



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Financial Statements

Navajo County

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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Navajo County
Financial Statements
Year Ended June 30, 2004

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

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Board of Supervisors of
Navajo County, Arizona

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Navajo County as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management.

We were instructed by the County's management not to audit the County's capital assets; net assets, invested in capital assets; and depreciation expense for the governmental activities reported in the government-wide financial statements of \$57,948,043, \$57,948,043, and \$2,211,303, respectively.

Also, as instructed by the County's management, we did not perform any procedures applicable to the account balances and activities related to the financing of the County's uninsured risks of loss for certain employee health benefits. These activities are included in governmental activities in the government-wide financial statements and in the General Fund in the fund financial statements. The assets, liabilities, net assets or fund balance, revenues, and expenses or expenditures for the account balances and activities reported in the government-wide and fund financial statements are \$50,912, \$0, \$50,912, \$(6,397), and \$81,572 respectively.

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

Since we did not perform auditing procedures on the County's capital asset balances and depreciation expense and the balances and activities related to the County's employee health benefits, and we were not able to apply auditing procedures to satisfy ourselves as to the amounts reported for beginning and ending fund balances, year-end accruals, and revenues and expenditures reported in the individual funds, the scope of our work was not sufficient to express, and we do not express, opinions on the financial statements of Navajo County as of and for the year ended June 30, 2004.

The Management's Discussion and Analysis on pages i through vii, the Budgetary Comparison Schedules on pages 30 through 35, and the Schedule of Agent Retirement Plans' Funding Progress on page 36 are not a required part of the basic financial statements, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because we were instructed by the County not to audit certain account balances and activities of the County's operations and because of limitations in the County's accounting records as described above.

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

Debbie Davenport
Auditor General

January 26, 2007

Navajo County Management's Discussion and Analysis June 30, 2004

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, 2004. We encourage readers to consider the information presented here in conjunction with the financial statements.

Financial Highlights

- The Navajo County's assets exceeded its liabilities at June 30, 2004 by \$72,555,409 (net assets). Of this amount, \$4,829,001 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- At June 30, 2004, Navajo County's governmental funds reported combined ending fund balances of \$24,553,196, an increase of \$4,777,446 in comparison with the prior year restated balance.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$8,174,226 or 37.3% of total general fund expenditures.

Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused paid-time-off leave). The statement of activities also distinguishes functions of Navajo County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

Navajo County
Management's Discussion and Analysis
June 30, 2004

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

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

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

Navajo County maintains numerous individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for three funds considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

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

Navajo County
Management's Discussion and Analysis
June 30, 2004

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Navajo County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 8 through 9 of this report.

Notes to the financial statements. The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10 through 28 of this report.

Other required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Budgetary Comparison Schedules for the general fund and public works/HURF fund and Navajo County's progress in funding its obligation to provide pension benefits to its employees. Other required supplementary information can be found on pages 30 through 36 of this report.

Government-wide Financial Analysis

The following is a summary of assets, liabilities, and net assets as of June 30, 2004:

| Condensed Statement of Net Assets | |
|---|---|
| | Governmental Activities 2004 |
| Assets | |
| Current and other assets | <u>\$87,071,728</u> |
| Total assets | <u>87,071,728</u> |
| Liabilities | |
| Long-term liabilities outstanding | 10,150,258 |
| Other liabilities | <u>4,366,061</u> |
| Total liabilities | <u>14,516,319</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 57,948,043 |
| Restricted | 9,778,365 |
| Unrestricted | <u>4,829,001</u> |
| Total net assets | <u>\$72,555,409</u> |

Navajo County
Management's Discussion and Analysis
June 30, 2004

Statement of Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Navajo County, assets exceeded liabilities by \$72,555,409 at June 30, 2004. However, the County did not record all of its capital assets and related accumulated depreciation. To correct this error, the County is in the process of completing a comprehensive inventory and upon completion, will record a complete record of capital assets, net of accumulated depreciation.

Unrestricted net assets of \$4,829,001 may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2004, Navajo County is able to report positive balances in all categories of net assets for its governmental activities.

Statement of Activities. Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during fiscal year 2004. A summary of the changes in net assets follows. For the fiscal year, net assets increased \$8,316,521. The basis of accounting used in the government-wide statement of activities excludes capital expenditures, while its revenues include taxes that are used, in part, for the construction of those assets.

| Condensed Statement of Activities | | |
|---|---|---|
| | Governmental Activities 2004 | Governmental Activities 2003 |
| Revenues | | |
| <i>Program revenues:</i> | | |
| Charges for services | \$ 4,505,232 | \$ 4,913,430 |
| Operating grants and contributions | 15,663 | 21,001,714 |
| <i>General revenues:</i> | | |
| Property taxes | 5,221,794 | 5,877,286 |
| County sales and franchise tax | 6,016,138 | 5,256,637 |
| Share of state sales taxes | 8,035,755 | 8,247,600 |
| Share of state vehicle license tax | 4,957,149 | |
| Grants and contributions not restricted to specific programs | 19,550,932 | 3,828,077 |
| Investment earnings | 1,178,509 | 550,035 |
| Gain on disposal of capital assets | 309,309 | 793,842 |
| Miscellaneous and rent | 324,454 | 1,586,510 |
| Total revenues | 50,114,935 | 52,055,131 |

Navajo County
Management's Discussion and Analysis
June 30, 2004

| | <u>Governmental Activities 2004</u> | <u>Governmental Activities 2003</u> |
|------------------------------------|---|---|
| <i>Expenses</i> | | |
| General government | \$15,392,349 | \$16,481,849 |
| Public safety | 11,361,939 | 13,635,116 |
| Highways and streets | 9,418,291 | 7,521,368 |
| Sanitation, health and welfare | 4,266,760 | 4,434,027 |
| Culture, recreation and education | 818,761 | 887,121 |
| Interest on long-term debt | 540,314 | 558,992 |
| Total expenses | <u>41,798,414</u> | <u>43,518,473</u> |
| Increase in net assets | <u>8,316,521</u> | <u>8,536,658</u> |
| Net assets, beginning, as restated | <u>64,238,888</u> | <u>57,788,763</u> |
| Net assets, ending | <u>\$72,555,409</u> | <u>\$66,325,421</u> |

Revenues

Governmental activities revenues totaled \$50,114,935 for fiscal year 2004. The following are highlights of County revenues:

- Sales taxes are comprised of state-shared sales tax, a ½ cent tax for highways and a ½ cent general sales tax rate. Overall state shared sales tax decreased by \$211,845 in the current fiscal year due to a general decrease in sales activity.
- Property taxes decreased by \$655,492 during the year. This decrease is attributable to new construction and nominal property value increases.

Expenses

Expenses decreased from the prior year by \$720,059. The most significant changes are a decrease in general government of \$1,089,500, a decrease in public safety of \$2,273,177 and an increase to highways and streets of \$1,896,923. The primary causes of these fluctuations are due to a general county reduction for all county departments while the increase for highways and streets was due to rebuilding efforts based on large fires that impacted the County in previous years.

Financial Analysis of the Government's Funds

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

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

Navajo County Management's Discussion and Analysis June 30, 2004

At June 30, 2004, Navajo County's governmental funds reported combined ending fund balances of \$24,553,196, an increase of \$4,777,446 in comparison with the prior year's restated balance. This change is primarily attributable to the increase in the fund balance of the general fund.

The general fund is the chief operating fund of Navajo County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$8,174,226, which was \$3,661,319 greater than the previous fiscal year. Overall general fund revenues increased by \$1,085,387 and overall expenditures decreased by \$1,492,484.

General Fund Budgetary Highlights

The general fund had budgeted expenditures of \$25,746,869. Actual general fund expenditures were under budget by approximately \$3.8 million. The most significant budget variances were for miscellaneous and contingency expenditures which were \$2.2 million and \$1.0 million, respectively, less than budgeted due to not spending the miscellaneous and contingency funds.

During the year, actual revenue exceeded estimates by approximately \$5.0 million. The conservative budget was due to economic uncertainty after the Rodeo-Chediski fire that occurred during the prior fiscal year.

Capital Asset and Debt Administration

Capital Assets. Navajo County's expenditures for capital assets for its governmental activities during the year ended June 30, 2004 totaled approximately \$5.8 million in which \$903,973 is recorded as capital outlays. This investment in capital assets includes equipment and vehicles purchased during the year as well as various building and infrastructure projects. As mentioned previously, the current year statement of net assets and statement of activities do not include a complete record of capital assets, accumulated depreciation, and depreciation expense. The County intends to take an inventory of its capital assets at which time all capital assets will be reported in these statements. Included in the inventory will be infrastructure assets (roads, highways, bridges, etc).

Long-term Liabilities. At the end of the current fiscal year, Navajo County had total outstanding long-term liabilities of \$10,150,258. This includes certificate of participation outstanding of \$6,430,000 that financed the construction of jail facilities. Included in long-term liabilities is \$1,250,087 for the future payment of compensated absences for unused employee vacation leave. The remainder of the long-term liabilities consists of special assessment debt, capital leases, notes payable, estimated landfill closure and postclosure care costs and claims and judgments payable.

Arizona Revised Statutes §11.271 limit the amount of general obligation debt a county may issue to 6 percent of its total assessed valuation. The current debt limitation of the County is \$38,675,716 of which the County's available debt capacity is \$32,245,716. Additional information on long-term debt can be found in Notes 9 through 17 on pages 19 through 23 of this report.

Navajo County
Management's Discussion and Analysis
June 30, 2004

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Navajo County is currently 8.7 percent, which decreased from a rate of 12.5 percent a year ago. This compares unfavorably to the state's average unemployment rate of 5.0 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Navajo County's budget for the 2004/05 fiscal year. The unreserved ending fund balance in the general fund of \$8,174,226 was appropriated for spending in the 2004/05 fiscal year budget. The County's primary property tax rate was .4472 for fiscal year 2003/04 and .6316 during fiscal year 2004/05. During fiscal year 2003-04 the primary tax rate was reduced to refund taxpayers for an overpayment of property taxes in prior fiscal years.

Requests for Information

This financial report is designed to provide a greater overview of Navajo County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed as follows:

Finance Director
Navajo County
100 East Carter
Holbrook, Arizona 86025

Navajo County
Statement of Net Assets
June 30, 2004

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Cash and investments | \$ 23,330,122 |
| Cash and investments held by trustee | 43,577 |
| Receivables (net of allowances for uncollectibles): | |
| Property taxes | 253,052 |
| Special assessments | 77,953 |
| Accrued interest | 179,546 |
| Due from other governments | 4,932,319 |
| Inventories | 234,122 |
| Prepaid items | 72,994 |
| Capital assets, not being depreciated | 6,666,542 |
| Capital assets, being depreciated, net | <u>51,281,501</u> |
| Total assets | <u>87,071,728</u> |
| Liabilities | |
| Accounts payable | 3,887,647 |
| Accrued payroll and employee benefits | 42,918 |
| Deposits held for others | 435,496 |
| Noncurrent liabilities | |
| Due within 1 year | 1,856,978 |
| Due in more than 1 year | <u>8,293,280</u> |
| Total liabilities | <u>14,516,319</u> |
| Net Assets | |
| Invested in capital assets | 57,948,043 |
| Restricted for: | |
| Highways and streets | 5,741,658 |
| Debt service | 612,098 |
| Capital projects | 3,424,609 |
| Unrestricted | <u>4,829,001</u> |
| Total net assets | <u>\$ 72,555,409</u> |

See accompanying notes to financial statements.

Navajo County
Statement of Activities
Year Ended June 30, 2004

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and and Changes in Net Assets</u> |
|-------------------------------|----------------------|---------------------------------|---|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 15,392,349 | \$ 3,949,254 | \$ 5,000 | \$ (11,438,095) |
| Public safety | 11,361,939 | 525,746 | | (10,836,193) |
| Highways and streets | 9,418,291 | 942 | | (9,417,349) |
| Sanitation | 25,103 | (17,003) | | (42,106) |
| Health | 1,588,909 | 29,745 | 10,663 | (1,548,501) |
| Welfare | 2,652,748 | | | (2,652,748) |
| Culture and recreation | 585,971 | 16,548 | | (569,423) |
| Education | 232,790 | | | (232,790) |
| Interest on long-term debt | 540,314 | | | (540,314) |
| Total governmental activities | <u>\$ 41,798,414</u> | <u>\$ 4,505,232</u> | <u>\$ 15,663</u> | <u>(37,277,519)</u> |

General revenues:

| | |
|--|----------------------|
| Taxes: | |
| Property taxes, levied for general purposes | 4,181,711 |
| Property taxes, levied for library | 130,445 |
| Property taxes, levied for flood control | 909,638 |
| General county sales tax | 5,901,927 |
| Franchise tax | 114,211 |
| Share of state sales tax | 8,035,755 |
| Share of state vehicle license tax | 4,957,149 |
| Grants and contributions not restricted to specific programs | 19,550,932 |
| Investment earnings | 1,178,509 |
| Gain on disposal of capital assets | 309,309 |
| Miscellaneous | 324,454 |
| Total general revenues | <u>45,594,040</u> |
| Change in net assets | 8,316,521 |
| Net assets, July 1, 2003, as restated | <u>64,238,888</u> |
| Net assets, June 30, 2004 | <u>\$ 72,555,409</u> |

See accompanying notes to financial statements.

Navajo County
Balance Sheet
Governmental Funds
June 30, 2004

| | <u>General Fund</u> | <u>Public Works/ HURF Fund</u> | <u>Flood Control District Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|------------------------------------|--|---|---|
| Assets | | | | | |
| Cash and investments | \$ 7,111,948 | \$ 6,334,847 | \$ 3,299,260 | \$ 6,584,067 | \$ 23,330,122 |
| Cash and investments held by trustee | | | | 43,577 | 43,577 |
| Receivables (net of allowances for uncollectibles): | | | | | |
| Property taxes | 186,016 | | 65,288 | 1,748 | 253,052 |
| Special assessments | | | | 77,953 | 77,953 |
| Accrued interest | 55,182 | 43,415 | 21,587 | 59,362 | 179,546 |
| Due from other governments | 1,996,942 | 1,068,341 | | 1,867,036 | 4,932,319 |
| Inventories | 37,627 | 196,495 | | | 234,122 |
| Prepaid items | 71,784 | | | 1,210 | 72,994 |
| Total assets | <u>\$ 9,459,499</u> | <u>\$ 7,643,098</u> | <u>\$ 3,386,135</u> | <u>\$ 8,634,953</u> | <u>\$ 29,123,685</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 601,247 | \$ 1,892,973 | \$ 483,691 | \$ 909,736 | \$ 3,887,647 |
| Accrued payroll and employee benefits | 23,855 | 8,467 | | 10,596 | 42,918 |
| Deposits held for others | 427,763 | | | 7,733 | 435,496 |
| Deferred revenue | 122,997 | | 37,696 | 43,735 | 204,428 |
| Total liabilities | <u>1,175,862</u> | <u>1,901,440</u> | <u>521,387</u> | <u>971,800</u> | <u>4,570,489</u> |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Inventories | 37,627 | 196,495 | | | 234,122 |
| Prepaid items | 71,784 | | | 1,210 | 72,994 |
| Highways and streets | | 5,545,163 | | | 5,545,163 |
| Unreserved, reported in: | | | | | |
| General fund | 8,174,226 | | | | 8,174,226 |
| Special revenue funds | | | | 7,661,943 | 7,661,943 |
| Capital projects funds | | | 2,864,748 | | 2,864,748 |
| Total fund balances | <u>8,283,637</u> | <u>5,741,658</u> | <u>2,864,748</u> | <u>7,663,153</u> | <u>24,553,196</u> |
| Total liabilities and fund balances | <u>\$ 9,459,499</u> | <u>\$ 7,643,098</u> | <u>\$ 3,386,135</u> | <u>\$ 8,634,953</u> | <u>\$ 29,123,685</u> |

See accompanying notes to financial statements.

Navajo County
Reconciliation of the Balance Sheet to the Statement of Net Assets
Governmental Funds
June 30, 2004

| | |
|--|----------------------|
| Fund balances—total governmental funds | \$ 24,553,196 |
| 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. | 57,948,043 |
| Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds. | 204,428 |
| Some liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. | <u>(10,150,258)</u> |
| Net assets of governmental activities | <u>\$ 72,555,409</u> |

See accompanying notes to financial statements.

Navajo County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

| | <u>General Fund</u> | <u>Public Works/ HURF Fund</u> | <u>Flood Control District Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|--|--|---|---|
| Revenues: | | | | | |
| Property taxes | \$ 1,444,202 | \$ 2,622,579 | \$ 909,638 | \$ 622,425 | \$ 5,598,844 |
| Special assessments | | | | 697,839 | 697,839 |
| Licenses and permits | 639,865 | | | 47,999 | 687,864 |
| Fees, fines, and forfeits | 706,627 | | | 62,216 | 768,843 |
| Intergovernmental | 20,346,271 | 8,210,498 | | 7,955,430 | 36,512,199 |
| Charges for services | 3,581,281 | 941 | | 923,010 | 4,505,232 |
| Investment earnings | 717,200 | 196,588 | 92,842 | 171,879 | 1,178,509 |
| Contributions | | | | 15,663 | 15,663 |
| Miscellaneous | 162,456 | 152,196 | | 9,802 | 324,454 |
| Total revenues | <u>27,597,902</u> | <u>11,182,802</u> | <u>1,002,480</u> | <u>10,506,263</u> | <u>50,289,447</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 11,332,029 | | | 3,610,757 | 14,942,786 |
| Public safety | 7,553,518 | | | 3,903,734 | 11,457,252 |
| Highways and streets | | 11,278,293 | 437,591 | 565,397 | 12,281,281 |
| Health | | | | 1,657,893 | 1,657,893 |
| Welfare | 2,643,381 | | | | 2,643,381 |
| Culture and recreation | 155,459 | | | 433,452 | 588,911 |
| Education | 222,995 | | | | 222,995 |
| Debt service: | | | | | |
| Principal | | | | 525,549 | 525,549 |
| Interest and other charges | | | | 540,314 | 540,314 |
| Capital outlay | | | 484,030 | 419,943 | 903,973 |
| Total expenditures | <u>21,907,382</u> | <u>11,278,293</u> | <u>921,621</u> | <u>11,657,039</u> | <u>45,764,335</u> |
| Excess (deficiency) of revenues over expenditures | <u>5,690,520</u> | <u>(95,491)</u> | <u>80,859</u> | <u>(1,150,776)</u> | <u>4,525,112</u> |

(Continued)

See accompanying notes to financial statements.

Navajo County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004
(Continued)

| | General Fund | Public Works/ HURF Fund | Flood Control District Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------------------|-----------------------------------|--------------------------------|--------------------------------|
| Other financing sources (uses): | | | | | |
| Sale of capital assets | \$ 2,698 | \$ 48,205 | | \$ 258,406 | \$ 309,309 |
| Capital lease agreements | | | | 55,861 | 55,861 |
| Transfers in | 1,440,452 | 1,963 | | 1,348,977 | 2,791,392 |
| Transfers out | <u>(1,934,229)</u> | <u>(566,816)</u> | <u>\$ (242,000)</u> | <u>(48,347)</u> | <u>(2,791,392)</u> |
| Total other financing sources and uses | <u>(491,079)</u> | <u>(516,648)</u> | <u>(242,000)</u> | <u>1,614,897</u> | <u>365,170</u> |
| Net change in fund balances | <u>5,199,441</u> | <u>(612,139)</u> | <u>(161,141)</u> | <u>464,121</u> | <u>4,890,282</u> |
| Fund balances, July 1, 2003, as restated | 3,059,251 | 6,492,563 | 3,025,889 | 7,198,047 | 19,775,750 |
| Decrease in reserve for inventories | (3,696) | (138,766) | | | (142,462) |
| Increase in reserve for prepaid | <u>28,641</u> | | | <u>985</u> | <u>29,626</u> |
| Fund balances, June 30, 2004 | <u>\$ 8,283,637</u> | <u>\$ 5,741,658</u> | <u>\$ 2,864,748</u> | <u>\$ 7,663,153</u> | <u>\$ 24,553,196</u> |

See accompanying notes to financial statements.

Navajo County
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended June 30, 2004

Net change in fund balances—total governmental funds \$ 4,890,282

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 | \$ 5,798,907 | |
| Depreciation expense | <u>(2,211,303)</u> | 3,587,604 |

| | |
|--|---------|
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | 539,682 |
|--|---------|

| | |
|--|-----------|
| Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. | |
| Principal repaid | (525,549) |

| | |
|--|----------|
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. | (62,662) |
|--|----------|

| | |
|---|------------------|
| 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 inventory | (142,462) |
| Increase in prepaid expenses | <u>29,626</u> |
| | <u>(112,836)</u> |

| | |
|---|---------------------|
| Change in net assets of governmental activities | <u>\$ 8,316,521</u> |
|---|---------------------|

See accompanying notes to financial statements.

Navajo County
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

| | <u>Investment Trust Funds</u> | <u>Agency Funds</u> |
|---|-----------------------------------|-------------------------|
| Assets | | |
| Cash and investments | \$ 81,855,281 | \$ 7,061,358 |
| Interest receivable | <u>581,495</u> | <u>3,207</u> |
| Total assets | <u>82,436,776</u> | <u>\$ 7,064,565</u> |
| Liabilities | | |
| Due to other governments | | <u>7,064,565</u> |
| Total liabilities | | <u>\$ 7,064,565</u> |
| Net Assets | | |
| Held in trust for investment trust participants | <u>\$ 82,436,776</u> | |

See accompanying notes to financial statements.

Navajo County
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year Ended June 30, 2004

| | <u>Investment Trust Funds</u> |
|---|-----------------------------------|
| Additions: | |
| Contributions from participants | \$ 217,938,052 |
| Net investment income | <u>2,865,528</u> |
| Total additions | <u>220,803,580</u> |
| Deductions: | |
| Distributions to participants | <u>227,069,579</u> |
| Change in net assets | (6,265,999) |
| Net assets, July 1, 2003, as restated | <u>88,702,775</u> |
| Net assets, June 30, 2004 | <u>\$ 82,436,776</u> |

See accompanying notes to financial statements.

Navajo County
Notes to Financial Statements
June 30, 2004

Note 1 - Summary of Significant Accounting Policies

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

The County's major operations include general government, public safety, highways and streets, sanitation, health, welfare, culture and recreation, and education.

A. Reporting Entity

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

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

Blended Component Units—A number of special districts and a nonprofit corporation have been established within the County to serve unique needs. The special districts consist of various improvement districts, and the nonprofit corporation provides job training and educational services. Although these special districts and the nonprofit corporation are legally separate entities from the County, the Board of Supervisors of the County serves as the Board of Directors for each of these entities, therefore the special districts' and nonprofit corporation's transactions have been accounted for within the County's governmental fund types.

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

B. Basis of Presentation

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

Navajo County
Notes to Financial Statements
June 30, 2004

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

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

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

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

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

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

The County reports the following major governmental funds:

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

The Public Works/HURF Fund is used to account for road construction and maintenance of major and nonmajor regional roads, and is funded by a ½ cent County sales tax, impact fees, and highway user revenue.

Navajo County
Notes to Financial Statements
June 30, 2004

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

The County reports the following fund types:

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

The Agency Funds account for assets held by the County as an agent on behalf of individuals and other parties.

C. Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of the 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. 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 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.

Navajo County
Notes to Financial Statements
June 30, 2004

D. Cash and Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments with a remaining maturity of one 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 and Prepaid Items

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

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

F. Property Tax Calendar

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

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

G. Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Depreciation methods and estimated useful lives of capital assets reported in the government-wide statements are as follows:

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

Navajo County
Notes to Financial Statements
June 30, 2004

H. Investment Earnings

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

I. Compensated Absences

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

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

Note 2 - Beginning Balances Restated

As a result of miscellaneous reporting errors in prior years the County restated net assets of the governmental activities and fiduciary funds and fund balances of the governmental funds as of July 1, 2003.

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

| | Governmental Activities Total | Fund Financial Statements | | | Investment Trust Funds | |
|--|-------------------------------------|---------------------------|------------------------------|-----------------------------------|------------------------------|---------------------|
| | | General Fund | Public Works/HURF Fund | Flood Control District Fund | | Other Funds |
| Net assets and fund balances reported as of June 30, 2003 | \$66,325,421 | \$ 4,597,373 | \$5,777,211 | \$2,964,483 | \$ 8,806,815 | \$96,138,352 |
| Miscellaneous corrections | <u>(2,086,533)</u> | <u>(1,538,122)</u> | <u>715,352</u> | <u>61,406</u> | <u>(1,608,768)</u> | <u>(7,435,577)</u> |
| Net assets and fund balances as of July 1, 2003, as restated | <u>\$64,238,888</u> | <u>\$ 3,059,251</u> | <u>\$6,492,563</u> | <u>\$3,025,889</u> | <u>\$ 7,198,047</u> | <u>\$88,702,775</u> |

Navajo County
Notes to Financial Statements
June 30, 2004

Note 3 - Excess of Expenditures over Appropriations

Eighteen General Fund departments had an excess of actual expenditures over appropriations.

General Fund departments with expenditures in excess of appropriations are caused mainly by excess expenditures for which budget modifications were not made. In total, the County's General Fund did not have expenditures in excess of appropriations since the County budgeted significant expenditures for miscellaneous and contingency expenditures within the departments and no budget modifications were made.

Note 4 - Individual Fund Deficits

The following Governmental Funds had fund deficits in excess of \$10,000 at June 30, 2004:

| Fund | Deficit |
|--|-----------|
| Penrod Road—Show Low - 30% | \$228,238 |
| Penrod Road—PTLS - 31% | 88,553 |
| Access Construction | 28,335 |
| White Mountain Regional Transportation Study | 15,045 |

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 5 - Deposits and Investments

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

County Treasurer's Investment Pool—Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer. Those monies are pooled with County monies for investment purposes.

Deposits—At June 30, 2004, the carrying amount of the investment pool's total cash in bank was \$96,298, and the bank balance was \$729,905. Of the bank balance, \$100,000 was covered by federal depository insurance and \$629,905 was covered by collateral held by the pledging financial institution's trust department in (the County's or third parties) name.

Navajo County
Notes to Financial Statements
June 30, 2004

The County Treasurer's investment pool investments at June 30, 2004, consisted of the following and are categorized below to give an indication of the level of risk the County assumed at year end.

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

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

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

| | Category | | | Reported Amount | Fair Value |
|--|----------|----------------------|--------------------|----------------------|----------------------|
| | 1 | 2 | 3 | | |
| Repurchase agreements | | | \$4,585,643 | \$ 4,585,643 | \$ 4,585,643 |
| U.S. government securities | | <u>\$106,700,000</u> | <u>2,000,000</u> | <u>\$108,700,000</u> | <u>\$106,848,728</u> |
| Total | | <u>\$106,700,000</u> | <u>\$6,585,643</u> | <u>\$113,285,643</u> | <u>\$111,434,371</u> |
| Investments not subject to categorization: | | | | | |
| Certificates of deposit | | | | <u>300,000</u> | <u>300,000</u> |
| Total | | | | <u>\$113,585,643</u> | <u>\$111,734,371</u> |

Other deposits—At June 30, 2004, the total nonpooled cash on hand was \$88,297. The carrying amount of the County's total nonpooled cash in bank was \$846,120, and the bank balance was \$959,696. Of the bank balance, \$366,223 was covered by federal depository insurance or by collateral held by the County or its agent in the County's name and \$593,473 was covered by collateral held by the pledging financial institution's trust department or agent in the authorized agent's name.

A reconciliation of cash and investments to amounts shown on the Statement of Net Assets follows:

Cash and investments:

| | County Treasurer's Investment Pool | Other | Total |
|--------------------------------|--|-------------------|----------------------|
| Cash on hand | | \$ 88,297 | \$ 88,297 |
| Carrying amount of deposits | \$ 96,298 | 846,120 | 942,418 |
| Reported amount of investments | <u>113,585,777</u> | <u> </u> | <u>113,585,777</u> |
| Total | <u>\$113,682,075</u> | <u>\$934,417</u> | <u>\$114,616,492</u> |

Navajo County
Notes to Financial Statements
June 30, 2004

Statement of Net Assets

| | Total Primary Government | Total Fiduciary Funds | Total |
|--------------------------------------|--------------------------------|-----------------------------|----------------------|
| Cash and investments | \$23,330,122 | \$88,961,639 | \$112,291,761 |
| Cash and investments held by trustee | <u>43,577</u> | | <u>43,577</u> |
| Total | <u>\$23,373,699</u> | <u>\$88,961,639</u> | <u>\$112,335,338</u> |

Note 6 - Property Tax Receivable

Property tax and special assessments receivables consists of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2004, were as follows:

| Fiscal Year | General Fund | Flood Control District Fund | Other Governmental Funds | Total |
|-------------|------------------|--------------------------------|--------------------------------|------------------|
| 2003-2004 | \$142,333 | \$61,561 | \$77,663 | \$281,557 |
| Prior | <u>43,683</u> | <u>3,727</u> | <u>2,038</u> | <u>49,448</u> |
| Total | <u>\$186,016</u> | <u>\$65,288</u> | <u>\$79,701</u> | <u>\$331,005</u> |

The portion of property taxes receivable not collected within 60 days after June 30, 2004, has been deferred and, consequently, is not included in current-year revenues on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Note 7 - Due from Other Governments

Amounts due from other governments at June 30, 2004, include \$1,101,878 in county excise taxes, \$1,208,055 in vehicle license taxes from the State of Arizona, \$1,556,858 in state-shared revenue from highway user taxes and \$1,065,528 in various grants from the state and federal governments and from cities and towns in Navajo County for various road projects.

Navajo County
Notes to Financial Statements
June 30, 2004

Note 8 - Capital Assets

Capital asset activity for the year ended June 30, 2004, was as follows:

| | Balance June 30, 2003 | Increases | Decreases | Balance June 30, 2004 |
|---|--------------------------|--------------------|-------------------------------|--------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 5,977,441 | | | \$ 5,977,441 |
| Construction in progress | <u>689,101</u> | | | <u>689,101</u> |
| Total capital assets, not being depreciated | <u>6,666,542</u> | | | <u>6,666,542</u> |
| Capital assets, being depreciated: | | | | |
| Buildings | 51,870,858 | \$ 312,737 | | 52,183,595 |
| Infrastructure | 10,582,525 | 4,204,051 | | 14,786,576 |
| Improvements other than buildings | 115,905 | 2,600 | | 118,505 |
| Machinery and equipment | <u>8,924,778</u> | <u>1,279,519</u> | <u>\$1,546,545</u> | <u>8,657,752</u> |
| Total capital assets, being depreciated | <u>71,494,066</u> | <u>5,798,907</u> | <u>1,546,545</u> | <u>75,746,428</u> |
| Less: accumulated depreciation for: | | | | |
| Buildings | 18,313,015 | 543,090 | | 18,856,105 |
| Infrastructure | 1,196,974 | 387,990 | | 1,584,964 |
| Improvements other than buildings | 22,392 | 5,312 | | 27,704 |
| Machinery and equipment | <u>4,267,788</u> | <u>1,274,911</u> | <u>1,546,545</u> | <u>3,996,154</u> |
| Total accumulated depreciation | <u>23,800,169</u> | <u>2,211,303</u> | <u>1,546,545</u> | <u>24,464,927</u> |
| Total capital assets, being depreciated, net | <u>47,693,897</u> | <u>3,587,604</u> | <u> </u> | <u>51,281,501</u> |
| Governmental activities capital assets, net | <u>\$54,360,439</u> | <u>\$3,587,604</u> | <u>\$ </u> | <u>\$57,948,043</u> |

Depreciation expense as of June 30, 2004 was charged to governmental functions as follows:

| | |
|------------------------|--------------------|
| General government | \$823,120 |
| Public safety | 347,333 |
| Highways and streets | 946,266 |
| Sanitation | 25,103 |
| Health | 23,081 |
| Welfare | 19,612 |
| Culture and recreation | 16,993 |
| Education | <u>9,795</u> |
| Total | <u>\$2,211,303</u> |

Navajo County
Notes to Financial Statements
June 30, 2004

Note 9 - Changes in Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2004:

| Governmental Activities | Balance July 1, 2003 As restated | Additions | Reductions | Balance June 30, 2004 | Due within 1 year |
|---|--|--------------------|--------------------|--------------------------|----------------------|
| Compensated absences payable | \$ 1,224,826 | \$ 975,835 | \$ 950,574 | \$ 1,250,087 | \$1,250,087 |
| Certificates of participation | 6,670,000 | - | 240,000 | 6,430,000 | 250,000 |
| Special assessment debts with governmental commitment payable | 2,459,428 | - | 267,638 | 2,191,790 | 246,332 |
| Capital leases payable | 32,597 | 55,861 | 18,260 | 70,198 | 14,337 |
| Notes payable | 125,343 | - | 13,927 | 111,416 | 13,927 |
| Landfill closure and post-closure care costs payable | 15,919 | - | 724 | 15,195 | 723 |
| Claims and judgments payable | 72,437 | 9,135 | - | 81,572 | 81,572 |
| Total | <u>\$10,600,550</u> | <u>\$1,040,831</u> | <u>\$1,491,123</u> | <u>\$10,150,258</u> | <u>\$1,856,978</u> |

Note 10 - Certificates of Participation

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

Certificates outstanding at June 30, 2004, 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 | 2005 – 2020 | 5.00 – 6.25% | <u>\$6,430,000</u> |

Navajo County
Notes to Financial Statements
June 30, 2004

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2004:

| Year ending June 30 | Governmental Activities | |
|---------------------|-------------------------|--------------------|
| | Principal | Interest |
| 2005 | \$ 250,000 | \$ 384,745 |
| 2006 | 265,000 | 371,245 |
| 2007 | 280,000 | 356,670 |
| 2008 | 295,000 | 341,270 |
| 2009 | 310,000 | 324,750 |
| 2010-14 | 1,885,000 | 1,329,413 |
| 2015-19 | 2,530,000 | 684,825 |
| 2020 | 615,000 | 38,438 |
| Total | <u>\$6,430,000</u> | <u>\$3,831,356</u> |

Note 11 - Special Assessment Bonds Payable

Special assessment bonds with governmental commitment – The County's bonded debt consists of various issues of special assessment bonds that are generally callable with interest payable semi-annually. Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The proceeds of the debt issues were used to finance construction in these districts. The original amount of special assessment bonds issued in prior years was \$4,583,985. The County did not issue any new special assessment bonds during the year. The following special assessment districts had debts outstanding at June 30, 2004:

| Description | Interest Rates | Maturities | Outstanding Principal July 1, 2003, As restated | Additions | Reductions | Outstanding Principal June 30, 2004 |
|------------------------------------|----------------|--------------|---|-------------|------------------|--|
| Mule Deer Way ID | 5.95% | 7/04 – 7/07 | \$ 99,740 | | \$ 27,811 | \$ 71,929 |
| Forest Trails Unit II CRID | 6.75% | 10/04 – 7/07 | 75,000 | | 15,000 | 60,000 |
| Drifting Snow Loop ID | 5.75% | 9/04 – 7/11 | 159,996 | | 20,000 | 139,996 |
| Timberlake Pines CRID | 6.35% | 8/04 – 7/07 | 176,890 | | 45,624 | 131,266 |
| Hiawatha Trail ID | 5.91% | 8/04 – 7/09 | 53,319 | | 8,886 | 44,433 |
| White Mountain Summer Homes WID | 5.00% | 7/04 – 7/19 | 1,359,000 | | 58,000 | 1,301,000 |
| Wild Horse Road No. 1 ID | 5.95% | 7/04 – 7/07 | 30,341 | | 8,411 | 21,930 |
| Misty Mountain Domestic WID | 7.13% | 7/04 – 1/09 | 38,877 | | 6,000 | 32,877 |
| Blue Lake Circle ID | 5.95% | 7/04 – 7/07 | 49,856 | | 13,296 | 36,560 |
| Pine Meadows CC ID | 5.91% | 8/04 – 7/09 | 47,768 | | 7,961 | 39,807 |
| Chaparral Drive ID | 5.80% | 8/04 – 7/10 | 98,619 | | 15,259 | 83,360 |
| Buck Springs Road ID | 5.40% | 8/04 – 7/08 | 61,400 | | 12,285 | 49,115 |
| Moon Creek Circle ID | 5.95% | 7/04 – 7/07 | 32,162 | | 11,055 | 21,107 |
| Porter Mountain Domestic WID | 4.50% | 7/04 – 7/37 | 161,460 | | 3,050 | 158,410 |
| Soaring Eagle CRID | 7.25% | 1/04 | 15,000 | | 15,000 | |
| Total | | | <u>\$2,459,428</u> | <u>\$ -</u> | <u>\$267,638</u> | <u>\$2,191,790</u> |

Navajo County
Notes to Financial Statements
June 30, 2004

(ID) – Improvement District
(CRID) – County Road Improvement District
(WID) – Water Improvement District

Special assessment debt service requirements to maturity are as follows:

| Year ending June 30 | Governmental Activities | |
|---------------------|--------------------------------|------------------|
| | Principal | Interest |
| 2005 | \$ 246,332 | \$113,198 |
| 2006 | 249,332 | 98,885 |
| 2007 | 254,332 | 84,387 |
| 2008 | 144,069 | 71,738 |
| 2009 | 132,667 | 64,157 |
| 2010-14 | 497,143 | 235,772 |
| 2015-19 | 562,250 | 110,457 |
| 2020-2024 | 25,250 | 21,501 |
| 2025-2029 | 31,250 | 15,370 |
| 2030-2034 | 37,250 | 7,843 |
| 2034-2037 | <u>11,915</u> | <u>710</u> |
| Total | <u>\$2,191,790</u> | <u>\$824,018</u> |

Note 12 - Capital Leases Payable

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

The following schedule details debt service requirements to maturity for the County's capital leases payable at June 30, 2004:

| Year ending June 30 | Governmental Activities |
|--|------------------------------------|
| 2005 | <u>\$ 14,652</u> |
| Total minimum lease payments | 14,652 |
| Less amount representing interest | <u>315</u> |
| Present value of net minimum lease payments | <u>\$ 14,337</u> |

Navajo County
Notes to Financial Statements
June 30, 2004

Note 13 - Notes Payable

On July 15, 2002, pursuant to Arizona Revised Statutes (A.R.S.) § 48-986.01, the County issued promissory notes from the Navajo County Improvement District Revolving Fund to the Beaver Dam Circle Improvement District, and the Wild Cat Way Improvement District, for \$12,104 and \$130,118, respectively. The notes were issued at an interest rate of 2.67% with semi-annual principal and interest payments beginning in January 2003 and continuing until January 2013. The outstanding balance of these notes, are included on the County's Statement of Net Assets as noncurrent liabilities as of June 30, 2004. The County had the following notes payable outstanding at June 30, 2004:

| Description | Interest Rates | Maturities | Outstanding | Additions | Reductions | Outstanding |
|----------------------|----------------|-------------|---------------------------|-------------|-----------------|----------------------------|
| | | | Principal July 1, 2003 | | | Principal June 30, 2004 |
| Wild Cat Way ID | 2.67% | 1/04 – 1/13 | \$114,449 | | \$12,717 | \$101,732 |
| Beaver Dam Circle ID | 2.67% | 1/04 – 1/13 | <u>10,894</u> | | <u>1,210</u> | <u>9,684</u> |
| Total | | | <u>\$125,343</u> | <u>\$ -</u> | <u>\$13,927</u> | <u>\$111,416</u> |

(ID) – Improvement District

Notes payable debt service requirements to maturity are as follows:

| Year ending June 30 | Governmental Activities | |
|---------------------|----------------------------|-----------------|
| | Principal | Interest |
| 2005 | \$ 13,927 | \$ 2,878 |
| 2006 | 13,927 | 2,507 |
| 2007 | 13,927 | 2,136 |
| 2008 | 13,927 | 1,764 |
| 2009 | 13,927 | 1,393 |
| 2010-14 | <u>41,781</u> | <u>1,950</u> |
| Total | <u>\$111,416</u> | <u>\$12,628</u> |

Note 14 - Landfill Closure and Post Closure Care Costs

These costs will be paid from the General Fund. The closure and post-closure care costs were estimated and reported as a liability in the Statement of Net Assets. The \$15,195 reported as landfill closure and post-closure care liability is the estimated cost of closure and post-closure, less payments thereon made to date. These amounts are based on what it would cost to perform all closure and post-closure care in fiscal year 2004. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Navajo County
Notes to Financial Statements
June 30, 2004

Note 15 - Claims and Judgments Payable

The County is a defendant in several claims and lawsuits involving indigent health care, general liability, and contractual disputes. Liabilities are reported for such claims and judgments when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In the opinion of the County Attorney and county management, probable losses not covered by insurance from these proceedings total \$81,572, which has been accrued as a noncurrent liability in the accompanying financial statements. The County's general fund has typically paid all claims and judgments.

Note 16 - Compensated Absences

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2004, the County paid for compensated absences as follows: 65 percent from the General Fund, 14 percent from the Public Works/HURF Fund, and 21 percent from Other Governmental Funds.

Note 17 - 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 \$139,753 for the year ended June 30, 2004. The operating leases have remaining non-cancelable terms from one to eighteen years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2004, were as follows:

| Year ending June 30 | |
|---------------------------------|------------------|
| 2005 | \$ 36,701 |
| 2006 | 27,765 |
| 2007 | 14,400 |
| 2008 | 14,400 |
| 2009 | 14,400 |
| 2010 – 2014 | 72,000 |
| 2015 – 2019 | 72,000 |
| 2020 – 2022 | <u>38,400</u> |
| Total minimum lease payments | <u>\$290,066</u> |

Navajo County
Notes to Financial Statements
June 30, 2004

Note 18 - Risk Management

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

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium, based on its exposure in relation to the exposure of the other participants, and a deductible of \$50,000 for each occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$10 million per occurrence for liability claims. A county must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

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

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

Navajo County
Notes to Financial Statements
June 30, 2004

Note 19 - Retirement Plans

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

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

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

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

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

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

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

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

Navajo County
Notes to Financial Statements
June 30, 2004

Cost-sharing plans—For the year ended June 30, 2004, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 5.7 percent (5.2 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2004, 2003 and 2002 were \$828,833, \$373,421 and \$383,629, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was required to remit a designated portion of court docket fees plus additional contributions of 14.54 percent of the member's annual covered payroll, as determined by actuarial valuation. The County's contributions to EORP for the years ended June 30, 2004, 2003, and 2002 were \$73,206, \$846 and \$3,135, respectively, which were equal to the required contributions for the year.

Agent plans—For the year ended June 30, 2004, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 14.52 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 4.00 percent.

Annual Pension Cost—The County's pension cost for the two agent plans for the year ended June 30, 2004, and related information follows.

| | PSPRS | CORP |
|----------------------|-----------|----------|
| Contribution rates: | | |
| County | 14.52% | 4.00% |
| Plan members | 7.65% | 8.50% |
| Annual pension costs | \$102,839 | \$20,758 |
| Contributions made | \$102,839 | \$20,758 |

The current-year annual required contribution for the PSPRS and CORP were determined as a part of their June 30, 2002, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 4-year period. The unfunded (excess) actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2002, was 20 years.

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

Navajo County
Notes to Financial Statements
June 30, 2004

| Plan | Year Ended June 30 | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|-------|-----------------------|------------------------------|----------------------------------|---------------------------|
| PSPRS | 2004 | \$102,839 | 100% | \$ - |
| | 2003 | 39,505 | 100% | - |
| | 2002 | 107,687 | 100% | - |
| CORP | 2004 | \$ 20,758 | 100% | \$ - |
| | 2003 | 17,267 | 100% | - |
| | 2002 | 17,101 | 100% | - |

Note 20 - Interfund Activity

Interfund transfers—Interfund transfers for the year ended June 30, 2004, were as follows:

| Transfer from | Transfers to | | | Total Governmental Funds |
|-----------------------------|--------------------|----------------------------|--------------------------------|--------------------------------|
| | General Fund | Public Works/ HURF Fund | Other Governmental Funds | |
| General Fund | \$ 621,850 | | \$1,312,379 | \$1,934,229 |
| Public Works/HURF Fund | 550,000 | | 16,816 | 566,816 |
| Flood Control District Fund | 242,000 | | | 242,000 |
| Other Governmental funds | <u>26,602</u> | <u>\$1,963</u> | <u>19,782</u> | <u>48,347</u> |
| Total | <u>\$1,440,452</u> | <u>\$1,963</u> | <u>\$1,348,977</u> | <u>\$2,791,392</u> |

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

Note 21 - Condensed Financial Statements of County Treasurer's Investment Pool

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

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

Navajo County
Notes to Financial Statements
June 30, 2004

Details of each major investment classification follow:

| Investment Type | Principal | Interest Rate(s) | Maturities | Fair Value |
|----------------------------|---------------|------------------|------------|---------------|
| U.S. government securities | \$108,700,000 | 2.00-4.94% | Various | \$106,848,728 |
| Certificates of deposit | 300,000 | 1.08-1.49% | Various | 300,000 |
| Repurchase agreements | 4,585,643 | | N/A | 4,585,643 |

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

Statement of Net Assets

| | |
|------------|----------------------|
| Assets | <u>\$113,893,066</u> |
| Net assets | <u>\$113,893,066</u> |

Net assets held in trust for:

| | |
|--------------------------------|----------------------|
| Internal participants | \$ 25,571,326 |
| External participants | <u>88,321,740</u> |
| Total net assets held in trust | <u>\$113,893,066</u> |

Statement of Changes in Net Assets

| | |
|---------------------------|----------------------|
| Total additions | \$281,840,491 |
| Total deductions | <u>281,805,391</u> |
| Net increase | <u>35,100</u> |
| Net assets held in trust: | |
| July 1, 2003, as restated | <u>113,857,966</u> |
| June 30, 2004 | <u>\$113,893,066</u> |

Note 22 - Subsequent Event

On October 15, 2004, Navajo County settled the lawsuit Hancock vs. Navajo County. The lawsuit was the result of flooding of the Little Colorado River because there was a breach in the Winslow levy. In conjunction with the settlement agreement, Navajo County agreed to pay the plaintiffs \$1.4 million. This settlement is a liability of the Navajo County Flood Control District and not recorded in the financial statements.

The following schedule details annual payments under this settlement agreement:

| | |
|-------------------|--------------------|
| November 15, 2004 | \$ 400,000 |
| October 1, 2005 | 400,000 |
| October 1, 2006 | 400,000 |
| October 1, 2007 | <u>200,000</u> |
| Total | <u>\$1,400,000</u> |

Other Required Supplementary Information

Navajo County
 Required Supplementary Information
 Budgetary Comparison Schedule—General Fund
 Year Ended June 30, 2004

| | Original Budget | Amended Amounts | Final Budget | Actual Amounts | Variance with Final Budget |
|--------------------------|--------------------|--------------------|-------------------|-------------------|-------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 3,088,847 | | \$ 3,088,847 | \$ 1,444,202 | \$ (1,644,645) |
| Licenses and permits | 547,500 | | 547,500 | 639,865 | 92,365 |
| Fines and forfeits | 667,500 | | 667,500 | 706,627 | 39,127 |
| Intergovernmental | 16,507,972 | | 16,507,972 | 20,346,271 | 3,838,299 |
| Charges for services | 1,242,140 | | 1,242,140 | 3,581,281 | 2,339,141 |
| Investments and earnings | 475,000 | | 475,000 | 717,200 | 242,200 |
| Miscellaneous | 107,525 | | 107,525 | 162,456 | 54,931 |
| Total revenues | <u>22,636,484</u> | | <u>22,636,484</u> | <u>27,597,902</u> | <u>4,961,418</u> |
| Expenditures: | | | | | |
| General government | | | | | |
| Board of supervisors | 501,235 | | 501,235 | 495,701 | 5,534 |
| County manager | 1,257,007 | \$ 40,000 | 1,297,007 | 1,026,923 | 270,084 |
| Buildings and grounds | 1,255,085 | 7,512 | 1,262,597 | 1,305,254 | (42,657) |
| Elections | 250,666 | | 250,666 | 187,553 | 63,113 |
| Planning and building | 567,737 | 1,471 | 569,208 | 568,499 | 709 |
| Recorder | 176,368 | | 176,368 | 168,237 | 8,131 |
| Voter registration | 81,064 | | 81,064 | 83,025 | (1,961) |
| Assessor | 778,882 | 64,440 | 843,322 | 877,048 | (33,726) |
| MIS | 631,315 | | 631,315 | 548,116 | 83,199 |
| Treasurer | 319,423 | | 319,423 | 315,960 | 3,463 |
| Contingency | 2,346,752 | (119,201) | 2,227,551 | | 2,227,551 |
| Legal defender | 295,868 | | 295,868 | 284,450 | 11,418 |
| County attorney | 1,306,214 | 11,500 | 1,317,714 | 1,404,437 | (86,723) |
| Superior courts | 1,547,462 | 35,019 | 1,582,481 | 1,564,885 | 17,596 |
| Public defenders | 771,849 | | 771,849 | 777,596 | (5,747) |
| Clerk of superior court | 651,148 | 28,271 | 679,419 | 652,024 | 27,395 |
| Holbrook justice court | 202,136 | 5,425 | 207,561 | 204,214 | 3,347 |
| Winslow justice court | 202,403 | 3,500 | 205,903 | 208,545 | (2,642) |
| Snowflake justice court | 263,181 | 4,500 | 267,681 | 271,749 | (4,068) |
| Show Low justice court | 200,914 | 3,000 | 203,914 | 203,956 | (42) |
| Pinetop justice court | 234,928 | 5,737 | 240,665 | 250,782 | (10,117) |
| Kayenta justice court | 97,653 | 1,500 | 99,153 | 98,592 | 561 |
| Holbrook constable | 14,364 | | 14,364 | 14,536 | (172) |
| Winslow constable | 14,433 | | 14,433 | 16,506 | (2,073) |

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County
 Required Supplementary Information
 Budgetary Comparison Schedule—General Fund
 Year Ended June 30, 2004
 (Continued)

| | <u>Original Budget</u> | <u>Amended Amounts</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|----------------------------|-------------------------|---------------------------|---------------------------------------|
| Snowflake constable | \$ 14,664 | | \$ 14,664 | \$ 15,251 | \$ (587) |
| Show Low constable | 14,364 | | 14,364 | 15,433 | (1,069) |
| Pinetop constable | 34,354 | \$ 63 | 34,417 | 27,190 | 7,227 |
| Kayenta constable | 12,828 | | 12,828 | 12,098 | 730 |
| Miscellaneous | <u>772,000</u> | <u>90</u> | <u>772,090</u> | <u>(266,531)</u> | <u>1,038,621</u> |
| Total general government | <u>14,816,297</u> | <u>92,827</u> | <u>14,909,124</u> | <u>11,332,029</u> | <u>3,577,095</u> |
| Public safety | | | | | |
| Juvenile probation | 1,105,507 | (158,768) | 946,739 | 994,755 | (48,016) |
| Adult probation | 502,812 | (70,218) | 432,594 | 490,178 | (57,584) |
| Jail operations | 2,846,200 | 35,849 | 2,882,049 | 2,927,257 | (45,208) |
| Sheriff | <u>3,506,542</u> | <u>23,354</u> | <u>3,529,896</u> | <u>3,141,328</u> | <u>388,568</u> |
| Total public safety | <u>7,961,061</u> | <u>(169,783)</u> | <u>7,791,278</u> | <u>7,553,518</u> | <u>237,760</u> |
| Sanitation | | | | | |
| Sanitation landfill | <u>30,000</u> | | <u>30,000</u> | | <u>30,000</u> |
| Welfare | | | | | |
| Public fiduciary | 335,213 | 27,339 | 362,552 | 357,248 | 5,304 |
| Indigent health | <u>2,270,711</u> | | <u>2,270,711</u> | <u>2,286,133</u> | <u>(15,422)</u> |
| Total welfare | <u>2,605,924</u> | <u>27,339</u> | <u>2,633,263</u> | <u>2,643,381</u> | <u>(10,118)</u> |
| Culture and recreation | | | | | |
| Parks and recreation | <u>157,913</u> | <u>(1,800)</u> | <u>156,113</u> | <u>155,459</u> | <u>654</u> |
| Total culture and recreation | <u>157,913</u> | <u>(1,800)</u> | <u>156,113</u> | <u>155,459</u> | <u>654</u> |
| Education | | | | | |
| Superintendent of schools | <u>225,674</u> | <u>1,417</u> | <u>227,091</u> | <u>222,995</u> | <u>4,096</u> |
| Total expenditures | <u>25,796,869</u> | <u>(50,000)</u> | <u>25,746,869</u> | <u>21,907,382</u> | <u>3,839,487</u> |
| Excess (deficiency) of revenues over expenditures | <u>(3,160,385)</u> | <u>50,000</u> | <u>(3,110,385)</u> | <u>5,690,520</u> | <u>8,800,905</u> |

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County
 Required Supplementary Information
 Budgetary Comparison Schedule—General Fund
 Year Ended June 30, 2004
 (Concluded)

| | <u>Original Budget</u> | <u>Amended Amounts</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|----------------------------|-------------------------|---------------------------|---------------------------------------|
| Other financing sources (uses): | | | | | |
| Sale of capital assets | | | | \$ 2,698 | \$ 2,698 |
| Transfers in | \$ 1,418,007 | | \$ 1,418,007 | 1,440,452 | 22,445 |
| Transfers out | <u>(1,533,167)</u> | | <u>(1,533,167)</u> | <u>(1,934,229)</u> | <u>(401,062)</u> |
| Total other financing sources and uses | <u>(115,160)</u> | | <u>(115,160)</u> | <u>(491,079)</u> | <u>(375,919)</u> |
| Net change in fund balances | (3,275,545) | \$ 50,000 | (3,225,545) | 5,199,441 | 8,424,986 |
| Fund balance, July 1, 2003, as restated | | | | 3,059,251 | |
| Decrease in reserve for inventories | | | | (3,696) | |
| Increase in reserve for prepaid items | | | | <u>28,641</u> | |
| Fund balance, June 30, 2004 | | | | <u>\$ 8,283,637</u> | |

See accompanying notes to budgetary comparison schedule.

Navajo County
 Required Supplementary Information
 Budgetary Comparison Schedule—Public Works/HURF Fund
 Year Ended June 30, 2004

| | <u>Original Budget</u> | <u>Amended Amounts</u> | <u>Final Budget</u> | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|----------------------------|----------------------------|-------------------------|---------------------------|---------------------------------------|
| Revenues: | | | | | |
| Taxes | \$ 2,000,000 | | \$ 2,000,000 | \$ 2,622,579 | \$ 622,579 |
| Intergovernmental | 7,420,480 | | 7,420,480 | 8,210,498 | 790,018 |
| Charges for services | 3,000 | | 3,000 | 941 | (2,059) |
| Investment earnings | 122,275 | | 122,275 | 196,588 | 74,313 |
| Miscellaneous | <u>75,625</u> | | <u>75,625</u> | <u>152,196</u> | <u>76,571</u> |
| Total revenues | <u>9,621,380</u> | | <u>9,621,380</u> | <u>11,182,802</u> | <u>1,561,422</u> |
| Expenditures: | | | | | |
| Highways and streets | <u>14,864,150</u> | | <u>14,864,150</u> | <u>11,278,293</u> | <u>3,585,857</u> |
| Total expenditures | <u>14,864,150</u> | | <u>14,864,150</u> | <u>11,278,293</u> | <u>3,585,857</u> |
| Excess (deficiency) of revenues over expenditures | <u>(5,242,770)</u> | | <u>(5,242,770)</u> | <u>(95,491)</u> | <u>5,147,279</u> |
| Other financing sources (uses): | | | | | |
| Sale of capital assets | 50,000 | | 50,000 | 48,205 | (1,795) |
| Transfers in | | | | 1,963 | 1,963 |
| Transfers out | <u>(693,816)</u> | | <u>(693,816)</u> | <u>(566,816)</u> | <u>127,000</u> |
| Total other financing sources and uses | <u>(643,816)</u> | | <u>(643,816)</u> | <u>(516,648)</u> | <u>127,168</u> |
| Net change in fund balances | <u>(5,886,586)</u> | | <u>(5,886,586)</u> | <u>(612,139)</u> | <u>5,274,447</u> |
| Fund balance, July 1, 2003, as restated | | | | 6,492,563 | |
| Decrease in reserve for inventories | | | | <u>(138,766)</u> | |
| Fund balance, June 30, 2004 | | | | <u>\$ 5,741,658</u> | |

See accompanying notes to budgetary comparison schedule.

Navajo County
 Required Supplementary Information
 Notes to Budgetary Comparison Schedules
 June 30, 2004

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Budgetary Basis of Accounting

The County's adopted budget is prepared on a basis consistent with U.S. generally accepted accounting principles. Accordingly, there are no differences between the budget and the statement of revenues, expenditures, and changes in fund balances—governmental funds based upon the basis of accounting used.

Note 3 - Expenditures in Excess of Appropriations

For the year ended June 30, 2004, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

| <u>Fund/Department</u> | <u>Excess</u> |
|-------------------------|---------------|
| General Fund: | |
| Buildings and grounds | \$(42,657) |
| Voter registration | (1,961) |
| Assessor | (33,726) |
| County attorney | (86,723) |
| Public defenders | (5,747) |
| Winslow justice court | (2,642) |
| Snowflake justice court | (4,068) |
| Show Low justice court | (42) |
| Pinetop justice court | (10,117) |
| Holbrook constable | (172) |
| Winslow constable | (2,073) |
| Snowflake constable | (587) |
| Show Low constable | (1,069) |
| Juvenile probation | (48,016) |

Navajo County
Required Supplementary Information
Notes to Budgetary Comparison Schedules
June 30, 2004

| <u>Fund/Department</u> | <u>Excess</u> |
|------------------------|---------------|
| Adult probation | \$(57,584) |
| Jail operations | (45,208) |
| Indigent health | (15,422) |
| Transfers out | (401,062) |

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

Navajo County
 Required Supplementary Information
 Schedule of Agent Retirement Plans' Funding Progress
 June 30, 2004

Public Safety Personnel Retirement System

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|--------------------------------|--|--|---|--------------------------|-------------------------------------|--|
| 6/30/2004 | \$7,243,811 | \$8,385,467 | \$(1,141,656) | 86.4% | \$1,444,236 | 79.0% |
| 6/30/2003 | 7,633,483 | 7,967,044 | (333,561) | 95.8 | 1,364,613 | 24.4 |
| 6/30/2002 | 7,727,219 | 6,863,694 | 863,525 | 112.6 | 1,574,966 | N/A |

Correction Officer Retirement System

| Actuarial Valuation Date | Actuarial Value of Plan Assets (a) | Actuarial Accrued Liability (b) | Funding (Liability) Excess (a-b) | Funded Ratio (a/b) | Annual Covered Payroll (c) | Unfunded Liability as Percentage of Covered Payroll ([a-b]/c) |
|--------------------------------|--|--|---|--------------------------|-------------------------------------|--|
| 6/30/2004 | \$1,488,781 | \$1,110,061 | \$378,720 | 134.1% | \$859,061 | N/A |
| 6/30/2003 | 1,547,657 | 978,320 | 569,337 | 158.2 | 899,408 | N/A |
| 6/30/2002 | 1,490,777 | 820,753 | 670,024 | 181.6 | 944,164 | N/A |