

Navajo County, Arizona
Single Audit Reporting Package

June 30, 2002

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Independent Auditors' Report

The Auditor General of the State of Arizona

The Board of Supervisors of
Navajo County, Arizona

We have audited the accompanying general purpose financial statements of Navajo County as of and for the year ended June 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, except for the effect on the general purpose financial statements of the omission described in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Navajo County as of June 30, 2002, and the results of its operations, and the net assets and changes in net assets of its investment trust funds for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Navajo County taken as a whole. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2005, on our consideration of Navajo County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Phoenix, Arizona
April 29, 2005

Navajo County
 Combined Balance Sheet - All Fund Types and Account Groups
 June 30, 2002

	Governmental Fund Types				Fiduciary Fund Type	Account Group
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long- Term Debt
Assets						
Cash in bank and on hand	\$ 283,022	\$ 9,126	\$ -	\$ -	\$ 344,393	\$ -
Cash and investments held by county treasurer	627,280	9,304,148	771,442	3,434,997	102,877,488	-
Cash and investments held by trustee	-	-	1,241,594	504,345	-	-
Investments	-	-	-	-	290,549	-
Receivables (net of allowances for uncollectibles):						
Property taxes	257,853	32,551	-	-	-	-
Special assessments	-	-	2,696,105	84,579	-	-
Accounts	370,097	9,074	-	-	209,387	-
Accrued interest	7,377	56,470	5,463	23,506	591,084	-
Due from:						
Other funds	1,345	38,564	2,622	100,166	682	-
Other governments	1,574,259	3,597,481	-	712,995	-	-
Inventories	45,838	219,748	-	-	-	-
Prepaid items	84,658	12,075	-	-	-	-
Amount available in debt service funds	-	-	-	-	-	1,610,327
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	9,354,735
Total assets	\$ 3,251,729	\$ 13,279,237	\$ 4,717,226	\$ 4,860,588	\$ 104,313,583	\$ 10,965,062

The accompanying notes are an integral part of these financial statements.

Navajo County
 Combined Balance Sheet - All Fund Types and Account Groups - Continued
 June 30, 2002

	Governmental Fund Types				Fiduciary	Account
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long-Term Debt
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	\$ 752,148	\$ 2,544,974	\$ 1,004	\$ 41,702	\$ 73,006	\$ -
Accrued payroll and employee benefits	18,259	265,773	-	-	68,829	-
Interest payable	-	-	210,219	-	-	-
Due to other funds	103,487	-	-	-	39,892	-
Deposits held for others	184,899	8,325	-	-	1,215,765	-
Claims and judgments payable	48,874	-	-	-	-	-
Compensated absences payable	-	-	-	-	-	1,264,618
Insurance claims payable	647,077	-	-	-	-	-
Notes payable	-	-	-	-	-	169,626
Capital leases payable	-	-	-	-	-	50,478
Revenue bonds payable	-	-	215,000	-	-	6,900,000
Special assessment debts with governmental commitment payable	-	-	-	-	-	2,563,698
Landfill closure and postclosure care costs payable	-	-	-	-	-	16,642
Deferred revenues	144,725	1,313,149	2,680,676	43,748	-	-
Total liabilities	1,899,469	4,132,221	3,106,899	85,450	1,397,492	10,965,062
Fund equity:						
Fund balances:						
Reserved for inventories	45,838	219,748	-	-	-	-
Reserved for prepaid items	84,658	12,075	-	-	-	-
Reserved for investment trust participants	-	-	-	-	102,629,284	-
Unreserved	1,221,764	8,915,193	1,610,327	4,775,138	286,807	-
Total fund equity	1,352,260	9,147,016	1,610,327	4,775,138	102,916,091	-
Total liabilities and fund equity	\$ 3,251,729	\$ 13,279,237	\$ 4,717,226	\$ 4,860,588	\$ 104,313,583	\$ 10,965,062

The accompanying notes are an integral part of these financial statements.

Navajo County
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
All Governmental Fund Types and Expendable Trust Fund
Year Ended June 30, 2002

	Governmental Fund Types				Fiduciary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Revenues:					
Taxes	\$ 3,983,078	\$ -	\$ -	\$ -	\$ -
Special assessments	-	244,620	477,065	982,937	-
Licenses and permits	662,253	-	-	-	-
Intergovernmental	18,068,325	15,122,378	-	686,986	-
Charges for services	1,422,201	701,141	-	-	-
Fines and forfeits	932,313	48,501	-	-	-
Rents and royalties	67,168	-	-	-	-
Contributions and donations	92	6,392	-	-	-
Investment income	420,671	444,607	110,691	122,789	12,723
Miscellaneous	157,856	287,493	-	16,466	-
Total revenues	<u>25,713,957</u>	<u>16,855,132</u>	<u>587,756</u>	<u>1,809,178</u>	<u>12,723</u>
Expenditures:					
Current:					
General government	12,769,609	4,022,910	-	-	290,399
Public safety	7,392,174	2,683,012	-	-	-
Highways and streets	-	11,314,789	-	-	-
Sanitation	30,861	-	-	-	-
Health	482,196	866,349	-	-	-
Welfare	2,819,102	-	-	-	-
Culture and recreation	188,291	357,720	-	-	-
Redevelopment and housing	-	250,000	-	-	-
Education	248,712	-	-	-	-
Capital outlay	-	-	-	2,055,808	-
Debt service:					
Principal retirement	-	5,000	542,458	-	-
Interest and fiscal charges	-	-	595,597	-	-
Total expenditures	<u>23,930,945</u>	<u>19,499,780</u>	<u>1,138,055</u>	<u>2,055,808</u>	<u>290,399</u>
Excess (deficiency) of revenues over expenditures	1,783,012	(2,644,648)	(550,299)	(246,630)	(277,676)
Other financing sources (uses):					
Proceeds from sale of fixed assets	23,776	88,731	-	104,118	-
Capital lease agreements	-	55,861	-	-	-
Operating transfers in	1,310,596	2,039,088	666,558	1,239,159	-
Operating transfers out	(1,455,294)	(2,982,473)	-	(817,634)	-
Net other financing sources (uses)	<u>(120,922)</u>	<u>(798,793)</u>	<u>666,558</u>	<u>525,643</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	1,662,090	(3,443,441)	116,259	279,013	(277,676)
Fund balances, beginning of year, as restated	(339,662)	12,757,929	1,389,303	4,496,125	564,483
Decrease in reserve for inventories	(7,737)	(73,448)	-	-	-
Increase in reserve for prepaid items	37,569	10,741	-	-	-
Residual equity transfers in (out)	-	(104,765)	104,765	-	-
Fund balances, end of year	<u>\$ 1,352,260</u>	<u>\$ 9,147,016</u>	<u>\$ 1,610,327</u>	<u>\$ 4,775,138</u>	<u>\$ 286,807</u>

The accompanying notes are an integral part of these financial statements.

Navajo County
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Taxes	\$ 3,626,051	\$ 3,983,078	\$ 357,027
Intergovernmental	17,505,525	18,068,325	562,800
Fines and forfeits	814,800	932,313	117,513
Licenses and permits	507,510	662,253	154,743
Charges for services	2,004,035	1,422,201	(581,834)
Rents and royalties	-	67,168	67,168
Contributions and donations	100	92	(8)
Investment earnings	471,600	420,671	(50,929)
Other	<u>113,925</u>	<u>157,856</u>	<u>43,931</u>
Total revenues	25,043,546	25,713,957	670,411
Expenditures:			
General government			
Board of supervisors	553,235	516,116	37,119
County manager	1,103,830	1,138,902	(35,072)
Building and grounds	1,232,705	1,295,323	(62,618)
Elections	175,320	178,249	(2,929)
Planning and building	515,480	590,987	(75,507)
Recorder	177,675	179,878	(2,203)
Voter registration	125,360	48,510	76,850
Assessor	841,295	894,766	(53,471)
MIS	380,940	387,273	(6,333)
Treasurer	329,420	338,656	(9,236)
Contingency	1,358,750	456,076	902,674
Legal defender	244,870	259,259	(14,389)
County attorney	1,391,360	1,412,077	(20,717)
Superior courts	1,560,965	1,847,850	(286,885)
Public defenders	648,980	633,043	15,937
Clerk of superior court	642,085	721,511	(79,426)
Holbrook justice court	184,780	203,726	(18,946)
Winslow justice court	179,035	196,545	(17,510)
Snowflake justice court	231,585	248,628	(17,043)
Show Low justice court	186,635	205,002	(18,367)
Pinetop justice court	213,970	213,827	143
Kayenta justice court	94,275	93,240	1,035
Holbrook constable	9,710	13,118	(3,408)
Winslow constable	10,635	15,771	(5,136)
Snowflake constable	10,335	13,708	(3,373)
Show Low constable	10,160	13,468	(3,308)
Pinetop constable	10,225	12,018	(1,793)
Kayenta constable	9,710	11,311	(1,601)
Miscellaneous	<u>1,765,320</u>	<u>630,771</u>	<u>1,134,549</u>
Total general government	14,198,645	12,769,609	1,429,036

(continued)

The accompanying notes are an integral part of these financial statements.

Navajo County
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund - Concluded
Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety			
Juvenile probation	\$ 963,970	\$ 1,146,619	\$ (182,649)
Adult probation	482,430	510,234	(27,804)
Jail operations	2,554,975	2,842,744	(287,769)
Sheriff	<u>2,850,945</u>	<u>2,892,577</u>	<u>(41,632)</u>
Total public safety	6,852,320	7,392,174	(539,854)
Sanitation			
Sanitation landfill	35,700	30,861	4,839
Health			
Health services	512,765	482,196	30,569
Welfare			
Public fiduciary	309,025	314,608	(5,583)
Indigent health	<u>2,798,540</u>	<u>2,504,494</u>	<u>294,046</u>
Total welfare	3,107,565	2,819,102	288,463
Culture and recreation			
Parks and recreation	172,290	188,291	(16,001)
Education			
Superintendent of schools	<u>233,420</u>	<u>248,712</u>	<u>(15,292)</u>
Total expenditures	<u>25,112,705</u>	<u>23,930,945</u>	<u>1,181,760</u>
Excess (deficiency) of revenues over expenditures	(69,159)	1,783,012	1,852,171
Other financing sources (uses):			
Transfers in	69,159	1,310,596	1,241,437
Transfers out	-	(1,455,294)	(1,455,294)
Proceeds from sale of fixed assets	-	23,776	23,776
Total other financing sources (uses)	<u>69,159</u>	<u>(120,922)</u>	<u>(190,081)</u>
Excess of revenues and other sources over expenditures and other uses	-	1,662,090	1,662,090
Fund balance, beginning of year	-	(339,662)	(339,662)
Decrease in reserve for inventories	-	(7,737)	(7,737)
Increase in reserve for prepaid items	-	37,569	37,569
Fund balance, end of year	<u>\$ -</u>	<u>\$ 1,352,260</u>	<u>\$ 1,352,260</u>

The accompanying notes are an integral part of these financial statements.

Navajo County
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Revenue Funds
Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Taxes	\$ 253,968	\$ -	\$ (253,968)
Special assessments	-	244,620	244,620
Intergovernmental	14,387,855	15,122,378	734,523
Fines and forfeits	54,660	48,501	(6,159)
Charges for services	443,065	701,141	258,076
Contributions and donations	-	6,392	6,392
Investment earnings	127,000	444,607	317,607
Other	<u>916,000</u>	<u>287,493</u>	<u>(628,507)</u>
Total revenues	16,182,548	16,855,132	672,584
Expenditures:			
General government			
Board of supervisors	430,000	1,570,922	(1,140,922)
County manager	400,000	638,259	(238,259)
Building and grounds	-	2,677	(2,677)
Planning and building	-	2,499	(2,499)
Recorder	125,335	126,676	(1,341)
Assessor	44,000	25,765	18,235
Treasurer	10,000	9,022	978
Legal defender	11,905	9,220	2,685
County attorney	1,292,260	1,129,029	163,231
Superior courts	175,140	248,886	(73,746)
Public defenders	53,000	21,393	31,607
Clerk of superior court	141,450	11,076	130,374
Holbrook justice court	22,390	218	22,172
Winslow justice court	18,450	-	18,450
Snowflake justice court	22,360	19,123	3,237
Show Low justice court	5,560	6,072	(512)
Pinetop justice court	16,900	10,762	6,138
Kayenta justice court	7,300	2,483	4,817
Miscellaneous	<u>1,028,000</u>	<u>188,828</u>	<u>839,172</u>
Total general government	3,804,050	4,022,910	(218,860)

(continued)

The accompanying notes are an integral part of these financial statements.

Navajo County
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Special Revenue Funds - Concluded
Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety			
Juvenile probation	\$ 954,865	\$ 889,518	\$ 65,347
Adult probation	1,026,850	1,030,590	(3,740)
Jail operations	181,000	134,201	46,799
Sheriff	<u>541,090</u>	<u>572,842</u>	<u>(31,752)</u>
Total public safety	2,703,805	2,627,151	76,654
Highways and streets	15,527,925	11,314,789	4,213,136
Health	1,136,085	866,349	269,736
Culture and recreation			
Library	252,665	204,180	48,485
Parks and recreation	<u>18,365</u>	<u>153,540</u>	<u>(135,175)</u>
Total culture and recreation	271,030	357,720	(86,690)
Redevelopment and housing	-	250,000	(250,000)
Debt service			
Principal retirement	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total debt service	<u>5,000</u>	<u>5,000</u>	<u>-</u>
Total expenditures	<u>23,447,895</u>	<u>19,443,919</u>	<u>4,003,976</u>
Excess (deficiency) of revenues over expenditures	(7,265,347)	(2,588,787)	4,676,560
Other financing sources (uses):			
Transfers in	-	2,039,088	2,039,088
Transfers out	-	(2,982,473)	(2,982,473)
Proceeds from sale of fixed assets	<u>95,000</u>	<u>88,731</u>	<u>(6,269)</u>
Total other financing sources (uses)	<u>95,000</u>	<u>(854,654)</u>	<u>(949,654)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(7,170,347)	(3,443,441)	3,726,906
Fund balances, beginning of year	7,170,347	12,757,929	5,587,582
Residual equity transfers out	-	(104,765)	(104,765)
Decrease in reserve for inventories	-	(73,448)	(73,448)
Increase in reserve for prepaid items	<u>-</u>	<u>10,741</u>	<u>10,741</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 9,147,016</u>	<u>\$ 9,147,016</u>

The accompanying notes are an integral part of these financial statements.

Navajo County
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Debt Service Funds
Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Special assessments	\$ (438,809)	\$ 477,065	\$ 915,874
Investment earnings	-	110,691	110,691
Total revenues	<u>(438,809)</u>	<u>587,756</u>	<u>1,026,565</u>
Expenditures:			
Debt service			
Principal retirement	710,645	542,458	168,187
Interest on long-term debt	1,577,110	595,597	981,513
Total expenditures	<u>2,287,755</u>	<u>1,138,055</u>	<u>1,149,700</u>
Excess (deficiency) of revenues over expenditures	<u>(2,726,564)</u>	<u>(550,299)</u>	<u>2,176,265</u>
Other financing sources (uses):			
Transfers in	-	666,558	666,558
Total other financing sources (uses)	<u>-</u>	<u>666,558</u>	<u>666,558</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(2,726,564)</u>	<u>116,259</u>	<u>2,842,823</u>
Fund balances, beginning of year, as restated	2,726,564	1,389,303	(1,337,261)
Residual equity transfers in	-	104,765	104,765
Fund balances, end of year	<u>\$ -</u>	<u>\$ 1,610,327</u>	<u>\$ 1,610,327</u>

The accompanying notes are an integral part of these financial statements.

Navajo County
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual - Capital Projects Funds
Year ended June 30, 2002

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Intergovernmental	\$ 1,179,000	\$ 686,986	\$ (492,014)
Special assessments	-	982,937	982,937
Investment earnings	-	122,789	122,789
Other	-	16,466	16,466
Total revenues	<u>1,179,000</u>	<u>1,809,178</u>	<u>630,178</u>
Expenditures:			
Capital outlay	<u>5,750,940</u>	<u>2,055,808</u>	<u>3,695,132</u>
Total expenditures	<u>5,750,940</u>	<u>2,055,808</u>	<u>3,695,132</u>
Excess (deficiency) of revenues over expenditures	<u>(4,571,940)</u>	<u>(246,630)</u>	<u>4,325,310</u>
Other financing sources (uses):			
Transfers in	-	1,239,159	1,239,159
Transfers out	-	(817,634)	(817,634)
Proceeds from sale of fixed assets	-	104,118	104,118
Total other financing sources (uses)	<u>-</u>	<u>525,643</u>	<u>525,643</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>(4,571,940)</u>	<u>279,013</u>	<u>4,850,953</u>
Fund balances, beginning of year, as restated	<u>4,571,940</u>	<u>4,496,125</u>	<u>(75,815)</u>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 4,775,138</u>	<u>\$ 4,775,138</u>

The accompanying notes are an integral part of these financial statements.

Navajo County
Combining Statement of Net Assets
Investment Trust Funds
June 30, 2002

	Treasurer's Investment Pool	Individual Investment Accounts	Total
Assets			
Cash and investments held by county treasurer	\$ 102,451,399	\$ -	\$ 102,451,399
Investments	-	290,549	290,549
Interest receivable	588,819	395	589,214
Total assets	<u>103,040,218</u>	<u>290,944</u>	<u>103,331,162</u>
Liabilities			
Deposits held for others	661,986	-	661,986
Due to other funds	39,892	-	39,892
Total liabilities	<u>701,878</u>	<u>-</u>	<u>701,878</u>
Net assets held in trust	<u>\$ 102,338,340</u>	<u>\$ 290,944</u>	<u>\$ 102,629,284</u>

The accompanying notes are an integral part of these financial statements.

Navajo County
Combining Statement of Changes in Net Assets
Investment Trust Funds
Year ended June 30, 2002

	<u>Treasurer's Investment Pool</u>	<u>Individual Investment Accounts</u>	<u>Total</u>
Assets			
Additions:			
Contributions from participants	\$ 210,879,828	\$ -	\$ 210,879,828
Net investment income	<u>3,521,246</u>	<u>8,785</u>	<u>3,530,031</u>
Total additions	<u>214,401,074</u>	<u>8,785</u>	<u>214,409,859</u>
Deductions:			
Distributions to participants	<u>217,157,080</u>	<u>241,561</u>	<u>217,398,641</u>
Net decrease in net assets	(2,756,006)	(232,776)	(2,988,782)
Net assets held in trust			
July 1, 2001	<u>105,094,346</u>	<u>523,720</u>	<u>105,618,066</u>
June 30, 2002	<u>\$ 102,338,340</u>	<u>\$ 290,944</u>	<u>\$ 102,629,284</u>

The accompanying notes are an integral part of these financial statements.

Navajo County
Notes to Financial Statements
June 30, 2002

Note 1 – Summary of Significant Accounting Policies

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

The County's major operations include general government, public safety, highway and street maintenance and construction, sanitation, health, welfare, culture and recreation, and education.

A. Reporting Entity

The County is a general purpose local government that is governed by a separately elected board of five county supervisors. These general purpose financial statements present all the fund types and the General Long-Term Debt Account Group of the County (a primary government) and its component units.

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

Blended Component Units – A number of special districts and a nonprofit corporation have been established within the County to serve unique needs. The special districts consist of various improvement districts, and the nonprofit corporation provides job training and educational services. Although these special districts and the nonprofit corporation are legally separate entities from the County, the Board of Supervisors of the County serves as the Board of Directors of each of these entities. Consequently, the financial data for these districts and the nonprofit corporation are blended with the data of the primary government and reported in the special revenue, debt service, and capital projects funds and the general long-term debt account group of the County. Separate financial statements of the blended component units are not prepared.

B. Fund Accounting

The County's accounts are maintained in accordance with the principles of fund accounting to ensure that limitations and restrictions on the County's available resources are observed. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with the activities or objectives specified for those resources. Each fund is considered a separate accounting entity, and its operations are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Account groups are reporting devices to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

Notes to Financial Statements – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

B. Fund Accounting – Continued

Accounts are separately maintained for each fund and account group; however, in the accompanying financial statements, funds that have similar characteristics have been combined into generic fund types that are further classified into broad fund categories. A description of the County's fund categories, types, and account groups follows.

Governmental Funds account for the County's general government activities using the flow of current financial resources measurement focus and include the following fund types.

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

The *Special Revenue Funds* account for specific revenue sources, (other than expendable trusts and major capital projects), that are legally restricted to expenditures for specified purposes.

The *Debt Service Funds* account for resources accumulated and used for the payment of general long-term debt principal, interest, and related costs.

The *Capital Projects Funds* account for resources to be used for acquiring or constructing major capital facilities.

Fiduciary Funds account for assets the County holds on behalf of others, and include the following fund types.

The *Expendable Trust Fund* is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus. Expendable trust funds account for assets where both the principal and interest may be spent.

The *Investment Trust Funds* account for investments made by the County on behalf of other governmental entities using the economic resources measurement focus.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the government holds for others in an agency capacity.

Account Groups are used to establish control and accountability for certain County assets and liabilities that are not recorded in the funds and include the following group:

The *General Long-Term Debt Account Group* accounts for all of the County's long-term obligations.

Note 1 – Summary of Significant Accounting Policies – Continued

C. Basis of Accounting

The financial statements of the governmental, expendable trust and agency funds are presented on the modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance current-period expenditures. Expenditures are recognized when the related fund liability is incurred, except for principal and interest on general long-term debt that are recognized when due. However, since debt service resources are provided during the current year for payment of general long-term debt principal and interest due early in the following year, those expenditures and related liabilities have been recognized in the Debt Service Fund.

Revenues susceptible to accrual are property taxes; special assessments; licenses and permits; intergovernmental aid, grants, and reimbursements; interest revenue; charges for services; and sales taxes collected and held by the state at year-end on the County's behalf. Fines and forfeits and miscellaneous revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The financial statements of the investment trust funds are presented on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

D. Budgeting and Budgetary Control

Arizona Revised Statutes (A.R.S.) requires the County to prepare and adopt a balanced budget annually for each separate 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.

Essentially, the County prepares its budget on the same modified accrual basis of accounting used to record actual revenues and expenditures.

The County has adopted budgets in accordance with the A.R.S. requirements for the general, special revenue, debt service, and capital projects funds. Formal budget integration is not employed for the expendable trust fund because effective budgetary control is alternatively achieved through the terms of the trust agreement.

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

Encumbrance accounting, under which purchase orders, contracts, and other commitments to expend monies are recorded to reserve that portion of the applicable fund balance, is employed as an extension of formal budgetary control. Encumbrances outstanding at year-end for goods or

Notes to Financial Statements – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

services that were not received before fiscal year-end are canceled. However, the County may draw warrants against encumbered amounts for goods or services received but unpaid at June 30 for 60 days immediately following the close of the fiscal year. After 60 days the remaining encumbered balances lapse.

E. Investments

Nonparticipating interest-bearing investment contracts are stated at cost. Money market investments and participating interest-earning investment contracts with a remaining maturity of one year or less at the time of purchase are stated at amortized cost. All other investments are stated at fair value.

F. Inventories

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.

G. Fixed Assets

Purchased fixed assets are recorded at the time of purchase as expenditures in the funds from which the expenditures were made, but they are not capitalized in a general fixed assets account group.

H. Compensated Absences

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

Employees may accumulate an unlimited number of sick leave hours. Generally, sick leave benefits provide for ordinary sick pay and are cumulative but do not vest with employees and therefore, are not accrued. 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.

Notes to Financial Statements – Continued

Note 1 – Summary of Significant Accounting Policies – Continued

H. Compensated Absences

The liability for vested compensated absences of the governmental funds is recorded in the general long-term debt account group since the amount expected to be paid from current financial resources is not significant.

I. Investment Income

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

J. Property Taxes

Property taxes are recognized as revenues in the fiscal year they are levied and collected or if they are collected within 60 days subsequent to fiscal year-end. Property taxes not collected within 60 days subsequent to fiscal year-end or collected in advance of the fiscal year for which they are levied are reported as deferred revenues.

K. Intergovernmental Grants and Aid

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. Reimbursement grants are recorded as intergovernmental receivables and revenues when the related expenditures are incurred. Reimbursements not received within 60 days subsequent to fiscal year-end are reported as deferred revenues.

Note 2 - Excess of Expenditures over Appropriations

Twenty-nine General Fund departments and eleven departments in the Special Revenue Funds had an excess of actual expenditures over appropriations as reported on the respective Statements of Revenues, Expenditures, and Changes in Fund Balances.

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

Actual expenditures for the Special Revenue Funds that were in excess of appropriations were generally caused by unexpected expenditures incurred in relation to a natural disaster. The Special Revenue Funds had beginning fund balances sufficient to cover the excess expenditures during 2002.

Notes to Financial Statements – Continued

Note 3 – Individual Fund Deficits

The following Special Revenue Funds had fund deficits in excess of \$1,000 as of June 30, 2002:

Fund	Deficit
<i>Special Revenue Funds</i>	
Rodeo Fire 6/12/2002	\$ 1,683,049
Housing Rehabilitation #004-00	2,512
In-take Area Remodel - Jail	3,538
WIA	1,862
Title V – Older Worker	1,436
WIA Adult – PY00-7/1/2000	3,152
WIA – ACP – PY00-4/1/2000	3,391
WIA Youth – PY00-4/1/2000	9,852
Title V – Older Worker – 00/01	26,290
WIA – E57002009 – Adult – FY02	55,162
WIA – E57002009 – Youth – PY01	56,181
WIA – E57002009 – CP – FY02	21,583
WIA – E5701020 – INC – SAS – PY00	2,802
WIA – E5709077 – Welfare to Work	26,357
WIA – Set A Side – E5702009 – PY01	7,914
Gang Prosecution Program	5,024
Local Law Enforcement – LLEBG –Temp Attorney	1,139
Victim Rights – AVRIA – Attorney	4,075
JUV – Acct II – JAIBG – 4/1/00-9/30/01	7,183
Victim Assistance	1,724
Child Support IV-D	183,198
JUV Act 3 – JAIBI 10/1/00-9/30/02	3,787
JAIBG IV – 10/1/01-6/30/03	9,704
Drug Enforcer Attorney	38,322
Victims of Crime – Attorney – VOCA	4,685
WIC – Communications Equipment	7,951
Nutrition Network	16,367
T.B.	36,984
WIC	44,191
Coronary Heart Disease	16,954
Tobacco Use Prevention	25,407
Domestic Violence 00-01	1,748
Early Intervention – Case Management	9,858
Early Intervention – Coordination	5,513
HMEPPG – Planning Salary – 113	10,070
Eviction Prevention – EMG Homeless	26,183
Timberland Acres DWID – Operating	2,763
School Resource Officer	12,082
Drug Enforcement – Sheriff	123,051
Winslow Transport Officer	83,330
COPS Universal Hiring Supplement	43,528
JUV standard Prob – State Aid Salaries	1,035
Adult Intensive Probation Services	6,525
State Aid Enhancement	17,329
Fact 5 Implementation Plan	7,482
Access & Visitation Program	6,652

Notes to Financial Statements – Continued

Note 3 – Individual Fund Deficits - Continued

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

Note 4 – Deposits and Investments

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

County Treasurer's Investment Pool – Arizona Revised Statutes requires community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer (see Note 18). Those monies are pooled with County monies for investment purposes.

Deposits – At June 30, 2002, the carrying amount of the investment pool's total cash in bank was \$26,227,188 and the bank balance was \$28,156,281. Of the bank balance, \$300,000 was covered by federal depository insurance and \$27,856,281 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name, or U.S. government money market securities.

Investments - At June 30, 2002, the investments in the County Treasurer's investment pool consisted of the following:

Investment in State Treasurer's investment pool	\$ 8,894,113
U.S. government securities	<u>81,894,054</u>
Total	<u>\$ 90,788,167</u>

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant position in the pool approximates the value of that participant's pool shares.

The investment pool's investments at June 30, 2002, are categorized below to give an indication of the level of risk the County assumed at year-end.

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

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

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

Notes to Financial Statements – Continued

Note 4 – Deposits and Investments - Continued

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ -	\$ 81,894,054	\$ -	\$ 81,894,054
Investment not subject to categorization: State Treasurer's investment pool				8,894,113
Total				\$ 90,788,167

Other Deposits – At June 30, 2002, the total nonpooled cash on hand was \$10,247. The carrying amount of the County's total nonpooled cash in bank was \$626,294, and the bank balance was \$1,968,947. The entire bank balance was either covered by federal depository insurance or by collateral held by the County or its agent.

Other Investments – At June 30, 2002, the County's nonpooled investments consisted of the following.

Investment in State Treasurer's Investment pool	\$ 290,549
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Cash and Investments Held by Trustee – At June 30, 2002, the County's cash and investments held by trustee, consisted of the following:

	Fair Value
Commercial papers	\$ 4,533
U.S. government security money market funds	1,039,608
U.S. government securities	701,798
Total	\$ 1,745,939

The State Board of Deposit provides oversight for the State Treasurer's pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant's position in the pool approximates the value of that participant's pool shares. The County's nonpooled investments and cash and investments held by trustee at June 30, 2002, are categorized below to give an indication of the level of risk assumed by the County at year-end.

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ -	\$ -	\$ 1,745,939	\$ 1,745,939
Investment not subject to categorization: State Treasurer's investment pool				290,549
Total				\$ 2,036,488

Notes to Financial Statements – Continued

Note 4 – Deposits and Investments - Continued

A reconciliation of cash and investments to amounts shown on the combined balance sheet follows.

	County Treasurer's Investment Pool	Other	Total
<i>Cash and investments:</i>			
Cash on hand	\$ -	\$ 10,247	\$ 10,247
Carrying amount of deposits	26,227,188	626,294	26,853,482
Reported amount of investments	90,788,167	2,036,488	92,824,655
Total cash and investments	<u>\$ 117,015,355</u>	<u>\$ 2,673,029</u>	<u>\$ 119,688,384</u>
<i>Combined Balance Sheet:</i>			
Cash in bank and on hand	\$ 636,541		
Cash and investments held by County Treasurer	117,015,355		
Cash and investments held by trustee Investments	1,745,939 290,549		
Total	<u>\$ 119,688,384</u>		

Note 5 – Property Taxes Receivable

The County levies real 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.

The County also levies various personal property taxes that are due the second Monday of the month following receipt of the tax notice and become delinquent 30 days later.

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

Property taxes receivable consist of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2002, were as follows:

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Special Revenue Funds</u>
2001-02	\$ 216,583	\$ 22,590
Prior	41,270	9,961
Total	<u>\$ 257,853</u>	<u>\$ 32,551</u>

That portion of property taxes receivable not collected within 60 days after June 30, 2002, has been deferred and, consequently, is not included in current-year revenues.

Notes to Financial Statements – Continued

Note 6 – Due from Other Governments

Amounts due from other governments at June 30, 2002, in the General Fund include \$388,137 in county excise taxes; \$493,827 in sales taxes from the State of Arizona; \$58,104 in vehicle license taxes from the State of Arizona and \$634,191 from various other grants.

Amounts due from other governments in the Special Revenues Funds include \$607,252 in state-shared revenue from highway user taxes and \$86,580 in vehicle license tax. The remaining balance of \$2,903,649 consists of grants from the state and federal governments.

Amounts due from other governments in the Capital Projects Funds were \$712,995 and include \$613,771 due from cities and towns in Navajo County, and \$99,224 in grants from state and federal governments.

Note 7 – Changes in Long-Term Liabilities

A summary of changes in the liabilities reported in the general long-term debt account group follows.

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002
Compensated absences payable	\$ 1,197,010	\$ 67,608	\$ -	\$ 1,264,618
Revenue bonds payable	7,115,000	-	215,000	6,900,000
Special assessment debts with governmental commitment payable	2,889,106	-	325,408	2,563,698
Capital leases payable	-	55,861	5,383	50,478
Notes payable	175,922	-	6,296	169,626
Landfill closure and postclosure care costs payable	17,366	-	724	16,642
Total	\$ 11,394,404	\$ 123,469	\$ 552,811	\$ 10,965,062

Notes to Financial Statements – Continued

Note 8 – Bonds Payable

During the year ended June 30, 2000, the County issued \$7,320,000 in revenue bonds with an interest rate of 5.00 to 6.25 percent to finance construction of jail facilities. The bonds are generally noncallable, with interest payable semiannually.

Principal and interest requirements at June 30, 2002, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2001</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2002</u>
Navajo County, Arizona Municipal Property Corporation Jail Facility Bonds Series 2000 ACA Insured	5.00- 6.25%	July 1, 2002- July 1, 2020	<u>\$ 7,115,000</u>	<u>\$ -</u>	<u>\$ 215,000</u>	<u>\$ 6,900,000</u>

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30,	
2003	\$ 639,420
2004	637,345
2005	634,745
2006	636,245
2007	636,670
Thereafter	<u>8,353,695</u>
Total	11,538,120
Less amount representing interest	<u>4,638,120</u>
Principal on revenue bond debt	<u>\$ 6,900,000</u>

Notes to Financial Statements – Continued

Note 9 – Special Assessment Debts Payable

Special assessment debts with governmental commitment – Special assessment debts are secured by pledges of revenues from special assessments levied against the benefiting property owners. The proceeds of the debt issues were used to finance construction in these districts. These debts are generally callable with interest paid semiannually. The following special assessment districts had debts outstanding at June 30, 2002:

Description	Interest Rates	Maturities	Outstanding Principal July 1, 2001	Issues	Retirements	Outstanding Principal June 30, 2002
Soaring Eagle County Road Improvement	7.25%	7/1/94-2004	\$ 35,000	\$ -	\$ 10,000	\$ 25,000
White Mountain Summer Home Water	5.00%	7/1/81-2019	1,466,000	-	52,000	1,414,000
Blue Lake Circle CRID	5.95%	7/23/97-2007	79,537	-	14,551	64,986
Misty Mountain Domestic Water	7.125%	1/1/90-2009	48,877	-	5,000	43,877
Forest Trails Unit III County Road	6.75%	7/1/97-2007	115,000	-	25,000	90,000
Moon Creek Imp. Dist.	5.95%	7/23/97-2007	48,242	-	8,040	40,202
Mule Deer Way Imp. District	5.95%	7/23/97-2007	161,289	-	34,193	127,096
Wild Horse Road #1	5.95%	7/23/97-2007	45,511	-	7,585	37,926
Timberlake Pines CRID	6.35%	8/27/97-2007	269,216	-	46,570	222,646
Shore Line Dr. CRID	8.50%	7/7/97-2002	4,000	-	4,000	-
Palomino CRID	7.50%	6/29/92-2002	15,000	-	15,000	-
Buck Springs Road Improvement District	5.40%	8/13/98-2008	86,140	-	12,280	73,860
Hiawatha Trail Improvement District	5.91%	8/5/99-2009	71,092	-	8,886	62,206
Pine Meadows CC Imp. Dist.	5.91%	8/5/99-2009	64,855	-	9,125	55,730
Chaparral Drive Improvement District	5.80%	8/27/99-2010	165,409	-	43,336	122,073
Drifting Snow Loop Improvement District	5.75%	9/7/00-2011	213,938	-	29,842	184,096
Total			<u>\$ 2,889,106</u>	<u>\$ -</u>	<u>\$ 325,408</u>	<u>\$ 2,563,698</u>

Notes to Financial Statements – Continued

Note 9 – Special Assessment Debts Payable - Continued

Special assessment debt service requirements to maturity are as follows:

	Year ending June 30,		
	2003	\$	386,699
	2004		380,623
	2005		357,771
	2006		346,608
	2007		336,352
	Thereafter		<u>1,711,381</u>
	Total		3,519,434
	Less amount representing interest		<u>955,736</u>
	Principal on special assessment debt	\$	<u><u>2,563,698</u></u>

Note 10 – Capital Leases Payable

Capital Leases- The County has acquired machinery and equipment under the provisions of various long-term lease agreements classified as capital leases for accounting purposes because they provide for a bargain purchase option or a transfer of ownership by the end of the lease term. The cost of assets acquired as capital leases total \$55,861.

The future minimum lease payments under the capital leases reported in the general long-term debt account group at June 30, 2002, were as follows:

	<u>Year ending June 30,</u>		
	2003	\$	20,124
	2004		19,536
	2005		<u>14,653</u>
	Total minimum lease payments		54,313
	Less amount representing interest		<u>3,835</u>
	Present value of net minimum lease payments	\$	<u><u>50,478</u></u>

Note 11 – Notes Payable

The County is obligated under the terms of two notes payable. The proceeds from these notes were used to finance construction in two special assessment districts. The notes have principal payments due semiannually and annually, respectively, with interest payable semiannually.

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Principal June 30, 2001</u>	<u>Principal Payments</u>	<u>Principal June 30, 2002</u>
White Mountain Lakes Recreational District	9.00%	11/21/97-2002	\$ 6,514	\$ 4,246	\$ 2,268
Porter Mountain DWID	4.50%	6/17/1997-2036	<u>169,408</u>	<u>2,050</u>	<u>167,358</u>
Total			<u>\$ 175,922</u>	<u>\$ 6,296</u>	<u>\$ 169,626</u>

Notes to Financial Statements – Continued

Note 12 – Operating Leases

Operating leases- The County leases office space and land under the provisions of various long-term agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$244,211 for the year ended June 30, 2002. The operating leases have remaining noncancelable lease terms of one to twenty years and provide renewal options. The future minimum rental payments under the operating leases at June 30, 2002 are as follows:

Year ending June 30,		
2003	\$	107,226
2004		57,426
2005		27,420
2006		25,020
2007		7,200
Thereafter		<u>108,000</u>
Total minimum payments required	\$	<u>332,292</u>

Note 13 – Landfill Closure and Postclosure Care Costs

State and federal laws and regulations required the County to place a final cover on its Lone Pine landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Lone Pine landfill closed for operations in June of 1994. The closure and postclosure care costs were estimated and reported as a liability in the General Long-Term Debt Account Group. The \$16,642 reported as landfill closure and postclosure care liability at June 30, 2002 is the estimated cost of closure and postclosure, less payments thereon made to date. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal year 2001-02. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

Note 14 – Claims and Judgments Payable

The County is a defendant in several claims and lawsuits involving indigent health care, general liability, and contractual disputes. Liabilities are reported for such claims and judgments when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In the opinion of the County Attorney and county management, probable losses not covered by insurance from these proceedings total \$48,874, which has been accrued as a liability in the accompanying financial statements.

Note 15 – Risk Management

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

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

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

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

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

Notes to Financial Statements – Continued

Note 15 – Risk Management - Continued

The insurance claims payable liability of the General Fund totaling \$647,077 as June 30, 2002, is the estimated ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. This estimate is based on actuarial estimates. Changes in the Fund's claims payable liability amounts for the years ended June 30, 2001 and 2002 were as follows:

	<u>2001</u>	<u>2002</u>
Claims payable, beginning of year	\$ 956,750	\$ 622,233
Current-year claims and changes in estimates	2,199,816	2,640,942
Claim payments	<u>(2,534,333)</u>	<u>(2,616,098)</u>
Claims payable, end of year	<u>\$ 622,233</u>	<u>\$ 647,077</u>

Note 16 – Budgetary Basis of Accounting

The County's adopted budget is prepared on a basis consistent with generally accepted accounting principles, with the following exceptions. The County does not budget for either the other financing sources or the capital outlays associated with the acquisition of assets under capital lease agreements. Consequently, the following adjustments are necessary to present actual expenditures and other financing sources on a budgetary basis for the year ended June 30, 2002, in order to provide a meaningful comparison.

	<u>Special Revenue Funds</u>	
	<u>Total Expenditures</u>	<u>Total Other Financing Sources (Uses)</u>
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances	\$ 19,499,780	\$(798,793)
Capital outlays and financing sources for assets acquired by capital lease agreements, not budgeted	<u>(55,861)</u>	<u>(55,861)</u>
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual	<u>\$ 19,443,919</u>	<u>\$(854,654)</u>

Note 17 – 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 general employees of the County. 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 one of its political subdivisions. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as The Fund Manager, and participating local boards according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

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

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

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

ASRS
3300 N. Central Ave.
P.O. Box 33910
Phoenix, AZ 85067-3910

PSPRS, CORP, and EORP
1020 E. Missouri Avenue
Phoenix, AZ 85014

(602) 240-2000 or (800) 621-3778

(602) 255-5575

Note 17 – Retirement Plans-Continued

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, 2002, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 2.49 percent (2.00 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2002, 2001 and 2000 were \$383,629, \$413,509 and \$397,670, 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 13.49 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, 2002, 2001, and 2000 were \$3,135, \$6,013 and \$6,947, respectively, which were equal to the required contributions for the year.

Agent plans-For the year ended June 30, 2002, 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 7.31 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 2.54 percent.

Annual Pension Cost – The County's pension cost for the two agent plans for the year ended June 30, 2002, and related information follows.

	<u>PSPRS</u>	<u>CORP</u>
Contribution rates:		
County	7.31%	2.54%
Plan members	7.65%	8.50%
Annual pension costs	\$107,687	\$ 17,101
Contributions made	\$107,687	\$ 17,101

The current-year annual required contribution for the PSPRS and CORP were determined as a part of their June 30, 2000, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 9 percent investment rate of return and (b) projected salary increases ranging from 6.5 percent to 9.5 percent per year. Both (a) and (b) included an inflation component of 5.5 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2000, was 20 years.

Notes to Financial Statements – Continued

Note 17 – Retirement Plans-Continued

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

<u>Plan</u>	<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PSPRS	2002	\$ 107,687	100%	\$ -
	2001	131,276	100%	-
	2000	74,918	100%	-
CORP	2002	\$ 17,101	100%	-
	2001	14,436	100%	-
	2000	47,459	100%	-

Analysis of Funding Progress – The following information was obtained from the three most recent actuarial valuations of the agent plans.

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (b)</u>	<u>Funding (Liability) Excess (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)</u>
PSPRS						
6/30/02	7,727,219	6,863,694	863,525	112.6%	1,574,966	-
6/30/01	7,795,661	6,134,547	1,661,114	127.1%	1,488,806	-
6/30/00	7,201,543	6,327,942	873,601	113.8%	1,867,660	-
CORP						
6/30/02	1,490,777	820,753	670,024	181.6%	944,164	-
6/30/01	1,468,412	737,172	731,240	199.2%	946,115	-
6/30/00	1,359,429	735,158	624,271	184.9%	952,546	-

Note 18 – County Treasurer's Investment Pool

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

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

Notes to Financial Statements – Continued

Note 18 – County Treasurer's Investment Pool - Continued

Details of each investment classification follow:

<u>Investment Type</u>	<u>Principal</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Fair Value</u>
Investment in State Treasurer's investment pool	\$ 8,894,113	1.6325%	n/a	\$ 8,894,113
U.S. government securities	81,460,000	2.10-5.70%	11/28/02-11/28/06	81,894,054
Total	<u>\$ 90,354,113</u>			<u>\$ 90,788,167</u>

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

Statement of Net Assets

Assets	\$ 117,698,860
Liabilities	701,878
Net assets	<u>\$ 116,996,982</u>

Net assets held in trust for:

Internal participants	\$ 14,608,642
External participants	102,338,340
Total net assets held in trust	<u>\$ 116,996,982</u>

Statement of Changes in Net Assets

Total additions	\$ 258,425,629
Total deductions	261,278,861
Net decrease	2,853,232
Net assets held in trust	
July 1, 2001	119,850,214
June 30, 2002	<u>\$ 116,996,982</u>

Note 19 – Implementation of GASB No. 34

Beginning with fiscal year 2003, the County will prepare its external financial reports following the requirements of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. Implementing this standard will significantly change the accounting principles and reporting format used by the County in future financial reports.

Notes to Financial Statements – Continued

Note 20 – Beginning Balances Restated

In the prior year, two trustee accounts belonging to the County’s Jail Facilities Bonds Debt Service Fund were incorrectly reported in the Capital Projects Funds. In addition, the July 1, 2001 debt service payment was not recorded as a liability in the Debt Service Fund as of June 30, 2001, resulting in an understatement of liabilities in the Debt Service Fund. As a result of these error corrections, the following restatements to beginning fund balances were made:

	Debt Service Funds	Capital Projects Funds
Fund balance, June 30, 2001, as previously reported	\$ 646,500	\$ 5,659,272
Correct trustee accounts on jail bonds	1,163,147	(1,163,147)
Correction of understatement of liabilities	(420,344)	-
Fund balance, July 1, 2001, as restated	\$ 1,389,303	\$ 4,496,125

Supplementary Information

Navajo County
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of Agriculture			
<i>Passed through the Arizona Department of Health Services</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	761095	\$ 279,205
Animal and Plant Health Inspection Service - Prairie Dog Mgt.	10.unknown	01-7304-5333-RA	3,076
Drought Emergency - NCRS and EWP 2000	10.unknown	68-9457-1-403	50,447
<i>Passed through the Arizona State Treasurer</i>			
State Administrative Matching Grants for Food Stamp Program	10.561	261089	20,911
Cooperative Forestry Assistance	10.664	SFA1005	5,925
Schools and Roads-Grants to States	10.665	None	25,000
CDBG - Claysprings Domestic Water	10.unknown	281-00	51,665
<i>Total U.S. Department of Agriculture</i>			436,229
U.S. Department of Education			
<i>Passed through the Arizona Department of Economic Security</i>			
Special Education- Grants for Infants and Families with Disabilities	84.181	E1800031 & E1800032	52,357
<i>Total U.S. Department of Education</i>			52,357
U.S. Department of Health and Human Services			
<i>Passed through the Arizona Department of Health Services</i>			
Immunization Grants	93.268	152045	15,302
Child Support Enforcement	93.563	E77202317	6,380
Child Support Enforcement	93.563	E7200017 & E7201017	544,350
Subtotal CFDA #93.563			550,730
HIV Prevention Activities- Health Department Based Preventive Health Services -	93.940	152016	5,387
Sexually Transmitted Diseases Control Grants	93.977	52003	385
Preventive Health and Health Services Block Grant	93.991	952020	52,115
Maternal and Child Health Services Block Grant to the States	93.994	961125, 761108, 9610922	76,512
<i>Total U.S. Department of Health and Human Services</i>			700,431
U.S. Department of Housing and Urban Development			
<i>Passed through the Arizona Department of Commerce</i>			
Community Development Block Grants/State's Program	14.228	026-00	133,759
Home Investment Partnerships Program	14.239	004-00	250,000
Home Investment Partnerships Program	14.239	039-00	4,763
Subtotal CFDA #14.239			254,763
<i>Total U.S. Department of Housing and Urban Development</i>			388,522
U.S. Department of the Interior			
Payments in Lieu of Taxes	15.226		641,880
<i>Passed through Apache County</i>			
U.S. Forest Service	15.unknown	None	5,000
Blue Ridge Demonstration Pilot Project	15.unknown	00-PA-11030107-034	54,000
<i>Total U.S. Department of the Interior</i>			700,880
U.S. Department of Transportation			
<i>Passed through the Arizona Department of Transportation</i>			
Highway Planning and Construction	20.205	AG1N00000501	125,504
<i>Total U.S. Department of Transportation</i>			125,504

See the accompanying notes to schedule.

(continued)

Navajo County
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2002

Note 1 - Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Navajo County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

The program titles and CFDA numbers were obtained from the 2002 *Catalog of Federal Domestic Assistance*.

Note 3 – Subrecipients

Navajo County did not have any subrecipients for the year ended June 30, 2002.

Single Audit Section



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

The Auditor General of the State of Arizona

The Board of Supervisors of
Navajo County, Arizona

We have audited the general purpose financial statements of Navajo County, Arizona as of and for the year ended June 30, 2002, and have issued our report thereon dated April 29, 2005, which was qualified as to the General Fixed Assets Account Group. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide an opinion on internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 02-01 through 02-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we consider 02-04 and 02-05 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 02-01 and 02-02.

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

Phoenix, Arizona
April 29, 2005



**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance in
Accordance with OMB Circular A-133**

The Auditor General of the State of Arizona

The Board of Supervisors of
Navajo County, Arizona

Compliance

We have audited the compliance of Navajo County, Arizona with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

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

As described in items 02-103 and 02-104 in the accompanying schedule of findings and questioned costs, Navajo County did not comply with requirements regarding eligibility for the Child Support Enforcement program and equipment and real property management that are applicable to its Special Supplemental Nutrition Program for Women, Infants, and Children; Workforce Investment Act cluster; and Child Support Enforcement program. Compliance with such requirements is necessary, in our opinion, for Navajo County to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Navajo County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 02-101 and 02-102.

Internal Control over Compliance

The County's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the County's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 02-101 through 02-104.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all such internal control matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 02-103 and 02-104 to be material weaknesses.

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

Phoenix, Arizona
April 29, 2005

Navajo County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Summary of Auditors' Results

Financial Statements

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

Federal Awards

Material weaknesses identified in internal control over major programs?	X	
Reportable conditions identified not considered to be material weaknesses?	X	

Type of auditors' report issued on compliance for major programs: Unqualified for major programs except for the Special Supplemental Program for Women, Infants, and Children; Workforce Investment Act cluster; and Child Support Enforcement program which were qualified.

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	
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Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
15.226	Payments in Lieu of Taxes
17.258, 17.259, 17.260	Workforce Investment Act Cluster
83.556	Fire Management Assistance Grant
93.563	Child Support Enforcement

Dollar threshold to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as a low risk auditee? X

Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])? X

Navajo County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2002

Financial Statement Findings

02-01 Budget Transfers and Amendments

Arizona Revised Statute (A.R.S.) 42-17106 requires the County to formally approve all budget transfers and amendments by a majority vote. During the year ended June 30, 2002, the County's Board of Supervisors failed to formally approve budget transfers and amendments, which resulted in the County being out of compliance with A.R.S. 42-17106.

We recommend that the County implement a process by which all budget transfers and amendments are formally approved by the County's board of supervisors. **This comment has been made previously.**

02-02 Annual Expenditure Limitation Report

The County failed to submit its Annual Expenditure Limitation report to the Auditor General of the State of Arizona by February 28, as required by A.R.S. 41-1279.07(c), following the fiscal years ended June 30, 2000, 2001, and 2002.

To comply with A.R.S. 41-1279.07(c), the County should submit the reports required by the *Uniform Expenditure Reporting System* to the Auditor General of the State of Arizona by February 28, following each fiscal year end. **This comment has been made previously.**

02-03 Bank Reconciliations

During the audit, we noted that bank statements and bank reconciliations for the employee medical plan and the employee dental plan were unable to be located for the June 30, 2002 audit.

We recommend that Navajo County implement proper recordkeeping practices in establishing and maintaining the appropriate supporting documentation needed to support the accounting records of the County.

Navajo County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2002

Financial Statement Findings – Continued

02-04 General Fixed Assets

The County's general fixed assets system of accountability was inadequate, as evidenced by the weaknesses in the County's internal control over them set forth below. Existing records did not provide adequate information to present general fixed assets in the County's financial statements in accordance with U.S. generally accepted accounting principles. The following deficiencies are considered to be material weaknesses:

1. The County did not maintain a general fixed assets listing.
2. A physical inventory of fixed assets has not been taken in the last ten years.

The County's general fixed assets policies and procedures should be in compliance with the *Uniform Accounting Manual for Arizona Counties* (UAMAC).

Because of the lack of adequate internal control over them, general fixed assets have not been safeguarded against improper or unauthorized use.

In order to comply with the requirements of the UAMAC §VI-E, we recommend the County prepare and maintain a complete and accurate listing of land, buildings, and related improvements costing \$5,000 or more, and machinery and equipment items with unit costs of \$1,000 or more, and with useful lives longer than one year. The listing should include the following for each item:

- a. Location
- b. Identification number for furniture, equipment, and vehicles (tag number, serial number, or other number that specifically identifies the item)
- c. Description
- d. Method of acquisition (purchase, construction, trade, lease-purchase, or donation)
- e. Source of funding
- f. Acquisition date (month and year)
- g. Purchase document number
- h. Cost

Actual costs, including ancillary costs such as sales tax, freight, and installation costs, should be used to record assets, and supporting documentation should be retained for these costs. If actual cost information is not available, the County may record purchased assets at estimated historical cost. Estimated fair market value at the date of acquisition should be used to record the cost of donated assets. Documentation such as contracts, catalogs, working paper calculations, and the minutes of the Board of Supervisors' meetings, should be retained to support estimated cost information.

In addition, to help ensure compliance with the requirements of the UAMAC § VI-E, the County should take a physical inventory at least every two years of fixed assets purchased with federal monies and every three years for all other fixed assets, and reconcile it to the general fixed asset listing. **This comment has been made previously.**

Navajo County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2002

Financial Statement Findings – Continued

02-05 Reconciliations of cash and investments on deposit with the County Treasurer

The County failed to reconcile its cash and investments balances in the general ledger to the amounts recorded by the County Treasurer monthly or at year end in a timely manner.

Cash and investments on deposit with the County Treasurer for each county fund must be reconciled on a timely basis to the amounts recorded by the County Treasurer each month.

As a result, the County's assets were not properly safeguarded, the County was unable to prepare its financial statements in a timely manner, and several audit and post-closing adjustments were necessary to properly state the County's financial statements.

The County's management and board of supervisors should have reliable, informative, and timely financial information to effectively manage the County's finances and operations. The County should review its policies and procedures and accounting system to ensure that cash and investments on deposit with the County Treasurer are reconciled monthly. **This comment has been made previously.**

Federal Award Findings and Questioned Costs

02-101 U.S. Department of Health and Human Services

Child Support Enforcement

Contract Nos. E7206017 and E7201017

CFDA No. 93.563

Grant Period: July 1, 2000 to June 30, 2001

Questioned Costs: None

Condition: As a result of testing monthly financial reports, it was determined that four of six reports were submitted late to the Arizona Department of Health Services.

Criteria, cause, and effect: Per the Child Support Enforcement reporting requirements, monthly financial reports are required to be submitted 28 days following the end of the month in which the County incurs the expenditures. The effect is the Arizona Department of Health and Human Services may reduce contract incentives pursuant to the grant agreement's performance standards.

Recommendation: To help ensure compliance with reporting requirements, the County should implement policies and procedures to ensure that the Child Support Enforcement financial information is compiled monthly to enable the finance department to complete the monthly financial reports in a timely manner.

This finding has been made previously.

Navajo County
Schedule of Findings and Questioned Costs – Continued
Year Ended June 30, 2002

Federal Award Findings and Questioned Costs - Continued

02-102 U.S. Department of Health and Human Services

Child Support Enforcement

Contract Nos. E7202317, E7200017, E7201017

CFDA No. 93.563

Grant Period: July 1, 2001 to June 30, 2002

Questioned Costs: None

Condition: The Program did not update information within the database concerning health insurance coverage of participants on a timely basis

Criteria, cause, and effect: The County is required to secure medical support information and to establish and enforce medical support obligations for all individuals eligible for such services. The cause is that the County has failed to follow up and update the participant database regarding health insurance coverage. The effect is non-compliance with securing and enforcing medical support obligations for participants.

Recommendation: We recommend that the County evaluate current controls in place to update participant information more timely.

02-103 U.S. Department of Agriculture

Special Supplemental Nutrition

Program for Women, Infants and Children

Contract No. 761095

CFDA No. 10.557

Grant Period: July 1, 2001 to June 30, 2002

Questioned Costs: Unknown

Condition: The Program was unable to provide 7 out of 30 participant files selected for eligibility testing.

Criteria, cause, and effect: Applicants are required to be screened at WIC clinic sites to determine their WIC eligibility. The cause is that the Program has failed to keep track of participant files due to staffing issues and key personnel turnover. The effect is non-compliance with eligibility documentation requirements. It is impracticable to compute questioned costs since we were unable to determine if the participants were ineligible to participate in the program.

Recommendation: We recommend that the program evaluate current controls in place to keep track of participant information.

Federal Award Findings and Questioned Costs - Continued

02-104

**U.S. Department of Agriculture
Special Supplemental Nutrition Program
for Women, Infants, and Children**

Contract No. 761095
CFDA No. 10.557
Grant Period: July 1, 2001 to June 30, 2002
Questioned Costs: None

U.S. Department of Labor

Workforce Investment Act Cluster
Contract Nos. E5702008,E5702009,E5702010
CFDA Nos. 17.258, 17.259, 17.260
Grant Period: July 1, 2001 to June 30, 2002
Questioned Costs: None

**U.S. Department of Health and Human
Services**

Child Support Enforcement

Contract Nos. E7202317, E7200017,
E7201017
CFDA No. 93.563
Grant Period: July 1, 2001 to June 30, 2002
Questioned Costs: None

Condition: As discussed in financial statement finding 02-04 above, the County does not maintain detailed property records of fixed assets purchased with federal financial assistance. In addition, fixed assets are not inventoried on a biennial basis. ***This finding has been made previously.***

Criteria, Cause and Effect: Subpart C, Section .32(d) of the Common Rule requires that detailed property records be maintained and that an inventory of fixed assets be performed every two years. The cause is a lack of qualified personnel to perform the task. The effect is the lack of accountability and control of fixed assets and noncompliance with federal regulations.

Recommendation: We recommend that the County prepare detailed property records and that these records be reconciled to the accounting records. In addition, an inventory should be performed every two years to determine the existence of assets and to comply with federal regulations.

County Responses



Navajo County Finance Department

P. O. Box 668, Holbrook, Az. 86025
Phone (520) 524-4038 Fax (520) 524-4239

James Menlove
Finance Director
james.menlove@co.navajo.az.us

Bencita Nelson
Accountant
bencita.nelson@co.navajo.az.us

Joan Mickle
Accounting Supervisor
joan.Mickle@co.navajo.az.us

August 4, 2005

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

Dear Ms. Davenport:

The accompanying Corrective Action Plan has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are providing you with the names of the contact persons responsible for corrective action, the corrective action planned, and the anticipated completion date for each audit finding including in the current year's Schedule of Findings and Questions Costs.

Sincerely,

A handwritten signature in cursive script that reads "Joan Mickle".

Joan Mickle
Senior Accountant

Navajo County
Corrective Action Plan
Year Ended June 30, 2002

Financial Statement Findings

02-01 Budget Transfers and Amendments

Contact Person: Joan Mickle, Accounting Supervisor
Phone Number: (928) 524-4038
Anticipated completion date: December 31, 2005

Arizona Revised Statute (A.R.S.) 42-17106 requires the County to formally approve all budget transfers and amendments by a majority vote. During the year ended June 30, 2002, the County's Board of Supervisors failed to formally approve budget transfers and amendments, which resulted in the County being out of compliance with A.R.S. 42-17106.

County Response:

The County is in the process of putting a policy together to have it in place for the 05/06 fiscal year. This would include budgeting for beginning fund balance, transfers and any new grants that may come into the county after the budget has been adopted.

02-02 Annual Expenditure Limitation Report

Contact Person: Joan Mickle, Accounting Supervisor
Phone Number: (928) 524-4038
Anticipated completion date: February 28, 2006

The County failed to submit its Annual Expenditure Limitation report to the Auditor General of the State of Arizona by February 28, as required by A.R.S. 41-1279.07(c), following the fiscal years ended June 30, 2000, 2001, and 2002.

County Response:

The AELR has been late and will continue to be late until we get caught up. Currently the 00/01 and been done. The 01/02 is being worked on, and the 02/03 & 03/04 needs to be completed once our audits are done. We are working very hard to get all the audits and AELR's caught up. Shortage of staff has attributed to the county being behind. Our 02/03 audit should be completed by August 31, 2005 and the 03/04 by September 30, 2005.

Navajo County
Corrective Action Plan - Continued
Year Ended June 30, 2002

Financial Statement Findings – Continued

02-03 Bank Reconciliations

Contact Person: Joan Mickle, Accounting Supervisor
Phone Number: (928) 524-4038
Anticipated completion date: Completed

Bank statements and bank reconciliations for the employee medical plan and the employee dental plan were unable to be located for the June 30, 2002 audit.

County Response:

These bank reconciliations were done and stored in boxes. We had new top management come in and these records were moved and we were unable to locate them. We did recreate the paper work and reconciliations. Care has been give to ensure that this problem does not reoccur. This matter has been addressed and corrected as of the 03/04 audit.

02-04 General Fixed Assets

Contact Person: Joan Mickle, Accounting Supervisor
Phone Number: (928) 524-4038
Anticipated completion date: Completed

The County's general fixed assets system of accountability was inadequate, as evidenced by the weaknesses in the County's internal control over them set forth below. Existing records did not provide adequate information to present general fixed assets in the County's financial statements in accordance with U.S. generally accepted accounting principles. The following deficiencies are considered to be material weaknesses:

1. The County did not maintain a general fixed assets listing.
2. A physical inventory of fixed assets has not been taken in the last ten years.

The County's general fixed assets policies and procedures should be in compliance with the *Uniform Accounting Manual for Arizona Counties* (UAMAC).

County Response:

The asset listing is in place, but the demob and transfers have not been done. This listing is balanced and input monthly. The 97/98 to current is in our asset program and balance. The deprecitation policy for all assets has been written and approved by the Board of Supervisors as of 12/09/02, so we are set up and working on coming into line. We have submitted out listing to the auditors for the 02/03 audit and plan on having the current listing updated for 03/04.

Navajo County
Corrective Action Plan - Continued
Year Ended June 30, 2002

Financial Statement Findings – Continued

02-05 Reconciliations of cash and investments on deposit with the County Treasurer

Contact Person: Joan Mickle, Accounting Supervisor
Phone Number: (928) 524-4038
Anticipated completion date: June 30, 2005

The County failed to reconcile its cash and investments balances in the general ledger to the amounts recorded by the County Treasurer monthly or at year end in a timely manner.

Cash and investments on deposit with the County Treasurer for each county fund must be reconciled on a timely basis to the amounts recorded by the County Treasurer each month.

County Response:

The cash reconciliation was done at year end by the Senior Accountant. The County Treasurers Office upon implementation of our computer system in July 1999, did not put in the outstanding warrants, thus we were unable to balance to their cash. This has since been rectified and all cash and fund balances balance to the County Treasurer as of 6/30/05. A note, the cash is balance by Finance a couple of times a year.

Navajo County
Corrective Action Plan - Continued
Year Ended June 30, 2002

Federal Award Findings and Questioned Costs

02-101 U.S. Department of Health and Human Services

Child Support Enforcement

CFDA No. 93.563

Contact Person: Joan Mickle, Accounting Supervisor
Phone Number: (928) 524-4038
Anticipated completion date: June 30, 2005

Condition: Four of six reports were submitted late to the Arizona Department of Health Services. Per the Child Support Enforcement reporting requirements, monthly financial reports are required to be submitted 28 days following the end of the month in which the County incurs the expenditures.

Recommendation: To help ensure compliance with reporting requirements, the County should implement policies and procedures to ensure that the Child Support Enforcement financial information is compiled monthly to enable the finance department to complete the monthly financial reports in a timely manner.

County Response:

This matter has been addressed and care is being taken to ensure timely reporting. This was corrected in the 04/05 FY.

02-102 U.S. Department of Health and Human Services

Child Support Enforcement

CFDA No. 93.563

Contact Person: Joan Mickle, Accounting Supervisor
Phone Number: (928) 524-4038
Anticipated completion date: June 30, 2005

Condition: The Program did not update information within the database concerning health insurance coverage of participants on a timely basis. The County is required to secure medical support information and to establish and enforce medical support obligations for all individuals eligible for such services.

Recommendation: We recommend that the County evaluate current controls in place to update participant information more timely.

County Response:

This matter is being address and care will be taken to ensure that the database is maintained in a timely manner. This corrective action will be corrected as of the 04/05 FY.

Navajo County
Corrective Action Plan - Continued
Year Ended June 30, 2002

Federal Award Findings and Questioned Costs - Continued

02-103 U.S. Department of Agriculture

Special Supplemental Nutrition

Program for Women, Infants and Children

CFDA No. 10.557

Contact Person: Joan Mickle, Accounting Supervisor

Phone Number: (928) 524-4038

Anticipated completion date: June 30, 2005

Condition: The Program was unable to provide 7 out of 30 participant files selected for eligibility testing. Applicants are required to be screened at WIC clinic sites to determine their WIC eligibility.

Recommendation: We recommend that the program evaluate current controls in place to keep track of participant information.

County Response:

This matter is being address and appropriate action has been taken to ensure that the files are maintained and available for audits. This corrective action will be corrected as of the 04/05 FY.

Navajo County
Corrective Action Plan - Continued
Year Ended June 30, 2002

Federal Award Findings and Questioned Costs - Continued

02-104

U.S. Department of Agriculture
Special Supplemental Nutrition Program
for Women, Infants, and Children
CFDA No. 10.557

U.S. Department of Labor
Workforce Investment Act Cluster
CFDA Nos. 17.258, 17.259, 17.260

U.S. Department of Health and Human
Services

Child Support Enforcement
CFDA No. 93.563

Contact Person: Joan Mickle, Accounting Supervisor
Phone Number: (928) 524-4038
Anticipated completion date: Completed

Condition: As discussed in financial statement finding 02-04 above, the County does not maintain detailed property records of fixed assets purchased with federal financial assistance. In addition, fixed assets are not inventoried on a biennial basis. Subpart C, Section .32(d) of the Common Rule requires that detailed property records be maintained and that an inventory of fixed assets be performed every two years.

Recommendation: We recommend that the County prepare detailed property records and that these records be reconciled to the accounting records. In addition, an inventory should be performed every two years to determine the existence of assets and to comply with federal regulations.

County Response:

We are currently working on getting our auctioned and transferred items taken care of, which will bring the capital listings into line. We have submitted out listing to the auditors for the 02/03 audit and plan on having the current listing updated for 03/04.



Navajo County Finance Department

P. O. Box 668, Holbrook, Az. 86025
Phone (520) 524-4038 Fax (520) 524-4239

James Menlove
Finance Director
james.menlove@co.navajo.az.us

Bencita Nelson
Accountant
bencita.nelson@co.navajo.az.us

Joan Mickle
Accounting Supervisor
joan.Mickle@co.navajo.az.us

August 17, 2005

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

Dear Ms. Davenport:

The accompanying summary schedule of prior audit findings has been prepared as required by U.S. Office of Management and Budget Circular A-133. Specifically, we are reporting the status of audit findings included in the prior audit's schedule of findings and questioned costs related to federal awards. This schedule also includes audit findings reported in the prior audit's summary schedule of prior audit findings that have not been corrected.

Sincerely,

A handwritten signature in cursive script that reads "Joan Mickle".

Joan Mickle
Senior Accountant

Navajo County
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2002

Status of Federal Award Findings and Questioned Costs

00-101

and

01-101 U.S. Department of Health and Human Services

Child Support Enforcement

Contract Nos. E7206017 and E7201017

CFDA No. 93.563

Grant Period: October 1, 1999 through September 30, 2000 and
October 1, 2000 through September 30, 2001.

Questioned Costs: None

Condition: Ten of twelve reports were submitted late to the Arizona Department of Health Services. Per the Child Support Enforcement reporting requirements, monthly financial reports are required to be submitted 28 days following the end of the month in which the County incurs the expenditures.

Status: Not corrected. The County is currently working to provide more timely monthly financial reporting.