



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Financial Audit Division

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Financial Statement Audit

# Navajo County

Year Ended June 30, 2006

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**Debra K. Davenport**  
Auditor General

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Navajo County  
Financial Statements  
Year Ended June 30, 2006

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

DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

WILLIAM THOMSON  
DEPUTY AUDITOR GENERAL

**Independent Auditors' Report**

Members of the Arizona State Legislature

The Board of Supervisors of  
Navajo County, Arizona

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Navajo County as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management.

We were instructed by the County's management not to audit the County's capital assets; net assets, invested in capital assets, net of related debt; and depreciation expense for the governmental activities reported in the government-wide financial statements of \$65,508,024, \$59,552,340, and \$3,225,053, respectively.

Also, as instructed by the County's management, we did not perform any procedures applicable to the account balances and activities related to the financing of the County's uninsured risks of loss for certain employee health benefits. These activities are included in governmental activities in the government-wide financial statements and in the General Fund and Other Governmental Funds in the fund financial statements. The assets, liabilities, net assets or fund balances, revenues, and expenses or expenditures for the account balances and activities reported in the government-wide and fund financial statements are \$101,569, \$(7), \$101,576, \$74,053, and \$2,147,257, respectively.

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

Furthermore, the County did not reconcile its general ledger balances for cash and cash equivalents to the balances maintained by the County Treasurer as of and for the year ended June 30, 2006. As a result, we were unable to determine the effects of this matter on assets, net assets or fund balances, revenues, and expenses or expenditures for governmental activities in the government-wide financial statements and for each major fund and Other Governmental Funds in the fund financial statements. The County's accounting records do not permit the application of auditing procedures to determine whether the amounts reported for assets, net assets or fund balances, revenues, and expenses or expenditures for governmental activities in the government-wide financial statements and for each major fund and Other Governmental Funds in the fund financial statements were accurate.

Since we did not perform auditing procedures on the County's capital asset balances; net assets, invested in capital assets, net of related debt; and depreciation expense and the balances and activities related to the County's employee health benefits, and we were not able to apply auditing procedures to satisfy ourselves as to the amounts reported for assets, net assets, revenues, and expenses for governmental activities and assets, beginning and ending fund balances, year-end accruals, and revenues and expenditures reported in the individual funds, the scope of our work was not sufficient to express, and we do not express, opinions on the financial statements of Navajo County as of and for the year ended June 30, 2006.

The Management's Discussion and Analysis on pages i through vi, the Budgetary Comparison Schedules on pages 30 through 34, and the Schedule of Agent Retirement Plans' Funding Progress on page 35 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because we were instructed by the County not to audit certain account balances and activities of the County's operations and because of limitations in the County's accounting records as described above.

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

Dennis L. Mattheisen, CPA  
Financial Audit Director

April 20, 2008

# Navajo County Management's Discussion and Analysis June 30, 2006

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, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements.

## Financial Highlights

- The Navajo County's assets exceeded its liabilities at June 30, 2006, by \$92,168,440 (net assets). Of this amount, \$16,657,154 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- At June 30, 2006, Navajo County's governmental funds reported combined ending fund balances of \$34,388,477, an increase of \$7,262,660 in comparison with the prior year restated balance.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$12,379,484, or 41.6 percent, of total general fund expenditures.

## Overview of the Financial Statements

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

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

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

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

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

Navajo County  
Management's Discussion and Analysis  
June 30, 2006

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

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

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

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

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

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

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

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

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

Navajo County  
 Management's Discussion and Analysis  
 June 30, 2006

**Other required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Budgetary Comparison Schedules for the general fund and public works/HURF fund and Navajo County's progress in funding its obligation to provide pension benefits to its employees. Other required supplementary information can be found on pages 30 through 35 of this report.

### Government-wide Financial Analysis

The following is a summary of assets, liabilities, and net assets as of June 30, 2006:

<b>Condensed Statement of Net Assets</b>	
	<b>Governmental Activities 2006</b>
<b>Assets</b>	
Current and noncurrent assets	<u>\$102,592,552</u>
Total assets	<u>102,592,552</u>
<b>Liabilities</b>	
Long-term liabilities outstanding	8,063,315
Other liabilities	<u>2,360,797</u>
Total liabilities	<u>10,424,112</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	59,552,340
Restricted	15,958,946
Unrestricted	<u>16,657,154</u>
Total net assets	<u>\$ 92,168,440</u>

**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 \$92,168,440 at June 30, 2006. However, the County did not record all of its capital assets and related accumulated depreciation. To correct this error, the County is in the process of completing a comprehensive inventory, and upon completion, will record a complete record of capital assets, net of accumulated depreciation.

Unrestricted net assets of \$16,657,154 may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2006, Navajo County is able to report positive balances in all categories of net assets for its governmental activities.

Navajo County  
Management's Discussion and Analysis  
June 30, 2006

**Statement of Activities.** Already noted was the statement of activities purpose in presenting information in how the government's net assets changed during fiscal year 2006. A summary of the changes in net assets follows. For the fiscal year, net assets increased \$11,856,632. The basis of accounting used in the government-wide statement of activities excludes capital expenditures, while its revenues include taxes that are used, in part, for the construction of those assets.

Condensed Statement of Activities		
	Governmental Activities 2006	Governmental Activities 2005
<b>Revenues</b>		
<i>Program revenues:</i>		
Charges for services	\$ 7,515,243	\$ 6,020,097
Operating grants and contributions	8,976,715	16,695,312
Capital grants and contributions	12,567,738	
<i>General revenues:</i>		
Taxes	7,973,918	6,402,534
County sales and franchise tax	7,372,931	5,293,909
Share of state sales taxes	10,535,339	9,551,457
Share of state vehicle license tax	2,133,740	1,723,441
Payment in lieu of taxes	757,594	861,599
Grants and contributions not restricted to specific programs	946,207	1,228,182
Investment earnings	909,436	1,184,173
Proceed from sale of assets	59,167	140,937
Miscellaneous	<u>581,789</u>	<u>408,225</u>
Total revenues	<u>60,329,817</u>	<u>49,509,866</u>
<b>Expenses</b>		
General government	19,479,297	18,389,571
Public safety	13,099,102	11,659,715
Highways and streets	8,851,369	8,434,616
Sanitation, health and welfare	5,910,779	4,831,295
Culture, recreation and education	758,196	794,954
Interest on long-term debt	<u>374,442</u>	<u>507,110</u>
Total expenses	<u>48,473,185</u>	<u>44,617,261</u>
Increase in net assets	<u>11,856,632</u>	<u>4,892,605</u>
Net assets, beginning, as restated	<u>80,311,808</u>	<u>74,564,617</u>
Net assets, ending	<u>\$92,168,440</u>	<u>\$79,457,222</u>

Navajo County  
Management's Discussion and Analysis  
June 30, 2006

## 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.

At June 30, 2006, Navajo County's governmental funds reported combined ending fund balances of \$34,388,477, an increase of \$7,262,660 in comparison with the prior year's restated balance. This change is primarily attributable to significant increases in all of the governmental funds except for the flood control district fund, which only showed a moderate increase in fund balance over the previous fiscal year.

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 \$12,379,484, which was \$1,873,740 greater than the previous fiscal year restated balance. Overall general fund revenues increased by \$4,459,262 and overall expenditures increased by \$3,133,327 resulting in an increase in unreserved fund balance.

## General Fund Budgetary Highlights

The general fund had budgeted expenditures of \$35,714,844. Actual general fund expenditures were under budget by approximately \$6 million. The most significant budget variances were for contingency and construction projects, which were \$3.6 million and \$3 million, respectively, less than budgeted due to Navajo County's not spending the contingency and construction projects funds during fiscal year 2006.

During the year, actual revenue exceeded estimates by approximately \$5.3 million.

## Capital Asset and Debt Administration

**Capital Assets.** Navajo County's expenditures for capital assets for its governmental activities during the year ended June 30, 2006, totaled approximately \$6.9 million in which \$2.1 million was recorded as capital outlays. This investment in capital assets includes land, and machinery and equipment purchased during the year as well as various building and infrastructure projects. As mentioned previously, the current year statement of net assets and statement of activities do not include a complete record of capital assets, accumulated depreciation, and depreciation expense. The County intends to take an inventory of its capital assets at which time all capital assets will be reported in these statements. Included in the inventory will be infrastructure assets (roads, highways, bridges, etc.)

Navajo County  
Management's Discussion and Analysis  
June 30, 2006

***Long-term Liabilities.*** At the end of the current fiscal year, Navajo County had total outstanding long-term liabilities of \$8.1 million. This includes certificates of participation outstanding of \$5.9 million that financed the construction of jail facilities. Included in long-term liabilities is \$1.4 million for the future payment of compensated absences for unused employee vacation leave. The remainder of the long-term liabilities consists of capital leases, estimated landfill closure and post-closure care costs, and claims and judgments payable.

Additional information on long-term debt can be found in Notes 7 through 10 on pages 21 through 23 of this report.

### 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, 2006

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 30,728,265
Cash and investments held by trustee	1,849,278
Receivables (net of allowances for uncollectibles):	
Property taxes	385,609
Accrued interest	195,520
Due from other governments	3,503,586
Inventories	352,070
Loans receivable	70,200
Capital assets, not being depreciated	6,700,504
Capital assets, being depreciated, net	<u>58,807,520</u>
Total assets	<u>102,592,552</u>
 <b>Liabilities</b>	
Accounts payable	2,081,461
Deposits held for others	279,336
Noncurrent liabilities	
Due within 1 year	702,559
Due in more than 1 year	<u>7,360,756</u>
Total liabilities	<u>10,424,112</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	59,552,340
Restricted for:	
Highways and streets	10,700,808
Debt service	2,119,027
Capital projects	3,068,911
Other purposes	70,200
Unrestricted	<u>16,657,154</u>
Total net assets	<u>\$ 92,168,440</u>

See accompanying notes to financial statements.

Navajo County  
Statement of Activities  
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 19,479,297	\$ 4,477,711	\$ 2,428,758		\$ (12,572,828)
Public safety	13,099,102	2,810,667	3,696,730		(6,591,705)
Highways and streets	8,851,369	28,647	228,409	\$ 12,567,738	3,973,425
Sanitation	35,887	92,693			56,806
Health	2,241,981	93,599	1,467,376		(681,006)
Welfare	3,632,911		370,603		(3,262,308)
Culture and recreation	468,926	11,926	145,307		(311,693)
Education	289,270		639,532		350,262
Interest on long-term debt	374,442				(374,442)
Total governmental activities	<u>\$ 48,473,185</u>	<u>\$ 7,515,243</u>	<u>\$ 8,976,715</u>	<u>\$ 12,567,738</u>	<u>(19,413,489)</u>

General revenues:

Taxes:

Property taxes, levied for general purposes	4,791,802
Property taxes, levied for flood control	1,576,813
Property taxes, levied for public health district	1,350,323
Property taxes, levied for library district	254,980
County sales tax	7,260,596
Shared revenues—franchise taxes	112,335
Shared revenues—state sales tax	10,535,339
Shared revenues—vehicle license tax	2,133,740
Payment in lieu of taxes	757,594
Grants and contributions not restricted to specific programs	946,207
Investment earnings	909,436
Proceeds from sale of assets	59,167
Miscellaneous	581,789
Total general revenues	<u>31,270,121</u>
Change in net assets	11,856,632
Net assets, July 1, 2005, as restated	<u>80,311,808</u>
Net assets, June 30, 2006	<u>\$ 92,168,440</u>

See accompanying notes to financial statements.

Navajo County  
Balance Sheet  
Governmental Funds  
June 30, 2006

	<u>General Fund</u>	<u>Public Works/ HURF Fund</u>	<u>Flood Control District Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 11,258,389	\$ 10,091,979	\$ 3,457,880	\$ 5,920,017	\$ 30,728,265
Cash and investments held by trustee				1,849,278	1,849,278
Receivables (net of allowances for uncollectibles):					
Property taxes	215,613		89,195	80,801	385,609
Accrued interest	65,843	60,414	19,566	49,697	195,520
Due from other governments	2,307,836	952,053		243,697	3,503,586
Inventories		352,070			352,070
Total assets	<u>\$ 13,847,681</u>	<u>\$ 11,456,516</u>	<u>\$ 3,566,641</u>	<u>\$ 8,143,490</u>	<u>\$ 37,014,328</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 1,011,740	\$ 473,246	\$ 46,119	\$ 550,356	\$ 2,081,461
Deposits held for others	271,171			8,165	279,336
Deferred revenue	185,286		76,611	3,157	265,054
Total liabilities	<u>1,468,197</u>	<u>473,246</u>	<u>122,730</u>	<u>561,678</u>	<u>2,625,851</u>
Fund balances:					
Reserved for:					
Inventories		352,070			352,070
Highways and streets		10,631,200			10,631,200
Unreserved, reported in:					
General fund	12,379,484				12,379,484
Special revenue funds				7,581,812	7,581,812
Capital projects funds			3,443,911		3,443,911
Total fund balances	<u>12,379,484</u>	<u>10,983,270</u>	<u>3,443,911</u>	<u>7,581,812</u>	<u>34,388,477</u>
Total liabilities and fund balances	<u>\$ 13,847,681</u>	<u>\$ 11,456,516</u>	<u>\$ 3,566,641</u>	<u>\$ 8,143,490</u>	<u>\$ 37,014,328</u>

See accompanying notes to financial statements.

Navajo County  
 Reconciliation of the Balance Sheet to the Statement of Net Assets  
 Governmental Funds  
 June 30, 2006

Fund balances—total governmental funds	\$ 34,388,477
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	65,508,024
Some receivables are not available to pay for current-period expenditures and therefore, are deferred in the funds.	265,054
Some assets are not available in the current period and therefore, are not reported in the funds.	70,200
Some liabilities, including certificates of participation payable, are not due and payable in the current period and therefore, are not reported in the funds.	<u>(8,063,315)</u>
Net assets of governmental activities	<u>\$ 92,168,440</u>

See accompanying notes to financial statements.

Navajo County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2006

	General Fund	Public Works/ HURF Fund	Flood Control District Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property taxes	\$ 4,752,148		\$ 1,472,734	\$ 1,709,381	\$ 7,934,263
Licenses and permits	926,711			52,657	979,368
Fees, fines, and forfeits	955,916			35,011	990,927
Intergovernmental	21,745,810	\$ 12,567,738	44,355	8,905,482	43,263,385
Charges for services	4,359,299	28,647		1,157,002	5,544,948
Investment earnings	344,853	303,663	111,495	149,425	909,436
Contributions				26,879	26,879
Miscellaneous	145,933	374,851		84,184	604,968
Total revenues	<u>33,230,670</u>	<u>13,274,899</u>	<u>1,628,584</u>	<u>12,120,021</u>	<u>60,254,174</u>
Expenditures:					
Current:					
General government	15,000,406			3,793,847	18,794,253
Public safety	9,943,281			3,931,790	13,875,071
Highways and streets		9,852,075		514,784	10,366,859
Health				2,417,952	2,417,952
Welfare	3,210,367			393,941	3,604,308
Culture and recreation	183,031			261,112	444,143
Education	274,985				274,985
Debt service:					
Principal			250,000	436,012	686,012
Interest and other charges				374,442	374,442
Capital outlay	<u>1,113,677</u>		<u>950,214</u>	<u>54,188</u>	<u>2,118,079</u>
Total expenditures	<u>29,725,747</u>	<u>9,852,075</u>	<u>1,200,214</u>	<u>12,178,068</u>	<u>52,956,104</u>
Excess (deficiency) of revenues over expenditures	<u>3,504,923</u>	<u>3,422,824</u>	<u>428,370</u>	<u>(58,047)</u>	<u>7,298,070</u>

(Continued)

See accompanying notes to financial statements.

Navajo County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2006  
(Continued)

	<u>General Fund</u>	<u>Public Works/ HURF Fund</u>	<u>Flood Control District Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses):					
Sale of capital assets	\$ 39,035	\$ 20,132			\$ 59,167
Transfers in	119,776	164,131	\$ 3,465	\$ 1,807,611	2,094,983
Transfers out	<u>(1,665,247)</u>	<u>                    </u>	<u>(164,131)</u>	<u>(265,605)</u>	<u>(2,094,983)</u>
Total other financing sources and uses	<u>(1,506,436)</u>	<u>184,263</u>	<u>(160,666)</u>	<u>1,542,006</u>	<u>59,167</u>
Net change in fund balances	<u>1,998,487</u>	<u>3,607,087</u>	<u>267,704</u>	<u>1,483,959</u>	<u>7,357,237</u>
Fund balances, July 1, 2005, as restated	10,505,744	7,344,095	3,176,207	6,099,771	27,125,817
Increase(decrease) in reserve for inventories	(37,625)	32,088			(5,537)
Decrease in reserve for prepaids	<u>(87,122)</u>	<u>                    </u>	<u>                    </u>	<u>(1,918)</u>	<u>(89,040)</u>
Fund balances, June 30, 2006	<u>\$ 12,379,484</u>	<u>\$ 10,983,270</u>	<u>\$ 3,443,911</u>	<u>\$ 7,581,812</u>	<u>\$ 34,388,477</u>

See accompanying notes to financial statements.

Navajo County  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances to the Statement of Activities  
 Governmental Funds  
 Year Ended June 30, 2006

Net change in fund balances—total governmental funds \$ 7,357,237

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$ 6,910,054	
Depreciation expense	<u>(3,225,053)</u>	3,685,001

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		16,476
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Principal repaid		686,012

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available resources. In the Statement of Activities, however, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when the financial resources are available.		
Decrease in compensated absences		16,605
Decrease in landfill closure and post-closure care costs		724

Some cash outlays, such as purchases of inventories, are reported as expenditures in the governmental funds when purchased. In the Statement of Activities, however, they are reported as expenses when consumed.		
Decrease in inventories	5,537	
Decrease in prepaids	<u>89,040</u>	<u>94,577</u>

Change in net assets of governmental activities		<u>\$ 11,856,632</u>
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See accompanying notes to financial statements.

Navajo County  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

	Investment Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 108,008,810	\$ 10,051,470
Interest receivable	596,713	55,729
Total assets	108,605,523	\$ 10,107,199
 <b>Liabilities</b>		
Deposits held for others		10,107,199
Total liabilities		\$ 10,107,199
 <b>Net Assets</b>		
Held in trust for investment trust participants	\$ 108,605,523	

See accompanying notes to financial statements.

Navajo County  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year Ended June 30, 2006

	Investment Trust Funds
Additions:	
Contributions from participants	\$ 249,401,189
Net investment income	<u>2,836,515</u>
Total additions	<u>252,237,704</u>
 Deductions:	
Distributions to participants	<u>227,053,099</u>
 Change in net assets	 25,184,605
 Net assets, July 1, 2005	 <u>83,420,918</u>
 Net assets, June 30, 2006	 <u>\$ 108,605,523</u>

See accompanying notes to financial statements.

Navajo County  
Notes to Financial Statements  
June 30, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Navajo County conform to generally accepted accounting principles applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB).

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.

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Navajo County Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended (Presented as a major fund in the Governmental Funds financial statements)	Not available
Little Colorado Flood Control District	A tax-levying district that provides flood control systems; the County's Board of Supervisors serves as the board of directors	Blended	Not available

Navajo County  
Notes to Financial Statements  
June 30, 2006

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Navajo County Library District	A tax-levying district that provides and maintains library services for County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Navajo County Health District	A tax-levying district that provides health services for County's residents; the County's Board of Supervisors serves as the board of directors	Blended	Not available
Navajo County Municipal Property Corporation	A nonprofit corporation that assists in the acquisition of tangible real and personal property; exists only to serve the County	Blended	Not available

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

## B. Basis of Presentation

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

Navajo County  
Notes to Financial Statements  
June 30, 2006

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

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

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

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

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

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

The County reports the following major governmental funds:

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

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

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

Navajo County  
Notes to Financial Statements  
June 30, 2006

The County reports the following fund types:

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

*The Agency Funds* account for assets held by the County as an agent for the State, various local governments, other parties, and for property taxes collected and distributed to the State, local school districts, community college districts, and special districts.

### C. Basis of Accounting

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, with the exception of agency funds, and the accrual basis of accounting. The agency funds are custodial in nature and do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Grants and donations are recognized as revenue as soon as all eligibility requirements the provider imposed have been met.

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

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

Navajo County  
Notes to Financial Statements  
June 30, 2006

#### D. Cash and Investments

Nonparticipating interest-earning investment contracts are stated at cost. Money market investments and participation interest-earning investment contracts with a remaining maturity of 1 year or less at time of purchase are stated at amortized cost. All other investments are stated at cost, which approximates fair value.

#### E. Inventories

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

Inventories in the government-wide financial statements are recorded as assets when purchased and expensed when consumed. These inventories are stated at cost using the first-in, first-out method, respectively.

#### F. Property Tax Calendar

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

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. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) are defined by the County as assets with an initial, individual cost of more than \$5,000. Depreciation methods and estimated useful lives of capital assets reported in the government-wide statements are as follows:

Navajo County  
Notes to Financial Statements  
June 30, 2006

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

### H. Investment Earnings

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

### I. Compensated Absences

Compensated absences consist of unused vacation leave. Employees may accumulate up to 488 hours during a calendar year (depending on years of service) but must have reduced the balance to 320 hours by December 31 of each year. On December 31 of each year, if the balance has not been reduced to 320 hours, employees can request a 90-day extension for up to 50 percent of the excess vacation hours and transfer up to 50 percent of the excess vacation leave hours to sick leave. If a request to extend and transfer the vacation hours is not made, the excess balance is forfeited. Upon termination of employment, all unused vacation benefits up to a maximum of 320 hours (488 upon retirement) are paid to the employee. Accordingly, vacation benefits are accrued as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental fund's financial statements only if they have matured, for example, as a result of employee resignations and retirements by fiscal year-end.

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

### Note 2 - Beginning Balances Restated

As a result of miscellaneous reporting errors in prior years, the County restated net assets of the governmental activities and fund balances of the governmental funds as of July 1, 2005.

Navajo County  
Notes to Financial Statements  
June 30, 2006

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

	Governmental Activities Total	General Fund	Public Works/HURF Fund	Other Governmental Funds
Net assets/ fund balances as of June 30, 2005, as previously reported	\$79,457,222	\$10,510,812	\$6,697,708	\$5,697,350
Miscellaneous Corrections	<u>854,586</u>	<u>(5,068)</u>	<u>646,387</u>	<u>402,421</u>
Net assets/fund balances as of July 1, 2005, as restated	<u>\$80,311,808</u>	<u>\$10,505,744</u>	<u>\$7,344,095</u>	<u>\$6,099,771</u>

**Note 3 - Stewardship, Compliance, and Accountability**

At June 30, 2006, the following funds reported deficits in fund balances in excess of \$20,000, which violate state statutes:

Fund	Deficit
Governmental funds:	
Child Support IV-D	\$ 696,011
Watershed Protection - Phase II	211,757
Bio Terrorism-Phases I & II	105,201
Trinity Entp Inc/SoWest Tissue	84,330
Home Housing Rehab - #307-04	56,911
Potato Complex Fire	81,092
MIS-DS3/ATM Circuit Consolidation Proj.	42,865
WIA - E5704009 -SAS-FY04	23,984
WIA -E5706009-Youth-PY05	90,170
WIA - E5706009-Adult PY05-FY06	78,585
Self Ins Retention Reserve	75,687
Comm. Gun Violence Prosecution	69,838
Victim Right-AVRIA-Atty	48,195
Victim Assistance	31,687
Drug Enforce. Attorney	66,450
WIC	62,918
Waste Tire Disposal Program	23,811
Penrod Rd-SI-30%	74,706
Animal Control	47,957
Drug Enforce. Sheriff	37,860
Drug Enforce. Supt CT/AD Prob	68,545

Navajo County  
Notes to Financial Statements  
June 30, 2006

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

#### Note 4 - Deposits and Investments

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

##### Credit risk

Statutes have the following requirements for credit risk:

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

##### Custodial credit risk

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

##### Concentration of credit risk

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

##### Interest rate risk

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

##### Foreign currency risk

Statutes do not allow foreign investments.

Navajo County  
Notes to Financial Statements  
June 30, 2006

**Deposits**—At June 30, 2006, the carrying amount of the County’s deposits was \$3,012,934, and the bank balance was \$3,604,833. The County’s formal policy stipulates that securities that are held in a custody or safekeeping account must be held under the name of Navajo County or Navajo County Treasurer.

**Investments**—The County’s investments at June 30, 2006, were as follows:

Investment Type	Amount
U.S. agency securities	\$ 88,768,067
Certificates of deposit	400,000
Repurchase agreements	<u>58,446,525</u>
	<u>\$147,614,592</u>

**Credit Risk**—The County’s formal policy is to limit its portfolio to investments with the top rating issued by nationally recognized statistical rating organizations. As of June 30, 2006, credit risk for the County’s investments were as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard & Poors	\$ 88,768,067
Certificates of deposit	Unrated	Not applicable	400,000
Repurchase agreements	Unrated	Not applicable	<u>58,446,525</u>
			<u>\$147,614,592</u>

**Custodial credit risk**—For an investment, custodial credit risk is the risk that in the event of the counterparty’s failure, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County’s formal policy stipulates that securities that are held in a custody or safekeeping account must be held under the name of Navajo County or Navajo County Treasurer.

**Concentration of credit risk**—The County’s formal policy stipulates that the County will diversify the investment portfolio by limiting investments to avoid over-concentration in securities from a specific issuer, excluding obligations issued or guaranteed by the United States or any of the senior debt of its agencies or sponsored agencies. The County had investments at June 30, 2006, of 5 percent or more in repurchase agreements, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and the Federal Home Loan Bank. These investments were 39.59 percent, 5.42 percent, 14.23 percent, and 39.13 percent, respectively, of the County’s total investments.

**Interest rate risk**—The County’s formal policy is to purchase a combination of short-, medium-, and long-term investments such that maturities occur evenly over time as necessary to provide the cash flow needed for operations. At June 30, 2006, the County had the following investments in debt securities:

Navajo County  
Notes to Financial Statements  
June 30, 2006

Investment	Amount	Weighted Average Maturity (In Years)
U.S. agency securities	\$ 88,768,067	1.32
Certificate of deposits	400,000	.84
Repurchase agreements	<u>58,446,525</u>	.10
	<u>\$147,614,592</u>	

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

Cash, deposits, and investments:

Cash on hand	\$ 10,297
Amount of deposits	3,012,934
Amount of investments	<u>147,614,592</u>
Total	<u>\$150,637,823</u>

Statement of Net Assets:

	Governmental Activities	Investment Trust Funds	Agency Funds	Total
Cash and cash equivalents	\$30,728,265	\$108,008,810	\$10,051,470	\$148,788,545
Cash and investments held by trustee	<u>1,849,278</u>	_____	_____	<u>1,849,278</u>
Total	<u>\$32,577,543</u>	<u>\$108,008,810</u>	<u>\$10,051,470</u>	<u>\$150,637,823</u>

#### Note 5 - Due from Other Governments

Amounts due from other governments at June 30, 2006, include \$1,268,422 in state and county sales taxes, \$744,028 in payment in lieu of taxes from the federal government, \$268,294 in vehicle license taxes from the State of Arizona, \$794,351 in state-shared revenue from highway user taxes, and \$428,491 in various grants from the state and federal governments.

#### Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

Navajo County  
Notes to Financial Statements  
June 30, 2006

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
Capital assets, not being depreciated:				
Land	\$ 5,977,441	\$ 33,962		\$ 6,011,403
Construction in progress	<u>689,101</u>	<u>          </u>	<u>          </u>	<u>689,101</u>
Total capital assets, not being depreciated	<u>6,666,542</u>	<u>33,962</u>	<u>          </u>	<u>6,700,504</u>
Capital assets, being depreciated:				
Buildings	53,621,702	473,373		54,095,075
Infrastructure	17,463,940	3,075,524		20,539,464
Improvements other than buildings	135,934			135,934
Machinery and equipment	<u>11,049,307</u>	<u>3,327,195</u>	<u>          </u>	<u>14,376,502</u>
Total capital assets, being depreciated	<u>82,270,883</u>	<u>6,876,092</u>	<u>          </u>	<u>89,146,975</u>
Less: accumulated depreciation for:				
Buildings	19,414,162	562,984		19,977,146
Infrastructure	2,043,206	538,942		2,582,148
Improvements other than buildings	33,797	6,093		39,890
Machinery and equipment	<u>5,623,237</u>	<u>2,117,034</u>	<u>          </u>	<u>7,740,271</u>
Total accumulated depreciation	<u>27,114,402</u>	<u>3,225,053</u>	<u>          </u>	<u>30,339,455</u>
 Total capital assets, being depreciated, net	 <u>55,156,481</u>	 <u>3,651,039</u>	 <u>          </u>	 <u>58,807,520</u>
 Governmental activities capital assets, net	 <u>\$61,823,023</u>	 <u>\$3,685,001</u>	 <u>\$          </u>	 <u>\$65,508,024</u>

Depreciation expense as of June 30, 2006, was charged to governmental functions as follows:

General government	\$1,200,472
Public safety	506,564
Highways and streets	1,380,073
Sanitation	36,611
Health	33,662
Welfare	28,603
Culture and recreation	24,783
Education	<u>14,285</u>
Total	<u>\$3,225,053</u>

Navajo County  
Notes to Financial Statements  
June 30, 2006

Note 7 - Changes in Long-Term Liabilities

The following schedule details the County's long-term liability and obligation activity for the year ended June 30, 2006:

Governmental Activities	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within 1 year
Compensated absences payable	\$1,428,916	\$1,001,561	\$1,018,166	\$1,412,311	
Certificates of participation payable	6,180,000		265,000	5,915,000	\$280,000
Capital lease payable	61,696		21,012	40,684	21,835
Landfill closure and post-closure care costs payable	14,472		724	13,748	724
Claims and judgments payable	<u>1,081,572</u>	<u>          </u>	<u>400,000</u>	<u>681,572</u>	<u>400,000</u>
Total	<u>\$8,766,656</u>	<u>\$1,001,561</u>	<u>\$1,704,902</u>	<u>\$8,063,315</u>	<u>\$702,559</u>

There are various special assessment districts within Navajo County that have issued debt to finance the construction or improvement of sidewalks, curbs and gutters, irrigation systems, and street lighting. The County functions as an agent for the property owners by collecting assessments and forwarding collections to the special assessment debt-holders; however, the County is in no manner obligated to repay the special assessment debt. Therefore, the debt of these districts is not recorded on the County's financial statements, and these districts are included as agency funds on the County's Statement of Fiduciary Net Assets. At June 30, 2006, the amount of special assessment debt outstanding was \$1,765,055.

Note 8 - Certificates of Participation

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

Certificates outstanding at June 30, 2006, were as follows:

Description	Original Amount	Maturity Ranges	Interest Rates	Outstanding Principal
Navajo County, Arizona Municipal Property Corporation Jail Facility Bonds, Series 2000	\$7,320,000	2007 – 2020	5.00 – 6.25%	<u>\$5,915,000</u>

Navajo County  
Notes to Financial Statements  
June 30, 2006

The following schedule details debt service requirements to maturity for the County's certificates of participation payable at June 30, 2006:

Year ending June 30	Governmental Activities	
	Principal	Interest
2007	\$ 280,000	\$ 356,670
2008	295,000	341,270
2009	310,000	324,750
2010	330,000	307,313
2011	355,000	288,750
2012-16	2,120,000	1,097,550
2017-20	<u>2,225,000</u>	<u>359,063</u>
Total	<u>\$5,915,000</u>	<u>\$3,075,366</u>

Note 9 - Claims and Judgments Payable

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

On October 15, 2004, Navajo County settled the lawsuit Hancock vs. Navajo County. The lawsuit was the result of flooding of the Little Colorado River because there was a breach in the Winslow levy. In conjunction with the settlement agreement, Navajo County agreed to pay the plaintiffs \$1.4 million.

The following schedule details the remaining annual payments under this settlement agreement:

October 1, 2006	\$400,000
October 1, 2007	<u>200,000</u>
Total	<u>\$600,000</u>

Navajo County  
Notes to Financial Statements  
June 30, 2006

Note 10 - Compensated Absences

Compensated absences are paid from various funds in the same proportion that those funds pay payroll costs. During fiscal year 2006, the County paid for compensated absences as follows: 62 percent from the General Fund, 20 percent from the Public Works/HURF Fund, and 18 percent from Other Governmental Funds.

Note 11 - Operating Leases

The County leases office space and land under the provisions of various long-term lease agreements classified as operating leases for accounting purposes. Rental expenditures under the terms of the operating leases were \$59,508 for the year ended June 30, 2006. The operating leases have remaining noncancelable terms from 1 to 16 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2006, were as follows:

Year ending June 30	
2007	\$ 59,315
2008	41,532
2009	40,494
2010	32,220
2011	14,400
2012 – 2016	72,000
2017 – 2021	72,000
2022	<u>14,400</u>
Total minimum lease payments	<u>\$346,361</u>

Note 12 - Risk Management

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

Navajo County  
Notes to Financial Statements  
June 30, 2006

The Arizona Counties Property and Casualty Pool is a public entity risk pool currently composed of 11 member counties. The pool provides member counties catastrophic loss coverage for risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters; and provides risk management services. Such coverage includes all defense costs as well as the amount of any judgment or settlement. The County is responsible for paying a premium based on its exposure in relation to the exposure of the other participants and a deductible of \$50,000 for each occurrence. The County is also responsible for any payments in excess of the maximum coverage of \$100 million per occurrence for property claims and \$15 million per occurrence for liability claims. However, lower limits apply to certain categories of losses. A county must participate in the pool at least 3 years after becoming a member; however, it may withdraw after the initial 3-year period. If the pool were to become insolvent, the County would be assessed an additional contribution.

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

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

In addition, the Employee Benefits Trust (Trust) (a part of the General Fund) accounts for the financing of uninsured risk of loss for certain employee health benefits (comprehensive, major, medical, and dental) to eligible employees and their dependents. Under this program, the Trust provides coverage for up to a maximum of \$40,000 for each claim. The Trust purchases commercial insurance for claims in excess of this coverage. Settled claims did not exceed this commercial insurance coverage in any of the past 3 years.

## Note 13 - Retirement Plans

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

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

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June 30, 2006

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

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

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

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

ASRS	PSPRS, CORP, and EORP
3300 North Central Avenue	3010 East Camelback Road, Suite 200
P.O. Box 33910	Phoenix, AZ 85016-4416
Phoenix, AZ 85012-3910	(602) 255-5575
(602) 240-2000 or 1-800-621-3778	

**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, 2006, active ASRS members and the County were each required by statute to contribute at the actuarially determined rate of 7.4 percent (6.9 percent retirement and 0.5 percent long-term disability) of the members' annual covered payroll. The County's contributions to ASRS for the years ended June 30, 2006, 2005, and 2004 were \$1,207,137, \$843,040, and \$828,833, respectively, which were equal to the required contributions for the year.

In addition, active EORP members were required by statute to contribute 7 percent of the members' annual covered payroll. The County was required to remit a designated portion of court docket fees plus additional contributions of 13 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, 2006, 2005, and 2004 were \$176,540, \$76,198, and \$73,206, respectively, which were equal to the required contributions for the year.

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Notes to Financial Statements  
June 30, 2006

*Agent plans*—For the year ended June 30, 2006, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 14.52 percent. Active CORP members were required by statute to contribute 8.5 percent of the members' annual covered payroll, and the County was required to contribute at the actuarially determined rate of 4 percent.

**Annual Pension Cost**—The County's pension cost for the two agent plans for the year ended June 30, 2006, and related information follows:

	PSPRS	CORP
Contribution rates:		
County	14.52%	4.00%
Plan members	7.65%	8.50%
Annual pension costs	\$219,877	\$52,292
Contributions made	\$219,877	\$52,292

The current-year annual required contribution for the PSPRS and CORP were determined as a part of their June 30, 2004, actuarial valuations using the entry-age actuarial cost method. The actuarial assumptions included (a) 8.75 percent investment rate of return and (b) projected salary increases ranging from 6.25 percent to 9.25 percent per year. Both (a) and (b) included an inflation component of 5.25 percent. The assumptions did not include cost-of-living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 7-year period. The unfunded (excess) actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2004, was 20 years.

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

Plan	Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	2006	\$219,877	100%	\$ -
	2005	161,564	100%	\$ -
	2004	102,839	100%	-
CORP	2006	\$ 52,292	100%	\$ -
	2005	21,455	100%	-
	2004	20,758	100%	-

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June 30, 2006

Note 14 - Interfund Activity

*Interfund transfers*—Interfund transfers for the year ended June 30, 2006, were as follows:

Transfer from	Transfers to				Total Governmental Funds
	General Fund	Public Works/HURF Fund	Flood Control District Fund	Other Governmental Funds	
General Fund			\$3,465	\$1,661,782	\$1,665,247
Flood Control District Fund		\$164,131			164,131
Other Governmental Funds	<u>\$119,776</u>			<u>145,829</u>	<u>265,605</u>
Total	<u>\$119,776</u>	<u>\$164,131</u>	<u>\$3,465</u>	<u>\$1,807,611</u>	<u>\$2,094,983</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 15 - Condensed Financial Statements of County Treasurer's Investment Pool

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

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

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

All deposits and investments of the County's primary government are included in the County Treasurer's investment pool; therefore, the deposit and investment risks of the Treasurer's investment pool are the same as the County's deposit and investment risks. See Note 4 for disclosure of the County's deposit and investment risks.

Navajo County  
Notes to Financial Statements  
June 30, 2006

Details of each major investment classification follow:

Investment Type	Principal	Interest Rates	Maturities	Fair Value
U.S. agency securities	\$ 88,768,067	2.02-5.33%	07/06 – 02/10	\$ 86,650,721
Certificates of deposit	400,000	3.04-3.65%	09/06 – 01/08	400,000
Repurchase agreements	<u>58,446,525</u>	4.64–5.35%	07/06 – 09/06	<u>58,446,525</u>
	<u>\$147,614,592</u>			<u>\$145,497,246</u>

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

**Statement of Net Assets**

Assets	\$148,268,813
Net assets	<u>\$148,268,813</u>

Net assets held in trust for:

Internal participants	\$ 42,734,447
External participants	<u>105,534,366</u>
Total net assets held in trust	<u>\$148,268,813</u>

**Statement of Changes in Net Assets**

Total additions	\$323,444,035
Total deductions	<u>290,748,201</u>
Net increase	<u>32,695,834</u>
Net assets held in trust:	
July 1, 2005	<u>115,572,979</u>
June 30, 2006	<u>\$148,268,813</u>

Other Required Supplementary Information

Navajo County  
 Required Supplementary Information  
 Budgetary Comparison Schedule—General Fund  
 Year Ended June 30, 2006

	Original and Final Amounts	Actual Amounts	Variance with Final Budget
Revenues:			
Property taxes	\$ 4,953,031	\$ 4,752,148	\$ (200,883)
Licenses and permits	2,691,891	926,711	(1,765,180)
Fees, fines and forfeits	1,768,504	955,916	(812,588)
Intergovernmental	17,811,531	21,745,810	3,934,279
Charges for services	246,338	4,359,299	4,112,961
Investments and earnings	198,928	344,853	145,925
Miscellaneous	269,439	145,933	(123,506)
Total revenues	<u>27,939,662</u>	<u>33,230,670</u>	<u>5,291,008</u>
Expenditures:			
General government			
Board of supervisors	555,640	603,131	(47,491)
County manager	1,399,538	1,240,811	158,727
Buildings and grounds	1,644,154	1,626,401	17,753
Elections	355,818	232,171	123,647
Planning and building	726,216	654,166	72,050
Recorder	237,348	221,922	15,426
Voter registration	133,518	101,943	31,575
Assessor	960,243	943,728	16,515
MIS	1,047,385	1,012,955	34,430
Treasurer	386,411	381,365	5,046
Contingency	3,600,000		3,600,000
Legal defender	348,381	330,946	17,435
County attorney	1,691,840	1,592,972	98,868
Superior courts	1,821,409	1,962,286	(140,877)
Public defenders	893,530	861,726	31,804
Clerk of superior court	837,525	817,158	20,367
Holbrook justice court	216,423	186,168	30,255
Winslow justice court	232,528	258,271	(25,743)
Snowflake justice court	291,052	298,451	(7,399)
Show Low justice court	225,605	231,616	(6,011)
Pinetop justice court	265,014	269,288	(4,274)
Kayenta justice court	105,190	106,609	(1,419)
Holbrook constable	17,290	16,516	774

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County  
 Required Supplementary Information  
 Budgetary Comparison Schedule—General Fund  
 Year Ended June 30, 2006  
 (Continued)

	Original and Final Amounts	Actual Amounts	Variance with Final Budget
Winslow constable	\$ 17,090	\$ 18,975	\$ (1,885)
Snowflake constable	17,090	17,065	25
Show Low constable	17,140	17,891	(751)
Pinetop constable	37,890	37,324	566
Kayenta constable	18,240	16,555	1,685
Miscellaneous	<u>1,759,211</u>	<u>941,996</u>	<u>817,215</u>
Total general government	<u>19,858,719</u>	<u>15,000,406</u>	<u>4,858,313</u>
Public safety			
Juvenile detention		1,577	(1,577)
Juvenile probation	1,180,868	1,185,602	(4,734)
Adult probation	486,556	463,487	23,069
Jail operations	2,424,288	4,434,073	(2,009,785)
Sheriff	<u>3,285,738</u>	<u>3,858,542</u>	<u>(572,804)</u>
Total public safety	<u>7,377,450</u>	<u>9,943,281</u>	<u>(2,565,831)</u>
Welfare			
Public fiduciary	505,770	494,531	11,239
Indigent health	<u>2,996,747</u>	<u>2,715,836</u>	<u>280,911</u>
Total welfare	<u>3,502,517</u>	<u>3,210,367</u>	<u>292,150</u>
Culture and recreation			
Parks and recreation	<u>194,390</u>	<u>183,031</u>	<u>11,359</u>
Education			
Superintendent of schools	<u>281,768</u>	<u>274,985</u>	<u>6,783</u>
Construction projects	<u>3,000,000</u>	<u>-</u>	<u>3,000,000</u>
Capital Outlay	<u>1,500,000</u>	<u>1,113,677</u>	<u>386,323</u>
Total expenditures	<u>35,714,844</u>	<u>29,725,747</u>	<u>5,989,097</u>

(Continued)

See accompanying notes to budgetary comparison schedule.

Navajo County  
 Required Supplementary Information  
 Budgetary Comparison Schedule—General Fund  
 Year Ended June 30, 2006  
 (Concluded)

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (7,775,182)</u>	<u>\$ 3,504,923</u>	<u>\$ 11,280,105</u>
Other financing sources (uses):			
Sale of capital assets		39,035	39,035
Transfers in	678,000	119,776	(558,224)
Transfers out	<u>(451,175)</u>	<u>(1,665,247)</u>	<u>(1,214,072)</u>
Total other financing sources and uses	<u>226,825</u>	<u>(1,506,436)</u>	<u>(1,733,261)</u>
Net change in fund balances	(7,548,357)	1,998,487	9,546,844
Fund balance, July 1, 2005, as restated	7,548,357	10,505,744	2,957,387
Decrease in reserve for inventories		(37,625)	(37,625)
Decrease in reserve for prepaids	<u>-</u>	<u>(87,122)</u>	<u>(87,122)</u>
Fund balance, June 30, 2006	<u>\$ -</u>	<u>\$ 12,379,484</u>	<u>\$ 12,379,484</u>

See accompanying notes to budgetary comparison schedule.

Navajo County  
 Required Supplementary Information  
 Budgetary Comparison Schedule—Public Works/HURF Fund  
 Year Ended June 30, 2006

	<u>Original and Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
Revenues:			
Intergovernmental	\$ 10,889,850	\$ 12,567,738	\$ 1,677,888
Charges for services	1,039	28,647	27,608
Investment earnings	191,953	303,663	111,710
Miscellaneous	<u>167,350</u>	<u>374,851</u>	<u>207,501</u>
Total revenues	<u>11,250,192</u>	<u>13,274,899</u>	<u>2,024,707</u>
Expenditures:			
Highways and streets	<u>15,911,129</u>	<u>9,852,075</u>	<u>6,059,054</u>
Total expenditures	<u>15,911,129</u>	<u>9,852,075</u>	<u>6,059,054</u>
Excess (deficiency) of revenues over expenditures	<u>(4,660,937)</u>	<u>3,422,824</u>	<u>8,083,761</u>
Other financing sources (uses):			
Sale of capital assets	-	20,132	20,132
Transfers in	-	164,131	164,131
Transfers out	<u>(678,000)</u>	<u>-</u>	<u>678,000</u>
Total other financing sources and uses	<u>(678,000)</u>	<u>184,263</u>	<u>862,263</u>
Net change in fund balances	<u>(5,338,937)</u>	<u>3,607,087</u>	<u>8,946,024</u>
Fund balance, July 1, 2005, as restated	5,338,937	7,344,095	2,005,158
Increase in reserve for inventories	<u>-</u>	<u>32,088</u>	<u>32,088</u>
Fund balance, June 30, 2006	<u>\$ -</u>	<u>\$ 10,983,270</u>	<u>\$ 10,983,270</u>

See accompanying notes to budgetary comparison schedule.

Navajo County  
 Required Supplementary Information  
 Notes to Budgetary Comparison Schedule  
 June 30, 2006

Note 1 - Budgeting and Budgetary Control

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

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

Note 2 - Expenditures in Excess of Appropriations

For the year ended June 30, 2006, expenditures exceeded final budget amounts at the department level (the legal level of budgetary control) as follows:

<u>Fund/Department</u>	<u>Excess</u>
General Fund:	
Board of supervisors	\$ 47,491
Superior courts	140,877
Winslow justice court	25,743
Snowflake justice court	7,399
Show Low justice court	6,011
Pinetop justice court	4,274
Kayenta justice court	1,419
Winslow constable	1,885
Show Low constable	751
Juvenile detention	1,577
Juvenile probation	4,734
Jail operations	2,009,785
Sheriff	572,804
Transfers out	1,214,072

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, 2006

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)
6/30/2006	\$6,727,508	\$9,768,836	\$(3,041,328)	68.9%	\$1,505,961	202.0%
6/30/2005	6,965,517	9,411,526	(2,446,009)	74.0%	1,350,914	181.1%
6/30/2004	7,243,811	8,385,467	(1,141,656)	86.4	1,444,236	79.0

Correction Officer Retirement System

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Funding (Liability) Excess (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	Unfunded Liability as Percentage of Covered Payroll ([a-b]/c)
6/30/2006	\$1,733,175	\$1,490,845	\$242,330	116.3%	\$1,374,596	N/A
6/30/2005	1,611,909	1,298,458	313,451	124.1%	1,323,877	N/A
6/30/2004	1,488,781	1,110,061	378,720	134.1	859,061	N/A