



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Statement Audit

# Navajo County

Year Ended June 30, 2007

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**Debra K. Davenport**  
Auditor General

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Navajo County  
Financial Statements  
Year Ended June 30, 2007

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

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

**WILLIAM THOMSON**  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Navajo County, Arizona

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Navajo County as of and for the year ended June 30, 2007, 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. 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, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the County retroactively reported all major general infrastructure assets as part of the phased implementation requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

As described in Note 2, beginning in fiscal year 2007, the County School Superintendent's funds are reported as part of the primary government in the nonmajor governmental funds. This change constitutes a change in the County's reporting entity.

The Management's Discussion and Analysis on pages i through vii, the Budgetary Comparison Schedules on pages 37 through 41, and the Schedule of Agent Retirement Plans' Funding Progress on page 42 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.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the County's internal control over financial reporting and on 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, CPA  
Auditor General

September 23, 2009

# Navajo County Management's Discussion and Analysis June 30, 2007

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, 2007. 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 \$99.08 million (net assets). Of this amount, \$22.44 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 \$9.7 million in fiscal year 2007.
- At the close of fiscal year 2007, the County's governmental funds reported combined ending fund balances of \$44.74 million, an increase of \$8.43 million in comparison with the prior year's balance of \$36.31 million. Approximately 67.3 percent of the fund balance, \$30.09 million, is unreserved fund balance available for spending at the County's discretion.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$16.11 million, or 49.7 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.

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Management's Discussion and Analysis  
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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, sanitation, economic opportunity, health and welfare, culture and recreation, and education. Sales taxes, property taxes, intergovernmental revenues and user fees finance most of these activities. *The government-wide financial statements can be found on pages 1-2 of this report.*

### **Fund financial statements**

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for the governmental activities in the government-wide financial statements. Reconciliations between governmental activities as reported in the Statement of Net Assets and the Statement of Activities and the governmental funds as reported in the fund financial statements is provided to facilitate this comparison.

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

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

*Fiduciary funds*—Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's programs. *The fiduciary funds financial statements can be found on pages 11-12 of this report.*

*Notes to the financial statements*—The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. *The notes to the financial statements can be found on pages 13-34 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 36-42 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, 2007, compared to the prior year.

	Governmental Activities	
	2007	(as restated) 2006
Current and other assets	\$ 49,092,565	\$38,666,746
Capital assets	<u>61,266,233</u>	<u>61,161,010</u>
Total assets	<u>110,358,798</u>	<u>99,827,756</u>
Other liabilities	3,408,078	3,057,797
Long-term liabilities outstanding	<u>7,866,839</u>	<u>7,385,897</u>
Total liabilities	<u>11,274,917</u>	<u>10,443,694</u>
Net Assets:		
Invested in capital assets, net of related debt	55,332,385	55,205,326
Restricted	21,309,950	17,080,253
Unrestricted	<u>22,441,546</u>	<u>17,098,483</u>
Total net assets	<u>\$ 99,083,881</u>	<u>\$89,384,062</u>

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The County's current and other assets from governmental activities increased \$10.43 million or 26.96 percent, in the current fiscal year. This increase was mainly due to an increase in cash and cash equivalents of \$10.85 million. This increase can be attributed to a general increase in revenues and an increase in short-term liabilities, which resulted in a temporary timing difference between when liabilities were paid and lowering cash consumption during the fiscal year.

The County's net assets from governmental activities at the end of the fiscal year were \$99.08 million. The increase of \$9.70 million is primarily due to revenues exceeding expenditures, in the current fiscal year.

A large portion of the County's net assets, 55.84 percent (\$55.33 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.

21.51 percent of the County's net assets (\$21.31 million) are subject to external restrictions on how they may be used. The County's restricted net assets increased by 24.76 percent (\$4.23 million) in the current fiscal year. The majority of this increase resulted from an increase in fund balance/net assets of \$1.01 million in the Public Works/HURF fund, and increased amounts reserved for capital projects of \$1.72 million.

The remaining balance of the County's net assets, 22.65 percent (\$22.44 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 2007 compared to the prior year.

	Governmental Activities	
	(as restated)	
	2007	2006
Program revenues:		
Charges for services	\$ 8,004,536	\$ 7,515,243
Operating grants and contributions	12,698,613	12,885,630
Capital grants and contributions	<u>12,956,489</u>	<u>12,567,738</u>
Total program revenues	33,659,638	32,968,611
General revenues:		
Property taxes	8,636,394	7,973,918
Sales taxes	6,917,401	7,372,931
State shared revenues	13,382,059	12,669,079
Grants and contributions not restricted to specific programs	1,433,848	1,703,801
Investment earnings	1,733,012	909,436

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June 30, 2007

	Governmental Activities	
	2007	(as restated) 2006
Gain on disposal of capital assets	\$ 104,656	\$ 59,167
Miscellaneous	<u>1,016,509</u>	<u>581,789</u>
Total general revenues	<u>33,223,879</u>	<u>31,270,121</u>
Total revenues	<u>66,883,517</u>	<u>64,238,732</u>
Program expenses:		
General government	19,745,840	19,479,297
Public safety	14,534,493	13,099,102
Highways and streets	10,990,269	9,624,401
Sanitation	18,880	35,887
Economic opportunity	2,162	
Health and welfare	6,274,590	5,874,892
Culture and recreation	554,419	468,926
Education	4,883,527	3,871,350
Interest on long-term debt	<u>179,518</u>	<u>374,442</u>
Total program expenses	<u>57,183,698</u>	<u>52,828,297</u>
Change in net assets	<u>9,699,819</u>	<u>11,410,435</u>
Net assets, beginning, as restated	<u>89,384,062</u>	<u>77,973,627</u>
Net assets, ending	<u>\$99,083,881</u>	<u>\$89,384,062</u>

Overall revenues increased by 4.12 percent and program expenses increased by 8.24 percent in the current fiscal year.

Charges for services increased by \$489,293, or 6.51 percent, in the current fiscal year resulting from population growth.

Highways and streets expenses increased by \$1.37 million, or 14.19 percent, in the current fiscal year resulting from expenditures for the Lone Pine Dam Bridge, Porter Mountain Road, and other county road improvement projects.

Education expenses increased by \$1.01 million, or 26.15 percent, in the current fiscal year. This increase was mainly due to an increase of \$852,581 in the County's Rainbow Accommodation School resulting from an increase in its number of students and an increase in the dollars spent per pupil.

### Financial Analysis of the County's Funds

The County reported two major funds for this fiscal year—General Fund and Public Works/HURF. At year-end, the County's governmental funds reported combined fund balances of \$44.74 million, which is an increase of \$8.43 million from last year or a change of 23.22 percent. Of the total, \$30.09 million constitutes unreserved fund balance.

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Management's Discussion and Analysis  
June 30, 2007

Revenues for governmental functions overall increased by \$6.53 million, an increase of 10.84 percent, and expenditures for governmental functions increased by \$3.02 million, an increase of 5.41 percent in the current fiscal year. Governmental function revenues exceed expenditures by \$8.03 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 balance of the General Fund was \$16.11 million. Unreserved fund balances represents 45.68 percent of total General Fund expenditures and transfers out. This ratio indicates a strong fund balance position in comparison to expenditures. The General Fund's unreserved fund balance increased by \$2.13 million over the previous fiscal year primarily due to actual revenues exceeding budgeted amounts by \$3.20 million.

The Public Works/HURF Fund's fund balance increased by \$2.61 million in the current fiscal year. The primary factor for the increase was the additional HURF monies received from the State in comparison to expenditures incurred by the County for road improvement and maintenance projects during the year.

### General Fund Budgetary Highlights

For the General Fund, actual revenues exceeded the original and final budget by \$3.20 million while the actual expenditures were \$8.25 million less than the amount budgeted. The budget variance for revenues in the General Fund was primarily due to positive economic conditions in the region. The expenditure variance was primarily due to not spending contingency monies and delays in construction projects.

### Capital Assets and Debt Administration

#### Capital Assets

During the current fiscal year, the County completed and continued various construction projects that added \$176 thousand to the County's building inventory, \$2.56 million to the County's machinery and equipment inventory, and \$1.89 million to the County's infrastructure inventory. Also, the capital assets beginning balances were restated (decreased) by \$4.35 million resulting from the County completing a comprehensive inventory of its capital assets during the year. Consequently, buildings, infrastructure, and machinery and equipment increased by 0.08, 3.19, and 13.91 percent, respectively. *Additional information on capital assets can be found in Notes 6 and 7 on pages 26-27 of this report.*

#### Debt Administration

At the end of the current fiscal year, the County had total long-term liabilities outstanding of \$7.87 million, which included certificates of participation outstanding of \$5.92 million that financed the construction of jail facilities. Included in long-term liabilities is \$1.72 million for the future payment of compensated absences for unused employee vacation leave. The remainder of the long-term liabilities consists of capital leases, estimated landfill closure, and postclosure care costs, and claims and judgments payable. 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 Notes 8 and 9 on pages 27-30 of this report.*

## Economic Factors and Next Year's Budget

There has been a significant downturn in the national and state economy during 2008 and 2009. Certain economists are predicting an end to the recession at the end of 2009 with a very modest recovery during 2010. 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.

## Other Significant Matters

On June 4, 2008, the County issued \$6.6 million of Pledged Revenue Obligations for the construction of a new county administrative building in Heber-Overgaard, purchase of three existing buildings in Show Low, and renovations and improvements to water tanks, the electrical system, and other improvements at the county complex in Holbrook. *Additional information can be found in Note 14 on page 34 of this report.*

## 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, Arizona 86025.

Navajo County  
Statement of Net Assets  
June 30, 2007

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 43,163,296
Cash and investments held by trustee	1,460,721
Receivables:	
Property taxes	384,934
Accrued interest	360,421
Loans	80,860
Due from other governments	3,244,633
Inventories	397,700
Capital assets, not being depreciated	6,149,658
Capital assets, being depreciated, net	55,116,575
Total assets	110,358,798
 <b>Liabilities</b>	
Accounts payable	2,702,653
Incurred but not reported (IBNR) claims	686,000
Due to other governments	19,425
Noncurrent liabilities	
Due within 1 year	1,787,894
Due in more than 1 year	6,078,945
Total liabilities	11,274,917
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	55,332,385
Restricted for:	
Highways and streets	14,441,982
Debt service	1,995,785
Capital projects	4,791,323
Other purposes	80,860
Unrestricted	22,441,546
Total net assets	\$ 99,083,881

See accompanying notes to financial statements.

Navajo County  
Statement of Activities  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 19,745,840	\$ 4,882,461	\$ 2,241,225	\$ 70,668	\$ (12,551,486)
Public safety	14,534,493	2,910,947	3,062,299	27	(8,561,220)
Highways and streets	10,990,269	115,198	184,839	12,885,794	2,195,562
Sanitation	18,880				(18,880)
Economic opportunity	2,162				(2,162)
Health and welfare	6,274,590	95,930	2,227,071		(3,951,589)
Culture and recreation	554,419		38,313		(516,106)
Education	4,883,527		4,944,866		61,339
Interest on long-term debt	179,518				(179,518)
Total governmental activities	<u>\$ 57,183,698</u>	<u>\$ 8,004,536</u>	<u>\$ 12,698,613</u>	<u>\$ 12,956,489</u>	<u>(23,524,060)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					5,105,627
Property taxes, levied for flood control					1,788,336
Property taxes, levied for public health district					1,488,910
Property taxes, levied for library district					253,521
General county sales tax					6,778,153
Franchise tax					139,248
Shared revenues—state sales tax					10,992,764
Shared revenues—vehicle license tax					2,389,295
Grants and contributions not restricted to specific programs					1,433,848
Investment earnings					1,733,012
Gain on disposal of capital assets					104,656
Miscellaneous					1,016,509
Total general revenues					<u>33,223,879</u>
Change in net assets					9,699,819
Net assets, July 1, 2006, as restated					<u>89,384,062</u>
Net assets, June 30, 2007					<u>\$ 99,083,881</u>

See accompanying notes to financial statements.

Navajo County  
Balance Sheet  
Governmental Funds  
June 30, 2007

	<u>General Fund</u>	<u>Public Works/ HURF Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 15,252,468	\$ 14,249,910	\$ 12,340,177	\$ 41,842,555
Cash and investments held by trustee			1,460,721	1,460,721
Receivables:				
Property taxes	212,495		172,439	384,934
Accrued interest	125,174	110,799	118,803	354,776
Due from other governments	1,734,556	1,034,669	475,408	3,244,633
Inventories		397,700		397,700
Total assets	<u>\$ 17,324,693</u>	<u>\$ 15,793,078</u>	<u>\$ 14,567,548</u>	<u>\$ 47,685,319</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 1,064,663	\$ 1,144,722	\$ 493,268	\$ 2,702,653
Due to other governments	19,425			19,425
Deferred revenue	<u>129,692</u>		<u>98,257</u>	<u>227,949</u>
Total liabilities	<u>1,213,780</u>	<u>1,144,722</u>	<u>591,525</u>	<u>2,950,027</u>
Fund balances:				
Reserved for:				
Inventories		397,700		397,700
Unreserved, reported in:				
General fund	16,110,913			16,110,913
Special revenue funds		14,250,656	7,188,915	21,439,571
Capital projects funds			4,791,323	4,791,323
Debt service funds			<u>1,995,785</u>	<u>1,995,785</u>
Total fund balances	<u>16,110,913</u>	<u>14,648,356</u>	<u>13,976,023</u>	<u>44,735,292</u>
Total liabilities and fund balances	<u>\$ 17,324,693</u>	<u>\$ 15,793,078</u>	<u>\$ 14,567,548</u>	<u>\$ 47,685,319</u>

See accompanying notes to financial statements.

Navajo County  
 Reconciliation of the Balance Sheet to the Statement of Net Assets  
 Governmental Funds  
 June 30, 2007

Fund balances—total governmental funds	\$ 44,735,292
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	61,266,233
Some receivables are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	227,949
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.	640,386
Some assets are not available in the current-period and, therefore, are not reported in the funds.	80,860
Some liabilities, including certificates of participation payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(7,866,839)</u>
Net assets of governmental activities	<u>\$ 99,083,881</u>

See accompanying notes to financial statements.

Navajo County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2007

	<u>General Fund</u>	<u>Public Works/ HURF Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 5,142,732		\$ 3,530,767	\$ 8,673,499
Licenses and permits	836,738		43,128	879,866
Fines and forfeits	1,140,933		505,250	1,646,183
Intergovernmental	21,733,308	\$ 12,820,152	12,796,669	47,350,129
Charges for services	4,196,291	115,198	1,166,998	5,478,487
Investment earnings	586,913	544,432	596,388	1,727,733
Contributions			38,281	38,281
Miscellaneous	<u>539,973</u>	<u>70,034</u>	<u>380,983</u>	<u>990,990</u>
Total revenues	<u>34,176,888</u>	<u>13,549,816</u>	<u>19,058,464</u>	<u>66,785,168</u>
Expenditures:				
Current:				
General government	17,073,544		2,901,599	19,975,143
Public safety	10,251,593		3,507,974	13,759,567
Highways and streets		10,401,056	280,756	10,681,812
Sanitation	19,424			19,424
Economic opportunity			2,162	2,162
Health and welfare	3,102,940		3,167,252	6,270,192
Culture and recreation	203,012		359,587	562,599
Education	281,060		4,612,883	4,893,943
Debt service:				
Principal			421,836	421,836
Interest and other charges			179,518	179,518
Capital outlay	<u>1,499,194</u>		<u>491,541</u>	<u>1,990,735</u>
Total expenditures	<u>32,430,767</u>	<u>10,401,056</u>	<u>15,925,108</u>	<u>58,756,931</u>
Excess of revenues over expenditures	<u>1,746,121</u>	<u>3,148,760</u>	<u>3,133,356</u>	<u>8,028,237</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, 2007  
(Continued)

	<u>General Fund</u>	<u>Public Works/ HURF Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):				
Sale of capital assets	\$ 37,981	\$ 26,490	\$ 40,185	\$ 104,656
Transfers in	1,412,354	68,809	2,422,316	3,903,479
Transfers out	<u>(1,063,015)</u>	<u>(632,000)</u>	<u>(1,958,464)</u>	<u>(3,653,479)</u>
Total other financing sources and uses	<u>387,320</u>	<u>(536,701)</u>	<u>504,037</u>	<u>354,656</u>
Net change in fund balances	<u>2,133,441</u>	<u>2,612,059</u>	<u>3,637,393</u>	<u>8,382,893</u>
Fund balances, July 1, 2006, as restated	13,977,472	11,990,667	10,338,630	36,306,769
Increase in reserve for inventories	<u>                    </u>	<u>45,630</u>	<u>                    </u>	<u>45,630</u>
Fund balances, June 30, 2007	<u>\$ 16,110,913</u>	<u>\$ 14,648,356</u>	<u>\$ 13,976,023</u>	<u>\$ 44,735,292</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, 2007

Net change in fund balances—total governmental funds \$ 8,382,893

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	\$ 4,695,816	
Depreciation expense	<u>(4,590,593)</u>	105,223

Collections of revenues in the governmental funds exceeded revenues reported in the Statement of Activities. (26,445)

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 21,836

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.

Increase in compensated absences	(206,322)
Decrease in landfill closure and postclosure care costs	544
Decrease in claims and judgments	400,000

Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.

Increase in inventories 45,630

The internal service fund accounts for self-insured employee benefits provided to county departments on a cost-reimbursement basis. The net revenue of the internal service fund is reported with governmental activities in the Statement of Activities. 976,460

Change in net assets of governmental activities \$ 9,699,819

See accompanying notes to financial statements.

Navajo County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2007

	<u>Governmental Activities— Internal Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,320,741
Accrued interest receivable	<u>5,645</u>
Total current assets	<u>1,326,386</u>
Total assets	<u>1,326,386</u>
 Liabilities	
Current liabilities:	
Incurred but not reported (IBNR) claims	<u>686,000</u>
Total current liabilities	<u>686,000</u>
Total liabilities	<u>686,000</u>
 Net Assets	
Unrestricted	<u>640,386</u>
Total net assets	<u><u>\$ 640,386</u></u>

See accompanying notes to financial statements.

Navajo County  
Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
Year Ended June 30, 2007

	<u>Governmental Activities— Internal Service Fund</u>
Operating revenues:	
Charges for services—insurance premiums	\$ 5,329,358
Miscellaneous revenue	<u>14,859</u>
Total operating revenues	<u>5,344,217</u>
Operating expenses:	
Medical and dental claims and services	3,408,766
Insurance premiums	229,584
Claims administration	303,355
General operating	<u>181,331</u>
Total operating expenses	<u>4,123,036</u>
Operating income	<u>1,221,181</u>
Nonoperating revenues:	
Investment earnings	<u>5,279</u>
Total nonoperating revenues	<u>5,279</u>
Transfers out	<u>250,000</u>
Increase in net assets	976,460
Deficit, July 1, 2006, as restated	<u>(336,074)</u>
Net assets, June 30, 2007	<u><u>\$ 640,386</u></u>

See accompanying notes to financial statements.

Navajo County  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2007

	<u>Governmental Activities— Internal Service Fund</u>
Cash flows from operating activities:	
Receipts from other funds for insurance premiums	\$ 5,329,358
Payments to suppliers and providers of goods and services	(4,134,036)
Other receipts	<u>14,859</u>
Net cash provided by operating activities	<u>1,210,181</u>
Cash flows from noncapital financing activities:	
Cash transfers to other funds	<u>(250,000)</u>
Net cash used for noncapital financing activities	<u>(250,000)</u>
Cash flows from investing activities:	
Interest received on investments	<u>1,729</u>
Net cash provided by investing activities	<u>1,729</u>
Net increase in cash and cash equivalents	961,910
Cash and cash equivalents, July 1, 2006	<u>358,831</u>
Cash and cash equivalents, June 30, 2007	<u>\$ 1,320,741</u>
Reconciliation of operating income to net cash provide by operating activities:	
Operating income	\$ 1,221,181
Changes in assets and liabilities:	
Decrease in liability for incurred but not reported (IBNR) claims	<u>(11,000)</u>
Net cash provided by operating activities	<u>\$ 1,210,181</u>

See accompanying notes to financial statements.

Navajo County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

	Investment Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 104,547,188	\$ 13,713,433
Interest receivable	820,987	90,919
Total assets	105,368,175	\$ 13,804,352
<b>Liabilities</b>		
Deposits held for other parties		\$ 13,804,352
Total liabilities		\$ 13,804,352
<b>Net Assets</b>		
Held in trust for investment trust participants	\$ 105,368,175	

See accompanying notes to financial statements.

Navajo County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2007

	<b>Investment Trust Funds</b>
Additions:	
Contributions from participants	\$ 241,306,018
Net investment income	<u>4,455,211</u>
Total additions	<u>245,761,229</u>
 Deductions:	
Distributions to participants	<u>244,833,828</u>
 Change in net assets	 927,401
 Net assets, July 1, 2006, as restated	 <u>104,440,774</u>
 Net assets, June 30, 2007	 <u>\$ 105,368,175</u>

See accompanying notes to financial statements.

Navajo County  
Notes to Financial Statements  
June 30, 2007

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, 2007, the County implemented the provisions of GASB Statement No. 34, *Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments* that requires at the applicable transition date the retroactive capitalization and reporting of all major general infrastructure assets.

A. Reporting Entity

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

Component units are legally separate entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the County's operations. Therefore, data from these units is combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the 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.

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

Navajo County  
Notes to Financial Statements  
June 30, 2007

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 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 County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Navajo County Municipal Property Corporation	A nonprofit corporation that assists in the acquisition of tangible real and personal property; exists only to serve the County	Blended	Not available

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

Navajo County  
Notes to Financial Statements  
June 30, 2007

**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,
- operating grants and contributions, and
- capital grants and contributions.

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

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

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

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

The County reports the following major governmental funds:

Navajo County  
Notes to Financial Statements  
June 30, 2007

*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 1/2-cent county sales tax, impact fees, highway user revenues, and vehicle license 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, various local governments, other parties, and for property taxes collected and distributed to the State, local school districts, community college districts, and special districts.

### C. Basis of Accounting

The government-wide, 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.

Navajo County  
Notes to Financial Statements  
June 30, 2007

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 follow 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, respectively.

#### 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.

Navajo County  
Notes to Financial Statements  
June 30, 2007

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	10,000	Straight-line	25-40 years
Machinery and equipment	5,000	Straight-line	3-7 years
Infrastructure	10,000	Straight-line	35 years

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

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

Navajo County  
Notes to Financial Statements  
June 30, 2007

Note 2 - Beginning Balances Restated

As required by GASB Statement No. 34, net assets of the government-wide Statement of Activities as of July 1, 2006, has been restated for the County's major general infrastructure assets acquired prior to the year ended June 30, 2003, the fiscal year in which the County implemented GASB Statement No. 34, consisting of road networks, bridges, and levies that were constructed, purchased, or donated to the County, or that received substantial improvements from the date that they were placed into service, including assets acquired after July 1, 1980. Also, the County restated governmental activities capital asset balances for corrections of prior periods resulting from the County's comprehensive physical inventory of its capital assets. The total restatement of the governmental activities net assets was (\$4,347,014), comprised of the following:

<b>Asset Class</b>	<b>Amount</b>
Land	\$ (866,997)
Construction in progress	247,187
Buildings	(21,237,952)
Infrastructure	18,708,881
Improvements other than buildings	(96,044)
Machinery and equipment	<u>(1,102,089)</u>
Total	<u>\$ (4,347,014)</u>

On July 1, 2006, the County restated governmental activities long-term liabilities balances for corrections of prior periods pertaining to compensated absences and claims and judgments totaling \$101,154 and (\$81,572), respectively. As a result, the County restated beginning net assets of the governmental activities for (\$19,582).

On July 1, 2006, the County restated beginning net assets of governmental activities and beginning fund balances of the governmental fund financial statements for cash and cash equivalents balances for prior period corrections of (\$279,301) pertaining to cash in bank and cash on hand amounts that were improperly recorded on the County's general ledger. In addition, the County restated cash and cash equivalents and beginning net assets/fund balance for prior period corrections of (\$355,251) resulting from the reconciliation performed by the County during the current fiscal year to substantially agree the cash amounts recorded on the County's system to corresponding amounts recorded on the Treasurer's system. As a result, the County restated net assets of governmental activities and beginning fund balances of the governmental fund financial statements for (\$634,552).

On July 1, 2006, the County restated cash and investments held by trustee for prior period corrections relating to certificates of participation principal payments (\$265,000) and interest payments (\$185,623) that were not recorded on the prior year financial statements as the funds were not disbursed by the trustee until after fiscal year end. As a result, the County restated net assets of governmental activities and beginning fund balances of the governmental fund financial statements for (\$450,623).

Navajo County  
Notes to Financial Statements  
June 30, 2007

On July 1, 2006, the County restated net assets of governmental activities and beginning fund balances of the governmental fund financial statements for prior period corrections of \$1,095,463 relating to property tax collections accounted for in the Agency Funds in previous years that had not been distributed to the General Fund. The fund was closed, and remaining cash and interest was transferred to the General Fund.

On July 1, 2006, the County restated beginning fund balances of the governmental fund financial statements for prior period corrections of \$710,489 relating to various highways and streets activity recorded in the other governmental funds in previous years; however, this activity should be reported in the Public Works/HURF Fund.

On July 1, 2006, the County restated beginning net assets of governmental activities and the beginning fund balances of the governmental fund and internal service fund financial statements for the reclassification of the County's Employee Benefit Trust (Trust) and prior period corrections. The Trust was accounted for in the County's other governmental funds; however, since the trust provides employee medical and dental benefits to county departments on a cost reimbursement basis, it was determined that the Trust should be accounted for as an internal service fund. The restatement net assets/fund balances was comprised of the following:

	<b>Governmental Activities</b>	<b>Governmental Funds</b>	<b>Internal Service Funds</b>
Cash and cash equivalents	\$ 257,584	\$(101,576)	\$ 359,160
Liabilities incurred but not reported claims	<u>(697,000)</u>	<u>                    </u>	<u>(697,000)</u>
Total	<u><u>\$(439,416)</u></u>	<u><u>\$(101,576)</u></u>	<u><u>\$(337,840)</u></u>

On July 1, 2006, the County restated net assets of governmental activities and beginning fund balances of the governmental fund financial statements for \$2,011,346 for the addition of the County School Superintendent's funds. The Navajo County School Office, Rainbow Accommodation School, Hope School, and the Navajo County Special Services Consortium, previously unreported on prior years financial statements, was considered part of Navajo County's reporting entity.

Navajo County  
Notes to Financial Statements  
June 30, 2007

Beginning net assets and fund balances were adjusted for the above, as follows:

	<u>Government-Wide Statements</u>	<u>Fund Statements</u>			
	<u>Governmental Activities</u>	<u>General Fund</u>	<u>Public Works/HURF Fund</u>	<u>Other Governmental Funds</u>	<u>Internal Service Fund</u>
Net assets/ fund balances as of June 30, 2006, as previously reported	\$92,168,440	\$12,379,484	\$10,983,270	\$11,025,723	
Capital assets (net of accumulated depreciation):	(4,347,014)				
Long-term liabilities	(19,582)				
Cash and cash equivalents	(634,552)	502,525	296,908	(1,435,751)	\$ 1,766
Cash and investments held by trustee	(450,623)			(450,623)	
Agency fund reclassified as general fund	1,095,463	1,095,463			
Reclassify public works activity recorded as other governmental funds			710,489	(710,489)	
Employee benefits trust reclassified as an internal service fund	(439,416)			(101,576)	(337,840)
School Superintendant funds included on County's financial statements	<u>2,011,346</u>	<u>                    </u>	<u>                    </u>	<u>2,011,346</u>	<u>                    </u>
Net assets/fund balances (deficits) as of July 1, 2006, as restated	<u>\$89,384,062</u>	<u>\$13,977,472</u>	<u>\$11,990,667</u>	<u>\$10,338,630</u>	<u>\$(336,074)</u>

On July 1, 2006, the County restated beginning net assets in the investment trust funds to reclassify (\$2,474,444) of agency fund monies and (\$1,690,305) of County School Superintendent funds previously recorded in the investment trust funds. The beginning net assets of the investment trust funds were adjusted for the above, as follows:

	<u>Investment Trust Funds</u>
Net assets reported as of June 30, 2006	\$108,605,523
Reclassification adjustments	<u>(4,164,749)</u>
Net assets as of July 1, 2006, as restated	<u>\$104,440,774</u>

Navajo County  
Notes to Financial Statements  
June 30, 2007

Note 3 - Stewardship, Compliance, and Accountability

At June 30, 2007, the following funds reported deficits in fund balances in excess of \$20,000, which violate state statutes:

Fund	Deficit
Governmental funds:	
Child Support IV-D	\$698,921
Watershed Protection—Phase I	634,322
Diversion Intake	136,451
MIS-DS3/ATM Circuit Consolidation Project	123,414
Drug Enforcement Support CT/AD Probation	123,414
Noticing & Court Clerk—FTG 01/02	112,257
Bio Terrorism-Phases I & II	55,390
Trinity Enterprise Inc./So. West Tissue	88,203
Home Housing Rehabilitation—#307-04	59,528
Potato Complex Fire	80,924
WIA—E5705009—ACP PY04 & FY 04	24,335
Maricopa/Apache—IGA#22-06-161-2	22,389
HAVA (008)	57,203
Community Gun Violence Prosecution	73,054
Victim Right—AVRIA—Attorney	79,184
Victim Assistance	55,524
Drug Enforcement Attorney	41,635
Pandemic Influenza	72,314
Nutrition Network	39,251
WIC	97,606
Waste Tire Disposal Program	38,962
Gates Foundation Grant	82,952
Drug Enforcement Sheriff	90,551
COPS Methamphetamine Grant	44,931
Juvenile Intensive Probation Services/JIPS	91,994
Juvenile Standard Probation—State Aid Salary	80,009
Adult Intensive Probation Service	36,708
CASA/Court Appointed Special Advocate	38,896
Safe School—Show Low	34,988
Safe School—Snowflake	34,829
Juvenile Treatment Services	71,299

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.

Navajo County  
Notes to Financial Statements  
June 30, 2007

Note 4 - Deposits and Investments

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

Credit risk

Statutes have the following requirements for credit risk:

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

Custodial credit risk

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

Concentration of credit risk

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

Interest rate risk

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

Foreign currency risk

Statutes do not allow foreign investments.

**Deposits**—At June 30, 2007, the carrying amount of the County's deposits was \$54,346,573, and the bank balance was \$52,632,820. The County's formal policy is to follow collateralization requirements set forth in the Arizona Revised Statutes §35-323.

Navajo County  
Notes to Financial Statements  
June 30, 2007

At June 30, 2007, \$51,774,833 of the County's bank balance was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 3,290
Uninsured with collateral held by the pledging financial institution	<u>51,771,543</u>
	<u>\$51,774,833</u>

**Investments**—The County's investments at June 30, 2007, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 88,735,763
U.S. Treasury money market fund	1,460,721
Repurchase agreements	<u>18,252,619</u>
	<u>\$108,449,103</u>

**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, 2007, credit risk for the County's investments were as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard & Poors	\$ 88,735,763
U.S. Treasury money market fund	AAAm-G	Standard & Poors	1,460,721
Repurchase agreements	Aa1	Moody's	<u>18,252,619</u>
			<u>\$108,449,103</u>

**Custodial credit risk**—For an investment, custodial credit risk is the risk that in the event of the counterparty's failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County's formal policy stipulates that securities that are held in a custody or safekeeping account must be held under the name of Navajo County or Navajo County Treasurer. At June 30, 2007, the County had \$1,460,721 of money market funds that were uninsured and held by the counterparty not in the County's name and \$18,252,619 of repurchase agreements that were uninsured and held by the counterparty's trust department or agent not in the County's name.

**Concentration of credit risk**—The County's formal policy stipulates that the County will diversify the investment portfolio by limiting investments to avoid over-concentration in securities from a specific issuer, excluding obligations issued or guaranteed by the United States or any of the senior debt of its agencies or sponsored agencies. The County had investments at June 30, 2007, of 5 percent or more in repurchase agreements (J.P. Morgan Mortgage Trust), Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and the Federal Home Loan Bank. These investments were 16.83 percent, 11.07 percent, 19.36 percent, and 48.62 percent, respectively, of the County's total investments.

Navajo County  
Notes to Financial Statements  
June 30, 2007

**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, 2007, the County had the following investments in debt securities:

Investment	Amount	Weighted Average Maturity (In Years)
U.S. agency securities	\$ 88,735,763	1.06
U.S. Treasury money market funds	1,460,721	.13
Repurchase agreements	<u>18,252,619</u>	.01
	<u>\$108,449,103</u>	

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

Cash, deposits, and investments:

Cash on hand	\$ 88,962
Amount of deposits	54,346,573
Amount of investments	<u>108,449,103</u>
Total	<u>\$162,884,638</u>

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and cash equivalents	\$43,163,296	\$104,547,188	\$13,713,433	\$161,423,917
Cash and investments held by trustee	<u>1,460,721</u>	<u>                    </u>	<u>                    </u>	<u>1,460,721</u>
Total	<u>\$44,624,017</u>	<u>\$104,547,188</u>	<u>\$13,713,433</u>	<u>\$162,884,638</u>

**Note 5 - Due from Other Governments**

Amounts due from other governments at June 30, 2007, include \$1,343,412 in state and county sales taxes, \$220,033 in vehicle license taxes from the State of Arizona, \$750,933 in state-shared revenue from highway user taxes, and \$930,255 in various grants from the state and federal governments.

Navajo County  
Notes to Financial Statements  
June 30, 2007

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance June 30, 2006 (as restated)	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 5,144,406			\$ 5,144,406
Construction in progress	<u>936,288</u>	<u>\$1,955,926</u>	<u>\$1,886,962</u>	<u>1,005,252</u>
Total capital assets, not being depreciated	<u>6,080,694</u>	<u>1,955,926</u>	<u>1,886,962</u>	<u>6,149,658</u>
Capital assets, being depreciated:				
Buildings	22,683,840	176,201		22,860,041
Infrastructure	59,104,465	1,886,962		60,991,427
Machinery and equipment	<u>18,435,968</u>	<u>2,563,689</u>	<u>90,922</u>	<u>20,908,735</u>
Total capital assets, being depreciated	<u>100,224,273</u>	<u>4,626,852</u>	<u>90,922</u>	<u>104,760,203</u>
Less: accumulated depreciation for:				
Buildings	9,803,863	1,088,060		10,891,923
Infrastructure	22,438,268	1,644,905		24,083,173
Machinery and equipment	<u>12,901,826</u>	<u>1,857,628</u>	<u>90,922</u>	<u>14,668,532</u>
Total accumulated depreciation	<u>45,143,957</u>	<u>4,590,593</u>	<u>90,922</u>	<u>49,643,628</u>
Total capital assets, being depreciated, net	<u>55,080,316</u>	<u>36,259</u>	<u>          </u>	<u>55,116,575</u>
Governmental activities capital assets, net	<u>\$ 61,161,010</u>	<u>\$1,992,185</u>	<u>\$1,886,962</u>	<u>\$ 61,266,233</u>

The July 1, 2006, governmental activities capital asset balances were restated to include major general infrastructure assets of the County for the implementation of GASB Statement No. 34 and prior period corrections resulting from the County performing a comprehensive physical inventory of its capital assets. See Note 2—Beginning Balances Restated for additional information.

Depreciation expense was charged to functions as follows:

General government	\$ 660,445
Public safety	1,450,982
Highways and streets	2,312,699
Health and welfare	164,241
Culture and recreation	<u>2,226</u>
Total governmental activities depreciation expense	<u>\$4,590,593</u>

Navajo County  
Notes to Financial Statements  
June 30, 2007

Note 7 - Construction and Other Significant Commitments

The County had major contractual commitments related to various capital projects at June 30, 2007, for the construction of roads and bridges. At June 30, 2007, the County had spent \$1,005,252 on these projects and had remaining contractual commitments with contractors of \$8,510,308. These projects are being primarily financed through Highway User Revenue Fund (HURF) monies.

Note 8 - Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2007:

Governmental Activities	Balance July 1, 2006 (as restated)	Additions	Reductions	Balance June 30, 2007	Due within 1 year
Compensated absences payable	\$1,513,465	\$1,416,846	\$1,210,524	\$1,719,787	\$1,288,502
Certificates of participation payable	5,915,000			5,915,000	280,000
Capital lease payable	40,684		21,836	18,848	18,848
Landfill closure and post-closure care costs payable	13,748		544	13,204	544
Claims and judgments payable	<u>600,000</u>	<u>          </u>	<u>400,000</u>	<u>200,000</u>	<u>200,000</u>
Total	<u>\$8,082,897</u>	<u>\$1,416,846</u>	<u>\$1,632,904</u>	<u>\$7,866,839</u>	<u>\$1,787,894</u>

There are various special assessment districts within Navajo County that have issued debt to finance the construction or improvement of roads, water and wastewater systems, and community facilities. The County functions as an agent for the property owners by collecting assessments and forwarding collections to the special assessment debt-holders; however, the County is in no manner obligated to repay the special assessment debt. Therefore, the debt of these districts is not recorded on the County's financial statements, and these districts are included as agency funds on the County's Statement of Fiduciary Net Assets. At June 30, 2007, the amount of special assessment debt outstanding was \$2,950,589.

The July 1, 2006, compensated absences and claims and judgments payables balances were restated for prior period corrections. See Note 2—Beginning Balances Restated for additional information.

Navajo County  
Notes to Financial Statements  
June 30, 2007

**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 was \$7,320,000.

Certificates outstanding at June 30, 2007, 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	2008 – 2020	5.00 – 6.25%	<u>\$5,915,000</u>

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2007:

Year ending June 30	<u>Governmental Activities</u>	
	Principal	Interest
2008	\$ 280,000	\$ 348,970
2009	295,000	333,010
2010	310,000	316,031
2011	330,000	298,031
2012	355,000	278,100
2013-17	2,120,000	1,033,356
2018-21	<u>2,225,000</u>	<u>289,531</u>
Total	<u>\$5,915,000</u>	<u>\$2,897,029</u>

**Compensated absences and claims and judgments**—Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. Claims and judgments are generally paid from the fund that accounts for the activity that gave rise to the claim. During fiscal year 2007, the County paid for compensated absences as follows: 66 percent from the General Fund, 12 percent from the Public Works/HURF Funds, and 22 percent from the Other Governmental Funds. On October 15, 2004, Navajo County settled the lawsuit Hancock vs. Navajo County. The lawsuit was the result of flooding of the Little Colorado River because there was a breach in the Winslow levy. In conjunction with the settlement agreement, Navajo County agreed to pay the plaintiffs \$1.4 million. The final payment of \$200,000 of the \$1.4 million settlement is due to be paid on October 1, 2007.

## 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.

Navajo County  
Notes to Financial Statements  
June 30, 2007

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 \$25,000 per occurrence for liability claims. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

The Arizona Counties Property and Casualty Pool and the Arizona Counties Workers' Compensation Pool receive independent audits annually and an audit by the Arizona Department of Insurance every 5 years. Both pools accrue liabilities for losses that have been incurred but not reported. These liabilities are determined annually based on an independent actuarial valuation.

**Employee Benefits Trust**—The Employee Benefits Trust (an Internal Service Fund) accounts for the financing of certain 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. Two claims exceeded this commercial insurance coverage and the Trust was reimbursed \$36,843 for amounts exceeding the stop loss reinsurance maximums. On July 1, 2006, the Employee Benefit Trust began using a new third party administrator and underwriter; consequently, reinsurance reimbursement amounts are not known for prior fiscal years.

The insurance claims payable liability of the Fund totaling \$686,000 at June 30, 2007, is the estimated ultimate cost of settling claims that have been incurred but not reported (IBNR). This estimate is based on actuarial estimates. Prior year claims information was not available. Changes in the Fund's claims payable for the year ended June 30, 2007, is as follows:

Navajo County  
Notes to Financial Statements  
June 30, 2007

Claims payable, beginning of year	\$ 697,000
Current-year claims and changes in estimates	3,408,766
Claims payments	<u>(3,419,766)</u>
Claims payable, end of year	<u>\$ 686,000</u>

Note 10 - Operating Leases

The County leases office space and land under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$77,130 for the year ended June 30, 2007. The operating leases have remaining noncancelable terms from 1 to 15 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2007, were as follows:

	<b>Governmental Activities</b>
Year ending June 30	
2008	\$ 82,447
2009	67,200
2010	46,983
2011	37,965
2012	24,600
2013 – 2017	123,000
2018 – 2022	<u>118,200</u>
Total minimum lease payments	<u>\$500,395</u>

Note 11 - 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.

Navajo County  
Notes to Financial Statements  
June 30, 2007

The *Corrections Officer Retirement Plan* (CORP) is an agent multiple-employer defined benefit pension plan that covers certain employees of the State of Arizona, 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) is a cost-sharing multiple-employer defined benefit pension 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.

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.

***Cost-sharing plans***—For the year ended June 30, 2007, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 9.1 percent (8.6 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, 2007, 2006, and 2005 were \$1,504,368, \$1,207,137, and \$843,040, 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 11 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, 2007, 2006, and 2005 were \$157,577, \$176,540, and \$76,198, respectively, which were equal to the required contributions for the year.

***Agent plans***—For the year ended June 30, 2007, 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 16.52 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 7.01 percent.

Navajo County  
Notes to Financial Statements  
June 30, 2007

**Annual Pension Cost**—The County’s pension cost for the two agent plans for the year ended June 30, 2007, and related information follows:

	PSPRS	CORP
Contribution rates:		
County	16.52%	7.01%
Plan members	7.65%	8.50%
Annual pension costs	\$254,553	\$69,119
Contributions made	\$254,553	\$69,119

The current-year annual required contribution for the PSPRS and CORP were determined as a part of their June 30, 2005, actuarial valuations using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.50 percent investment rate of return and (b) projected salary increases ranging from 5.50 percent to 8.50 percent per year that included an inflation component of 5.00 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 7-year period. The unfunded (excess) actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2005, was 30 years.

**Trend Information**—Annual pension cost information for the current and 2 preceding years follows for each of the agent plans:

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2007	\$254,553	100%	\$ 0
	2006	219,877	100%	0
	2005	161,564	100%	0
CORP	2007	\$69,119	100%	\$ 0
	2006	52,292	100%	0
	2005	21,455	100%	0

Navajo County  
Notes to Financial Statements  
June 30, 2007

Note 12 - Interfund Activity

Interfund transfers—Interfund transfers for the year ended June 30, 2007, were as follows:

<u>Transfer out</u>	<u>Transfers in</u>			<u>Total</u>
	<u>General Fund</u>	<u>Public Works/ HURF Fund</u>	<u>Other Governmental Funds</u>	
General Fund		\$68,809	\$ 994,206	\$1,063,015
Public Works/HURF Fund	\$ 632,000			632,000
Other Governmental Funds	530,354		1,428,110	1,958,464
Internal Service Funds	<u>250,000</u>			<u>250,000</u>
Total	<u>\$1,412,354</u>	<u>\$68,809</u>	<u>\$2,422,316</u>	<u>\$3,903,479</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 13 - County Treasurer's Investment Pool

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

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

The Treasurer allocates interest earning 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 \$1,499,540 in deposits and \$1,460,721 of investments in U.S. Treasury securities 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.

Navajo County  
Notes to Financial Statements  
June 30, 2007

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
U.S. agency securities	\$88,735,763	2.70-5.55%	07/07 – 03/10	\$87,929,070
Repurchase agreements	18,252,619	4.64	07/07	18,252,619

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

**Statement of Net Assets**

Assets	\$159,924,377
Net assets	<u>\$159,924,377</u>

Net assets held in trust for:

Internal participants	\$ 54,556,202
External participants	<u>105,368,175</u>
Total net assets held in trust	<u>\$159,924,377</u>

**Statement of Changes in Net Assets**

Total additions	\$330,796,167
Total deductions	<u>319,140,603</u>
Net increase	<u>11,655,564</u>

Net assets held in trust:

July 1, 2006	<u>148,268,813</u>
June 30, 2007	<u>\$159,924,377</u>

**Note 14 - Subsequent Event**

On June 4, 2008, Navajo County issued \$6,600,000 of Pledged Revenue Obligations with an interest rate ranging from 3.5 percent to 4 percent and maturing on July 1, 2023. The net proceeds will be used for the construction of a new county administrative building in Heber-Overgaard, which will include space for a Sheriff's substation, health services, and court room; facility renovations and improvements of the water tanks and other facilities at the County Complex in Holbrook; renovations and improvements to the electrical system at the County Complex in Holbrook; and the acquisition of sites, improvements and buildings in Show Low, Arizona, with an estimated cost to complete the above projects of \$750,000, \$660,000, \$2,300,000 and \$2,613,000, respectively.



## Other Required Supplementary Information

Navajo County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2007

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Property taxes	\$ 5,263,444	\$ 5,142,732	\$ (120,712)
Licenses and permits	3,799,276	836,738	(2,962,538)
Fines and forfeits	951,378	1,140,933	189,555
Intergovernmental	19,241,759	21,733,308	2,491,549
Charges for services	1,323,485	4,196,291	2,872,806
Investment earnings	249,145	586,913	337,768
Miscellaneous	148,623	539,973	391,350
Total revenues	<u>30,977,110</u>	<u>34,176,888</u>	<u>3,199,778</u>
Expenditures:			
General government			
Board of supervisors	547,796	558,713	(10,917)
Administration	1,497,800	1,302,971	194,829
Buildings and grounds	1,689,080	1,706,303	(17,223)
Elections	558,438	518,606	39,832
Planning and zoning	893,435	853,373	40,062
Recorder	272,954	228,465	44,489
Voter registration	162,445	135,361	27,084
Assessor	1,173,647	981,510	192,137
Information technology	711,726	779,853	(68,127)
Treasurer	429,032	388,563	40,469
Miscellaneous	1,495,698	1,563,897	(68,199)
Legal defender	367,850	343,667	24,183
County attorney	1,835,054	1,714,635	120,419
Superior court	2,399,111	2,395,796	3,315
Public defender	967,940	844,028	123,912
Clerk of court	1,033,182	941,158	92,024
Holbrook justice court	274,726	334,842	(60,116)
Winslow justice court	288,729	303,712	(14,983)
Snowflake justice court	314,817	338,419	(23,602)
Show Low justice court	245,596	254,330	(8,734)
Pinetop justice court	292,386	317,130	(24,744)
Kayenta justice court	116,104	120,704	(4,600)
Kayenta constable	24,200	12,009	12,191

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2007  
 (Continued)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Pinetop constable	\$ 46,146	\$ 42,161	\$ 3,985
Snowflake constable	24,200	24,195	5
Holbrook constable	24,200	21,846	2,354
Winslow constable	24,200	13,068	11,132
Show Low constable	30,132	34,229	(4,097)
Total general government	<u>17,740,624</u>	<u>17,073,544</u>	<u>667,080</u>
Public safety			
Juvenile detention	903,635	938,642	(35,007)
Juvenile probation	527,758	369,140	158,618
Adult probation	540,859	462,377	78,482
Jail operations	2,744,739	4,238,962	(1,494,223)
Sheriff	4,220,147	4,242,472	(22,325)
Total public safety	<u>8,937,138</u>	<u>10,251,593</u>	<u>(1,314,455)</u>
Sanitation	<u>-</u>	<u>19,424</u>	<u>(19,424)</u>
Health and welfare			
Public fiduciary	536,531	463,100	73,431
Indigent health	3,207,080	2,639,840	567,240
Total health and welfare	<u>3,743,611</u>	<u>3,102,940</u>	<u>640,671</u>
Culture and recreation	<u>219,607</u>	<u>203,012</u>	<u>16,595</u>
Education			
School superintendent	<u>293,481</u>	<u>281,060</u>	<u>12,421</u>
Capital outlay			
Capital outlay	2,500,000	1,475,687	1,024,313
Construction projects	<u>3,250,000</u>	<u>23,507</u>	<u>3,226,493</u>
Total capital outlay	<u>5,750,000</u>	<u>1,499,194</u>	<u>4,250,806</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 General Fund  
 Year Ended June 30, 2007  
 (Continued)

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Contingency	\$ 4,000,000	\$ -	\$ 4,000,000
Total expenditures	40,684,461	32,430,767	8,253,694
Excess (deficiency) of revenues over expenditures	(9,707,351)	1,746,121	11,453,472
Other financing sources (uses):			
Sale of capital assets	39,035	37,981	(1,054)
Transfers in	678,000	1,412,354	734,354
Transfers out	(458,175)	(1,063,015)	(604,840)
Total other financing sources and uses	258,860	387,320	128,460
Net change in fund balances	(9,448,491)	2,133,441	11,581,932
Fund balances, July 1, 2006, as restated	9,448,491	13,977,472	4,528,981
Fund balances, June 30, 2007	\$ -	\$ 16,110,913	\$ 16,110,913

See accompanying notes to budgetary comparison schedule.

Navajo County  
 Required Supplementary Information  
 Budgetary Comparison Schedule  
 Public Works/HURF Fund  
 Year Ended June 30, 2007

	Original and Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Intergovernmental	\$ 11,360,000	\$ 12,820,152	\$ 1,460,152
Charges for services	-	115,198	115,198
Investment earnings	200,000	544,432	344,432
Miscellaneous	100,000	70,034	(29,966)
Total revenues	11,660,000	13,549,816	1,889,816
Expenditures:			
Highways and streets	22,081,712	10,401,056	11,680,656
Total expenditures	22,081,712	10,401,056	11,680,656
Excess (deficiency) of revenues over expenditures	(10,421,712)	3,148,760	13,570,472
Other financing sources (uses):			
Sale of capital assets		26,490	26,490
Transfers in		68,809	68,809
Transfers out	(678,000)	(632,000)	46,000
Total other financing sources and uses	(678,000)	(536,701)	141,299
Net change in fund balances	(11,099,712)	2,612,059	13,711,771
Fund balances, July 1, 2006, as restated	11,099,712	11,990,667	890,955
Increase in reserve for inventories	-	45,630	45,630
Fund balances, June 30, 2007	\$ -	\$ 14,648,356	\$ 14,648,356

See accompanying notes to budgetary comparison schedule.

Navajo County  
 Required Supplementary Information  
 Notes to Budgetary Comparison Schedules  
 June 30, 2007

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2007, 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:	
Board of supervisors	\$ 10,917
Buildings and grounds	17,223
Information technology	68,127
Miscellaneous	68,199
Holbrook justice court	60,116
Winslow justice court	14,983
Snowflake justice court	23,602
Show Low justice court	8,734
Pinetop justice court	24,744
Kayenta justice court	4,600
Show Low constable	4,097
Juvenile detention	35,007
Jail operations	1,494,223
Sheriff	22,325
Sanitation	19,424

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

Navajo County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2007

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)
6/30/07	\$5,860,943	\$10,435,475	\$(4,574,532)	56.2%	\$1,781,185	256.8%
6/30/06	6,727,508	9,768,836	(3,041,328)	68.9%	1,505,961	202.0%
6/30/05	6,965,517	9,411,526	(2,446,009)	74.0%	1,350,914	181.1%

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)
6/30/07	\$1,901,156	\$1,770,024	\$131,132	107.4%	\$1,608,605	N/A
6/30/06	1,733,175	1,490,845	242,330	116.3%	1,374,596	N/A
6/30/05	1,611,909	1,298,458	313,451	124.1%	1,323,877	N/A