137,203,433	

At June 30, 2009, $12,495,000 of the investments in U.S agency securities and $3,000,000 of investments in bank notes were considered to be highly sensitive to interest rate changes:

U.S. agency step-up securities—On specified dates, the issuer can call the security. If the security is not called, the interest rate is increased by a specified amount. Prevailing interest rates may increase faster than the increase in the coupon interest rate.	$ 9,995,000
U.S. agency floating rate security—The coupon rate is tied to the London Interbank Offered Rate (LIBOR) plus a fixed basis point amount that resets quarterly. The issuer can call the security on a specified date, or if the security is not called, the interest rate is reset at a specified amount. Prevailing interest rates may increase faster than the increase in the coupon interest rate.	2,500,000
Bank note floating rate security—The coupon rate is tied to the LIBOR plus a fixed basis point amount that resets quarterly. The issuer can call the security on a specified date, or if the security is not called, the interest rate is reset at a specified amount. Prevailing interest rates may increase faster than the increase in the coupon interest rate.	3,000,000
Total	$15,495,000

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

Cash, deposits, and investments:

Cash on hand	$ 53,620
Amount of deposits	1,501,768
Amount of investments	137,203,433
Total	$138,758,821

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and investments	$33,278,754	$87,667,178	$13,124,968	$134,070,900
Cash and investments held by trustee	4,034,483			4,034,483
Restricted assets—cash and investments held by trustee	653,438			653,438
Total	$37,966,675	$87,667,178	$13,124,968	$138,758,821

Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2009, include $1,799,506 in state and county sales taxes, $452,676 in vehicle license taxes from the State of Arizona, $734,436 in state-shared revenue from highway user taxes, and $1,851,955 in various grants from the state and federal governments.

Note 6 - Capital Assets

On July 1, 2008, the County restated net assets of Governmental Activities to correct prior years' errors related to capital assets, as presented in the restated July 1, 2008, capital asset balances below. See Note 2 for more information on the beginning balances restatement. Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance July 1, 2008, as restated	Increases	Decreases	Balance June 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 5,439,671			$ 5,439,671
Construction in progress	3,494,427	$ 5,216,741	$2,186,699	6,524,469
Total capital assets not being depreciated	8,934,098	5,216,741	2,186,699	11,964,140
Capital assets being depreciated:				
Buildings and improvements	28,363,647	3,989,579		32,353,226
Infrastructure	66,410,798	6,631,315		73,042,113
Machinery and equipment	24,727,552	727,126	171,068	25,283,610
Total	119,501,997	11,348,020	171,068	130,678,949
Less accumulated depreciation for:				
Buildings and improvements	12,061,724	780,292		12,842,016
Infrastructure	25,957,030	1,949,816		27,906,846
Machinery and equipment	16,953,916	2,272,845	171,068	19,055,693
Total	54,972,670	5,002,953	171,068	59,804,555
Total capital assets being depreciated, net	64,529,327	6,345,067		70,874,394
Governmental activities capital assets, net	$ 73,463,425	$11,561,808	$2,186,699	$ 82,838,534

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	$ 860,114
Public safety	1,106,783
Highways and streets	2,648,578
Health and welfare	127,034
Culture and recreation	6,474
Education	253,970
Total governmental activities depreciation expense	$5,002,953

Note 7 - Construction and Other Significant Commitments

The County had major contractual commitments related to various capital projects at June 30, 2009, for the construction of roads and bridges. At June 30, 2009, the County had spent $6,524,469 on these projects and had remaining contractual commitments with contractors of $7,468,783. These projects are being primarily financed through the Public Works/HURF Fund and revenue bond monies.

Note 8 - Long-Term Liabilities

On July 1, 2008, the County restated net assets of Governmental Activities to correct prior years' errors related to special assessment districts and the districts' long term liabilities, as presented in the restated July 1, 2008, balances below. See Note 2 for more information on the beginning balances restatement. The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2009:

	Balance July 1, 2008, as restated	Additions	Reductions	Balance June 30, 2009	Due within 1 year
Governmental activities					
Revenue bonds payable	$ 6,600,000			$ 6,600,000	$ 335,000
Certificates of participation payable	5,635,000		$ 295,000	5,340,000	310,000
Special assessment debt with governmental commitment	1,868,235		166,022	1,702,213	125,022
Capital lease payable	73,520	$ 6,846	26,679	53,687	28,309
Landfill closure and post-closure care costs payable	12,315		724	11,591	724
Compensated absences payable	1,727,020	2,206,846	1,534,031	2,399,835	1,534,031
Total governmental activities long-term liabilities	$15,916,090	$2,213,692	$2,022,456	$16,107,326	$2,333,086

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, to 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, 2009, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Navajo County Pledged Revenue Obligations, Series 2008	$6,600,000	2010 – 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, 2009:

	Governmental Activities	
	Principal	Interest
Year ending June 30		
2010	$ 335,000	$ 240,573
2011	350,000	228,585
2012	370,000	215,985
2013	380,000	202,860
2014	385,000	189,473
2015-19	2,175,000	728,657
2020-24	2,605,000	273,133
Total	$6,600,000	$2,079,266

The County has pledged a portion of its general county sales tax revenues toward the payment of debt related to revenue bonds outstanding at June 30, 2009. 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 improvements to the water facility and electrical system at the county complex. At June 30, 2009, pledged revenues totaled $8,679,266, consisting of $6,600,000 for principal and $2,079,266 for interest. The amount of $131,432, or 1.51 percent of total pledged revenues, was required to cover current-year debt service. Future principal and interest payments are expected to require less than 4% of pledged sales tax revenues. Future pledged revenues required to pay all remaining debt service for revenue bonds through final maturity at July 1, 2024, is $8,679,266.

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, 2009, 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	2010 – 2021	5.00 – 6.25%	$5,340,000

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2009:

	Governmental Activities	
	Principal	Interest
Year ending June 30		
2010	$ 310,000	$ 316,031
2011	330,000	298,031
2012	355,000	278,100
2013	375,000	256,200
2014	400,000	232,950
2015-19	2,385,000	758,269
2020-21	1,185,000	75,469
Total	$5,340,000	$2,215,050

Special assessment debt with governmental commitment—Special assessment bonds are payable from assessments collected from property owners benefited by the respective improvements. The special assessment districts pledged these assessments to repay the principal amount of $ 2,103,874 in special assessment bonds. The proceeds were used to finance the construction or improvement of roads, water and wastewater systems, and community facilities. Total principal and interest remaining to be paid on these bonds is $2,198,261, payable through July 2019. At June 30, 2009, pledged revenues totaled $2,198,261, consisting of $1,702,213 for principal and $496,048 for interest. The amount of $276,349, or 78 percent of total pledged revenues, was required to cover current-year debt service. Future principal and interest payments are expected to require 100 percent of pledged special assessment revenues. Future pledged revenues required to pay all remaining debt service for special assessment debt through final maturity at July 1, 2019, is $2,198,261. While there is no legal obligation for the County to further secure the special assessment bonds of the districts below, the County has made a moral commitment to take steps necessary to prevent default.

Special assessment bonds currently outstanding for governmental activities are as follows:

Description	Amount of issue	Interest rates	Maturity dates	Outstanding at June 30, 2009
Sutter Drive	$ 245,750	5.50%	07/06 – 07/16	$ 149,784
Scott's Pine Tract A	184,124	6.17%	07/07 – 07/17	108,126
Shumway Road	1,150,000	5.40%	1/07 – 7/17	920,303
Bucking Horse	524,000	5.75%	01/09 – 07/19	524,000
Total	$2,103,874			$1,702,213

Annual debt service requirements to maturity for the special assessment debt with governmental commitment are as follows:

	Governmental Activities	
	Principal	Interest
Year ending June 30		
2010	$ 125,022	$ 94,237
2011	167,799	86,196
2012	288,962	93,952
2013	79,635	49,524
2014	200,798	56,182
2015-19	839,997	115,957
Total	$1,702,213	$496,048

Compensated absences—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2009, the County paid for compensated absences as follows: 65 percent from the General Fund, 12 percent from the Public Works/HURF Fund, 1 percent from the Flood Control District Fund, and 22 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 $300 million per occurrence for property claims and $15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. 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 in any of the past 3 fiscal years. The Trust was reimbursed $131,262, $116,219, and $36,843 for the years ended June 30, 2009, 2008, and 2007, respectively, for amounts exceeding the stop-loss reinsurance maximums.

The insurance claims payable liability of the Trust totaling $550,000 at June 30, 2009, is the estimated ultimate cost of settling claims that have been reported but not settled, and 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, 2009 and 2008, were as follows:

	2009	2008
Claims payable, beginning of year	$ 423,000	$ 686,000
Current-year claims and changes in estimates	4,418,252	2,951,641
Claim payments	(4,291,252)	(3,214,641)
Claims payable, end of year	$ 550,000	$ 423,000

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 $81,351 for the year ended June 30, 2009. The operating leases have remaining noncancelable terms from 1 to 13 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2009, were as follows:

	Governmental Activities
Year ending June 30	
2010	$ 53,302
2011	37,965
2012	24,600
2013	24,600
2014	24,600
2015 – 2019	123,000
2020 – 2022	73,800
Total minimum lease payments	$361,867

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 towards the retiree's healthcare insurance premiums, in amounts based on whether the benefit is for the retiree or for the retiree and his or her dependents.

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

The *Public Safety Personnel Retirement System* (PSPRS) administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium plan that covers public safety personnel who are regularly assigned hazardous duty as employees of the State of Arizona 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
3300 North Central Avenue
P.O. Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000 or 1-800-621-3778

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

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

Cost-sharing plans—For the year ended June 30, 2009, active ASRS members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 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 9.45 percent (7.99 percent for retirement, 0.96 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:

Year ended June 30	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2009	$1,478,102	$177,573	$92,498
2008	1,402,691	182,620	87,106
2007	1,320,765	183,603	84,476

Agent plans—For the year ended June 30, 2009, 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 23.62 percent, the aggregate of which is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.89 percent of covered payroll. Active CORP members were required by statute to contribute 7.96 percent of the members' annual covered payroll except that, beginning in October 2008, all non-dispatcher members were required to contribute 8.41 percent. In addition, the County was required to contribute 6.12 percent. The aggregate of the members' and the County's contributions is the actuarially required amount. The health insurance premium portion of the contribution rate was actuarially set at 0.48 percent of covered payroll. Active EORP members were required by statute to contribute 7.00 percent of the members' annual covered payroll; and the County was required to remit a designated portion of certain court fees plus additional contributions at the actuarially determined rate of 21.21 percent of the members' annual covered payroll through September 2008 and 14.05 percent of the members' annual covered payroll for October 2008 through June 2009. The health insurance premium portion of the contribution rate was actuarially set at 0.91 percent of covered payroll.

Actuarial methods and assumptions—The contribution requirements for the year ended June 30, 2009, were established by the June 30, 2007, 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 2009 contribution requirements, are as follows:

Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	29 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, 2009, and related information follows:

	PSPRS		CORP		EORP	
	Pension	Health Insurance	Pension	Health Insurance	Pension	Health Insurance
Annual pension/ OPEB costs	$475,483	$18,618	$108,232	$9,207	$252,214	$14,585
Contributions made	475,483	18,618	108,232	9,207	252,214	14,585

Trend Information—Annual pension and OPEB cost information for the current and 2 preceding years follows for each of the agent plans. Separately reported OPEB cost information for the last year of the required trend information will be reported next year when it becomes available.

Plan	Year Ended June 30	Annual Pension/OPEB Cost	Percentage of Annual Cost Contributed	Net Pension/OPEB Obligation
PSPRS				
Pension	2009	$475,483	100%	$0
Health insurance	2009	18,618	100%	0
Pension	2008	334,908	100%	0
Health insurance	2008	11,838	100%	0
Pension and health insurance	2007	254,553	100%	0
CORP				
Pension	2009	108,232	100%	0
Health insurance	2009	9,207	100%	0
Pension	2008	68,860	100%	0
Health insurance	2008	8,514	100%	0
Pension and health insurance	2007	69,119	100%	0
EORP				
Pension	2009	252,214	100%	0
Health insurance	2009	14,585	100%	0
Pension	2008	178,061	100%	0
Health insurance	2008	15,858	100%	0
Pension and health insurance	2007	157,576	100%	0

Funded Status—The funded status of the plans as of the most recent valuation date, June 30, 2009, 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)	$10,930,809	$272,996	$2,363,977	$115,931
Actuarial value of assets (b)	6,326,218	0	2,583,339	0
Unfunded actuarial accrued liability (funding excess) (a) – (b)	4,604,591	272,996	(219,362)	115,931
Funded ratio (b)/(a)	57.9%	0.0%	109.3%	0.0%
Covered payroll (c)	$2,098,902	$2,098,902	$1,955,474	$1,955,474
Unfunded actuarial accrued liability (funding excess) as a percentage of covered payroll ([(a)- (b)]/(c))	219.4%	13.01%	0.0%	5.93%

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, 2009
Actuarial cost method	Projected unit credit
Amortization method	Level percent closed for unfunded actuarial accrued liability, open for excess
Remaining amortization period	27 years for unfunded actuarial accrued liability, 20 years for excess
Asset valuation method	7-year smoothed market value
Actuarial assumptions:	
Investment rate of return	8.50%
Projected salary increases	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 Balances and Activity

Interfund transfers—Interfund transfers for the year ended June 30, 2009, were as follows:

	Transfers to			
Transfer from	General Fund	Public Works/HURF Fund	Other Governmental Funds	Total
General Fund		$ 61,967	$915,303	$ 977,270
Public Works/HURF Fund	$ 632,000		16,544	648,544
Flood Control District Fund	108,213	1,089		109,302
Other Governmental Funds	502,443	66,453		568,896
Total	$1,242,656	$129,509	$931,847	$2,304,012

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 the fair value of those pooled investments annually at June 30.

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

The Treasurer allocates interest earnings to each of the pool's participants.

Substantially, all deposits and investments of the County's primary government are included in the County Treasurer's investment pool, except for $1,919,140 in deposits and $4,687,921 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	Amount
U.S. agency securities	$103,439,680	.14% - 5.14%	07/09 – 05/14	$103,439,680
Repurchase agreements	21,071,407	.10%	07/09	21,071,407
Corporate bonds	4,999,425	1.63%	01/11	4,999,425
Bank notes	3,000,000	Variable	06/12	3,000,000
U.S. Treasury money market funds	5,000	.02%	N/A	5,000

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

Statement of Net Assets	
Assets	$132,466,241
Net assets	$132,466,241
Net assets held in trust for:	
Internal participants	$ 44,525,076
External participants	87,941,165
Total net assets held in trust	$132,466,241
Statement of Changes in Net Assets	
Total additions	$320,716,044
Total deductions	324,779,287
Net decrease	(4,063,243)
Net assets held in trust:	
July 1, 2008	136,529,484
June 30, 2009	$132,466,241

Note 14 - Subsequent Event

On July 1, 2009, Navajo County joined the Verde Valley Employee Benefit Pool (VVEPB), which is a consortium of participating local governments that provides medical and dental insurance coverage to its participants' employees. Consequently, as of June 30, 2009, the County terminated the Navajo County Employee Benefit Trust (NCEBT), which had been created to provide and administer a self-insured program for employee health and medical benefits. However, during fiscal year 2010, the County will continue to pay the NCEBT's liabilities for reported but unpaid claims and for claims incurred prior to July 1, 2009, but not reported.

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Other Required Supplementary Information

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule (Restated, see Note 2)
General Fund
Year Ended June 30, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Property taxes	$ 5,830,607	$ 5,783,795	$ (46,812)
Licenses and permits	1,053,320	445,396	(607,924)
Fines and forfeits	1,024,194	1,035,910	11,716
Intergovernmental	25,765,805	25,175,294	(590,511)
Charges for services	998,316	1,021,494	23,178
Investment earnings	316,099	186,681	(129,418)
Miscellaneous	580,568	572,995	(7,573)
Total revenues	35,568,909	34,221,565	(1,347,344)
Expenditures:			
General government			
Board of supervisors	564,671	559,220	5,451
Administration	2,614,000	2,242,209	371,791
Buildings and grounds	2,016,208	1,858,884	157,324
Elections	632,163	504,068	128,095
Planning and zoning	1,009,532	563,743	445,789
Recorder	286,497	222,335	64,162
Voter registration	197,830	143,920	53,910
Assessor	1,279,006	1,195,607	83,399
Information technology	1,083,074	805,669	277,405
Treasurer	483,516	416,495	67,021
Personnel commission	19,413	12,486	6,927
Miscellaneous	2,087,795	1,612,099	475,696
Legal defender	399,552	385,503	14,049
County attorney	2,649,680	2,435,385	214,295
Superior court	2,669,939	2,739,189	(69,250)
Public defender	1,090,357	965,364	124,993
Clerk of court	1,294,952	1,112,973	181,979
Holbrook justice court	332,581	331,825	756
Winslow justice court	317,465	323,039	(5,574)
Snowflake justice court	374,916	370,049	4,867
Show Low justice court	284,433	276,461	7,972
Pinetop justice court	342,640	336,100	6,540
Kayenta justice court	113,441	110,948	2,493

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule (Restated, see Note 2)
General Fund
Year Ended June 30, 2009
(Continued)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Kayenta constable	$ 28,880	$ 27,286	$ 1,594
Pinetop constable	48,703	48,535	168
Snowflake constable	28,880	31,022	(2,142)
Holbrook constable	28,880	27,573	1,307
Winslow constable	28,980	30,366	(1,386)
Show Low constable	48,103	49,449	(1,346)
Total general government	22,356,087	19,737,802	2,618,285
Public safety			
Juvenile detention	1,107,132	1,051,801	55,331
Juvenile probation	497,165	440,003	57,162
Adult probation	614,137	544,463	69,674
Sheriff	12,697,064	10,816,879	1,880,185
Total public safety	14,915,498	12,853,146	2,062,352
Health and welfare			
Public fiduciary	447,795	386,094	61,701
Indigent health	3,285,500	2,648,554	636,946
Total health and welfare	3,733,295	3,034,648	698,647
Education			
School superintendent	321,171	319,195	1,976
Capital outlay			
Capital outlay	2,400,000	66,784	2,333,216
Construction projects	5,366,074	2,963,373	2,402,701
Total capital outlay	7,766,074	3,030,157	4,735,917
Contingency	4,500,000	-	4,500,000

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule (Restated, see Note 2)
General Fund
Year Ended June 30, 2009
(Continued)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Total expenditures	$ 53,592,125	$ 38,974,948	$ 14,617,177
Excess (deficiency) of revenues over expenditures	(18,023,216)	(4,753,383)	13,269,833
Other financing sources (uses):			
Sale of capital assets		23,895	23,895
Transfers in	678,000	1,242,656	564,656
Transfers out	(1,435,575)	(977,270)	458,305
Total other financing sources and uses	(757,575)	289,281	1,046,856
Net change in fund balances	(18,780,791)	(4,464,102)	14,316,689
Fund balances, July 1, 2008	18,780,791	14,897,476	(3,883,315)
Fund balances, June 30, 2009	$ -	$ 10,433,374	$ 10,433,374

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule
Public Works/HURF Fund
Year Ended June 30, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Intergovernmental	$ 10,870,000	$ 12,036,840	$ 1,166,840
Investment earnings	350,000	209,592	(140,408)
Miscellaneous	610,000	379,345	(230,655)
Total revenues	11,830,000	12,625,777	795,777
Expenditures:			
Highways and streets	26,296,932	16,744,140	9,552,792
Total expenditures	26,296,932	16,744,140	9,552,792
Excess (deficiency) of revenues over expenditures	(14,466,932)	(4,118,363)	10,348,569
Other financing sources (uses):			
Transfers in		129,509	129,509
Transfers out	(678,000)	(648,544)	29,456
Total other financing sources and uses	(678,000)	(519,035)	158,965
Net change in fund balances	(15,144,932)	(4,637,398)	10,507,534
Fund balances, July 1, 2008	15,144,932	12,166,899	(2,978,033)
Decrease in reserve for inventories	-	(13,105)	(13,105)
Fund balances, June 30, 2009	$ -	$ 7,516,396	$ 7,516,396

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Budgetary Comparison Schedule
Flood Control District Fund
Year Ended June 30, 2009

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Property taxes	$ 1,809,145	$ 2,431,477	$ 622,332
Investment earnings	107,500	130,627	23,127
Miscellaneous		562	562
Total revenues	1,916,645	2,562,666	646,021
Expenditures:			
Current:			
Public safety	7,655,010	1,478,574	6,176,436
Total expenditures	7,655,010	1,478,574	6,176,436
Excess (deficiency) of revenues over expenditures	(5,738,365)	1,084,092	6,822,457
Other financing sources (uses):			
Transfers out	-	(109,302)	(109,302)
Total other financing sources and uses	-	(109,302)	(109,302)
Net change in fund balances	(5,738,365)	974,790	6,713,155
Fund balances, July 1, 2008	5,738,365	5,962,465	224,100
Fund balances, June 30, 2009	$ -	$ 6,937,255	$ 6,937,255

See accompanying notes to budgetary comparison schedule.

Navajo County
Required Supplementary Information
Notes to Budgetary Comparison Schedules (Restated, see Note 2)
June 30, 2009

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Restatement of General Fund Budgetary Comparison Schedule

The County restated its budgetary comparison schedules for the General Fund to include various budget accounts of the General Fund that were inadvertently omitted from the original schedule. Therefore, the budget amounts previously reported were understated. Additionally, the County restated its schedule to correctly classify amounts for Jail Operations in the Sheriff's Office because these operations are budgeted as part of the Sheriff's Office. As a result, the unfavorable budget variance previously reported for the Sheriff's Office was eliminated. The following summarizes the changes made to the previously reported schedule as a result of this restatement:

	Original and Final Budgeted Amounts, as Previously Reported	Adjustments	Original and Final Budgeted Amounts, as Restated
Revenues:			
Intergovernmental	$25,514,994	$250,811	$25,765,805
Charges for services	997,766	550	998,316
Investment earnings	300,263	15,836	316,099
Miscellaneous	305,380	275,188	580,568
Expenditures:			
General government			
Administration	1,835,607	778,393	2,614,000
Information technology	774,594	308,480	1,083,074
Personnel commission		19,413	19,413
County attorney	2,098,368	551,312	2,649,680
Public safety			
Jail operations	7,576,223	(7,576,223)	
Sheriff	4,999,399	7,697,665	12,697,064
Fund balances, July 1, 2008	17,544,136	1,236,655	18,780,791

For the year ended June 30, 2009, the County had no expenditures that exceeded final budget amounts at the department level (the legal level of budgetary control), except for the Superior Court, Winslow Justice Court, and Constables for Snowflake, Winslow, and Show Low, as reported in the restated General Fund Budgetary Comparison Schedule. These budget variances were due to unanticipated judicial expenditures. The Finance Department will continue to work with departments to improve the budget's accuracy and improve budgetary control.

Navajo County
Required Supplementary Information
Schedule of Agent Retirement Plans' Funding Progress
June 30, 2009

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 6/30/09	$6,326,218	$10,930,809	$(4,604,591)	57.9	$2,098,902	219.4%
Health Insurance 6/30/09	0	272,996	(272,996)	0.0	2,098,902	13.01
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

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 6/30/09	$2,583,339	$2,363,977	$219,362	109.3%	$1,955,474	N/A
Health Insurance 6/30/09	0	115,931	(115,931)	0.0	1,955,474	5.93
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

Navajo County
Required Supplementary Information
Notes to Schedule of Agent Retirement Plans' Funding Progress
June 30, 2009

Note 1 - Actuarial Information Available

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

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Supplementary Information

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

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	HG861085	$ 347,356
SNAP Cluster:			
State Administrative Matching Grants for Supplemental Nutrition Assistance Program, passed through the Arizona Department of Health Services	10.561	HG661039	102,233
Total SNAP Cluster			102,233
Cooperative Forestry Assistance, passed through the Arizona State Land Department	10.664	SFA 5-5, SFA 5009, SFA 08-003	157,639
Schools and Roads Cluster:			
Schools and Roads—Grants to States	10.665		841,532
Total Schools and Roads Cluster			841,532
Total U.S. Department of Agriculture			1,448,760
U.S. Department of Housing and Urban Development			
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii, passed through the Arizona Department of Housing	14.228	153-08, 155-08	133,732
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		1,922,495
Distributions of Receipts to State and Local Governments	15.227		7,487
National Fire Plan—Wildland Urban Interface Community Fire Assistance, passed through the Arizona State Land Department	15.228	WWP 02	12,375
Total U.S. Department of the Interior			1,942,357
U.S. Department of Justice			
Federal Equitable Sharing Agreement	16.unknown		55,672
Domestic Cannabis Eradication/Suppression Program	16.unknown		2,745
Crime Victim Assistance, passed through the Arizona Department of Public Safety	16.575	2007-402	36,175
Crime Victim Compensation, passed through the Arizona Criminal Justice Commission	16.576	VC-08-058	18,468
Public Safety Partnership and Community Policing Grants, passed through the Office of Community Oriented Policing Services	16.710	2006CKWX0433	38,803
Edward Byrne Memorial Justice Assistance Grant Program, passed through the Arizona Criminal Justice Commission	16.738	DC-09-014, DC-09-025	85,798
Total U.S. Department of Justice			237,661
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, E5706009	188,737
ARRA—WIA Adult Program, passed through the Arizona Department of Economic Security	17.258	DE091202001	595
WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE070300001, DE081032001, E5706009	183,681
ARRA—WIA Youth Activities, passed through the Arizona Department of Economic Security	17.259	DE091202001	66,431

(Continued)

See accompanying notes to schedule.

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE070300001, DE081032001, E5706009	$ 70,451
ARRA—WIA Dislocated Workers, passed through the Arizona Department of Economic Security	17.260	DE091202001	125
Total WIA Cluster			510,020
Total U.S. Department of Labor			510,020
U.S. Department of Transportation			
Reservation Roadway Maintenance, passed through the Arizona Department of Transportation	20.unknown	KR06-00664TRN, JPA 06-017T	142,626
Highway Planning and Construction Cluster:			
Highway Planning and Construction, passed through the Arizona Department of Transportation	20.205	JPA08-008T	161,117
Total Highway Planning and Construction Cluster			161,117
Interagency Hazardous Materials Public Sector Training and Planning Grants, passed through the Arizona Department of Emergency and Military Affairs	20.703	211832896	2,534
Total U.S. Department of Transportation			306,277
Institute of Museum and Library Services			
Grants to States, passed through the Arizona State Library, Archives and Public Records	45.310	381-21-01-(05),981-1-8-(7), 271-7-1-(09)	28,724
U.S. Department of Education			
Title I Program for Neglected and Delinquent Children, passed through the Arizona Supreme Court	84.013	29881	10,242
Special Education Cluster:			
Special Education—Grants to States, passed through the Arizona Department of Education	84.027	H027A05007, H027A07007	15,245
Special Education—Grants to States, passed through the Arizona Supreme Court	84.027	29881	18,706
Total Special Education Cluster			33,951
Fund for the Improvement of Education	84.215		86,463
State Grants for Innovative Programs, passed through the Arizona Supreme Court	84.298	29881	29
Education Technology State Grants, passed through Pima County	84.318	S318X070003	76,097
Rural Education	84.358		11,883
Mathematics and Science Partnerships, passed through the Arizona Department of Education	84.366	S366B070003	249,270
Improving Teacher Quality State Grants, passed through the Arizona Department of Education	84.367	S367A060049	31,434
Improving Teacher Quality State Grants, passed through the Arizona Supreme Court	84.367	29881	15,861
Total Improving Teacher Quality State Grants			47,295
Total U.S. Department of Education			515,230

(Continued)

Navajo County
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Election Assistance Commission			
Help America Vote Act Requirements Payments, passed through the Arizona Secretary of State	90.401	None	$ 110,954
U.S. Department of Health and Human Services			
Public Health Emergency Preparedness, passed through the Arizona Department of Health Services	93.069	HG754201	281,480
Family Planning Services, passed through the Arizona Department of Health Services	93.217	HG854251	56,255
Immunization Grants, passed through the Arizona Department of Health Services	93.268	HG854290	67,491
Child Support Enforcement, passed through the Arizona Department of Economic Security	93.563	G-04-04-AZ-4004	586,529
Voting Access for Individuals with Disabilities—Grants to States, passed through the Arizona Secretary of State	93.617	None	53,779
Children's Justice Grants to States, passed through the Arizona Governor's Office	93.643	CJCSG09927304	31,030
HIV Prevention Activities—Health Department Based, passed through the Arizona Department of Health Services	93.940	HG852272	7,775
Preventive Health Services—Sexually Transmitted Diseases Control Grants, passed through the Arizona Department of Health Services	93.977	HG854320	5,098
Preventive Health and Health Services Block Grant, passed through the Arizona Department of Health Services	93.991	HG354183/HG854373	43,342
Maternal and Child Health Services Block Grant to the States, passed through the Arizona Department of Health Services	93.994	HG754060-008	61,615
Total U.S. Department of Health and Human Services			1,194,394
Corporation for National and Community Service			
Program Development and Innovation Grants, passed through the Arizona State Governor's Office	94.007	None	4,377
U.S. Department of Homeland Security			
Homeland Security Cluster:			
Homeland Security Grant Program, passed through the Arizona Department of Emergency and Military Affairs	97.067	07-AZDOHS-HSGP-333100-02, 08-AZDOHS-HSGP-444102-02, 08-AZDOHS-HSGP-444109-04, 08-AZDOHS-HSGP-444109-05, 07-AZDOHS-HSGP-333100-04, 07-AZDOHS-HSGP-333100-03, 08-AZDOHS-HSGP-444109-01, 08-AZDOHS-HSGP-444109-03, 08-AZDOHS-HSGP-444102-03, 07-AZDOHS-HSGP-333110-01	441,756
Total Homeland Security Cluster			441,756
Total Expenditures of Federal Awards			$ 6,874,242

See accompanying notes to schedule.

Navajo County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

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 2009 *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, 2009.

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

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

Members of the Arizona State Legislature

The Board of Supervisors of
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, 2009, which collectively comprise the County's financial statements, and have issued our report thereon dated September 30, 2010. 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 09-01 through 09-10, and 09-13 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 09-01 through 09-03, 09-05, and 09-07 through 09-10 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 09-11 through 09-13.

Navajo County's responses to the findings identified in our audit are presented on pages 82 through 90. 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

September 30, 2010

STATE OF ARIZONA

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2009. 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
WIA Cluster (17.258, 17.259, 17.260)	Earmarking and Reporting	09-104
Public Health Emergency Preparedness (93.069)	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	09-106
Child Support Enforcement (93.563)	Allowable Costs/Cost Principles and Matching	09-107, 09-108

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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, 2009. 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 09-101, 09-102, 09-105, and 09-110.

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 09-101 through 09-110 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 09-101 through 09-108, and 09-110 to be material weaknesses.

Navajo County's responses to the findings identified in our audit are presented on pages 82 through 90. 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

September 30, 2010

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

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 deficiency identified not considered to be material weakness?	X	

Type of auditors' report issued on compliance for major programs:
Unqualified for all major programs except for the WIA Cluster, Public Health Emergency Preparedness, 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
97.067	Homeland Security Cluster

	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

09-01
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 15 months after year-end to issue its financial statements. During the audit, numerous errors were noted, as described in findings 09-06, 09-07, and 09-08 that contributed to the delay. In addition, the County did not correctly report and disclose information about activity of governmental funds that were part of its reporting entity. Further, the County incorrectly prepared note disclosures and adjustments for restating beginning balances, and did not include all required note disclosures. The County's financial statements were adjusted for all significant errors. 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 2009 Single Audit Reporting Package was March 31, 2010; however, the County did not issue its Single Audit Reporting Package until September 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 a consultant 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 generally accepted accounting principles.
- 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.
- Evaluate the classification of all county funds and funds of legally separate entities to ensure that they are properly reported in the financial statements.
- Require an employee not responsible for financial statement preparation to review adjusting entries and 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 is similar to a prior-year finding.

09-02
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 used 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 is similar to a prior-year finding.

09-03
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 are 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 is similar to a prior-year finding.

09-04
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 as it was missing the elements noted in the recommendation below. The County did, however, enter into a mutual aid agreement in April 2008 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. 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.
- Establish procedures for processing critical transactions, including forms or other documents to use; documentation of testing procedures and results, including resolutions to problems encountered or failed tests; and safeguarding and recovering data stored on backup files.

This finding is similar to a prior-year finding.

09-05
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 $30 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, 2009, balances during the financial statement preparation process. The County had not reconciled these balances for years prior to June 30, 2007, until February 2009 when it began resolving differences and making adjustments, as necessary, to its general ledger and Treasurer's systems.

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 detailed information 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 for prior years' unreconciled cash and investments balances 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 general ledger system or the County Treasurer's system.

This finding is similar to a prior-year finding.

09-06
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 custodial 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 Treasurer's Pool had approximately $138 million in cash and investments at year-end, but did not accurately report and classify these balances in its financial statements and accompanying notes. For example, the County did not value the majority of the Pool's investments at fair value and did not record the change in fair value as investment earnings. In addition, the County did not properly calculate the Pool's concentration of credit risk because money market savings accounts were erroneously included in the calculation, and did not correctly disclose the amount of deposits that were uninsured and uncollateralized. Further, the County did not properly classify the restricted portion of its cash held by trustee and monies held in a custodial capacity for others.

Effect: The County understated its cash and investments at year-end by more than $387,000 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 $653,438. In addition, the County misclassified $12.7 million of monies held for other governments within its agency fund. Further, the County misstated the amount disclosed for the concentration of credit risk by $4.7 million because it incorrectly included money market funds. Finally, the County overstated deposits that were uninsured and uncollateralized by $2,296,423 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 the Pool's investments at fair value at year-end because of 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 preparing the notes to financial statements for its deposits and investments and when classifying monies that were restricted or held in a custodial capacity.

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 review the amounts used to calculate certain disclosures in the notes to financial statements to help ensure they are accurate. Further, the County should correctly classify cash and investments that are restricted or held in a custodial capacity in the financial statements and accompanying notes in accordance with GAAP.

This finding is similar to a prior-year finding.

09-07
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 65 percent of the County's total assets consist of capital assets. However, the County did not have adequate internal controls for ensuring that capital assets were properly reported in the financial statements. Specifically, auditors noted the following:

Beginning balances restated—The County restated its July 1, 2008, net assets in the amount of $3.4 million to correct the financial statements for capital assets belonging to the County School Superintendent's (CSS) Office and the County's accommodation school district that should have been previously reported. The CSS' Office had not performed a complete physical inventory of its capital assets during the year, but provided auditors with its most current list; however, the list was not reconciled to the CSS' records of the prior year's ending capital asset balances. Therefore, auditors were not able to verify whether it was a complete list of the CSS' capital assets as of June 30, 2009.

Land, Construction in progress, infrastructure, and buildings and improvements—The County did not reconcile current-year capital asset additions to current-year capital outlay expenditures for land, construction in progress, and infrastructure. In addition, the County did not have clear policies and procedures for classifying capital assets and depreciating building improvements, and did not ensure that schedules used for valuing assets were accurately compiled. As a result, auditors noted numerous errors related to these capital balances. For example, the County omitted $1.2 million in construction in progress balances that should have been capitalized during fiscal years 2005 through 2007, and made several other errors in reporting capital asset additions related to current-year capital projects. Also, the County misclassified assets, which resulted in errors in the assets' values because the wrong estimated useful life was used to calculate accumulated depreciation. Further, the County overstated some infrastructure assets because of formula errors and incorrectly capitalized $597,000 of expenditures related to three construction projects that were not owned by the County. Finally, the County's construction in progress increases and decreases and significant commitments, as disclosed in the notes to the financial statements, were overstated by $7.4 million and $3.5 million, respectively.

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 properly reconciled and accurately identified, recorded, and valued. Also, the County did not correct its current year financial statements and schedules to correct errors noted during the prior year audit.

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

- Require all departments to perform an annual physical inventory of capital assets and provide capital asset information to the County's Finance Department for inclusion in the financial statements.
- Reconcile current-year capital additions to current-year capital outlay expenditures for all capital assets.
- Perform a detailed independent review of the schedules supporting capital asset information to ensure that they are complete, accurate, and agree to records, such as project files and invoices.
- Retain supporting documentation for all capital assets.
- Clarify existing policies and procedures for classifying capital assets by type and calculating depreciation expense on building improvements.

09-08
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 75 percent of the County's governmental funds' revenues. In addition, education expenditures comprise approximately 7 percent of the County's governmental funds' total expenditures. 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. 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 earned but received after year-end and expenditures incurred but disbursed after year-end. 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 $382,000, and miscellaneous revenues were overstated by this same amount in the General Fund.
- Intergovernmental revenues were understated by approximately $737,000, and miscellaneous revenues were overstated by this same amount in the Public Works/HURF Fund.
- Intergovernmental revenues, processed on the County's general ledger system, and the related due from other governments were overstated by approximately $137,000 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 $430,000; accounts payable were understated by $35,000; and intergovernmental revenues and education expenditures were misstated by more than $660,000 and $1 million, respectively.

The County's financial statements were adjusted for all significant 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 is similar to a prior-year finding.

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

Criteria: The County should have written policies and procedures over its transaction cycles to provide 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. Also, written policies and procedures provide the basic framework needed for establishing employee accountability and serve as a reference tool for employees seeking guidance on how to handle complex or infrequent transactions and situations.

Condition and context: The County lacked up-to-date policies and procedures. Specifically, employees had no current guidance for processing financial information in the following areas: payroll, purchasing, receiving, accounts payable, operating transfers, journal entries, cash disbursements, cash receipts, and financial statement preparation. Also, auditors noted that a proper separation of responsibilities did not exist for processing and recording county cash receipts and payroll transactions 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 is similar to a prior-year finding.

09-10
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 upon or participating in any such matter. 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 $5.4 million during fiscal year 2009. 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 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 who have, or whose relatives have, a direct or indirect substantial interest in any contract, sale, purchase, or service to the County make that interest known in the County's records in a conflict-of-interest file and to update those disclosures annually. In addition, board members, elected officers, and employees must refrain from voting upon or participating in any manner in that decision or contract, sale, purchase, or service to the County. Also, the County should maintain a file of the conflict-of-interest statements and implement procedures to disclose material related party transactions in the notes to financial statements.

This finding is similar to a prior-year finding.

09-11
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 $74,000 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 $81,550 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 is similar to a prior-year finding

09-12
The County should submit its Annual Expenditure Limitation Report in a timely manner

Criteria: Arizona Revised Statutes (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, 2009, in a timely manner. The AELR was issued more than 10 months past the prescribed statutory October 31, 2009, deadline. As discussed in finding 09-01, internal control 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 is similar to a prior-year finding.

09-13
The County Treasurer did not comply with state laws when processing warrants and investing public monies

Criteria: County Treasurers act as the bank for the county, cities and towns, school districts, and other political subdivisions located within the county. Arizona Revised Statutes (A.R.S.) §35-323 prescribes the eligible investments in which county treasurers are authorized to invest public monies. According to A.R.S. §35-323(A)(7), eligible investments include evidences of indebtedness, such as warrants that are registered in accordance with A.R.S. §§11-635 and 15-996(3).

Condition and context: During fiscal year 2009, the County Treasurer used $2.3 million of investment pool participants' monies to redeem warrants issued by school districts with insufficient account balances. According to A.R.S. §§11-635 and 15-996(3), the County Treasurer should have formally registered these warrants as evidences of indebtedness for lack of sufficient funds, for which interest could be legally charged to the warrant issuer and earned by the political subdivision participating in the investment pool. Instead, the County Treasurer invested in unregistered warrants, which was not authorized by law. Further, the County did not have procedures for reporting these investments in the financial statements.

Effect: The County Treasurer did not comply with state laws for registering warrants and investing public monies. In addition, investments and net assets held in trust for investment pool participants, as reported in the County's financial statements, were understated by the amount of these investments. This finding is a significant deficiency in internal control over financial reporting and an instance of noncompliance with state laws.

Cause: During fiscal year 2009, county school districts continued to issue warrants for payroll and other operating costs even though they were not receiving state revenues on time. The County's agreement with its servicing bank did not provide a line of credit for all political subdivisions in the County, such as school districts. This meant that the Treasurer would have had to register warrants if funds or a credit line were not sufficient to cover the entity's warrants. However, the County Treasurer did not have procedures in place to ensure that it met statutory requirements for registering warrants in the event that an entity lacked sufficient funds or exhausted any line of credit.

Recommendation: To help ensure compliance with state laws for processing warrants and investing public monies, the County Treasurer should review its contract with the County's servicing bank and consult with legal counsel to ensure that it has procedures for processing and registering warrants in accordance with A.R.S. §§11-635 and 15-996(3). Since current banking practices involve electronic warrants rather than paper warrants contemplated by these statutes, alternative procedures for formally registering warrants for lack of sufficient funds and charging interest may be necessary. In addition, the County Treasurer and Finance Department should establish accounting procedures to ensure these types of investments are properly reported in the financial statements.

Federal Award Findings and Questioned Costs

09-101
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.

Condition and context: The County's Single Audit Reporting Package was due on March 31, 2010; however, the County did not issue its Single Audit Reporting Package until September 2010.

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 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 finding 09-01, the County had internal control 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 is similar to a prior-year finding.

09-102
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

CFDA No.: 10.665 **Schools and Roads—Grants to States**
U.S. Department of Agriculture
Award Year: July 1, 2008 through June 30, 2009
Award Numbers: None

Workforce Investment Act (WIA) Cluster:
CFDA No.: 17.258 **WIA Adult Program**
17.258 **ARRA—WIA Adult Program**
17.259 **WIA Youth Activities**
17.259 **ARRA—WIA Youth Activities**
17.260 **WIA Dislocated Workers**
17.260 **ARRA—WIA Dislocated Workers**
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, E5706009, DE091202001

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 August 30, 2011
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. Further, in accordance with OMB Circular A-133 Compliance Supplement Appendix VII, the County must separately identify ARRA awards by federal program.

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, the auditors noted the County incorrectly reported expenditures or other required information for 19 of its federal programs; 1 of these program's expenditures were omitted from the SEFA and affected the determination of major programs. Further, the County did not separately identify the ARRA awards for the WIA Cluster. The County misstated its federal award expenditures for both major and nonmajor programs by approximately $1.5 million. The misstatements of program expenditures for the County's major programs are summarized below:

- Cooperative Forestry Assistance program expenditures were overstated by $60,000.
- Schools and Roads—Grants to States program expenditures were understated by $816,000.
- WIA Cluster expenditures were understated by $47,000.
- Public Health Emergency Preparedness program expenditures were understated by $11,500.
- Child Support Enforcement program expenditures were overstated by $175,000.

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 properly record or identify federal program expenditures, did not reconcile federal expenditures to amounts reimbursed, 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 implement the following policies and procedures:

- Properly record and identify federal program expenditures on the general ledger system.
- Require departments to reconcile federal award expenditures on the general ledger system to accounting records and reimbursements.
- Record expenditures when goods or services are received.
- Require departments to provide sufficient detail to the Finance Department to accurately report this information on the SEFA.

This finding is similar to a prior-year finding.

09-103
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: N/A

Criteria: In accordance with 7 CFR §3016.20(b)(3), effective control and accountability must be maintained for all grant and subgrant cash.

Condition and context: There was no evidence that an independent review and approval of the expenditures or quarterly reimbursement requests had taken place prior to requesting reimbursement from the grantor.

Effect: The lack of review and approval 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.

Cause: The County had two individuals responsible for the program, and the supervisor did not review and approve program expenditures until after the pass-through grantor had reviewed and approved the reimbursement request. For one reimbursement request, the pass-through grantor corrected the amount that was reimbursed because the request contained errors.

Recommendation: The County should require an independent, supervisory review and approval of program expenditures and reports prior to submission for reimbursement.

This finding is similar to a prior-year finding.

09-104
Workforce Investment Act (WIA) Cluster:
CFDA No.: 17.258 WIA Adult Program
17.258 ARRA—WIA Adult Program
17.259 WIA Youth Activities
17.259 ARRA—WIA Youth Activities
17.260 WIA Dislocated Workers
17.260 ARRA—WIA Dislocated Workers
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, E5706009, DE091202001
Earmarking and Reporting

Questioned Cost: Unknown

Criteria: In accordance with the County's grant agreement with the Arizona Department of Economic Security, the pass-through grantor, the County must submit financial reports no later than the 30th day following each month during the contract term.

Condition and context: The County is required to complete the Contractor Accrued Expenditure Report each month so that the pass-through grantor can monitor county expenditures for the earmarking requirements. However, the County did not complete and submit the required reports covering the periods September 2008 through December 2008 and February 2009 through June 2009.

Effect: Noncompliance with the grant agreement could lead to retention or forfeiture of payment for expenditures incurred for the cluster. This finding is a material weakness in internal control over compliance and material noncompliance with the cluster's reporting and earmarking requirements. It was not practical to extend our auditing procedures sufficiently to determine questioned costs, if any, that may have resulted from this finding.

Cause: The County was going through a transition in program personnel during fiscal year 2009 when the program director and business manager left the County's employment. As a result, the new program director and staff did not always follow policies and procedures to complete the required reports.

Recommendation: To comply with the grant agreement and to ensure that earmarking requirements are met, the County should complete and submit the Contractor Accrued Expenditure Reports to its pass-through grantor.

09-105
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 August 30, 2011
Award Number: HG754201
Cash Management and Reporting
Questioned Cost: None

Criteria: 45 CFR §92.20(b)(1) and (2) require 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) submitted to the pass-through grantor were complete and accurate. Specifically, for four of five CERs tested, expenditures in the County's accounting records were approximately $11,350 more than the amounts reported on the CERs. Auditors performed additional procedures on the remaining CERs and determined that in total the County underreported federal expenditures by approximately $14,100 on the CERs.

Effect: The County did not report and request reimbursement for all program expenditures that it had incurred during the year from the pass-through grantor. No questioned costs resulted from this finding. This finding is a material weakness 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.

This finding is similar to a prior-year finding.

09-106
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 August 30, 2011
Award Number: HG754201
Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Questioned Cost: $1,882

Criteria: In accordance with 45 CFR §92.20(b)(6), federal expenditures must be supported by source documentation such as detailed purchase receipts, canceled checks, paid invoices, and other records. In addition, the County should retain original supporting documentation for at least 3 years as specified by 45 CFR §92.42 (b).

Condition and context: The County did not ensure that supporting documentation was maintained for all federal expenditures. Specifically, for 12 of 51 transactions tested, the County did not maintain the original supporting documentation for program expenditures made with county credit cards totaling $1,882.

Effect: The County may have been reimbursed for unallowable charges to the program. It was not practical to extend out auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a material weakness in internal control over compliance and material noncompliance with the program's activities allowed or unallowed and allowable cost/cost principles requirements.

Cause: The county department administering the program did not always follow federal requirements and the County's established policies and procedures for credit card purchases.

Recommendation: The County should implement policies and procedures for maintaining original supporting documentation for all federal expenditures to ensure compliance with federal requirements and the County's credit card policies.

09-107
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 County's records should support the amount matched to comply with 45 CFR 92.24. In addition, for the period of July 1, 2008 through September 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 requirements because it had not transferred any monies to match the federal program for several years. The County transferred funding into its child support account but could not identify which year the funds applied to. As a result, the County may have potentially used 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 $84,852 of this amount was allowable. Specifically, the County did not remit monies received for its indirect costs expenditures paid from the General Fund and applied these resources as matching expenditures, but as noted in finding 09-108, the County did not have support for the indirect costs incurred 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: During fiscal year 2009, the County had transferred monies into its child support enforcement fund to meet the matching requirement for the last 5 fiscal years. However, because the County did not monitor its spending of state and local funding sources for the last 5 years, it did not have adequate procedures for ensuring that sufficient nonfederal monies were used to meet the matching requirement for each of the 5 years. In addition, the County 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 July 1, 2008 through September 30, 2008.

Recommendation: To comply with 45 CFR 92.24 and the Deficit Reduction Act of 2005, Section 7309, the County should establish policies and procedures to monitor the program's matching requirements, and its 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.

This finding is similar to a prior-year finding.

09-108
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
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 submit its cost allocation plan to its pass-through grantor for review and approval. In addition, the County did not utilize the indirect cost rate percentages calculated within the plan to request reimbursement. The County used the same indirect cost rates it had over the past several fiscal years, which were considerably higher than the rates outlined within the County's cost allocation plan. In addition, the County did not have a written agreement with the pass-through grantor to support the indirect cost rates used to reimburse for the program for fiscal year 2009. The County was reimbursed $93,123 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 finding 09-107, the County used indirect cost recoveries, as well as unrecovered indirect costs, to match the program's federal award expenditures.

Effect: Indirect costs charged to the federal program were not supported by the County's cost allocation plan or a written agreement with the pass-through grantor. Further, the County did not comply with its grant agreement because it did not submit its cost allocation plan to the pass-through grantor for approval. There is also the potential that the County may not have met the program's matching requirement for any unallowable 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 realize it was required to submit its cost allocation plan to its pass-through grantor for approval. In addition, the County believed that its formal cost allocation plan did not include all indirect costs for the program and, therefore, chose to request reimbursement for indirect costs based on the higher rates it had used for the past several years. Further, 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 submit its indirect cost allocation plan to each federal grantor or pass-through grantor that requires the plan to be approved prior to requesting reimbursement for indirect costs.

This finding is similar to a prior-year finding.

09-109
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: Unknown

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.

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. As a result, for three of four reports tested, auditors noted that the County incorrectly reported federal expenditures to its pass-through grantor.

Effect: The County understated its federal expenditures and request for reimbursement from the pass-through grantor due to various errors because there was a lack of an independent review of the financial reports. 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.

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.

This finding is similar to a prior-year finding.

09-110
CFDA No.: 97.067 **Homeland Security Cluster**
U.S. Department of Homeland Security
Passed through the Arizona Department of Emergency and Military Affairs
Award Period: November 1, 2006 through September 30, 2009
Award Numbers: 07-AZDOHS-HSGP-222107-02, 07-AZDOHS-HSGP-222108-01, 07-AZDOHS-HSGP-333100-02, 07-AZDOHS-HSGP-333100-03, 07-AZDOHS-HSGP-333100-04, 07- 08-AZDOHS-HSGP-222108-03, AZDOHS-HSGP-3331110-01, 08-AZDOHS-HSGP-444102-03, 08-AZDOHS-HSGP-444102-02, 08-AZDOHS-HSGP-444109-01, 8-AZDOHS-HSGP-444109-03, 08-AZDOHS-HSGP-444109-04, 08-AZDOHS-HSGP-444109-05
Suspension and Debarment
Questioned Costs: None

Criteria: In accordance with 28 CFR §66.35 and 2 CFR §180.300, the County must not make any award to or contract with any party that has been suspended or debarred or is otherwise excluded from or ineligible for participation in federal assistance programs. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration, obtaining vendor certifications, or adding clauses or conditions to the contracts.

Condition and context: For three of the four vendors tested that were subject to this requirement, the County did not maintain documentation to demonstrate that it had verified that the vendor was not suspended or debarred from doing business with the federal government. Auditors performed additional procedures and determined that no payments were made to suspended or debarred vendors.

Effect: Payments could be made to suspended or debarred vendors. This finding is a material weakness in internal control over compliance and noncompliance with the program's suspension and debarment compliance requirement.

Cause: The County implemented procedures during fiscal year 2008 to add a clause to all county contracts with vendors for departments to certify that vendors were not suspended or debarred. However, there was a lack of communication between county departments to ensure that all contracts contained this clause. Further, the department that contracted with the vendors did not maintain documentation to demonstrate that it verified that the vendors were not included on the EPLS prior to awarding the contracts.

Recommendation: The County should follow its policies and procedures to verify that vendors have not been suspended or debarred prior to awarding contracts of $25,000 or more in federal monies and retain documentation of this determination.

NAVAJO COUNTY

Finance Department

James Menlove • Finance Director Mary Springer • Deputy Finance Director

"Proudly Serving, Continuously Improving"

September 15, 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, 2009

Financial Statement Findings

09-01
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: March 31, 2012

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 will 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.

09-02
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.

Navajo County
Corrective Action Plan
Year Ended June 30, 2009

09-03
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 from the responsibilities of authorizing, testing, and approving the changes. Changes initiated by users will also be approved by users.
- Maintain documentation for testing changes and the results.

09-04
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 copies of the disaster recovery plan to all affected employees, ensuring a copy of the plan is kept off-site.
- Securing off-site storage locations and a designated physical recovery facility, and providing the needed hardware and software.
- 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 resolutions to problems encountered or failed tests.

09-05
The County should reconcile its cash and investments balances 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, 2009

09-06
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 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 will 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 will review the amounts used to calculate certain disclosures in the notes to financial statements to ensure they are accurate.

09-07
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 ensure that capital assets are properly reported, the County will:

- 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 will 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.

09-08
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 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 will require a detailed review of the information provided by county departments that is used to compile the County's financial statements.

09-09
The County should establish written policies and procedures over its transaction cycles
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 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 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 ensure that access to physical assets and information are controlled and properly restricted to authorized employees.
- Resolving errors to 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 ensure that internal control procedures are placed into operation and continue to operate effectively.

09-10
The County should establish policies and procedures for identifying conflicts of interest and disclosing 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 to update these disclosures annually. In addition, the County will maintain a file of disclosure statements and implement procedures to identify and disclose material related party transactions in the notes to financial statements.

09-11
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 establish the necessary controls to ensure that county monies are not inappropriately used when it administers the accounts of other parties in a fiduciary capacity. In addition, the County will establish policies and procedures requiring that it records and demonstrates the public purpose for all county expenditures. Further, the County will obtain formal board approval and enter into written contracts when spending public monies to provide services under A.R.S. §11-267.

09-12
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, 2011

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.

09-13
The County Treasurer did not comply with state laws when processing warrants and investing public monies
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: July 1, 2010

Corrective Action Plan: Concur. However, this condition existed because the State of Arizona withheld payments to schools to help balance the State's FY09 budget. In addition, the County's servicing bank did not have the capability to register warrants and could not provide a line of credit to county school districts. To correct these deficiencies the County entered into a new banking services agreement as of July 1, 2010. The County's new servicing bank has not only the capability to register warrants but has provided a line of credit for several school districts and other public entities in Navajo County.

Navajo County
Corrective Action Plan
Year Ended June 30, 2009

Federal Award Findings and Questioned Costs

09-101
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.

09-102
CFDA No.: 10.665 Schools and Roads—Secure Payments for States and Counties Containing Federal Lands
WIA Cluster:
CFDA No.: 17.258 WIA Adult Program
17.258 ARRA—WIA Adult Program
17.259 WIA Youth Activities
17.259 ARRA—WIA Youth Activities
17.260 WIA Dislocated Workers
17.260 ARRA—WIA Dislocated Workers
CFDA No.: 93.069 Public Health Emergency Preparedness
CFDA No.: 93.563 Child Support Enforcement
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343

To 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 record expenditures when goods or services are received. In addition, the County will require departments to provide sufficient detail to the Finance Department to accurately report this information on the SEFA.

09-103
CFDA No.:10.664 Cooperative Forestry Assistance
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343

The County will require an independent, supervisory review of program expenditures and reports prior to submission for reimbursement.

09-104
WIA Cluster:
CFDA No.: 17.258 WIA Adult Program
17.258 ARRA—WIA Adult Program
17.259 WIA Youth Activities
17.259 ARRA—WIA Youth Activities
17.260 WIA Dislocated Workers
17.260 ARRA—WIA Dislocated Workers
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343

The County will complete and submit the Contractor Accrued Expenditure Reports to DES as required by the Intergovernmental Agreement.

09-105
CFDA No.: 93.069 Public Health Emergency Preparedness
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343

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.

09-106
CFDA No.: 93.069 Public Health Emergency Preparedness
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343

The Department will implement policies and procedures for maintaining documentation to support expenditures to ensure compliance with the County's p-card policy.

09-107
CFDA No.: 93.563 Child Support Enforcement Program
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343

To comply with 45 CFR 92.24 and the Deficit Reduction Act of 2005, Section 7309, the County will establish policies and procedures to monitor the program's matching requirements, and the level of state and local monies spent for the program. This will 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 will be transferred into the designated program fund during the period of time when the expenditures are incurred. Further, the County will retain documentation to demonstrate that matching requirements are met.

Navajo County
Corrective Action Plan
Year Ended June 30, 2009

09-108
CFDA No.: 93.563 Child Support Enforcement Program
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343

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 reviewed and approved by the pass-through grantor or written agreement with its pass-through grantor prior to requesting reimbursement for indirect costs.

09-109
CFDA No.: 93.563 Child Support Enforcement Program
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343

To 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.

09-110
CFDA No.: 97.067 Homeland Security Cluster
Status: Not corrected
Contact person: James Menlove, Finance Director, 928-524-4343
Anticipated Completion Date: December 31, 2010

The County will ensure that all departments follow established procedures to verify that vendors have not been suspended or debarred prior to awarding contracts of $25,000 or more in federal monies. The County will also establish procedures to retain documentation of this determination.

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NAVAJO COUNTY

Finance Department

James Menlove • Finance Director Mary Springer • Deputy Finance Director

"Proudly Serving, Continuously Improving"

September 15, 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, 2009

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 implement procedures to ensure the Single Audit Reporting Package is submitted to the federal clearinghouse within nine months of the County's fiscal year end.

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 implement procedures to ensure the Single Audit Reporting Package is submitted to the federal clearinghouse within nine months of the County's fiscal year end.

04-102
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants and Children
Status: Fully Corrected

Navajo County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2009

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 implement procedures to ensure the Single Audit Reporting Package is submitted to the federal clearinghouse within nine months of the County's fiscal year end.

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 implement procedures to ensure the Single Audit Reporting Package is submitted to the federal clearinghouse within nine months of the County's fiscal year end.

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) 524-4061

The County will establish written policies and procedures to ensure the proper recording of federal program expenditures in our accounting system used to prepare the SEFA.

06-105
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants and Children
Status: Fully Corrected

06-106
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants and Children
Status: Fully Corrected

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: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

The County will ensure that all departments follow established procedures to verify that vendors have not been suspended or debarred prior to awarding contracts of $25,000 or more in federal monies. The County will also establish procedures to retain documentation of this determination.

06-108
CFDA No.: 14.228 Community Development Block Grants/State's Program
Status: Fully Corrected

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: Fully Corrected

06-112
CFDA No.: 93.563 Child Support Enforcement Grant
Status: Fully Corrected

07-101
CFDA No.: Not applicable
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

The County will implement procedures to ensure the Single Audit Reporting Package is submitted to the federal clearinghouse within nine months of the County's fiscal year end.

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) 524-4061

The County will establish written policies and procedures to ensure the proper recording of federal program expenditures in our accounting system used to prepare the SEFA.

07-103
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants and Children
Status: Fully Corrected

07-104
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants and Children
Status: Fully Corrected

08-101
CFDA No.: Not applicable
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

The County will implement procedures to ensure the Single Audit Reporting Package is submitted to the federal clearinghouse within nine months of the County's fiscal year end.

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
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

The County will establish written policies and procedures to ensure the proper recording of federal program expenditures in our accounting system used to prepare the SEFA.

08-103
CFDA No.: 10.557 Special Supplemental Nutrition Program for Women, Infants, and Children
Status: Fully Corrected

08-104
CFDA No.: 10.664 Cooperative Forestry Assistance
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

The County will 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
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

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
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

The County will establish policies and procedures to monitor the program's matching requirements, and the level of state and local monies spent for the program. 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 are incurred. Further, the County will retain documentation to demonstrate that matching requirements are met.

08-107
CFDA No.: 93.563 Child Support Enforcement Program
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

The County will establish policies and procedures to ensure that it has a formal cost allocation plan reviewed and approved by the pass-through grantor or written agreement with its pass-through grantor prior to requesting reimbursement for indirect costs.

08-108
CFDA No.: 93.563 Child Support Enforcement Program
Status: Not corrected
Contact person: James Menlove, Finance Director, (928) 524-4061

The County submitted timely financial reports for fiscal year 2009. 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.