

**Navajo County**  
**Single Audit Reporting Package**

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**Year Ended June 30, 2003**

Navajo County  
Single Audit Reporting Package  
Year Ended June 30, 2003

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**Independent Auditors' Report**

The Auditor General of the State of Arizona

The Board of Supervisors of  
Navajo County, Arizona

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Navajo County as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management.

We were instructed by the County's management not to audit the County's capital asset, and net assets, invested in capital assets; and depreciation expense for the governmental activities of \$54,360,439, and \$1,090,543, respectively, for the governmental activities reported in the government-wide financial statements.

Furthermore, as instructed by the County's management, we did not perform any procedures applicable to the account balances and activities related to the financing of the County's uninsured risks of loss for certain employee health benefits. These activities are included in governmental activities in the government-wide financial statements and in the General Fund in the fund financial statements. Assets, liabilities, net assets, revenues, and expenses or expenditures for these account balances and activities are (\$19,793), \$790,818, (\$810,611), \$891 and \$811,503, respectively.

Since we did not perform auditing procedures on the County's capital asset balances, and related depreciation expense, and the balances and activities related to the County's employee health benefits, the scope of our work was not sufficient to express, and we do not express, an opinion on these financial statements of Navajo County referred to above as of and for the year then ended June 30, 2003.

As described in Note 2, the County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, for the year ended June 30, 2003, to implement a new financial reporting model.

The Management's Discussion and Analysis on pages 3 through 10, the Budgetary Comparison Schedules on pages 41 through 45 and the Schedule of Agent Retirement Plans' Funding Progress on page 46 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We were engaged to audit the financial statements of the County for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards listed in the table of contents is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion in it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2006, 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.

*Walker & Armstrong LLP*

Phoenix, Arizona  
June 29, 2006

**Navajo County**  
**Management's Discussion and Analysis**  
**June 30, 2003**

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As management of Navajo County, we offer readers of Navajo County's financial statements this narrative overview and analysis of the financial activities of Navajo County for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the financial statements.

**Financial Highlights**

- The assets of Navajo County exceeded its liabilities at the close of the most recent fiscal year by \$66,325,421 (net assets). Of this amount, \$10,249,740 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, Navajo County's governmental funds reported combined ending fund balances of \$22,145,882 an increase of \$5,174,934 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$4,512,907 or 19.3% of total general fund expenditures.
- Navajo County's total long-term liabilities decreased by \$558,282 during the current fiscal year for scheduled debt payments for the year.

**Overview of the Financial Statements**

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused paid-time-off leave).

**Navajo County**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2003**

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Both of the government-wide financial statements distinguish functions of Navajo County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

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

The government-wide financial statements not only include Navajo County itself (known as the primary government), but also include various legally separate entities for which the County is considered to be financially accountable. Blended with the data of the County are various special assessment districts and a nonprofit corporation that function for all practical purposes as departments of Navajo County, and therefore, have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 11 through 12 of this report.

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

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

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

**Navajo County**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2003**

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

The basic governmental fund financial statements can be found on pages 13 through 16 of this report.

***Fiduciary Funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Navajo County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 17 through 18 of this report.

***Notes to the financial statements.*** The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 through 39 of this report.

***Other information.*** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Navajo County's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for the general fund and public works fund. Other required supplementary information can be found on pages 41 through 46 of this report.

#### **Government-wide Financial Analysis**

This is the first year of implementation of GASB Statement No. 34. Therefore, the schedules provided in the financial statements do not include prior-year information for comparative analysis. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

The following is a summary of assets, liabilities and net assets as of June 30, 2003:

Navajo County  
Management's Discussion and Analysis - Continued  
June 30, 2003

**Condensed Statement of Net Assets**

	<i>Governmental Activities 2003</i>
<b>Assets</b>	
Current and other assets	\$ 80,472,689
Total assets	80,472,689
<b>Liabilities</b>	
Long-term liabilities outstanding	10,406,800
Other liabilities	3,740,468
Total liabilities	14,147,268
<b>Net assets:</b>	
Invested in capital assets, net of related debt	54,360,439
Restricted for debt service	1,715,242
Unrestricted	10,249,740
Total net assets	\$ 66,325,421

**Statement of Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Navajo County, assets exceeded liabilities by \$66,325,421 at the close of the most recent fiscal year. Included in its net assets are the County's capital assets (e.g. land, buildings, equipment, vehicles or infrastructure). The portion of net assets invested capital assets, net of related debt, is \$54,360,439. Also included in the net asset figure is \$1,715,242 that is restricted for future debt service payments.

Unrestricted net assets of \$10,249,740 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, Navajo County is able to report positive balances in all categories of net assets for its governmental activities.

**Statement of Activities.** Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during the most recent fiscal year. A summary of the changes in net assets follows. For the fiscal year, net assets increased \$8,536,658; all coming from governmental activities. The basis of accounting used in the government-wide statement of activities excludes capital expenditures while its revenues include taxes that are used, in part, for the construction of those assets. Beginning net assets have been restated due to the implementation of GASB Statement No. 34 and the correction of certain errors. Additional information on this restatement can be found on pages 23-24.

Navajo County  
Management's Discussion and Analysis - Continued  
June 30, 2003

Condensed Statement of Changes in Net Assets

	<u>Governmental Activities 2003</u>
<b>Revenues</b>	
<i>Program revenues:</i>	
Charges for services	\$ 4,913,430
Operating grants and contributions	21,001,714
<i>General revenues:</i>	
Property taxes	5,877,286
County sales tax	5,256,637
Share of state sales taxes	8,247,600
Vehicle license tax	3,828,077
State shared lottery	550,035
Investment earnings	793,842
Fines and forfeits	782,429
Miscellaneous and rent	804,081
<b>Total revenues</b>	52,055,131
<b>Expenses</b>	
General government	16,481,849
Public safety	13,635,116
Highways and streets	7,521,368
Sanitation, health and welfare	4,434,027
Culture and recreation	660,852
Education	226,269
Interest on long-term debt	558,992
<b>Total expenses</b>	43,518,473
<b>Increase in net assets</b>	8,536,658
Net assets, beginning, as restated	57,788,763
Net assets, ending	\$ 66,325,421

**Navajo County**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2003**

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***Revenues***

Governmental activities revenues totaled \$52,055,131 for fiscal year 2003. The following are highlights of County revenues:

- Sales taxes are comprised of state-shared sales tax, a ½ cent tax for highways and a ½ cent general sales tax rate. Overall sales tax decreased by \$34,582 in the current fiscal year due to a general decrease in sales activity. The highway sales tax decreased by \$466,266 and the state-shared sales tax, the largest component of sales tax, increased by \$217,303.
- Property taxes increased by \$1,894,208 (48%) during the year. This increase is attributable to increased property values and new construction.
- Charges for services increased by \$2,790,089 primarily from increases in the receipts of the State & Federal Prisoner reimbursements.

***Expenses***

Expenses decreased from the prior year by \$760,250. The most significant changes are a (1) decrease in general government of \$1,464,713 (9%), (2) an increase in public safety of \$3,282,074 (33%), (3) a decrease in highways and streets of \$1,857,455 (16%) and (4) a decrease in capital outlays of \$560,158 (27%). The primary causes of these changes are (1) the decrease in the general fund was due to the fact that we had to lower our tax rate by the amount that we over collected in taxes as we lost our lawsuit with the Property Tax Oversight Commission (2) the increase was do to the larger numbers of state and federal prisoners we were housing (3) the decrease was due to the fact that we did not get some of our bigger budgeted projects completed or even started on the roads and (4) this was also due to the fact that we had that 15% the board cut in expenditures due to the tax rate being lowered which forced budget cuts.

**Financial Analysis of the Government's Funds**

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

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

As of the end of the current fiscal year, Navajo County's governmental funds reported combined ending fund balances of \$22,145,882, an increase of \$5,232,567 in comparison with the prior year. This change is primarily attributable to the increase in the fund balance of the general fund totaling \$3,245,113. The County had an increase in charges for services of approximately \$2.2 million while decreasing expenditures by \$92,487.

**Navajo County**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2003**

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The general fund is the chief operating fund of Navajo County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,512,907, which was \$3,245,113 greater than the previous fiscal year. Overall general fund revenues increased by \$798,558 and overall expenditures decreased by \$531,079.

**General Fund Budgetary Highlights**

The general fund had budgeted expenditures of \$24,917,500. Actual general fund expenditures were under budget by approximately \$1.5 million. The most significant budget variances were for miscellaneous and contingency expenditures which were \$1.7 million and \$465,000, respectively, less than budgeted due to not spending from the contingency fund. Also, the jail operations expenditures were \$336,000 less than estimated due to less than expected state and federal prisoners.

During the year, actual revenue exceeded estimates by approximately \$1.0 million or 4% which was mostly due to revenues greater than estimates of \$1.5 million for intergovernmental revenue while charges for services reporting \$493,000 less than estimated.

**Capital Asset and Debt Administration**

*Capital Assets.* During 2003, as part of implementing GASB 34, the County recorded its historical capital assets based on an inventory performed and those capital assets include machinery and equipment, vehicles, buildings and certain infrastructure (roads, highways, bridges, water systems, etc). Navajo County's expenditures for capital assets for its governmental activities during the year ended June 30, 2003 totaled approximately \$3.8 million in which approximately \$1.5 is recorded as capital outlays in the fund financial statements. This investment in capital assets includes equipment and vehicles purchased during the year as well as various building and infrastructure projects. Total depreciation on the capital assets was \$1,090,543 for 2003.

Major capital asset events during the current fiscal year included the following:

- Construction was completed on the main county complex's heating and cooling system.
- Construction was completed on the new jail facility.

**Navajo County**  
**Management's Discussion and Analysis - Continued**  
**June 30, 2003**

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**Long-term Liabilities.** At the end of the current fiscal year, Navajo County had total outstanding long-term liabilities of \$10,406,800. This includes revenue bonds outstanding of \$6,670,000 that financed the construction of jail facilities that are secured by a dedicated excise tax of ¼ cent. Navajo County also had special assessment debts of \$2,298,150 that are secured by pledges of revenues from special assessments levied against the benefiting property owners. Included in long-term liabilities is \$1,224,826 for the future payment of compensated absences for unused employee vacation leave. The remainder of the long-term liabilities consists of capital leases and notes payable and estimated landfill closure and postclosure care costs.

Navajo County had a net decrease in long-term liabilities of \$558,282 during the current fiscal year which was primarily due to the County making scheduled debt payments.

State statutes limit the amount of general obligation debt a county may issue to 6 percent of its total assessed valuation. The current debt limitation of the County is \$35,604,484 of which the County's available debt capacity is \$28,656,269. Additional information on long-term debt can be found in Notes 9 through 13 on pages 29 through 32 of this report.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for Navajo County is currently 12.5 percent, which is a slight increase from a rate of 11.5 percent a year ago. This compares unfavorably to the state's average unemployment rate of 5.6 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing Navajo County's budget for the 2003/04 fiscal year. The unreserved ending fund balance in the general fund of \$4,512,907 was appropriated for spending in the 2003/04 fiscal year budget. The County's primary property tax rate remained unchanged for 2003/04 fiscal year.

**Requests for Information**

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

Finance Director  
Navajo County  
100 East Carter  
Holbrook, Arizona 86025

**Navajo County**  
**Statement of Net Assets**  
**June 30, 2003**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and investments	\$ 19,029,092
Cash and investments held by trustee	1,765,748
Receivables (net of allowances for uncollectibles):	
Property taxes	324,600
Special assessments	105,735
Accounts	294,036
Accrued interest	106,443
Due from other governments	4,066,644
Inventories	376,584
Prepaid items	43,368
Capital assets, not being depreciated	6,666,542
Capital assets, being depreciated, net	47,693,897
Total assets	80,472,689
<b>Liabilities</b>	
Accounts payable	1,612,778
Accrued payroll and employee benefits	44,476
Accrued interest payable	204,710
Deposits held for others	358,189
Deferred revenue	427,060
Claims and judgments payable	863,255
Revenue bonds payable	230,000
Noncurrent liabilities:	
Due within one year	1,741,321
Due in more than one year	8,665,479
Total liabilities	14,147,268
<b>Net Assets</b>	
Invested in capital assets, net of related debt	54,360,439
Restricted for debt service	1,715,242
Unrestricted	10,249,740
Total net assets	\$ 66,325,421

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

**Navajo County**  
**Statement of Activities**  
**Year Ended June 30, 2003**

	<u>Program Revenues</u>			Net (Expense) Revenues and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Functions</b>				
<i>Governmental activities</i>				
General government	\$ 16,481,849	\$ 3,008,100	\$ 8,093,867	\$ (5,379,882)
Public safety	13,635,116	1,809,061	3,519,132	(8,306,923)
Highways and streets	7,521,368	4,544	7,798,373	281,549
Sanitation	30,528	40,000	-	9,472
Health	1,456,211	41,475	1,189,036	(225,700)
Welfare	2,947,288	-	-	(2,947,288)
Culture and recreation	660,852	10,250	401,306	(249,296)
Education	226,269	-	-	(226,269)
Interest on long-term debt	558,992	-	-	(558,992)
Total governmental activities	<u>\$ 43,518,473</u>	<u>\$ 4,913,430</u>	<u>\$ 21,001,714</u>	<u>(17,603,329)</u>

**General revenues:**

Taxes:

Property taxes, levied for general purposes	5,074,530
Property taxes, levied for flood control	802,756
County sales taxes, assessed for general purposes	5,256,637
Share of state sales taxes	8,247,600
Vehicle license tax	3,828,077
State-shared lottery	550,035
Investment earnings	793,842
Fines and forfeits	782,429
Rent	57,105
Miscellaneous	<u>746,976</u>

Total general revenues	<u>26,139,987</u>
Change in net assets	8,536,658
Net assets, July 1, 2002, as restated	<u>57,788,763</u>
Net assets, June 30, 2003	<u>\$ 66,325,421</u>

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

**Navajo County  
Balance Sheet  
Governmental Funds  
June 30, 2003**

	<u>General Fund</u>	<u>Public Works Fund</u>	<u>Flood Control District Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and investments	\$ 4,638,391	\$ 5,272,011	\$ 2,930,868	\$ 6,187,822	\$ 19,029,092
Cash and investments held by trustee	-	-	-	1,765,748	1,765,748
Receivables (net of allowances for uncollectibles):					
Property taxes	285,008	-	-	39,592	324,600
Special assessments	-	-	33,615	72,120	105,735
Accounts	262,397	-	-	31,639	294,036
Accrued interest	19,275	167	-	87,001	106,443
Due from:					
Other funds	-	-	-	16,860	16,860
Other governments	1,428,164	868,881	-	1,769,599	4,066,644
Inventories	41,323	-	-	335,261	376,584
Prepaid items	43,143	-	-	225	43,368
Advances to other funds	-	125,343	-	-	125,343
Total assets	<u>\$ 6,717,701</u>	<u>\$ 6,266,402</u>	<u>\$ 2,964,483</u>	<u>\$ 10,305,867</u>	<u>\$ 26,254,453</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 700,024	\$ 489,191	\$ -	\$ 423,563	\$ 1,612,778
Accrued payroll and employee benefits	30,358	-	-	14,118	44,476
Accrued interest payable	-	-	-	204,710	204,710
Claims and judgments payable	863,255	-	-	-	863,255
Due to other funds	16,860	-	-	-	16,860
Deposits held for others	350,564	-	-	7,625	358,189
Revenue bonds payable	-	-	-	230,000	230,000
Deferred revenues	159,267	-	-	493,693	652,960
Advances from other funds	-	-	-	125,343	125,343
Total liabilities	<u>2,120,328</u>	<u>489,191</u>	<u>-</u>	<u>1,499,052</u>	<u>4,108,571</u>
<b>Fund balances:</b>					
Reserved for inventories	41,323	-	-	335,261	376,584
Reserved for prepaid items	43,143	-	-	225	43,368
Unreserved, reported in:					
General fund	4,512,907	-	-	-	4,512,907
Special revenue funds	-	5,777,211	-	4,920,407	10,697,618
Debt service funds	-	-	-	1,715,242	1,715,242
Capital projects funds	-	-	2,964,483	1,835,680	4,800,163
Total fund balances	<u>4,597,373</u>	<u>5,777,211</u>	<u>2,964,483</u>	<u>8,806,815</u>	<u>22,145,882</u>
Total liabilities and fund balances	<u>\$ 6,717,701</u>	<u>\$ 6,266,402</u>	<u>\$ 2,964,483</u>	<u>\$ 10,305,867</u>	<u>\$ 26,254,453</u>

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

Navajo County  
Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds  
June 30, 2003

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<b>Fund balances - total governmental funds</b>	\$ 22,145,882
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	54,360,439
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	225,900
Some liabilities including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(10,406,800)</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 66,325,421</u></u>

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

Navajo County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2003

	General Fund	Public Works Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Taxes	\$ 3,788,384	\$ -	\$ 802,756	\$ 734,561	\$ 5,325,701
Special assessments	-	-	-	493,133	493,133
Licenses and permits	552,921	-	-	60,021	612,942
Intergovernmental	17,108,204	9,707,740	-	12,002,989	38,818,933
Charges for services	3,409,737	4,544	-	886,459	4,300,740
Fines and forfeits	726,632	-	-	55,798	782,430
Rents and royalties	57,105	-	-	-	57,105
Contributions and donations	1,325	-	-	63,804	65,129
Investment earnings	517,938	126,669	45,208	104,029	793,844
Miscellaneous	350,269	118,185	-	279,023	747,477
Total revenues	<u>26,512,515</u>	<u>9,957,138</u>	<u>847,964</u>	<u>14,679,817</u>	<u>51,997,434</u>
<b>Expenditures:</b>					
<i>Current:</i>					
General government	12,849,048	-	-	3,436,918	16,285,966
Public safety	7,417,376	-	-	5,939,884	13,357,260
Highways and streets	-	9,061,628	-	395,706	9,457,334
Sanitation	30,528	-	-	-	30,528
Health	-	-	-	1,456,211	1,456,211
Welfare	2,703,644	-	-	-	2,703,644
Culture and recreation	173,000	-	-	559,897	732,897
Education	226,270	-	-	-	226,270
<i>Debt service:</i>					
Principal retirement	-	-	-	517,747	517,747
Interest and fiscal charges	-	-	-	558,992	558,992
<i>Capital outlay</i>					
	-	-	293,167	1,202,484	1,495,651
Total expenditures	<u>23,399,866</u>	<u>9,061,628</u>	<u>293,167</u>	<u>14,067,839</u>	<u>46,822,500</u>
Excess of revenues over expenditures	3,112,649	895,510	554,797	611,978	5,174,934
<b>Other financing sources (uses):</b>					
Transfers in	1,293,920	314,195	-	1,763,224	3,371,339
Transfers out	<u>(1,115,426)</u>	<u>(1,164,798)</u>	<u>(275,000)</u>	<u>(816,115)</u>	<u>(3,371,339)</u>
Total other financing sources (uses)	<u>178,494</u>	<u>(850,603)</u>	<u>(275,000)</u>	<u>947,109</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	3,291,143	44,907	279,797	1,559,087	5,174,934
Fund balances, beginning of year, as restated	1,352,260	5,732,304	2,684,686	7,144,065	16,913,315
Increase (decrease) in reserve for inventories	(4,515)	-	-	115,513	110,998
Increase (decrease) in reserve for prepaid items	<u>(41,515)</u>	<u>-</u>	<u>-</u>	<u>(11,850)</u>	<u>(53,365)</u>
Fund balances, end of year	<u>\$ 4,597,373</u>	<u>\$ 5,777,211</u>	<u>\$ 2,964,483</u>	<u>\$ 8,806,815</u>	<u>\$ 22,145,882</u>

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

**Navajo County**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances to the Statement of Activities**  
**Governmental Funds**  
**Year Ended June 30, 2003**

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<b>Net change in fund balances - total governmental funds</b>	\$	5,174,934
 <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		3,818,434
Depreciation expense		(1,090,543)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		58,453
<p>Some cash outlays, such as purchase of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.</p>		
Increases in inventory reserves		110,998
Decreases in prepaid expenses		(53,365)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in governmental funds, but repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
Principal repaid		517,747
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b>8,536,658</b>

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

**Navajo County**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2003**

	<u>Investment</u> <u>Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and investments	\$ 95,610,915	\$ 442,680
Interest receivable	527,437	-
Total assets	<u>96,138,352</u>	<u>\$ 442,680</u>
<b>Liabilities</b>		
Deposits held for others	-	\$ 442,680
Total liabilities	-	<u>\$ 442,680</u>
<b>Net Assets</b>		
Held in trust for investment trust participants	<u>\$ 96,138,352</u>	

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

Navajo County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2003

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	<u>Investment Trust Funds</u>
<b>Additions:</b>	
Contributions from participants	\$ 212,113,870
Net investment income	<u>4,545,055</u>
Total additions	<u>216,658,925</u>
<b>Deductions:</b>	
Distributions to participants	<u>224,042,129</u>
Change in net assets	(7,383,204)
Net assets, July 1, 2002, as restated	<u>103,521,556</u>
<b>Net assets, June 30, 2003</b>	<u><u>\$ 96,138,352</u></u>

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

**Navajo County**  
**Notes to Financial Statements**  
**Year Ended June 30, 2003**

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**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). During the year ended June 30, 2003, the County implemented GASB Statement No. 34, as amended by GASB Statement No. 37, which prescribes a new reporting model consisting of both government-wide and fund financial statements. The County also implemented GASB Statement No. 38, which prescribes new and revised note disclosures. A summary of the County's more significant accounting policies follows.

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

***A. Reporting Entity***

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

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

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

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

***B. Basis of Presentation***

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

## Notes to Financial Statements – Continued

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### Note 1 – Summary of Significant Accounting Policies – Continued

#### *B. Basis of Presentation – Continued*

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

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

- charges to customers or applicants for good, services, or privileges provided,
- operating grants and contributions, and
- capital grants and contributions, including special assessments.

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

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

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

The County reports the following major governmental funds:

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

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

## Notes to Financial Statements – Continued

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### Note 1 – Summary of Significant Accounting Policies – Continued

#### *B. Basis of Presentation – Continued*

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

The County reports the following fund types:

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

*The Agency Fund* accounts for assets held by the County as an agent on behalf of individuals and other parties.

#### *C. Basis of Accounting*

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

Governmental funds in the fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences, and landfill closure and postclosure care costs, which are recognized as expenditures to the extent they are due and payable. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital lease agreements are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of grants and general revenues. Therefore, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The County applies grant resources to such programs before using general revenues.

Notes to Financial Statements – Continued

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**Note 1 – Summary of Significant Accounting Policies – Continued**

***D. Cash and Investments***

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

***E. Inventories and Prepaid Items***

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

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

***F. Property Tax Calendar***

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

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

***G. Capital Assets***

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

	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Buildings	Straight-line	20-40 years
Machinery and equipment	Straight-line	5-10 years
Vehicles	Straight-line	5-7 years
Infrastructure	Straight-line	12-40 years

## Notes to Financial Statements – Continued

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### **Note 1 – Summary of Significant Accounting Policies – Continued**

#### ***H. Investment Earnings***

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

#### ***I. Compensated Absences***

Compensated absences consist of unused vacation leave. Employees may accumulate up to 488 hours during a calendar year (depending on years of service) but must have reduced the balance to 320 hours by December 31 of each year. On December 31 of each year, if the balance has not been reduced to 320 hours, employees can request a 90 day extension 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.

### **Note 2 – Beginning Balances Restated**

As a result of implementing GASB statement No. 34, the County's governmental fund-type fund balances as of June 30, 2002, have been restated as net assets as of July 1, 2002, on the government-wide Statement of Activities and have been relabeled net assets as of July 1, 2002.

During 2003, certain adjustments were made to correct deferred revenue in special revenue funds for advances on cost-reimbursement contracts. This resulted in a restatement of the beginning fund balances of governmental fund type net assets.

Also during 2003, an error was noted in the investment trust fund in which amounts previously recorded as liabilities should have been reported as a component of net assets.

The reconciliation that follows summarizes differences between governmental fund-type fund balances as of June 30, 2002 as previously reported, to net assets as of July 1, 2002 reported on the government-wide Statement of Activities:

## Notes to Financial Statements – Continued

### Note 2 – Beginning Balances Restated - Continued

	Fund Financial Statements					
	Governmental Activities <u>Total</u>	General Fund	Public Works Fund	Flood Control District	Other Governmental Funds	Fiduciary Funds
Unadjusted net assets and fund balances as of July 1, 2002	\$ 17,171,548	\$1,352,260	\$ 5,732,304	\$2,684,686	\$ 7,402,298	\$102,629,284
Adjustments for accounting errors						
Correction of deferred revenue	( 258, 233)	-	-	-	( 258,233)	-
Reclassification of liabilities to net assets for amounts held on behalf of external participants	-	-	-	-	-	<u>892,272</u>
Net assets and fund balances as of June 30, 2002, as restated	16,913,315	<u>\$1,352,260</u>	<u>\$5,732,304</u>	<u>\$2,684,686</u>	<u>\$ 7,144,065</u>	<u>\$103,521,556</u>
Adjustments resulting from the adoption of GASB 34						
Add: Revenues earned but not yet available	207,962					
Add: Capital assets	51,632,548					
Less: Long-term liabilities	<u>(10,965,062)</u>					
Net assets of governmental activities as of July 1, 2002	<u>\$ 57,788,763</u>					

### Note 3 - Excess of Expenditures over Appropriations

Twenty-six General Fund departments and eleven departments in the Special Revenue Funds had an excess of actual expenditures over appropriations.

General Fund departments with expenditures in excess of appropriations are caused mainly by excess expenditures for which budget modifications were not made. In total, the County's General Fund did not have expenditures in excess of appropriations since the County budgeted significant expenditures for miscellaneous and contingency 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 2003 and excess expenditures did not result in violations of laws, regulations or noncompliance with grants and contracts.

**Notes to Financial Statements – Continued**

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**Note 4 – Individual Fund Deficits**

The following Capital Project Funds had fund deficits in excess of \$10,000 as of June 30, 2003:

<b>Fund</b>	<b>Deficit</b>
Penrod Road - Show Low - 30%	\$ 329,944
Penrod Road - PTLIS – 31%	127,879
Penrod Road – County – 39%	16,816
White Mountain Regional Transportation Study	14,627

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

**Note 5 – Deposits and Investments**

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

**County Treasurer's Investment Pool** – Arizona Revised Statutes require community colleges, school districts, and other local governments to deposit certain public monies with the County Treasurer (see Note 20). Those monies are pooled with County monies for investment purposes.

**Deposits** – At June 30, 2003, the carrying amount of the investment pool's total cash in bank was \$18,937,448 and the bank balance was \$23,620,958. Of the bank balance, \$300,000 was covered by federal depository insurance and \$23,263,920 was covered by collateral held by the pledging financial institution's trust department or agent in the County's name and \$57,038 was uninsured and uncollateralized.

**Investments** - At June 30, 2003, the investments in the County Treasurer's investment pool consisted of the following:

Investment in State Treasurer's investment pool	\$ 104,233
U.S. government securities	95,299,734
Total	\$ 95,403,967

**Notes to Financial Statements – Continued**

**Note 5 – Deposits and Investments - Continued**

The State Board of Investment 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. Those shares are not identified with specific investments and are not subject to custodial credit risk.

The investment pool’s investments at June 30, 2003, are categorized below to give an indication of the level of risk the County assumed at year-end.

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

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

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

	Category			Fair Value
	1	2	3	
U.S. government securities	\$ -	\$ 95,299,734	\$ -	\$ 95,299,734

**Other Deposits** – At June 30, 2003, the carrying amount of the County’s total nonpooled cash in bank was \$761,065 and the bank balance was \$894,447. The entire bank balance was either covered by federal depository insurance or by collateral held by the County or its agent in the County’s name.

**Cash and Investments Held by Trustee** – At June 30, 2003, the County’s cash and investments held by trustee, consisted of the following:

	Fair Value
Commercial papers	\$ 4,894
U.S. government security money market funds	1,045,854
U.S. government securities	715,000
Total	\$ 1,765,748

The County’s cash and investments held by trustee at June 30, 2003 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	
Cash and Investments held by trustee	\$ -	\$ -	\$ 1,765,748	\$ 1,765,748

**Notes to Financial Statements – Continued**

**Note 5 – Deposits and Investments - Continued**

A reconciliation of cash and investments to amounts shown on the statement of net assets follows:

	<u>County Treasurer's Investment Pool</u>	<u>Other</u>	<u>Total</u>
<i>Cash and investments:</i>			
Carrying amount of deposits	\$ 18,937,448	\$ 741,272	\$ 19,678,720
Reported amount of investments	95,403,967	-	95,403,967
Cash and investments held by trustee	-	1,765,748	1,765,748
Total cash and investments	<u>\$ 114,341,415</u>	<u>\$ 2,507,020</u>	<u>\$ 116,848,435</u>
	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
<i>Statement of net assets:</i>			
Cash and investments	\$ 19,029,092	\$ 96,053,595	\$ 115,082,687
Cash and investments held by trustee	1,765,748	-	1,765,748
Total	<u>\$ 20,794,840</u>	<u>\$ 96,053,595</u>	<u>\$ 116,848,435</u>

**Note 6 – Property Tax Receivable**

Property tax receivable consists of uncollected property taxes as determined from the records of the County Treasurer's Office, and at June 30, 2003, was as follows:

<u>Fiscal Year</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>
2002-2003	\$ 241,884	\$ 30,790
Prior	43,124	8,802
Total	<u>\$ 285,008</u>	<u>\$ 39,592</u>

The portion of property taxes receivable not collected within 60 days after June 30, 2003, has been deferred and, consequently, is not included in current-year revenues on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

**Note 7 – Due from Other Governments**

Amounts due from other governments at June 30, 2003, in the Statement of Net Assets include \$426,850 in county excise taxes, \$541,092 in sales taxes from the State of Arizona, \$147,444 in vehicle license taxes from the State of Arizona, \$688,548 in state-shared revenue from highway user taxes, \$98,716 in vehicle license taxes, \$1,647,703 in various grants from the state and federal governments, and \$516,291 from cities and towns in Navajo County for various road projects.

**Notes to Financial Statements – Continued**

**Note 8 – Capital Assets (Unaudited)**

Capital asset activity for the year ended June 30, 2003, was as follows:

	<u>Balance</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2003</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 5,977,441	\$ -	\$ -	\$ 5,977,441
Construction in progress	<u>-</u>	<u>689,101</u>	<u>-</u>	<u>689,101</u>
Total capital assets, not being depreciated	<u>5,977,441</u>	<u>689,101</u>	<u>-</u>	<u>6,666,542</u>
<i>Capital assets, being depreciated:</i>				
Buildings	51,655,480	215,378	-	51,870,858
Infrastructure	9,648,110	934,415	-	10,582,525
Land improvements	115,905	-	-	115,905
Machinery and equipment	3,745,117	1,311,176	-	5,056,293
Office equipment	858,471	251,004	-	1,109,475
Vehicles	<u>2,341,650</u>	<u>417,360</u>	<u>-</u>	<u>2,759,010</u>
Total capital assets, being depreciated	<u>68,364,733</u>	<u>3,129,333</u>	<u>-</u>	<u>71,494,066</u>
<i>Less: accumulated depreciation for:</i>				
Buildings	(17,505,188)	( 807,827)	-	( 18,313,015)
Infrastructure	( 1,170,772)	( 26,202)	-	( 1,196,974)
Land improvements	( 22,392)	-	-	( 22,392)
Machinery and equipment	( 1,434,200)	( 116,298)	-	( 1,550,498)
Office equipment	( 687,238)	( 57,881)	-	( 745,119)
Vehicles	<u>( 1,889,836)</u>	<u>( 82,335)</u>	<u>-</u>	<u>( 1,972,171)</u>
Total accumulated depreciation	<u>(22,709,626)</u>	<u>(1,090,543)</u>	<u>-</u>	<u>( 23,800,169)</u>
Total capital assets, being depreciated, net	<u>45,655,107</u>	<u>2,038,790</u>	<u>-</u>	<u>47,693,897</u>
<i>Governmental activities capital assets, net</i>	<u>\$ 51,632,548</u>	<u>\$ 2,727,891</u>	<u>\$ -</u>	<u>\$ 54,360,439</u>

**Notes to Financial Statements – Continued**

**Note 8 – Capital Assets (Unaudited) - Continued**

Depreciation expense as of June 30, 2003 was charged to governmental functions as follows:

General government	\$ 351,077
Public safety	465,212
Highways and streets	11,108
Welfare	243,644
Culture and recreation	<u>19,502</u>
Total	<u>\$ 1,090,543</u>

**Note 9 – Changes in Long-Term Liabilities**

The following schedule details the County’s long-term liabilities and obligation activity for the year ended June 30, 2003:

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2003</u>	<u>Due within 1 year</u>
<i>Governmental Activities</i>					
Compensated absences payable	\$ 1,264,618	\$ 1,224,826	\$ 1,264,618	\$ 1,224,826	\$ 1,224,826
Revenue bonds payable	6,900,000	-	230,000	6,670,000	240,000
Special assessment bonds with governmental commitment	2,563,698	-	265,548	2,298,150	254,461
Capital leases payable	50,478	-	17,881	32,597	18,260
Notes payable	169,626	-	4,318	165,308	3,050
Landfill closure and postclosure care costs payable	16,642	-	723	15,919	724
Total	<u>\$ 10,965,062</u>	<u>\$ 1,224,826</u>	<u>\$ 1,783,088</u>	<u>\$ 10,406,800</u>	<u>\$ 1,741,321</u>

**Note 10 – 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, 2003, were as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2002</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2003</u>
Navajo County, Arizona 2000 ACA Insured	5.00- 6.25%	July 1, 2003- July 1, 2020	<u>\$ 6,900,000</u>	<u>\$ -</u>	<u>\$ 230,000</u>	<u>\$ 6,670,000</u>

**Notes to Financial Statements – Continued**

**Note 10 – Bonds Payable - Continued**

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 240,000	\$ 397,345
2005	250,000	384,745
2006	265,000	371,245
2007	280,000	356,670
2008	295,000	341,270
2009-2013	1,770,000	1,433,213
2014-2018	2,385,000	831,712
2019-2020	1,185,000	112,500
<b>Total</b>	<b>\$ 6,670,000</b>	<b>\$ 4,228,700</b>

**Note 11 – Special Assessment Bonds Payable**

**Special assessment bonds with governmental commitment** – Special assessment bonds are secured by pledges of revenues from special assessments levied against the benefiting property owners. The proceeds of the debt issues were used to finance construction in these districts. These debts are generally callable with interest paid semiannually.

The following special assessment districts had bonds outstanding at June 30, 2003:

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Outstanding Principal July 1, 2002</u>	<u>Issues</u>	<u>Retirements</u>	<u>Outstanding Principal June 30, 2003</u>
Soaring Eagle County Road Improvement	7.25%	7/1/94-2004	\$ 25,000	\$ -	\$ 10,000	\$ 15,000
White Mountain Summer Home Water	5.00%	7/1/81-2019	1,414,000	-	55,000	1,359,000
Blue Lake Circle CRID	5.95%	7/23/97-2007	64,986	-	15,130	49,856
Misty Mountain Domestic Water	7.125%	1/1/90-2009	43,877	-	5,000	38,877
Forest Trails Unit III County Road	6.75%	7/1/97-2007	90,000	-	15,000	75,000
Moon Creek Imp. Dist.	5.95%	7/23/97-2007	40,202	-	8,040	32,162
Mule Deer Way Imp. District	5.95%	7/23/97-2007	127,096	-	27,356	99,740
Wild Horse Road #1	5.95%	7/23/97-2007	37,926	-	7,585	30,341
Timberlake Pines CRID	6.35%	8/27/97-2007	222,646	-	45,755	176,891
Buck Springs Road Improvement District	5.40%	8/13/98-2008	73,860	-	12,280	61,580
Hiawatha Trail Improvement District	5.91%	8/5/99-2009	62,206	-	8,886	53,320
Pine Meadows CC Imp. Dist.	5.91%	8/5/99-2009	55,730	-	7,961	47,769
Chaparral Drive Improvement District	5.80%	8/27/99-2010	122,073	-	23,454	98,619
Drifting Snow Loop Improvement District	5.75%	9/7/00-2011	184,096	-	24,101	159,995
<b>Total</b>			<b>\$ 2,563,698</b>	<b>\$ -</b>	<b>\$ 265,548</b>	<b>\$ 2,298,150</b>

**Notes to Financial Statements – Continued**

**Note 11 – Special Assessment Bonds Payable - Continued**

Special assessment debt service requirements to maturity are as follows:

<b>Year Ending June 30,</b>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2004	\$ 254,461	\$ 122,196
2005	251,000	108,352
2006	253,392	93,698
2007	259,882	79,472
2008	132,213	66,759
2009-2013	511,202	235,764
2014-2018	517,000	109,800
2019	119,000	5,950
<b>Total</b>	<b>\$ 2,298,150</b>	<b>\$ 821,991</b>

**Note 12 – 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 through capital leases total \$55,861.

The future minimum lease payments under the capital leases at June 30, 2003, are as follows:

<b>Year Ending June 30,</b>	<b>Governmental Activities</b>
2004	\$ 19,536
2005	14,653
Total minimum lease payments	34,189
Less amount representing interest	1,592
Present value of net minimum lease payments	<b>\$ 32,597</b>

**Notes to Financial Statements – Continued**

**Note 13 – 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, 2002</u>	<u>Principal Payments</u>	<u>Principal June 30, 2003</u>
White Mountain Lakes Recreational District	9.00%	11/21/97-2002	\$ 2,268	\$ 2,268	\$ -
Porter Mountain DWID	4.50%	6/17/1997-2036	167,358	2,050	165,308
Total			<u>\$ 169,626</u>	<u>\$ 4,318</u>	<u>\$ 165,308</u>

Note payable debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 2,050	\$ 7,312
2005	3,050	7,197
2006	3,050	7,060
2007	3,050	6,923
2008	3,050	6,785
2009-2013	15,250	31,868
2014-2018	20,250	27,874
2019-2023	23,250	23,115
2024-2028	28,250	17,321
2028-2033	34,250	10,245
2034-2037	29,808	2,238
Total	<u>\$ 165,308</u>	<u>\$ 147,938</u>

**Note 14 – Landfill Closure and Postclosure Care Costs**

State and federal laws and regulations require 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 Statement of Net Assets. The \$15,919 reported as landfill closure and postclosure care liability at June 30, 2003 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 2002-03. The actual cost may be higher due to inflation, changes in technology, or changes in regulations.

## Notes to Financial Statements – Continued

### Note 15 – Claims and Judgments Payable

The County is a defendant in several claims and lawsuits involving indigent health care, general liability, and contractual disputes. Liabilities are reported for such claims and judgments when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In the opinion of the County Attorney and county management, probable losses not covered by insurance from these proceedings total \$72,437, which has been accrued as a liability in the accompanying financial statements. The County's general fund has typically paid all claims and judgments.

### Note 16 – Compensated Absences

Compensated absences are paid from various funds in the proportion that those funds pay for payroll costs. During the year ended June 30, 2003, the County paid for compensated absences as follows: 61% from the General Fund, 14% from the Public Works Fund, 1% from the Flood Control District Fund and 24% from other funds.

### Note 17 – 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 \$255,850 for the year ended June 30, 2003. 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, 2003 are as follows:

<u>Year ending June 30,</u>	<u>Governmental Activities</u>
2004	\$ 57,426
2005	27,420
2006	25,020
2007	7,200
2008	7,200
2009-2013	36,000
2014-2018	36,000
2019-2022	28,800
Total minimum payments required	<u>\$ 225,066</u>

## Notes to Financial Statements – Continued

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### **Note 18 – Risk Management**

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

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 \$10 million per occurrence for liability claims. A county must participate in the pool at least three years after becoming a member; however, it may withdraw after the initial three-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

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

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 years.

The insurance claims payable liability of the General Fund totaling \$790,818 (unaudited) as of June 30, 2003, 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 year ended June 30, 2003 were as follows:

Notes to Financial Statements – Continued

**Note 18 – Risk Management - Continued**

	<u>(Unaudited)</u> <u>2003</u>
Claims payable, beginning of year	\$ 647,077
Current-year claims and changes in estimates	3,172,597
Claim payments	<u>( 3,028,856)</u>
Claims payable, end of year	<u>\$ 790,818</u>

**Note 19 – Retirement Plans**

***Plan Descriptions***

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

The *Arizona State Retirement System* (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers 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.

**Notes to Financial Statements – Continued**

**Note 19 – Retirement Plans - Continued**

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

***Funding Policy***

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

*Cost-sharing plans* – For the year ended June 30, 2003, 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, 2003, 2002 and 2001 were \$373,421, \$383,629 and \$413,509, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was required to remit a designated portion of court docket fees plus additional contributions of 14.54 percent of the member's annual covered payroll, as determined by actuarial valuation. The County's contributions to EORP for the years ended June 30, 2003, 2002, and 2001 were \$846, \$3,135 and \$6,013, respectively, which were equal to the required contributions for the year.

*Agent plans*-For the year ended June 30, 2003, 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 2.0 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 2.06 percent.

**Annual Pension Cost** – The County's pension cost for the two agent plans for the year ended June 30, 2003, and related information follows.

	<b>PSPRS</b>	<b>CORP</b>
Contribution rates:		
County	2.00%	2.06%
Plan members	7.65%	8.50%
Annual pension costs	\$ 39,505	\$ 17,267
Contributions made	\$ 39,505	\$ 17,267

**Notes to Financial Statements – Continued**

**Note 19 – Retirement Plans - Continued**

The current-year annual required contribution for the PSPRS and CORP were determined as a part of their June 30, 2001, 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, 2001, was 20 years.

**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	2003	\$ 39,505	100%	\$ -
	2002	107,687	100%	-
	2001	131,276	100%	-
CORP	2003	\$ 17,267	100%	\$ -
	2002	17,101	100%	-
	2001	14,436	100%	-

**Note 20 – Interfund Balances and Activity**

*Interfund receivables and payables* – Interfund balances at June 30, 2003, were as follows:

<u>Payable from</u>	<u>Payable to Nonmajor Governmental Funds</u>
<b>General Fund</b>	\$ 16,860

Interfund balances result from nonmajor governmental funds recording receivables for deficit fund balances in which the general fund transferred monies to these funds in 2004. These balances were repaid in 2004.

**Notes to Financial Statements – Continued**

**Note 20 – Interfund Balances and Activity - Continued**

*Interfund transfers* – Interfund transfers for the year ended June 30, 2003, were as follows:

Transfer from	Transfers to				Total Governmental Funds
	General Fund	Public Works Fund	Flood Control District Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ -	\$ -	\$ 1,115,426	\$ 1,115,426
Public Works Fund	550,000	-	-	614,798	1,164,798
Flood Control District Fund	242,000	-	-	33,000	275,000
Nonmajor governmental funds	501,920	314,195	-	-	816,115
Total	<u>\$1,293,920</u>	<u>\$ 314,195</u>	<u>\$ -</u>	<u>\$ 1,763,224</u>	<u>\$ 3,371,339</u>

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

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

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

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

Details of each investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
Investment in State Treasurer's investment pool	\$ 104,233	1.5444%	N/A	\$ 104,233
U.S. government securities	94,225,000	2.00 - 5.00%	3/9/04 - 6/9/08	95,299,734
Total	<u>\$ 94,329,233</u>			<u>\$ 95,403,967</u>

**Notes to Financial Statements – Continued**

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

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

**Statement of Net Assets**

Assets	\$ 114,975,295
Net assets	\$ 114,975,295
Net assets held in trust for:	
Internal participants	\$ 18,836,943
External participants	96,138,352
Total net assets held in trust	\$ 114,975,295

**Statement of Changes in Net Assets**

Total additions	269,881,010
Total deductions	( 272,604,575)
Net decrease	( 2,723,565)
Net assets held in trust:	
July 1, 2002, as restated	117,698,860
June 30, 2003	\$ 114,975,295

The net assets as of July 1, 2002 as reported above were restated due an error noted in which amounts previously recorded as liabilities should have been reported as a component of net assets. The total amount of the error was \$897,272 (see Note 2) and had no affect on 2003 changes in net assets.

**Other Required Supplementary Information**

Navajo County  
Required Supplementary Information  
Budget Comparison Schedule - General Fund  
Year Ended June 30, 2003

	Original and Final Budget	Actual	Variance
<b>Revenues:</b>			
Taxes	\$ 3,973,585	\$ 3,788,384	\$ (185,201)
Intergovernmental	15,650,320	17,108,204	1,457,884
Fines and forfeits	862,400	726,632	(135,768)
Licenses and permits	566,000	552,921	(13,079)
Charges for services	3,902,670	3,409,737	(492,933)
Rents and royalties	-	57,105	57,105
Contributions and donations	-	1,325	1,325
Investment earnings	400,300	517,938	117,638
Other	104,525	350,269	245,744
Total revenues	<u>25,459,800</u>	<u>26,512,515</u>	<u>1,052,715</u>
<b>Expenditures:</b>			
<i>General government</i>			
Board of supervisors	500,275	511,282	(11,007)
County manager	1,104,695	1,197,080	(92,385)
Building and grounds	1,320,975	1,285,740	35,235
Elections	246,440	391,508	(145,068)
Planning and building	509,575	566,507	(56,932)
Recorder	178,160	189,870	(11,710)
Voter registration	128,390	110,356	18,034
Assessor	852,475	905,345	(52,870)
MIS	374,650	485,807	(111,157)
Treasurer	332,050	338,798	(6,748)
Contingency	500,000	34,803	465,197
Legal defender	263,835	267,365	(3,530)
County attorney	1,398,510	1,439,387	(40,877)
Superior courts	1,476,050	1,501,457	(25,407)
Public defenders	654,910	764,627	(109,717)
Clerk of superior court	636,005	685,198	(49,193)
Holbrook justice court	180,870	200,860	(19,990)
Winslow justice court	177,925	198,080	(20,155)
Snowflake justice court	227,595	249,784	(22,189)
Show Low justice court	184,925	205,799	(20,874)
Pinetop justice court	212,465	217,115	(4,650)
Kayenta justice court	94,120	91,164	2,956
Holbrook constable	9,710	13,672	(3,962)
Winslow constable	10,635	17,408	(6,773)
Snowflake constable	10,335	14,665	(4,330)
Show Low constable	10,160	14,378	(4,218)
Pinetop constable	28,275	20,283	7,992
Kayenta constable	9,710	13,319	(3,609)
Miscellaneous	<u>2,616,040</u>	<u>917,391</u>	<u>1,698,649</u>
Total general government	<u>14,249,760</u>	<u>12,849,048</u>	<u>1,400,712</u>

(continued)

Navajo County  
Statement of Revenues, Expenditures, and Changes in Fund Balance -  
Budget and Actual - General Fund - Concluded  
Year Ended June 30, 2003

	Original and Final Budget	Actual	Variance
<i>Public safety</i>			
Juvenile probation	\$ 954,585	\$ 1,173,774	\$ (219,189)
Adult probation	493,210	549,089	(55,879)
Jail operations	3,204,710	2,868,227	336,483
Sheriff	<u>2,855,095</u>	<u>2,826,286</u>	<u>28,809</u>
Total public safety	<u>7,507,600</u>	<u>7,417,376</u>	<u>90,224</u>
<i>Sanitation</i>			
Sanitation landfill	35,700	30,528	5,172
<i>Welfare</i>			
Public fiduciary	360,655	368,158	(7,503)
Indigent health	<u>2,354,965</u>	<u>2,335,486</u>	<u>19,479</u>
Total welfare	<u>2,715,620</u>	<u>2,703,644</u>	<u>11,976</u>
<i>Culture and recreation</i>			
Parks and recreation	177,945	173,000	4,945
<i>Education</i>			
Superintendent of schools	<u>230,875</u>	<u>226,270</u>	<u>4,605</u>
Total expenditures	<u>24,917,500</u>	<u>23,399,866</u>	<u>1,517,634</u>
Excess of revenues over expenditures	542,300	3,112,649	2,570,349
<b>Other financing sources (uses):</b>			
Transfers in	-	1,293,920	1,293,920
Transfers out	<u>(659,520)</u>	<u>(1,115,426)</u>	<u>(455,906)</u>
Total other financing sources (uses)	<u>(659,520)</u>	<u>178,494</u>	<u>838,014</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(117,220)	3,291,143	3,408,363
Fund balance, beginning of year	-	1,352,260	1,352,260
Increase (decrease) in reserve for inventories	-	(4,515)	(4,515)
Increase (decrease) in reserve for prepaid items	<u>-</u>	<u>(41,515)</u>	<u>(41,515)</u>
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ 4,597,373</u>	<u>\$ 4,714,593</u>

See accompanying notes to budgetary comparison schedules.

Navajo County  
 Required Supplementary Information  
 Budget Comparison Schedule - Public Works Fund  
 Year Ended June 30, 2003

	Original and Final Budget	Actual	Variance
<b>Revenues:</b>			
Intergovernmental	\$ 8,065,000	\$ 9,707,740	\$ 1,642,740
Charges for services	24,500	4,544	(19,956)
Investment earnings	175,000	126,669	(48,331)
Other	135,000	118,185	(16,815)
Total revenues	<u>8,399,500</u>	<u>9,957,138</u>	<u>1,557,638</u>
<b>Expenditures:</b>			
Highways and streets	<u>14,289,685</u>	<u>9,061,628</u>	<u>5,228,057</u>
Total expenditures	<u>14,289,685</u>	<u>9,061,628</u>	<u>5,228,057</u>
Excess (deficiency) of revenues over expenditures	(5,890,185)	895,510	6,785,695
<b>Other financing sources (uses):</b>			
Transfers in	-	314,195	314,195
Transfers out	-	(1,164,798)	(1,164,798)
Total other financing sources (uses)	<u>-</u>	<u>(850,603)</u>	<u>(850,603)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(5,890,185)	44,907	5,935,092
Fund balances, beginning of year	<u>-</u>	<u>5,732,304</u>	<u>5,732,304</u>
<b>Fund balances, end of year</b>	<u>\$ -</u>	<u>\$ 5,777,211</u>	<u>\$ 11,667,396</u>

See accompanying notes to the budgetary comparison schedules.

**Navajo County**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2003**

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**Note 1 - Budgeting and Budgetary Control**

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

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

**Note 2 – Budgetary Basis of Accounting**

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

**Note 3 – Expenditures in Excess of Appropriations**

For the year ended June 30, 2003, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
Board of supervisors	\$ (11,007)
County manager	(92,385)
Elections	(145,068)
Planning and building	(56,932)
Recorder	(11,710)
Assessor	(52,870)
MIS	(111,157)
Treasurer	(6,748)
Legal defender	(3,530)
County attorney	(40,877)
Superior courts	(25,407)
Public defenders	(109,717)
Clerk of superior court	(49,193)
Holbrook justice court	(19,990)
Winslow justice court	(20,155)
Snowflake justice court	(22,189)
Show Low justice court	(20,874)

**Navajo County**  
**Required Supplementary Information**  
**Notes to Budgetary Comparison Schedules**  
**June 30, 2003**

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<u>Fund/Department</u>	<u>Excess</u>
Pinetop justice court	(4,650)
Holbrook constable	(3,962)
Winslow constable	(6,773)
Snowflake constable	(4,330)
Show Low constable	(4,218)
Kayenta constable	(3,609)
Juvenile probation	(219,189)
Adult probation	(55,879)
Public fiduciary	(7,503)

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

Navajo County  
 Required Supplementary Information  
 Schedule of Agent Retirement Plans' Funding Progress  
 June 30, 2003

**Public Safety Personnel Retirement System**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2003	\$ 7,633,483	\$ 7,967,044	\$ (333,561)	95.8%	\$ 1,364,613	24.4%
6/30/2002	7,727,219	6,863,694	863,525	112.6%	1,574,966	N/A
6/30/2001	7,795,661	6,134,547	1,661,114	127.1%	1,488,806	N/A

**Corrections Officer Retirement System**

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2003	\$ 1,547,657	\$ 978,320	\$ 569,337	158.2%	\$ 899,408	N/A
6/30/2002	1,490,777	820,753	670,024	181.6%	944,164	N/A
6/30/2001	1,468,412	737,172	731,240	199.2%	946,115	N/A

## **Supplementary Information**

Navajo County  
 Supplementary Information  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Department of Agriculture</u></b>			
<i>Passed through the Arizona Department of Health Services</i>			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	HG361082 & 261076	\$ 305,215
Watershed Protection and Flood Prevention	10.904	0348-0004 & 68-9457-2-415	401,643
Clay Springs Domestic Water	10.Unknown	281-00	75,879
<i>Passed through the Arizona State Treasurer</i>			
State Administrative Matching Grants for Food Stamp Program	10.561	HG361087 & 261089	51,294
Cooperative Forestry Assistance	10.664	SFA1005	25,031
Schools and Roads-Grants to States	10.665	None	25,000
<i>Total U.S. Department of Agriculture</i>			884,062
<b><u>U.S. Department of Education</u></b>			
<i>Passed through the Arizona Department of Economic Security</i>			
Special Education- Grants for Infants and Families with Disabilities	84.181	E1800031 & E1800032	52,443
<i>Total U.S. Department of Education</i>			52,443
<b><u>U.S. Department of Health and Human Services</u></b>			
<i>Passed through the Arizona Department of Health Services</i>			
Immunization Grants	93.268	HG352200 & 152045	14,583
Child Support Enforcement	93.563	E77202317	6,020
Child Support Enforcement	93.563	E7200017 & E7201017	564,485
<i>Subtotal CFDA No 93 563</i>			570,505
HIV Prevention Activities- Health Department Based Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.940	152016 & HG352259	6,105
Preventive Health and Health Services Block Grant	93.977	HG354250 & 052003	158
Maternal and Child Health Services Block Grant to the States	93.991	261109 & HG354183	34,267
	93.994	961125, 761108, 9610922 and HG361315	83,033
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	252039	118,680
<i>Total U.S. Department of Health and Human Services</i>			827,331
<b><u>U.S. Department of Housing and Urban Development</u></b>			
<i>Passed through the Arizona Department of Housing</i>			
Community Development Block Grants/State's Program	14.228	026-00	46,646
Community Development Block Grants/State's Program	14.228	101-03	84,271
<i>Subtotal CFDA No 14 228</i>			130,917
Home Investment Partnerships Program	14.239	039-00	137,885
<i>Total U.S. Department of Housing and Urban Development</i>			268,802

See the accompanying notes to schedule.

Navajo County  
Supplementary Information  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Department of the Interior</u></b>			
Payments in Lieu of Taxes <i>Passed through Apache County</i>	15.226		\$ 1,488,770
U.S. Forest Service	15.unknown	03-LE11030121-003	<u>5,000</u>
<i>Total U.S. Department of the Interior</i>			1,493,770
<b><u>U.S. Department of Transportation</u></b>			
Highway Planning and Construction	20.205		109,848
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		<u>23,795</u>
<i>Total U.S. Department of Transportation</i>			133,643
<b><u>U.S. Department of Justice</u></b>			
Juvenile Accountability Incentive Block Grant	16.523		64,835
Federal Major Crime Appr. Team - Criminal Division	16.unknown		201,924
Crime Victim Assistance	16.575		37,227
<i>Passed through the Arizona Criminal Justice Commission</i>			
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	95CFWX0777-S-1	17,746
Byrne Formula Grant Program	16.579	AC 180-03	194,431
Byrne Formula Grant Program	16.579	PC 140-03	81,515
Byrne Formula Grant Program	16.579	CRI-03-059	<u>28,474</u>
<i>Subtotal CFDA No 16.579</i>			304,420
<i>Passed through the Arizona Drug Enforcement Administration</i>			
Cannabis Eradication	16.unknown	2002-09	5,547
Local Law Enforcement Block Grants Program	16.592	2001-LB-BX-1689, 2001-LB-BX-0816, 2000-LB-BX-146, 2002-LB-BX-2876	26,898
Community Prosecution and Project Safe Neighborhoods	16.609	2002-GP-CS-0114	<u>39,692</u>
<i>Total U.S. Department of Justice</i>			698,289
<b><u>U.S. Department of Labor</u></b>			
<i>Passed through the Arizona Department of Economic Security</i>			
Senior Community Service Employment Program	17.235	E6201054	19,974
Welfare to Work- Grants to States and Localities	17.253	E5709077	42,641
Job Training Partnership Act	17.250	E5701020, E5702009	40,830

See the accompanying notes to schedule.

Navajo County  
Supplementary Information  
Schedule of Expenditures of Federal Awards - Concluded  
Year ended June 30, 2003

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Department of Labor - Continued</u></b>			
<i>Workforce Investment Act Cluster:</i>			
WIA - Adult Program	17.258	E5704009, E5702009 E5703009, E5701020	\$ 184,650
WIA - Youth Activities	17.259	E5702009, E5701020	291,479
WIA - Dislocated Workers	17.260	E5703031	1,145,572
<i>Total Workforce Investment Act Cluster</i>			<u>1,621,701</u>
<i>Total U S Department of Labor</i>			1,725,146
<b><u>U.S. Federal Emergency Management Agency</u></b>			
<i>Passed through the Arizona Department of Emergency and Military Affairs</i>			
Public Assistance Grant	83.544	1422-DR-AZ-017-99017-00	767,323
Hazard Mitigation Grant	83.548	1422-5-6-F	60,000
Hazard Mitigation Grant	83.548	1422-9-9-F	4,406
<i>Subtotal CFDA No. 83 548</i>			<u>64,406</u>
Federal Emergency Management Food and Shelter Program	83.523	None	20,887
Fire Management Assistance Grant	83.556	None	2,479,695
Citizen Corps	83.564	None	572
<i>Total U S Federal Emergency Management Agency</i>			<u>3,332,883</u>
<b><u>U.S. Institute of Museum and Library Services</u></b>			
<i>Passed through the Arizona Department of Library, Archives, and Public Records</i>			
State Library Program	45.310	211-3-2-(4)	25,416
State Library Program	45.310	211-2-2-(2)	7,097
State Library Program	45.310	981-1-/(7)	2,821
State Library Program	45.310	221-3-2-(3)	3,782
State Library Program	45.310	221311	12,153
State Library Program	45.310	2001-CIP-1000	14,903
<i>Total U S Institute of Museum and Library Services</i>			<u>66,172</u>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed through the Arizona Drug Enforcement Administration</i>			
Homeland Security Preparedness Technical Assistance	97.007	2001-TE-CX-0142	25,379
Homeland Security Preparedness Technical Assistance	97.007	2002-TE-CX-0142	24,735
<i>Total U S Department of Homeland Security</i>			<u>50,114</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 9,532,655</u>

See the accompanying notes to schedule.

**Navajo County**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2003**

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**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) Number**

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2003 *Catalog of Federal Domestic Assistance*. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number were used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word "unknown" were used.

**Note 3 – Subrecipients**

Navajo County did not have any subrecipients for the year ended June 30, 2003.

## **Single Audit Section**



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

The Auditor General of the State of Arizona

The Board of Supervisors of  
Navajo County, Arizona

We were engaged to audit the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Navajo County as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 29, 2006.

We were instructed by the County's management not to audit the County's capital assets, net assets, invested in capital assets and depreciation expense for the governmental activities reported in the government-wide statements. Furthermore, as instructed by the County's management, we did not perform any procedures applicable to the account balances and activities related to the financing of the County's uninsured risks of loss for certain employee health benefits. These activities are included in governmental activities in the government-wide financial statements and in the General Fund in the fund financial statements. Since we did not perform audit procedures on the County's capital asset balances, related depreciation expense, or the balances and activities related to the County's employee health benefits, the scope of our work was not sufficient to express, and we did not express opinions on the financial statements referred to above as of and for the year ended June 30, 2003. Also, our report was also modified as to consistency due to the implementation of Governmental Accounting Standards Board Statement No. 34.

***Internal Control over Financial Reporting***

In planning the engagement, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic 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 basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-01 through 03-07.

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 basic 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 all to be material weaknesses.

### ***Compliance and Other Matters***

As part of the engagement to obtain reasonable assurance about whether the County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and questioned costs as items 03-01, 03-02, 03-03, 03-05, 03-06 and 03-07.

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.

*Walker & Armstrong LLP*

Phoenix, Arizona  
June 29, 2006



**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, 2003. 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 03-103, 03-104, and 03-105 in the accompanying Schedule of Findings and Questioned Costs, Navajo County did not comply with requirements regarding equipment and real property management and the financial management provisions of the Grants Management Common Rule, as codified by the Federal grantor agencies, or the annual audit requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* that are applicable to its major programs. 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, 2003. 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 03-101 and 03-102.

### *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 03-101, 03-102, 03-103, 03-104 and 03-105.

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 03-103, 03-104 and 03-105 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.

*Walker & Armstrong LLP*

Phoenix, Arizona  
June 29, 2006

**Navajo County  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2003**

**Summary of Auditors' Results**

*Financial Statements*

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

*Federal Awards*

Material weaknesses identified in internal control over major programs?	<u>X</u>	<u>          </u>
Reportable conditions identified not considered to be material weaknesses?	<u>X</u>	<u>          </u>
Type of auditors' report issued on compliance for major programs:	<u>Qualified for all major programs</u>	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	<u>X</u>	<u>          </u>

**Identification of major programs:**

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.904	Watershed Protection and Flood Prevention
14.228	Community Development Block Grant/State's Program
14.239	Home Investments Partnerships Program
17.258, 17.259, 17.260	Workforce Investment Act Cluster
83.544	Public Assistance Grant
83.556	Fire Management Assistance Grant
93.563	Child Support Enforcement

Dollar threshold to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as a low risk auditee?	<u>X</u>
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	<u>X</u>

**Navajo County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2003**

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**Financial Statement Findings**

**03-01 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, 2003, 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.*

**03-02 Annual Expenditure Limitation Report**

For the fiscal years ended June 30, 2000 through 2005, the County failed to submit its Annual Expenditure Limitation report to the Auditor General of the State of Arizona within four months of its year-end or October 31 as required by A.R.S. 41-1279.07(c).

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 October 31 or by February 28 if a four month extension was granted. *This comment has been made previously.*

**03-03 Capital Assets**

The County's capital assets system of accountability was inadequate, as evidenced by the weaknesses in the County's internal control over capital assets as set forth below. Existing records did not provide adequate information to present capital 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 capital asset listing.
2. A physical inventory of capital assets has not been taken in the last eleven years.

The County's capital asset 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, capital assets have not been safeguarded against improper or unauthorized use.

**Navajo County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2003**

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**03-03 Capital Assets - Continued**

In order to comply with the requirements of the UAMAC §VI-E and to properly report capital assets in accordance with U.S. generally accepted accounting principles, 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 capital assets purchased with federal monies and every three years for all other capital assets, and reconcile it to the general fixed asset listing. *This comment has been made previously.*

**03-04 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.

**Navajo County**  
**Schedule of Findings and Questioned Costs – Continued**  
**Year Ended June 30, 2003**

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**03-04 Reconciliations of Cash and Investments on Deposit with the County Treasurer - Continued**

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.*

**03-05 Preparation of Financial Statements in Accordance with U.S. Generally Accepted Accounting Principles**

The County accounts for only activity processed by the treasurer's office during the year. Accordingly, the County's trial balance includes only transactions and balances resulting from cash activity recorded during the year which results in large adjustments being posted at year-end to record the activity and balances applicable to other general ledger accounts. Such activity and balances include all accrual basis adjustments that are necessary for the County to report its financial statements in accordance with U.S. generally accepted accounting principles.

Furthermore, effective for the County's 2003 fiscal year, the County was required to implement the provisions of Governmental Accounting Standards Board Statement No. 34 and related pronouncements which requires a new basis of accounting for all governmental funds. The County's current chart of account structure and manner of reporting is not conducive to reporting in accordance with the new standards which required a significant amount of time and effort in order to prepare the financial statements in accordance with the new standards.

To improve the completeness and accuracy of its financial statements and the timeliness of the completion of the year-end audit, we recommend that the County record activity related to all general ledger accounts during the fiscal year.

Furthermore, because of the complexity of the new reporting requirements, we recommend that the County dedicate additional resources to the accounting and financial reporting process. This includes evaluating, and if necessary, changing the current chart of account structure, providing additional training to County personnel, hiring additional accounting staff, developing policies and procedures for complying with the new standards and preparing the necessary financial statement adjustments to present the financial statements in accordance with the new standards. We further recommend that the County improve its preparedness for new accounting standards that may impact the County in the future.

Navajo County  
Schedule of Findings and Questioned Costs – Continued  
Year Ended June 30, 2003

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**03-06 Accounting and Reporting of Grants and Contracts**

The County has several grants and contracts with the federal, state and local governments. These grants and contracts have varying eligibility requirements and time and purpose restrictions placed on them. Meeting the requirements and restrictions requires close monitoring to properly report to the grantor agencies and recognize revenue in accordance with U.S. generally accepted accounting principles. During our audit, we noted certain errors in financial reporting of grants and contract related balances due to a lack of personnel necessary to manage the accounting for the County's grants and contracts.

Due to the complexities involved with the grants and contracts, we recommend the County designate a grants and contracts manager who will be responsible for the timely and accurate submittal of financial reports and determining that all intergovernmental receivables and deferred revenues are recorded in a timely and complete manner.

**03-07 Preparation of Budgets in Accordance with Arizona Revised Statutes**

The County's does not budget in a manner that is consistent with Arizona Revised Statutes (A.R.S.). A.R.S 42-17151 requires the County to prepare a balanced budget for the general fund. However, the County did not include in the budget its beginning fund balance and budgeted a deficit ending fund balance as of July 1, 2003.

We recommend that the County prepare its budgets in accordance with all applicable A.R.S. Complying with applicable statutes will improve the County's fiscal accountability to its constituents.

**Federal Award Findings and Questioned Costs**

**03-101 U.S. Department of Health and Human Services**

**Child Support Enforcement**

Contract Nos. E720.017 and E7201017

CFDA No. 93.563

Grant Period: July 1, 2002 to June 30, 2003

Questioned Costs: None

**Condition:** As a result of testing monthly financial reports, it was determined that four of six reports were submitted between two and four months 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.

Navajo County  
Schedule of Findings and Questioned Costs – Continued  
Year Ended June 30, 2003

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**Federal Award Findings and Questioned Costs - Continued**

**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.*

**03-102 U.S. Department of Health and Human Services**

**Child Support Enforcement**

Contract Nos. E7202317, E7200017, E7201017

CFDA No. 93.563

Grant Period: July 1, 2002 to June 30, 2003

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. *This finding has been made previously.*

**03-103 All Major Federal Award Programs**

CFDA No.: N/A

Grant Period: N/A

Questioned Costs None

**Condition:** As discussed in financial statement finding 03-03, the County does not maintain detailed property records of capital assets purchased with federal financial assistance. In addition, capital assets are not inventoried on a biennial basis.

**Criteria, Cause and Effect:** The Grants Management Common Rule, as codified by the Federal grantor agencies, requires that detailed property records be maintained and that an inventory of capital 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 capital assets and noncompliance with federal regulations.

Navajo County  
Schedule of Findings and Questioned Costs – Continued  
Year Ended June 30, 2003

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**Federal Award Findings and Questioned Costs - Continued**

**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 capital assets and to comply with federal regulations. *This finding has been made previously.*

**03-104 All Major Federal Award Programs**

CFDA No.: N/A  
Grant Period: N/A  
Questioned Costs None

**Condition:** As discussed in financial statement findings 03-05 and 03-06, the County did not maintain its accounting records in a manner consistent with U.S. generally accepted accounting principles. Accordingly, errors in balances that affect the federal award programs may exist and not be corrected by the County in a timely manner.

**Criteria, Cause and Effect:** The Grants Management Common Rule, as codified by the Federal grantor agencies requires that governments that receive federal awards maintain financial management systems necessary to comply with the provisions of the awards. This includes recording activity and balances in a manner consistent with U.S. generally accepted accounting principles. The cause is insufficient training and resources necessary to maintain an adequate financial management system. The effect is an inability to maintain accounting records that adequately report balances and transactions in accordance with U.S. generally accepted accounting principles and in accordance with Federal requirements.

**Recommendation:** See the recommendations at financial statement findings 03-05 and 03-06.

**03-105 All Major Federal Award Programs**

CFDA No.: N/A  
Grant Period: N/A  
Questioned Costs None

**Condition:** The County did not complete and submit its single audit reporting package within nine months of the County's fiscal year, which would have been March 31, 2004, as required of organizations subject to the audit requirements OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. The County is subject to this requirement as a recipient of federal funding.

Navajo County  
Schedule of Findings and Questioned Costs – Continued  
Year Ended June 30, 2003

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**Federal Award Findings and Questioned Costs - Continued**

***Criteria, Cause and Effect:*** Subpart C of OMB Circular A-133 requires that auditees submit their single audit reporting package to the federal clearinghouse no later than nine months after the period subject to audit, unless a longer period is agreed to in advance by the County's oversight agency. The cause of the noncompliance is due to a natural disaster that greatly disrupted the County's operations and understaffing of County personnel. The effect is that the single audit reporting package was submitted more than three years after the required deadline which hinders the Federal government's ability to monitor its programs in a timely manner.

***Recommendation:*** We recommend that the County reevaluate its staffing needs and implement the recommendations in findings 03-05 and 03-06 to improve the timeliness of fulfilling its reporting responsibility to the Federal government.

## **County Responses**

**NAVAJO COUNTY  
CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2003  
July 19, 2006**

**Financial Statement Findings**

*03-01 Budget Transfers and Amendments*

Arizona Revised Statutes (ARS) §42-17106 requires the County to formally approve all budget transfers and amendments by a majority vote.

**Corrective Action Plan:** All budget transfers and amendments are now approved by the Board of Supervisors.

*03-02 Annual Expenditure Limitation Report*

The county failed to submit its Annual Expenditure Limitation Report (AELR) to the Auditor General of the State of Arizona by February 28, as required by ARS §41-1279.07(c), following the fiscal years ended June 30, 2000 through 2005.

**Corrective Action Plan:** As of December 2005 the AELR for fiscal years 2000, 2001 and 2002 have been issued and submitted to the Arizona Auditor General. However, the County's AELR has not been issued for the fiscal years ended June 30, 2003, 2004, and 2005. The FY 2002-03 AELR will be issued in conjunction with the Single Audit Reporting Package (SARP) for that year. The SARP has been submitted to the Arizona Office of the Auditor General (OAG) for review. In addition the OAG is currently in process of performing the fiscal years 2004 and 2005 Single Audit.

*03-03 Capital Assets*

The County's general fixed assets system of accountability was inadequate. 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 County did not maintain a general fixed assets listing and a physical inventory of fixed assets has not been taken in the last ten years. These deficiencies are considered to be a material weakness.

**Corrective Action Plan:** This item has been a deficiency at Navajo County for a period in excess of ten (10) years. Correction of this deficiency through a professional services contract has been estimated to cost upwards of \$200,000. Consequently, the following steps have been implemented by the Finance Department.

- The Board of Supervisors have approved the use of temporary employees, which have been funded by vacancy savings, to perform the necessary clerical work required to update the County's capital asset listing. All capital asset additions have been included in the capital asset listing through June 30, 2005.
- A physical inventory of capital assets by department has been completed. This physical inventory of capital assets will be performed biennially.
- Finance Department staff will continue to reconcile the departmental inventory lists and other capital asset deletion and transfer documents to help ensure the accuracy of the County's capital asset listing.
- Completion of an accurate capital asset listing will be prepared for inclusion in the County's Single Audit Reporting package for the fiscal year ended June 30, 2006.

*03-04 Reconciliation 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.

**Corrective Action Plan:** The County's cash and investments in the general ledger have been reconciled to the County Treasurer. The County's Information Technology Department has written software as a link between the Treasurer's accounting system and the Finance general ledger to help ensure that the two systems are continually in balance.

*03-05 Preparation of Financial Statements in Accordance with U.S. Generally Accepted Accounting Principles*

The County accounts for only activity processed by the treasurer's office during the year. Accordingly, the County's trial balance includes only transactions and balances resulting from cash activity recorded during the year which results in large adjustments being posted at year-end.

**Corrective Action Plan:** The County has committed extensive financial resources in a new financial accounting system that will allow for following GAAP and accrual based accounting. In addition, the County is in process of rewriting the chart of accounts (COA) for implementation January 1, 2007. This will necessitate conversion of the data files to the new COA and consequently requires coordination between the County's Finance and Information Technology Departments and our software vendor.

*03-06 Accounting and Reporting of Grants and Contracts*

The County has several grants and contracts with the federal, state and local governments. These grants and contracts have varying eligibility requirements and time and purpose restrictions placed on them. Meeting the requirements and restrictions requires close monitoring to properly report to the grantor agencies and recognize revenue in accordance with U.S. generally accepted accounting principles.

**Corrective Action Plan:** During fiscal year 2005-06 an additional Finance Department staff member was assigned to grant and contract accounting and reporting. In addition, for the fiscal year that began July 1, 2006, the County will have the position of Grants & Community Development Administrator. The purpose of this position is to help ensure that the County's Grants and Contracts are reported accurately and timely.

*03-07 Preparation of Budgets in Accordance with Arizona Revised Statutes*

The County's does not budget in a manner that is consistent with Arizona Revised Statutes (A.R.S.). A.R.S 42-17151 requires the County to prepare a balanced budget for the general fund. However, the County's has a deficit budgeted fund balance as of July 1, 2003 and current year budgeted expenditures that exceeded current year revenues.

We recommend that the County prepare its budgets in accordance with all applicable A.R.S. Complying with applicable statutes will improve the County's fiscal accountability to its constituents.

**Corrective Action Plan:** The County's new administration recognizes that the budget has not been prepared in accordance with Arizona Revised Statutes. The County has reviewed the requirements and has prepared its budgets in accordance with these requirements.

**Federal Award Findings and Questioned Costs**

*03-101 U.S. Department of Health an Human Services Child Support Enforcement*

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.

*03-102 U.S. Department of Health an Human Services Child Support Enforcement*

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

*03-103 All Major Federal Award Programs*

As discussed in financial statement finding 03-03, the County does not maintain detailed property records of capital assets purchased with federal financial assistance. In addition, capital assets are not inventoried on a biennial basis.

*03-104 All Major Federal Award Programs*

As discussed in financial statement finding 03-05 and 03-06, the County did not maintain its accounting records in a manner consistent with U.S. generally accepted accounting principles. Accordingly, errors in balances that affect the federal award programs may exist and not be corrected by the County in a timely manner.

*03-105 All Major Federal Award Programs*

The County did not complete and submit its single audit reporting package within nine months of the County's fiscal year, which would have been March 31, 2004, as required of organizations subject to the audit requirements OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. The County is subject to this requirement as a recipient of federal funding.

**Corrective Action Plan:** The County does not have questioned costs with regards to the federal awards. The findings of federal awards are procedural and the County has subsequently implemented procedures necessary to help ensure that these deficiencies have been corrected. Among the corrective actions that have been taken by the County are (1) to invest in a new financial accounting software package, (2) write a new chart of accounts that will simplify our financial reporting process and enable us to ensure that reporting is completed timely, (3) temporary staff have been hired to update the County's capital asset records, (4) an additional financial accounting staff member has been assigned to grant and contract accounting and reporting, and (5) the County is in the process of hiring a new Grants Administrator to be a single focal point of all the County's grants and contracts.



# Navajo County Finance Department

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September 12, 2006

Debbie Davenport  
Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, AZ 85018

Dear Ms. Davenport:

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

Sincerely,

James Menlove  
Finance Director

Navajo County  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2003

Status of Federal Award Findings and Questioned Costs

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

Child Support Enforcement

CFDA No.: 93.563

Finding No.: 02-101

Grant Period: October 1, 2001 through September 30, 2002 and  
October 1, 2002 through September 30, 2003

Questioned Costs: None

**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.

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

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

Child Support Enforcement

CFDA No.: 93.563

Finding No.: 02-102

Grant Period: October 1, 2001 through September 30, 2002 and  
October 1, 2002 through September 30, 2003

Questioned Costs: None

**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.

**Status:** This data base has been brought up to date and is being maintained for the insurance coverage of participants.

02-103 U.S. Department of Agriculture  
Special Supplemental Nutrition  
Program for Women, Infants and Children  
CFDA No.: 93.563

Finding No.: 02-103

Grant Period: October 1, 2001 through September 30, 2002 and  
October 1, 2002 through September 30, 2003

Questioned Costs: None

**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.

**Status:** This matter has been address and corrective action has been taken to ensure that the files are maintained and available for audits.