

RESOLUTION OF THE  
NAVAJO NATION COUNCIL  
24<sup>th</sup> NAVAJO NATION COUNCIL - SECOND YEAR, 2020

AN ACTION  
RELATING TO BUDGET AND FINANCE AND NAABIK'ÍYÁTI' COMMITTEES AND  
NAVAJO NATION COUNCIL; ACCEPTING THE AUDIT REPORT OF MOSS ADAMS ON  
THE BASIC FINANCIAL STATEMENTS OF THE NAVAJO NATION FOR  
FISCAL YEAR 2019

SECTION ONE. AUTHORITY

- A. Prior to Navajo Nation Council deliberation of the proposed comprehensive budget, the latest external audit of the combined financial statements of the Navajo Nation will be presented to the Navajo Nation Council by external auditors. 12 N.N.C. § 840 (B).
- B. A proposed resolution that requires final action by the Navajo Nation Council shall be assigned to the Naabik'íyáti' Committee before it is heard by the Navajo Nation Council. 2 N.N.C. § 164 (A) (9).
- C. The Budget and Finance Committee has the power to receive an annual audit of the accounts of the Navajo Nation by certified public accountants and to present such audit to the Navajo Nation Council. 2 N.N.C. § 301(B) (10).

SECTION TWO. FINDINGS


- A. Moss Adams, LLP, an independent auditor has prepared the 2019 annual audit for the Navajo Nation. The annual audit is attached as **Exhibit A**.
- B. The Navajo Nation finds it in the best interest of the Navajo Nation to accept the 2019 annual audit.

SECTION THREE. APPROVAL

The Navajo Nation hereby accepts the audit report of Moss Adams LLP, on the Basic Financial Statement of the Navajo Nation for Fiscal Year 2019, attached as Exhibit A.

CERTIFICATION

I hereby certify that the foregoing resolution was duly considered by the 24<sup>th</sup> Navajo Nation Council at a duly called meeting in Window Rock, Navajo Nation (Arizona), at which a quorum was present and that the same was passed by a vote of 20 in Favor, and 01 Opposed, on this 4<sup>th</sup> day of September 2020.

  
Honorable Seth Damon, Speaker  
24<sup>th</sup> Navajo Nation Council

Sept 9, 2020  
DATE

Motion: Honorable Raymond Smith, Jr.

Second: Honorable Rickie Nez

Speaker Seth Damon not voting



**THE NAVAJO NATION**

Basic Financial Statements

September 30, 2019

(With Independent Auditors' Report Thereon)

## THE NAVAJO NATION

### Table of Contents

	Page
Independent Auditors' Report	1
<b>Basic Financial Statements – Modified Accrual Budget Basis</b>	
Government-Wide Financial Statements:	
Statement of Net Position – Exhibit A	5
Statement of Activities – Exhibit B	6
Fund Financial Statements:	
Balance Sheet – Governmental Funds – Exhibit C	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Exhibit D	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Exhibit E	9
Statement of Net Position – Proprietary Funds – Exhibit F	10
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Exhibit G	11
Statement of Cash Flows – Proprietary Funds – Exhibit H	12
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit I	13
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Exhibit J	14
Notes to Basic Financial Statements	15
<b>Other Supplementary Information (Unaudited)</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund – Schedule 1	58
<b>Required Supplementary Information (Unaudited)</b>	
Pension Other Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios – Schedule 2	59



## THE NAVAJO NATION

### Table of Contents

	Page
Schedule of the Nation's Contributions – Schedule 3	60
Schedule of Investment Returns – Schedule 4	61
<b>Supplemental Schedules – Modified Accrual Budget Basis</b>	
Combining Balance Sheet – General Fund – Schedule 5	62
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – Schedule 6	63
Combining Balance Sheet – Nonmajor Governmental Funds – Schedule 7	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Schedule 8	65
Combining Statement of Net Position – Enterprise Funds – Schedule 9	66
Combining Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Funds – Schedule 10	67
Combining Statement of Cash Flows – Enterprise Funds – Schedule 11	68
Combining Statement of Net Position – Internal Service Funds – Schedule 12	69
Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Schedule 13	70
Combining Statement of Cash Flows – Internal Service Funds – Schedule 14	71
Combining Statement of Fiduciary Net Position – Fiduciary Funds – Schedule 15	72
Combining Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Schedule 16	73
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	74
Schedule of Findings and Questioned Costs	76
Summary Schedule of Prior Year Findings	78



## **Report of Independent Auditors**

To the Navajo Nation Council  
The Navajo Nation

### **Report on the Financial Statements**

We have audited the accompanying modified accrual budget basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Navajo Nation (the "Nation"), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Nation's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified accrual budget basis of accounting described in Note 1; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Nation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Nation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Summary of Opinions*

<b>Opinion Unit</b>	<b>Type of Opinion</b>
Governmental activities	Unmodified
Business-type activities	Unmodified
Aggregate discretely presented component units	Adverse
General fund	Unmodified
Grant fund	Unmodified
Permanent fund	Unmodified
Aggregate remaining fund information	Unmodified

#### *Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units*

The financial statements do not include financial data for the Nation's legally separate component units. The modified accrual budget basis of accounting requires the financial data for those component units to be reported with the financial data of the Nation's primary government unless the Nation also issues financial statements for the financial reporting entity that include the financial data for its component units. The Nation has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the financial statements has not been determined.

#### *Adverse Opinion*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the Nation as of September 30, 2019, or the changes in financial position thereof for the year then ended, in accordance with the modified accrual budget basis of accounting described in Note 1.

#### *Unmodified Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified accrual budget basis of accounting of the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Nation, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with the modified accrual budget basis of accounting described in Note 1.

#### **Emphasis of a Matter**

##### *Basis of Accounting*

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified accrual budget basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.



### *Correction of an Error of Prior Year Amounts*

As described in Note 1(j), cash and unearned revenue balances in the general fund were corrected to include deposit accounts that were not previously included in the financial statements as of September 30, 2018. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedule of changes in the net pension liability and related ratios (schedule 2), the schedule of the Nation's contributions (schedule 3), and the schedule of investment returns (schedule 4), as listed in the table of contents, be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the Nation's basic financial statements is not affected by this missing information.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Nation's financial statements. The schedule of revenues, expenditures, and changes in fund balance – budget to actual – general fund (schedule 1) and the combining fund financial statements (schedules 5 to 16) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of revenues, expenditures, and changes in fund balance – budget to actual – general fund (schedule 1) and the combining financial statements (schedules 5 to 16) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues, expenditures, and changes in fund balance – budget to actual – general fund (schedule 1) and the combining financial statements (schedules 5 to 16) are fairly stated, in all material respects, in relation to the financial statements as a whole on the basis of accounting described in Note 1.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report August 26, 2020, on our consideration of the Nation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nation's internal control over financial reporting and compliance.

*Moss Adams LLP*

Phoenix, Arizona  
August 26, 2020

THE NAVAJO NATION

Statement of Net Position

September 30, 2019

Exhibit A

Assets	Primary government		
	Governmental activities	Business-type activities	Total
Pooled cash and investments (note 2)	\$ 988,527,853	—	988,527,853
Cash and cash equivalents (note 2)	62,359,115	99,672,131	162,031,246
Investments (note 2)	51,827,427	10,720,476	62,547,903
Accounts and notes receivable, net (note 3)	92,817,313	5,252,058	98,069,371
Accrued interest receivable	9,676,901	66,176	9,743,077
Other assets	4,569,509	—	4,569,509
Restricted assets:			
Pooled cash and investments (note 2)	3,145,622,035	—	3,145,622,035
Cash and cash equivalents (note 2)	30,810,794	—	30,810,794
Investments (note 2)	51,827,427	—	51,827,427
Accounts and notes receivable, net (note 3)	199,059,953	—	199,059,953
Accrued interest receivable	6,026,068	—	6,026,068
Other assets	1,187,687	—	1,187,687
Capital assets (note 4):			
Land and construction in progress	179,819,660	5,910,490	185,730,150
Buildings and equipment, net of accumulated depreciation	432,049,490	17,909,980	449,959,470
Total capital assets	611,869,150	23,820,470	635,689,620
Total assets	5,256,181,232	139,531,311	5,395,712,543
<b>Liabilities</b>			
Accounts payable and accrued liabilities (note 6)	\$ 50,061,416	1,611,779	51,673,195
Unearned revenue	555,042,606	—	555,042,606
Long-term liabilities (note 7):			
Due within one year	25,834,980	243,747	26,078,727
Due in more than one year	48,488,467	—	48,488,467
Net pension liability	130,103,889	2,603,205	132,707,094
Total long-term liabilities	204,427,336	2,846,952	207,274,288
Total liabilities	809,531,358	4,458,731	813,990,089
<b>Deferred Inflows of Resources</b>			
Pension-related inflows (note 8)	33,910,485	678,502	34,588,987
Total deferred inflows of resources	33,910,485	678,502	34,588,987
<b>Net Position</b>			
Net investment in capital assets	563,339,656	23,820,470	587,160,126
Expendable restricted assets:			
Restricted for community and rural development	112,064,202	—	112,064,202
Restricted for economic development and loans	8,831,828	—	8,831,828
Restricted for education	74,441,073	—	74,441,073
Restricted for claims and refunds	75,395,398	—	75,395,398
Nonexpendable restricted assets:			
Restricted for future government operations	2,492,385,236	—	2,492,385,236
Restricted for chapter activities	58,500,400	—	58,500,400
Unrestricted	1,027,781,596	110,573,608	1,138,355,204
Total net position	4,412,739,389	134,394,078	4,547,133,467
Total liabilities, deferred inflows, and net position	\$ 5,256,181,232	139,531,311	5,395,712,543

See accompanying notes to basic financial statements.



**THE NAVAJO NATION**  
Statement of Activities  
Year ended September 30, 2019

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 135,080,029	14,216,215	12,263,347	—	(108,600,467)	—	(108,600,467)
Economic development and planning	5,940,948	1,167,189	303,298	279,000	(4,191,461)	—	(4,191,461)
Community and rural development	87,302,513	34,626,074	17,677,054	4,741,711	(30,257,674)	—	(30,257,674)
Education and training	75,321,679	5,798,976	56,458,667	1,191,766	(11,872,270)	—	(11,872,270)
Natural resources	40,819,712	93,013,933	20,756,654	3,261,192	76,212,067	—	76,212,067
Public safety	67,926,893	1,477,723	50,460,623	1,722,566	(14,265,981)	—	(14,265,981)
Health and welfare	148,605,721	359,238	136,363,032	1,565,388	(10,318,063)	—	(10,318,063)
Culture and recreation	2,352,849	303,738	—	—	(2,049,111)	—	(2,049,111)
Transportation	16,518,979	759,619	9,557,360	23,153,782	16,951,782	—	16,951,782
Interest on long-term debt	2,263,064	—	—	—	(2,263,064)	—	(2,263,064)
Total governmental activities	582,132,387	151,722,705	303,840,035	35,915,405	(90,654,242)	—	(90,654,242)
Business-type activities:							
Business Industrial Development Fund	635,876	1,595,111	—	—	—	959,235	959,235
Loan Fund	754,681	390,252	—	—	—	(364,429)	(364,429)
Employee Housing	852,423	917,182	—	—	—	64,759	64,759
Parks and Recreation	4,867,887	18,758,504	—	—	—	13,890,617	13,890,617
Fish and Wildlife	1,713,895	850,115	—	—	—	(863,780)	(863,780)
Navajo Nation Code	134	5,490	—	—	—	5,356	5,356
Navajo Transit Fund	19,535	20,506	—	—	—	971	971
Livestock Custody	74,789	184,584	—	—	—	109,795	109,795
Fourth of July Celebration Fund	94,564	33,277	—	—	—	(61,287)	(61,287)
Annual Navajo Nation Fair	2,365,997	616,388	—	—	—	(1,749,609)	(1,749,609)
Tribal Ranch	584,096	715,119	—	—	—	131,023	131,023
Veterinary Medical Sales Fund	303,274	298,368	—	—	—	(4,906)	(4,906)
Colorado Ranch	925,892	885,835	—	—	—	(40,057)	(40,057)
Total business-type activities	13,193,043	25,270,731	—	—	—	12,077,688	12,077,688
	\$ 595,325,430	176,993,436	303,840,035	35,915,405	(90,654,242)	12,077,688	(78,576,554)
<b>General Revenue and Transfers</b>							
Taxes (note 9):							
Business activity					6,874,667	—	6,874,667
Possessory interest					24,259,295	—	24,259,295
Fuel excise					11,555,274	—	11,555,274
Oil and gas severance					5,001,611	—	5,001,611
Sales					47,895,226	—	47,895,226
Tobacco products					342,088	—	342,088
Hotel occupancy					1,462,640	—	1,462,640
Junk food tax					1,722,067	—	1,722,067
Alcohol tax					98,994	—	98,994
Unrestricted investment income					159,616,279	525,917	160,142,196
Statutory allocation					—	4,098,577	4,098,577
Land, buildings, business site, and right-of-way lease					68,063,552	—	68,063,552
Transfers					(1,010,035)	1,010,035	—
Total general revenues and transfers					325,881,658	5,634,529	331,516,187
Change in net position					235,227,416	17,712,217	252,939,633
Net position, beginning of year					4,177,511,973	116,681,861	4,294,193,834
Net position, end of year					\$ 4,412,739,389	134,394,078	4,547,133,467

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
**Balance Sheet – Governmental Funds**  
**Modified Accrual Budget Basis**  
**September 30, 2019**

<b>Assets</b>	<b>General fund (Schedule 5)</b>	<b>Grant fund</b>	<b>Permanent fund</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
Pooled cash and investments (including \$5,459,500 of pledged securities) (note 2)	\$ 862,424,071	500,880,587	2,386,718,664	466,764,787	4,216,788,109
Accounts receivable, net	1,191,797	148,167	—	7,790	1,347,754
Accrued interest receivable	8,807,721	—	5,196,470	1,444,548	15,448,739
Note receivable (note 3)	55,895,972	—	140,200,170	50,782,060	246,878,202
Receivable from grantors	—	40,110,369	—	—	40,110,369
Due from the Grant Fund	23,717,854	—	—	—	23,717,854
Other assets	4,569,509	1,187,687	—	—	5,757,196
<b>Total assets</b>	<b>\$ 956,606,924</b>	<b>542,326,810</b>	<b>2,532,115,304</b>	<b>518,999,185</b>	<b>4,550,048,223</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable (note 6)	\$ 9,069,741	6,299,872	2,006,327	4,574,649	21,950,589
Accrued liabilities (note 6)	15,602,465	10,240,810	22,080	—	25,865,355
Due to the General Fund	—	23,717,854	—	—	23,717,854
Unearned revenue	52,916,039	502,068,274	58,293	—	555,042,606
<b>Total liabilities</b>	<b>77,588,245</b>	<b>542,326,810</b>	<b>2,086,700</b>	<b>4,574,649</b>	<b>626,576,404</b>
<b>Fund balances:</b>					
<b>Nonspendable:</b>					
Permanent fund principal	—	—	2,352,185,066	58,500,400	2,410,685,466
Long-term receivable	55,895,972	—	140,200,170	50,782,060	246,878,202
<b>Spendable:</b>					
<b>Restricted for:</b>					
Economic development loans	8,831,828	—	—	—	8,831,828
Education	—	—	—	69,606,342	69,606,342
Special projects	—	—	—	46,880,023	46,880,023
Other capital projects	39,186,855	—	—	15,148,803	54,335,658
<b>Committed for:</b>					
Other capital projects	577,076,570	—	37,643,368	178,511,215	793,231,153
Other purposes	61,708,154	—	—	94,995,693	156,703,847
<b>Assigned to:</b>					
Other purposes	13,539,600	—	—	—	13,539,600
Unassigned	122,779,700	—	—	—	122,779,700
<b>Total fund balances</b>	<b>879,018,679</b>	<b>—</b>	<b>2,530,028,604</b>	<b>514,424,536</b>	<b>3,923,471,819</b>
<b>Total liabilities and fund balances</b>	<b>\$ 956,606,924</b>	<b>542,326,810</b>	<b>2,532,115,304</b>	<b>518,999,185</b>	
Amounts reported for governmental activities in the statement of net position are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.					
					600,298,227
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position (Exhibit F).					
					113,113,056
Some liabilities, including long-term debt, are not due and payable in the current period and, therefore, are not reported in the governmental funds:					
Long-term bank debt					(2,216,874)
Bond payable					(44,660,000)
Bond premium					(1,652,620)
Net pension liability					(127,451,748)
Compensated absences					(14,943,246)
Amounts presented in the statement of net position relating to net pension inflows					
Net position of governmental activities					<b>\$ 4,412,739,389</b>

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Statement of Revenues, Expenditures, and Changes in  
Fund Balances – Governmental Funds  
Modified Accrual Budget Basis  
Year ended September 30, 2019

Revenues	General fund (Schedule 6)	Grant fund	Permanent fund	Other governmental funds	Total governmental funds
Natural resource revenue:					
Oil and gas	\$ 27,619,850	—	—	—	27,619,850
Mining	63,171,380	—	—	—	63,171,380
Tax revenue, net (note 9)	82,419,264	—	—	16,792,598	99,211,862
Land, buildings, business site, and right-of-way revenue	67,400,019	—	—	663,533	68,063,552
Grant revenue	—	339,755,440	—	—	339,755,440
Interest and dividends	46,265,853	—	74,317,794	12,203,609	132,787,256
Net increase in fair value of investments	13,172,951	—	24,048,033	10,113,446	47,334,430
Pasture, rangeland, and forage insurance proceeds	13,103,209	—	—	—	13,103,209
Other revenue	6,859,461	—	666,987	17,984,763	25,511,211
Statutory allocation to permanent fund	(33,183,831)	—	37,125,886	(2,345,063)	1,596,992
Statutory allocation of current year revenues	(35,727,011)	—	—	25,565,337	(10,161,674)
Total revenues	251,101,145	339,755,440	136,158,700	80,978,223	807,993,508
<b>Expenditures</b>					
Current:					
General government	100,304,362	12,263,347	6,948,558	14,861,419	134,377,686
Economic development and planning	4,531,592	303,298	5,528	15,584	4,856,002
Community and rural development	62,180,161	17,677,054	761,552	7,773,361	88,392,128
Education and training	15,675,045	56,458,667	—	5,631,907	77,765,619
Natural resources	18,579,544	20,756,654	—	1,961,857	41,298,055
Public safety	8,232,376	50,460,623	746,920	3,540,470	62,980,389
Health and welfare	15,955,942	136,363,032	—	—	152,318,974
Culture and recreation	1,055,711	—	—	1,133,949	2,189,660
Transportation	—	9,557,360	—	3,092,227	12,649,587
Debt service – principal	914,063	—	—	2,855,000	3,769,063
Debt service – interest	68,681	—	—	2,194,383	2,263,064
Capital outlay	13,269,357	35,915,405	1,260,981	15,017,777	65,463,520
Total expenditures	240,766,834	339,755,440	9,723,539	58,077,934	648,323,747
Excess of revenues over expenditures	10,334,311	—	126,435,161	22,900,289	159,669,761
<b>Other Financing Sources (Uses)</b>					
Transfers (note 5)	14,072,809	—	(19,170,000)	2,000,000	(3,097,191)
Total other financing sources (uses)	14,072,809	—	(19,170,000)	2,000,000	(3,097,191)
Net change in fund balances (Exhibit E)	24,407,120	—	107,265,161	24,900,289	156,572,570
Fund balance, beginning of year	854,611,559	—	2,422,763,443	489,524,247	3,766,899,249
Fund balance, end of year	\$ 879,018,679	—	2,530,028,604	514,424,536	3,923,471,819

See accompanying notes to basic financial statements.

## THE NAVAJO NATION

Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities

Modified Accrual Budget Basis

Year ended September 30, 2019

Net change in fund balances – governmental funds (Exhibit D)		\$ 156,572,570
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	\$ 73,326,572	
Depreciation expense	(27,828,218)	
		45,498,354
Net deferred outflow of resources related to pensions do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(15,558,276)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		3,769,063
Bond premium amortization expense does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.		223,710
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(461,915)
Net pension liabilities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.		7,703,699
Net deferred inflow of resources related to pensions do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		16,088,190
Internal service funds are used by the Nation to charge the costs of certain activities to the individual funds. The net revenue of internal service funds applicable to governmental activities is reported with governmental activities (Exhibit G).		21,392,021
Change in net position of governmental activities (Exhibit B)	\$	<u>235,227,416</u>

See accompanying notes to basic financial statements.



**THE NAVAJO NATION**  
Statement of Net Position  
Proprietary Funds  
September 30, 2019

Exhibit F

Assets	Business-type activities – enterprise funds	Governmental activities – internal service funds
Current assets:		
Cash and cash equivalents (note 2)	\$ 99,672,131	62,359,115
Investments (note 2)	10,720,476	51,827,427
Receivables:		
Accrued interest receivable	66,176	254,230
Accounts receivable, net	—	3,540,941
Current portion of notes receivable (note 3)	1,305,649	—
Total receivables	1,371,825	3,795,171
Total current assets	111,764,432	117,981,713
Noncurrent assets:		
Receivables:		
Notes receivable, net (note 3)	3,946,409	—
Capital assets (note 4):		
Construction in progress	5,171,071	17,197
Land and land development costs	739,419	—
Buildings	27,731,967	373,739
Vehicles	—	48,239,834
Equipment	2,072,837	6,226,609
Total capital assets	35,715,294	54,857,379
Accumulated depreciation	11,894,824	43,286,456
Capital assets, net	23,820,470	11,570,923
Total noncurrent assets	27,766,879	11,570,923
Total assets	\$ 139,531,311	129,552,636
<b>Liabilities, Deferred Inflow, and Net Position</b>		
Current liabilities:		
Accounts payable (note 6)	\$ 522,341	1,379,701
Accrued liabilities (note 6)	1,089,438	865,771
Current portion of compensated absences (note 7)	243,747	259,289
Current estimated claims payable (note 8)	—	8,106,161
Total current liabilities	1,855,526	10,610,922
Noncurrent liabilities:		
Estimated claims payable (note 7)	—	2,485,257
Net pension liability (note 8)	2,603,205	2,652,141
Total noncurrent liabilities	2,603,205	5,137,398
Total liabilities	4,458,731	15,748,320
Pension-related inflows	678,502	691,260
Total deferred inflow of resources	678,502	691,260
Net position:		
Net investment in capital assets	23,820,470	11,570,923
Expendable restricted net position		
Restricted for claims and refunds	—	75,395,398
Unrestricted	110,573,608	26,146,735
Total net position	134,394,078	113,113,056
Total liabilities, deferred inflows, and net position	\$ 139,531,311	129,552,636

See accompanying notes to basic financial statements.

## THE NAVAJO NATION

## Statement of Revenues, Expenses, and Changes in Fund Net Position

## Proprietary Funds

Year ended September 30, 2019

	Business-type activities – enterprise funds	Governmental activities – internal service funds
Operating revenues:		
Rental income	\$ 2,503,859	—
Interest income – notes receivable	372,990	—
Insurance premium income	—	64,546,773
Charges for services	22,355,815	14,029,156
Other income	38,067	2,609,461
Total operating revenues	25,270,731	81,185,390
Operating expenses:		
Personnel	5,344,486	5,174,418
Travel, per diem, and vehicle	819,380	416,389
Supplies	1,276,805	5,820,093
Contractual service	2,770,733	5,165,413
Lease, telephone, and utilities	426,980	305,939
Repairs and maintenance	502,454	380,931
Provision for bad debts	294,577	5,296
Depreciation expense	526,585	3,688,507
Benefits and claims	—	35,833,724
Reinsurance premiums	92,224	6,803,550
Other expenses	1,138,819	97,913
Total operating expenses	13,193,043	63,692,173
Operating income	12,077,688	17,493,217
Nonoperating revenues:		
Interest and dividends	337,488	1,279,118
Net increase in fair value of investments	188,429	532,530
Statutory allocations	4,098,577	—
Total nonoperating revenues	4,624,494	1,811,648
Nonoperating revenues, net	4,624,494	1,811,648
Income before transfers	16,702,182	19,304,865
Transfers (note 5)	1,010,035	2,087,156
Change in net position	17,712,217	21,392,021
Net position, beginning of year	116,681,861	91,721,035
Net position, end of year	\$ 134,394,078	113,113,056

See accompanying notes to basic financial statements.



**THE NAVAJO NATION**  
Statement of Cash Flows  
Proprietary Funds  
Year ended September 30, 2019

	Business-type activities – enterprise funds	Governmental activities – internal service funds
Cash flows from operating activities:		
Receipts from customers	\$ 25,402,034	13,924,012
Cash received for premiums from the government	—	38,047,755
Cash received from others for premiums	—	30,174,407
Receipt of interest on loans	372,990	—
Payments to employees for services	(5,332,240)	(5,431,422)
Payments of claims	—	(32,144,689)
Payments to suppliers	(2,329,830)	(5,958,026)
Payments to third parties for services	(4,738,789)	(13,038,741)
Other (payments) receipts	(614,819)	287,532
Net cash from operating activities	12,759,346	25,860,828
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(1,978,873)	(9,376,924)
Net cash from capital and related financing activity	(1,978,873)	(9,376,924)
Cash flows from noncapital and related financing activity:		
Statutory Allocation	4,098,577	—
Transfer	1,010,035	2,087,156
Net cash from noncapital and related financing activity	5,108,612	2,087,156
Cash flows from investing activities:		
Purchase of investments	(50,863,630)	(110,440,744)
Sales of investments	54,862,953	109,172,082
Interest on investment and cash balances	322,126	1,227,564
Net cash from investing activities	4,321,449	(41,098)
Net increase in cash and cash equivalents	20,210,534	18,529,962
Cash and cash equivalents, beginning of year	79,461,597	43,829,153
Cash and cash equivalents, end of year	\$ 99,672,131	62,359,115
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 12,077,688	17,493,217
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	526,585	3,688,507
Provision for bad debts	294,577	5,296
Decrease (increase) in accounts receivable	(224,063)	1,263,748
Decrease in notes receivable	441,468	—
Decrease in deferred outflows	302,237	330,350
Increase (decrease) in accounts payable and accrued liabilities	(369,154)	871,886
(Decrease) in net pension liability	(22,345)	(217,622)
Increase (decrease) in compensated absences	11,705	(14,046)
(Decrease) in estimated claims payable	—	2,795,179
Increase in deferred inflows	(279,352)	(355,687)
Total adjustments	681,658	8,367,611
Net cash from operating activities	\$ 12,759,346	25,860,828

See accompanying notes to basic financial statements.

Exhibit I

**THE NAVAJO NATION**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2019

Assets	Pension trust funds	Private- purpose trust funds
Cash and cash equivalents (note 2)	\$ 27,274,506	53,540,185
Investments (note 2)	1,022,165,215	197,717,693
Accrued interest receivable	1,708,482	726,734
Note receivable (note 3)	—	8,318,455
Participant loans receivable	9,153,894	—
Total assets	<u>1,060,302,097</u>	<u>260,303,067</u>
<b>Liabilities, Deferred Inflows, and Net Position</b>		
Accounts payable and accrued liabilities (note 6)	156,389	722,139
Net pension liability (note 8)	—	36,011
Total liabilities	<u>156,389</u>	<u>758,150</u>
Pension-related inflows	—	9,386
Total deferred inflows of resources	<u>—</u>	<u>9,386</u>
Net position held in trust for pension benefits and other purposes	<u>\$ 1,060,145,708</u>	<u>259,535,531</u>

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year ended September 30, 2019

	<b>Pension trust funds</b>	<b>Private- purpose trust funds</b>
Additions:		
Interest and dividends	\$ 27,278,162	6,154,486
Net increase in fair value of investments	7,132,273	7,470,676
Contributions to plans (note 8)	46,320,923	—
Tax revenue (note 9)	—	13,308,265
Other revenue	—	142,737
Statutory allocation of current year revenue, net	—	4,466,105
Total additions	<u>80,731,358</u>	<u>31,542,269</u>
Deductions:		
Personnel	543,267	118,837
Travel	40,581	281,445
Supplies	25,362	13,163
Chapter disbursements	—	5,168,500
Tribal grants	—	4,697,241
Utilities	99,804	2,785
Retirement benefits	56,153,700	—
Contractual services	3,852,327	389,259
Scholarship payments	—	357,788
Other	140,036	618,558
Total deductions	<u>60,855,077</u>	<u>11,647,576</u>
Change in net position	19,876,281	19,894,693
Net position, beginning of year	<u>1,040,269,427</u>	<u>239,640,838</u>
Net position, end of year	<u>\$ 1,060,145,708</u>	<u>259,535,531</u>

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(1) Basis of Accounting and Summary of Significant Accounting Policies**

**(a) Reporting Entity**

The accompanying financial statements reflect the operations and financial position of the operations, which are accounted for by the Office of the Controller of the Navajo Nation. These operations provide the Navajo Nation (the Nation) with traditional governmental services such as public safety, education, health, and management of natural resources, as well as certain other activities such as economic development, community development, chapter projects, transportation, and cultural and recreational activities and employee benefits.

The Nation has adopted Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which provide guidance in determining whether certain organizations are component units and the presentation of these component units in the financial statements. Criteria for determining whether related organizations are component units include the following circumstances:

- Appointment of a voting majority of an organization's governing authority and the ability of the Nation to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Nation, or;
- An organization is fiscally dependent on the Nation and provides specific financial benefits to, or imposes specific financial burdens on, the Nation, or;
- It is determined that it would be misleading to exclude the related organization from the Nation's financial statements because of the nature of the entity or because the entity is closely related to or financial integrated with the Nation.

The financial statements do not include the assets, liabilities, net position, or results of operations of certain entities that are legally separate from the Nation and/or which are financially accountable to the Nation. Some of these entities have had capital investments and contributions made by the Nation. The modified budget basis of accounting requires the financial statements of such entities to be included in the financial statements.

The financial statements do not include the financial position or activities of various private and governmental agencies operating within reservation boundaries or programs conducted on the Navajo reservation, which do not involve the use of Nation funds and over which the Navajo Nation Council does not exercise fiscal or administrative control.

As a Native American Indian Tribe, the Nation considers itself exempt from federal and state income taxes.

**(b) Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and activities) display information about the Nation's governmental and business-type activities. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations of internal



## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2019

activity have been made in these statements. The governmental activities are reported separately from the business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Nation's governmental and business-type activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other revenues not properly included among program revenues are reported as general revenues.

#### **(c) Fund Financial Statements**

The Nation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate fund types. Separate financial statements are provided for the governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed as a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds and each of the fiduciary fund types are reported in the aggregate.

The funds used by the Nation are as follows:

#### **Governmental Funds**

##### **(i) General Fund (Major Fund)**

The General Fund represents the operating activities of the Nation. The Navajo Nation Council appropriates funds for the expenditures of the General Fund. Within the General Fund, funds are appropriated in the following categories:

Operating Appropriations – Appropriations allocated to operating departments and programs that are budgeted annually. Unencumbered balances at the close of each fiscal year revert to General Fund unassigned fund balance, unless otherwise specified by the Navajo Nation Council.

Capital Project Appropriations – Appropriations for items of a capital nature. Unencumbered balances at the close of each fiscal year revert to General Fund unassigned fund balance, unless otherwise specified by the Navajo Nation Council.

Reimbursements of administrative costs (indirect costs) incurred by the Nation's General Fund in connection with the administration of programs funded by various grantor agencies are recorded as expenditures in the Grant Fund and as a reduction of General Fund expenditures. Realization of the amounts recorded is subject to approval and audit by grantor agencies and availability of funds from such grantors.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

In connection with the adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in 2011, the Nation consolidated several funds, which were previously classified as a special revenue fund type into the General Fund. The following is a list of other funds combined with the General Fund.

(ii) *Navajo Dam Escrow Fund (included in General Fund)*

The Navajo Dam Escrow Fund is used to account for monetary settlements received in connection with an agreement between the Nation and the City of Farmington, New Mexico. Funds within the account shall be used solely for the purpose of collateralizing loans to Navajo individuals or entities within the San Juan County, New Mexico portion of the Nation.

(iii) *Oil and Gas Development Fund (included in General Fund)*

The Oil and Gas Development Fund is used to provide financing for development projects and related costs of the Navajo Nation Oil and Gas Company, Inc. in furtherance of the Navajo Nation Energy Policy and pursuant to its corporate charter.

(iv) *Navajo Nation Reforestation Fund (included in General Fund)*

The Navajo Nation Reforestation Fund is used to account for funds reserved for the purpose of reseeding land within the Nation.

(v) *Capital Outlay Match Fund (included in General Fund)*

The Capital Outlay Match Fund was established during 2001 with a \$5,000,000 appropriation from the Navajo Nation Council. The Nation often receives capital outlay grants for projects that benefit the Navajo people. The purpose of the Capital Outlay Match Fund is to establish a ready source of funds to meet the matching requirements associated with these grants.

(vi) *Sihasin Fund (included in General Fund)*

The Sihasin Fund was created with monies received from a settlement with the U.S. government related to trust mismanagement of assets. The purposes of the fund include financing the planning and development of regional infrastructure, supporting economic and community development, education opportunities for members of the Nation, and leveraging the fund by way of guaranteeing loans or match funding.

(vii) *License Plate Revenue Fund (Included in General Fund)*

The License Plate Revenue Fund was established to account for the revenue from the sale of Arizona specialty license plates.

*Special Revenue Fund Type*

Special Revenue Funds are used to account for revenue from specific sources that are restricted by law or administrative action for specific purposes as follows:

(i) *Grant Fund (Major Fund)*

The Grant Fund is used to account for the activities and programs over which the Nation exercises fiscal and administrative control, which are financed by various grantors. Program expenditure



## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2019

budgets are approved by the grantors. Disallowed costs, if any, resulting from compliance audits are recorded during the period when an amount is mutually agreed upon.

(ii) *Scholarship Fund (Nonmajor Fund)*

The Scholarship Fund is used to account for certain assets budgeted to provide scholarships to tribal members for educational purposes. 8.3333% of sales tax revenue, net of statutory allocations to the Permanent Fund, Veterans Trust Fund, and Land Acquisition Fund are deposited to this Fund.

(iii) *Navajo Tourism Fund (Nonmajor fund)*

The Navajo Tourism Fund is used to account for taxes, which are assessed on hotel room rentals within the Nation. The funds are to be used to improve tourism in the Nation.

(iv) *Navajo Nation Environmental Protection Agency Fund (Nonmajor Fund)*

The Navajo Nation Environmental Protection Agency Fund is used to account for fees and penalties imposed upon owners and operators of underground storage tanks. The funds are to be used to administer and regulate the Navajo Nation Underground Storage Tank Act.

(v) *Tax Suspense Fund (Nonmajor Fund)*

The Tax Suspense Fund is used to account for 2% of actual tax payments received, which are set aside to pay future tax claims and refunds. No later than 60 days prior to the end of each fiscal year, the Navajo Tax Commission shall make a determination as to what amount, if any, may be released from the fund to the General Fund.

(vi) *Water Rights Fund (Nonmajor Fund)*

The Water Rights Fund was established in 2003 with a \$2,100,000 appropriation from the Nation's Council. The purpose of the Water Rights Fund is to provide assured annual funding for the protection of the Nation's water rights in the states of Arizona, Utah, and New Mexico.

(vii) *Navajo Nation Roads Fund (Nonmajor Fund)*

The Navajo Nation Roads Fund is used to account for the proceeds generated from the Nation's fuel excise tax. The tax proceeds are to be utilized to meet highway funding regulations and design standards, to improve overall road systems, to improve safety, and to meet community and economic development needs.

(viii) *Land Acquisition Fund (Nonmajor Fund)*

The Land Acquisition Fund is used to provide revenue to acquire land, including existing structures, for the Nation in accordance with the Navajo Nation Land Acquisition Policies and Procedures. 2% of all unrestricted revenue of the Nation are transferred, via statutory allocation, to the Land Acquisition Fund. The Navajo Nation Council resolution, which established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of the Navajo Nation Council. 90% of the income earned is available for the stated purpose; the remainder is to be reinvested as principal.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

(ix) *Navajo Rehabilitation Trust Fund (Nonmajor Fund)*

The Navajo Rehabilitation Trust Fund is used to account for amounts received from the U.S. government to benefit Navajo people and communities affected by the settlement of the Navajo/Hopi land dispute.

The fund qualifies as a special revenue fund as it has a recurring source of revenue through a business site lease with the Navajo Nation Gaming Enterprise (NNGE) Twin Arrows Casino and the fund is to be used for specific purposes.

(x) *Gaming Development Fund (Nonmajor Fund)*

The Gaming Development Fund is used to account for the proceeds generated from any agreements entered into by the Nation concerning the lease of gaming machines to any other Indian Nation. These sources of revenues will be used to provide funding for gaming development within the Nation.

(xi) *Gaming Revenue Distribution Fund (Nonmajor Fund)*

The Gaming Revenue Distribution Fund is used to account for the proceeds received from the Navajo Nation Gaming Enterprise and to provide an allocation plan for the use of the revenue received.

(xii) *Judicial/Public Safety Facilities Fund (Nonmajor Fund)*

The Judicial/Public Safety Fund was established to provide funding for judicial and public safety facilities as approved by the Judiciary Committee and Public Safety Committee. Projects or activities funded by this fund include planning, site clearance, and development; site improvement and landscape development; utility access; street access and parking areas; construction, maintenance, renovation, and repair; and debt service financing as needed for these activities. 16.6666% of sales tax revenue, net of statutory allocations to the Permanent Fund, Veterans Trust Fund, and Land Acquisition Fund are deposited to this fund.

(xiii) *Department of Public Safety (DPS) Gaming Fund (Nonmajor Fund)*

The DPS Gaming Fund was established to provide funding for police services at various Nation casinos.

(xiv) *DPS Alcohol Tax Fund (Nonmajor Fund)*

The DPS Alcohol Tax Fund was established to fund public welfare. A 3.25% tax is added to the sale of all alcoholic beverages sold.

(xv) *Healthy Diné Tax Act Fund*

The Healthy Diné Tax Act Fund was established to fund community wellness projects. A 2% tax is added to the sale of food or beverage items considered to have minimal-to-no nutritional value.

(xvi) *Fire & Rescue Services Fund*

The Fire & Rescue Services Fund was established to provide funding for fire and rescue services throughout the Navajo Nation. Starting on October 1, 2018, 16.6666% of sales tax revenue, net of



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

statutory transfers to the Permanent Fund, Veterans Trust Fund, and Land Acquisition Fund will be deposited to this fund.

*Debt Service Fund Type*

Debt Service Funds are used to account for and report financial resources that are restricted to expenditures for principal and interest of long-term debt as follows:

(i) *FMIS Key Bank Loan Fund (Nonmajor Fund)*

The fund was established with an unsecured general obligation credit facility to maintain and upgrade the Nation's Financial Management Information System. The loan will be repaid with general funds.

(ii) *NTUA Key Bank Loan Fund (Nonmajor Fund)*

The Navajo Tribal Utility Authority (NTUA) Key Bank Loan Fund was established to provide funding for emergency services to residents of the Nation without access to water because of extended, extreme freezing temperatures on the Navajo Nation. The fund was established with an unsecured general obligation credit facility. The loan will be repaid with the proceeds received from NTUA.

*Permanent Fund Type*

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the Nation's programs. The Nation has the following permanent fund types:

(i) *Permanent Fund (Major Fund)*

The Permanent Fund was established to provide revenues in future years. The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum approved by the Navajo Nation Council and adopted by a two-thirds majority vote of registered Navajo voters. Through September 20, 2005, 12% of all unrestricted revenues of the Nation were required to be transferred, via statutory allocation, to the Permanent Fund. Beginning October 1, 2005, 95% of the fund's income is available to supplement operations of the Nation's government. Beginning October 1, 2006, 50% of the fund's income is available to be transferred to the Local Governance Trust Fund once a five-year spending plan is established.

(ii) *Chapter Government Nation Building Fund (Claims Fund) (Nonmajor Fund)*

The Chapter Government Nation Building Fund is used to account for assets budgeted for use on chapter projects. 95% of income earned on the assets is to be distributed to Navajo chapters for the benefit of chapter members.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

*Proprietary Funds*

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. The Nation utilizes the following proprietary funds:

*Enterprise Fund Type*

Enterprise Funds are used to report activity for which a fee is charged to external users for goods and services. The Nation utilizes the following enterprise funds:

(i) *Business and Industrial Development Fund (Nonmajor Fund)*

The Business and Industrial Development Fund was established to promote economic development through investment in, and loans to, entities that conduct business on the reservation. 8.3333% of sales tax revenue, net of statutory allocations to the Permanent Fund, Veterans Trust Fund, and Land Acquisition Fund are deposited to this Fund.

(ii) *Loan Fund (Nonmajor Fund)*

The Loan Fund is used to account for the loan programs that are administered by the Credit Services Department of the Division of Finance or the Veterans' Affairs Program of the Division of Human Resources.

(iii) *Employee Housing Fund (Nonmajor Fund)*

The Employee Housing Department maintains and rents 149 housing units to Nation employees. Monthly rental payments are automatically deducted from Nation employee paychecks and are expected to be sufficient to fund the operations of the program.

(iv) *Parks and Recreation Fund (Nonmajor Fund)*

The Parks and Recreation Fund is utilized to account for the scenic tour fees, gift shop charges, camping fees, and other charges associated with Nation parks and recreation areas. The largest of these parks is the Monument Valley Tribal Park. The fees collected are expected to be sufficient to fund the Parks and Recreation department operations.

(v) *Fish and Wildlife Fund (Nonmajor Fund)*

The Fish and Wildlife Fund was established to manage, conserve, and protect the Nation's fish, wildlife, and plant resources and their habitats. The fund is utilized to account for the fees collected from hunting, fishing, and other wildlife management activities.

(vi) *Navajo Nation Code Fund (Nonmajor Fund)*

The Navajo Nation Code Fund was established to account for the revenue generated from sale, reproduction, and transmission of the Navajo Nation Code and related expenses.

(vii) *Navajo Transit Fund (Nonmajor Fund)*

The Navajo Transit Fund was established to account for the revenue generated from fixed route transportation services for transporting passengers and their baggage, newspapers, and express mail, between points in New Mexico and Arizona. In addition, the fund accounts for charter transportation services for passengers and their baggage between points in Arizona and New

## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2019

Mexico and other points in Utah, Colorado, California, Nevada, Idaho, Oregon, Washington, Oklahoma, Texas, Kansas, Mississippi, Illinois, Arkansas, Tennessee, North Carolina, Virginia, Missouri, Louisiana, and the District of Columbia.

(viii) *Livestock Custody Fund (Nonmajor Fund)*

The Livestock Custody Fund was established to administer service fees under Inspection of Livestock provided from the Navajo Department of Resource Enforcement: to enhance methods of seizure of livestock; to safeguard the livestock industry, the livestock owner, and the Navajo Nation Government; to develop and maintain records for purposes of livestock tracking, animal identification, and ownership identification; to adhere to service charges and fees established by Navajo law; to initiate and establish a livestock identification program required by the U.S. government; and to collect penalties from violations of Navajo law regarding livestock.

(ix) *Fourth of July Celebration Fund (Nonmajor Fund)*

The Fourth of July Celebration Fund was established to provide a dedicated source of funds to the Annual Navajo Nation Fourth of July Celebration as a self-sustaining event. All sources of revenue from this event as well as expenses are recorded in this fund.

(x) *Annual Navajo Nation Fair Fund (Nonmajor Fund)*

The Annual Navajo Nation Fair Fund was established to provide a dedicated source of funds to the Annual Navajo Nation Fair as a self-sustaining event. All sources of revenue from this event as well as expenses are recorded in this fund.

(xi) *Tribal Ranch Fund (Nonmajor Fund)*

The Navajo Nation Tribal Ranch Fund was established to administer and regulate the Nation's tribal ranches specifically, ensuring the ranchers and lessees comply with U.S. Forest Service, Bureau of Land Management, adjoining states, and other governmental regulations and/or guidelines.

(xii) *Veterinary Medical Sales Fund (Nonmajor Fund)*

The Navajo Nation Veterinary Medical Sales Fund was established to enable the Nation's Veterinary and Livestock Program to provide low cost comprehensive veterinary services and interact with Federal and State Veterinary Agencies in accordance with the Nation's Emergency Response to a Foreign Animal Disease, the Livestock and Foreign Animal Disease Act of 2006, and the Nation's Veterinary Act of 2007.

(xiii) *Colorado Ranch Fund (Nonmajor Fund)*

The Colorado Ranch Fund was established to manage, conserve, and protect the Nation's fish, wildlife, and plant resources and their habitats on lands owned in Colorado. The fund is utilized to account for the fees collected from hunting, fishing, and other wildlife management activities at the Colorado Ranch.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

*Internal Service Fund Type*

Internal service funds are utilized to account for goods or services that are provided to the Nation's departments on a cost reimbursement basis. The Nation utilizes the following internal service funds:

(i) *Fleet Management Fund*

The Fleet Management department provides motor vehicle transportation services to the Nation's departments and programs, including those of certain affiliates. Fees collected from vehicle rentals and mileage are expected to be sufficient to sustain operations of the program.

(ii) *Duplicating Services Fund*

The Duplicating Services department provides duplicating services to the Nation's departments and programs, including those of certain affiliates. Fees collected from duplicating services are expected to be sufficient to sustain operations of the program.

(iii) *Office Supply Center Fund*

The Office Supply Center procures office supplies, which are sold to the Nation's departments and programs, including those of certain affiliates. Fees collected from the sale of supplies are expected to be sufficient to sustain operations of the program.

(iv) *Air Transportation Fund*

The Air Transportation department utilizes three aircraft to provide flight services to Nation employees and third parties working on Nation government business. Fees billed to Nation departments for individual flights are expected to be sufficient to support program operations and aircraft maintenance.

(v) *Group Health Self-Insurance Fund*

The Group Health Self-Insurance Fund is used to account for the accumulation of funds, which are expected to be used to pay for health insurance claims of the Nation and certain affiliates. Life insurance premiums of third-party providers are also paid from this fund. The majority of this fund's services are provided to departments and programs of the Nation's primary government.

(vi) *Property and Casualty Self-Insurance (Risk Management) Fund*

The Property and Casualty Self-Insurance (Risk Management) Fund is used to account for the accumulation of funds, which are expected to be used to pay for liability and property claims and related costs necessary to administer a comprehensive risk management program for the Nation and certain affiliates. The majority of this fund's services are provided to departments and programs of the Nation's primary government.

(vii) *Workers' Compensation Self-Insurance Fund*

The Workers' Compensation Self-Insurance Fund is used to account for the accumulation of funds, which are expected to be used to pay for workers' compensation claims of employees of the Nation and of certain affiliates. The majority of this fund's services are provided to departments and programs of the Nation's primary government.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

(viii) *Contingency Management Fund*

The Contingency Management Fund was established in 1996 through a transfer of General Fund amounts. The Contingency Management Fund is used to account for management of the Nation's risk of loss.

*Fiduciary Funds*

Fiduciary funds are utilized to account for assets held in a trustee capacity for others and, therefore, cannot be used to support the Nation's programs. Fiduciary funds are not classified as either major or nonmajor. The Nation uses the following fiduciary funds:

*Pension Trust Funds*

(i) *Retirement Fund*

The Retirement Fund includes the activities of the retirement plan for the Nation and certain affiliates. The plan covers all full-time employees. The provision for the retirement plan contribution is sufficient to cover the plan's normal cost and amortization of past service costs over 40 years. The policy is to fund pension costs accrued. Contributions are recognized when received and retirement benefits are recognized when paid.

(ii) *Deferred Retirement Fund*

The Deferred Retirement Fund includes the activities of the deferred retirement plan, which covers members of the Navajo Nation Council, the President, and the Vice President, and the deferred compensation plan, which covers employees who serve at the pleasure of the Navajo Nation Council, the President, and Speaker of the Council. The contribution to the fund is based upon a percentage of an official's compensation and is funded currently. The participants' deferred compensation benefit is their share of the market value of the fund.

(iii) *Nihibeeso 401(k) Fund*

The Nihibeeso 401(k) Fund includes the activities of the 401(k) retirement plan for the Nation and certain affiliates. Any employee of the Nation or participating affiliate over the age of 21 is eligible to participate in this plan. Contributions by the Nation vest after four years of service. Employees may contribute up to 16% of their compensation and the Nation will match 50% of the first 6% of the employee's contribution. Contributions are funded currently.

*Private-Purpose Trust Funds*

(i) *Handicapped Services Trust Fund*

The Handicapped Services Trust Fund is used to supplement programs and projects, which provide services to handicapped Navajo citizens. The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of registered Navajo voters. 95% of the income earned is available for the stated purpose; the remainder is to be reinvested as principal.

(ii) *Senior Citizens Services Trust Fund*

The Senior Citizens Services Trust Fund is used to supplement programs and projects, which provide services to Navajo senior citizens. The Navajo Nation Council resolution, that established

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of registered Navajo voters. 95% of the income earned is available for the stated purpose; the remainder is to be reinvested as principal.

(iii) *Vocational Education Trust Fund*

The Vocational Education Trust Fund is used to fund grants to Navajo students attending vocational education institutions and to apprentices and practitioners selected to participate in the Navajo Traditional Apprenticeship Project on an annual basis.

The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of registered Navajo voters. 4% of the previous year's market value of the fund is available for the stated purpose; the remainder is to be reinvested as principal.

(iv) *Navajo Academy Trust Fund*

The Navajo Academy Trust Fund is intended to be used by the Navajo Preparatory School to provide funds to upgrade classroom equipment and materials, to fund costs associated with new educational facilities, and to fund scholarships for Navajo Preparatory School graduates to pursue postsecondary education. The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority of registered Navajo voters. 4% of the previous year's market value of the fund is available for the stated purpose; the remainder is to be reinvested as principal.

(v) *Navajo Trust Fund*

The Navajo Trust Fund was established as a result of the exchange/sale of the former Phoenix Indian School property. The United States wanted to acquire private land adjacent to the Big Cypress National Preserve to be included in the National Wildlife Refuge System and offered in exchange for this property the former Phoenix Indian School property. Trust income may be used only for supplemental educational and child welfare programs, activities, and services to benefit the Nation, and the design, construction, improvement, or repair of related facilities.

(vi) *Sales Tax Trust Fund*

The Sales Tax Trust Fund is used to accumulate net sales tax revenue collected from retail establishments on the Navajo reservation. The net sales tax revenue collected from retail establishments is to be distributed to the specific Nation chapter in which the retail sale occurred, so long as that chapter is governance certified as defined by the Navajo Nation Local Governance Act. Net sales tax revenue collected from retail establishments where no governance certified chapter exists shall be distributed pursuant to a plan of operation developed by the Nation and approved by the Budget and Finance Committee of the Navajo Nation Council.

(vii) *Local Governance Trust Fund*

The Local Governance Trust Fund was established during 2001 with a \$2,400,000 appropriation from the Navajo Nation Council. The purpose of the Local Governance Trust Fund is to support the chapters of the Nation in the implementation of the Local Governance Act enacted by the Navajo Nation Council in 1998.



## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2019

(viii) *Veterans' Trust Fund*

The Veterans' Trust Fund is used to account for the accumulation of funds, which are expected to be used to pay for veterans' programs, projects, and services or activities, as well as survivors' benefits for the surviving spouses of deceased veterans. Beginning in fiscal year 2009, 4% of all unrestricted revenues is transferred, via statutory allocation, to the Veterans' Trust Fund. Beginning in fiscal year 2004, 4% of the average market value of the fund is available to be spent for the stated purpose; the remainder is to be reinvested as principal.

(ix) *Navajo Bennett Freeze Trust Fund*

The Navajo Bennett Freeze Trust Fund is used to record the disputed area receipts. The fund was established during 2011 with a deposit of \$5,700,000 that was disbursed out of an escrow from the U.S. Treasury. The funds from the escrow account are for the use and benefit of the Western Navajo Agency Chapters impacted by the Bennett Freeze.

**(d) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus, which reflects all long-term assets and liabilities, and the modified accrual budget basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are generally recorded when earned, except for taxes, natural resources, and right-of-way revenue, which are recognized when received, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Administrative overhead charges are included with direct expenses.

Governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual budget basis of accounting, which has been developed based upon U.S. generally accepted accounting principles, as modified by Navajo Nation Council resolutions and financial reporting practices. Under this basis of accounting, governmental fund revenues are recorded when susceptible to accrual, that is, both measurable and available to be budgeted to pay liabilities of the current period, except for taxes, natural resources and right-of-way revenue, which are recognized when received. Interest income generated by assets of the Grant Fund is recorded in the General Fund. Other financing sources include the proceeds of long-term debt and obligations under capital leases. Notes receivable from related enterprises are recorded as assets of the funds that financed the notes.

The Nation prepares its budget on the budgetary basis of accounting, which differs from the modified accrual budget basis of accounting. The difference between the budgetary basis and the modified accrual budget basis of accounting is that encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to a commitment of fund balance (modified accrual budget basis).

In applying the susceptible to accrual concept to Grant Fund revenue, the legal and contractual requirements of the individual programs are used as guidance. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met and the related expenditure has been incurred. Such expenditures must be expended for the specific purpose outlined in the grant before they are recognized.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

Grant Fund expenditures are subject to fiscal and/or program compliance audits by the grantors, which may result in disallowed program expenditures. Generally, such audits must commence within three years of the program's termination date. Expenditures disallowed as a result of such audits, if any, would require a General Fund appropriation.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses.

*Operating revenues* include activities that are generated through the entity's business activity. Examples include a) loan interest income; b) insurance premiums; c) gift shop charges; d) rental fees; and e) supply charges.

*Nonoperating revenues* include activities that have the characteristics of nonexchange transactions and primarily include interest and dividend income from investments.

*Operating expenses* include activities that have the characteristics of an exchange transaction, such as a) employee salaries, benefits, and related expense; b) cost of sales and services; c) insurance benefit payments; and d) depreciation expenses related to capital assets.

*Nonoperating expenses* include activities that have the characteristics of nonexchange transactions, such as interest on debt.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Nation's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources.

**(e) Statutory Allocations**

General Fund revenues are subject to statutory allocations to other funds and are recorded based on percentages established by the Navajo Tribal Code (the Code). The specific percentages are discussed in the Fund Financial Statements section of the notes to the basic financial statements.

**(f) Net Position Classification and Fund Balances**

In the government-wide financial statements, net position is classified as follows:

*Net investment in capital assets* represents the Nation's total investment in capital assets, net of outstanding debt related to those capital assets.

*Restricted net position* represents those operating funds on which external restrictions or restrictions imposed by law have been imposed that limit the purposes for which such funds can be used. *Restricted expendable* net position is resources that the Nation is legally or contractually obligated to spend in accordance with imposed restrictions. *Restricted nonexpendable* net position consists of funds in which third parties have stipulated that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income. The income generated from the principal may be expended or added to principal. The government-wide statement of net position reports restricted net position and net position restricted by enabling legislation as follows:



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

Restricted for claims and refunds	\$ 75,395,398
Restricted for future government operations	<u>2,492,385,236</u>
Total net position restricted by enabling legislation	<u>2,567,780,634</u>
Restricted for community and rural development	112,064,202
Restricted for economic development and loans	8,831,828
Restricted for education	74,441,073
Restricted for chapter activities	<u>58,500,400</u>
Total restricted net position	<u>\$ 2,821,618,137</u>

*Unrestricted net position* consists of those operating funds over which the Navajo Nation Council retains full control to use in achieving any of its authorized purposes.

In the fund financial statements, fund balances are classified depending on the relative strength of the spending constraints placed on the purposes for which resources can be used as follows:

(i) *Nonspendable Fund Balance*

This classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

(ii) *Restricted Fund Balance*

This classification includes amounts constrained to specific purposes externally imposed by creditors (such as through debt covenants) grantor and contributors, or laws or regulations of other governments, or through constitutional provisions, or by enabling legislation.

(iii) *Committed Fund Balance*

This classification includes amounts that can only be used for specific purposes, pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. In the case of the Nation, it is the Navajo Nation Council.

(iv) *Assigned Fund Balance*

This classification includes amounts that are constrained by the Nation's intent to be used for specific purposes, but neither restricted nor committed.

(v) *Unassigned Fund Balance*

This classification includes amounts that are available for any purpose; these amounts can be reported only in the Nation's General Fund.

The Nation typically uses restricted fund balance first, followed by committed resources, and then assigned resources before unassigned resources.

**(g) Budgetary Information**

Annually, a General Fund budget is adopted on a basis consistent with the budgetary basis of accounting. Budget requests are submitted so that a budget may be prepared. The budget is presented

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

to the Navajo Nation Council for review and a final budget must be prepared and adopted no later than September 30. All supplemental appropriations must also be approved by the Navajo Nation Council. The legal level of control is at the functional level. Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as committed fund balance.

**(h) Pooled Cash and Investments, Cash and Cash Equivalents, and Investments**

The Nation considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, short-term investments with an original maturity of three months or less at time of acquisition, and all amounts included in pooled cash accounts.

A pooled cash concept is used in maintaining certain cash accounts in the Nation's accounting records. Under this concept, cash is pooled for investment purposes in the General Fund and each fund has equity in the pooled amount. The Nation's pooled cash concept means bank accounts are not maintained for each of the individual funds.

Investment securities are reported at fair value. The Nation utilizes established quoted market prices and model indexes for determining the fair value of its equity and corporate debt securities, respectively. The Nation also holds various alternative investments in real estate and international equity funds, which are reported at the net asset value (NAV). The Nation utilizes the market values as reported by its fund managers. The net increase (decrease) in fair value of investments is reported as general revenue in the government-wide statements and as nonoperating revenue in the proprietary fund financial statements.

**(i) Capital Assets**

Capital assets, that include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Such assets are valued at historical cost, if purchased, or fair market value on the date donated, when acquired by gift. Major outlays for capital assets and improvements are capitalized as projects are constructed within the government-wide and proprietary fund financial statements.

No monetary values have been assigned to the interest of the Nation in ancestral lands, irrigation projects, mineral deposits, and a substantial portion of the cost of water wells located on reservation lands, buildings, utility systems, or other improvements, which have been provided or returned by the U.S. government or others under treaty obligations or contributed prior to 1951. Items of a capital nature contributed subsequent to 1951 are capitalized at fair value at the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of capital assets is provided by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Buildings and improvements	20 to 40 years
Equipment	3 to 15 years
Furniture and fixtures	7 years



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

When fixed assets are retired from service or otherwise disposed of, a gain or loss, if any, on disposal of assets is recognized.

**(j) *Unearned revenue***

Unearned revenue primarily represents amounts received from funding agencies that have been collected in advance of the revenue recognition criteria.

General Fund unearned revenue consists of amounts received under the Omnibus Public Land Management Act of 2009. It includes funding for programs, studies, and other activities by the Department of Interior and the Department of Agriculture. Title X, Part IV of the act is the Navajo Nation Water Rights Agreement (Agreement). The Agreement was executed by the Secretary of the Interior and the Nation on December 31, 2010 and instructs the United States to establish a water resources development fund specifically for the Nation. These funds, totaling \$50,000,000, will not be available for expenditure or withdrawal before December 31, 2019. Of the total, \$46,000,000 of cash and unearned revenue were excluded from the Nation's basic financial statements but had no impact to fund balances/net position or changes to fund balance/net position as of and for the period ending September 30, 2018. These cash and unearned revenue balances were corrected and recorded as of September 30, 2019.

**(k) *Compensated Absences***

The employees of the Nation are granted annual and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated annual leave. Employees are not paid for accumulated sick leave. All accumulated annual leave is accrued in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**(l) *Long-Term Liabilities***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the governmental fund financial statements, the proceeds of debt issued are reported as other financing sources. Repayment of long-term obligation principal and interest is recorded as an expenditure.

In the government-wide financial statements, bond discounts or premiums are capitalized and amortized over the term of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs other than prepaid insurance are reported as expenses.

**(m) *Deferred Inflows of Resources - Unavailable Revenue***

Deferred inflows of resources for grant revenues are not recognized until the related revenues become available. The Nation's availability period is 365 days under the modified accrual basis of accounting.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(n) Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(2) Pooled Cash and Investments, Cash and Cash Equivalents, and Investments**

A summary of cash and investments as of September 30, 2019 is as follows:

Cash, including money market accounts	\$ 335,431,263
Certificates of deposit	5,459,500
Government and federal agency obligations	1,308,212,690
Municipal bonds	7,583,064
Corporate bonds	842,218,630
Corporate obligations	74,212,425
Marketable securities	2,566,640,120
Mutual funds	232,212,884
Real estate funds	350,974,514
High yield fixed income funds	<u>19,119,767</u>
Total cash and investments	<u>\$ 5,742,064,857</u>
Government-wide financial statements (Exhibit A):	
Pooled cash and investments	\$ 988,527,853
Cash and cash equivalents	162,031,246
Investments	62,547,903
Restricted pooled cash and investments	3,145,622,035
Restricted cash and cash equivalents	30,810,794
Restricted investments	51,827,427
Fiduciary funds statement of net assets (Exhibit I):	
Pension trust funds:	
Cash and cash equivalents	27,274,506
Investments	1,022,165,215
Private-purpose trust funds:	
Cash and cash equivalents	53,540,185
Investments	<u>197,717,693</u>
	<u>\$ 5,742,064,857</u>



## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2019

#### **(a) Investment Policy**

The Nation's Investment Committee has established an investment policy to provide for the prudent management of invested funds except the Nihibeeso 401(k) Savings Plan fund for which the investments are directed by plan participants. The fundamental goal of the policy is to produce the maximum return possible while preserving the Nation's assets. Qualified investments under the investment policy include investments in domestic equity securities publicly owned and traded; fixed income securities; U.S. Treasury bills and notes and U.S. agency securities; investment in foreign debt and equity; corporate bonds generally with an S&P rating of A or better although high yield bonds that are rated less than investment grade are permitted in certain instances; certificates of deposit, provided such amounts are fully insured by the Federal Deposit Insurance Corporation (FDIC) or fully collateralized; repurchase agreements acquired under an Investment Committee approved master agreement; real estate; and alternative investments such as commingled funds of funds and investments in partnerships. All investments will be diversified to minimize risk.

Investments in natural resource properties, commodities, floating rate securities, equity securities not traded on a national exchange, short sales, warrants, and margin transactions are prohibited. In addition, investments in companies that are involved in litigation or major contractual disputes with the Nation are prohibited.

#### **(b) Custodial Credit Risk**

In the case of deposits, the custodial credit risk is the risk that in the event of a depository institution failure, the Nation's deposits may not be recovered. The Nation does not have formal deposit policies that limit its exposure to custodial credit risk. At September 30, 2019, the Nation's deposits were not exposed to custodial credit risk as uninsured or uncollateralized.

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Nation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Nation does not have specific policies regarding investment custodial credit risk. As of September 30, 2019, the Nation is not exposed to investment custodial credit risk as all of the Nation's investments are held in the Nation's name.

#### **(c) Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Nation. The Nation's investment policy states that it will minimize credit risk by the following:

- Limiting investments to the low risk types of securities
- Performing proper due diligence of investment managers
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

The following table provides information on the credit ratings associated with the Nation's investment in debt securities including pro rata share of mutual fund fixed income as of September 30, 2019:

Rating	Government and federal agency obligations	Municipal bonds	Corporate bonds	Corporate obligations	Institutional funds	Total
AAA	\$ 25,973,382	—	62,717,274	42,318,995	131,926	131,141,577
AA	721,191	3,661,189	28,769,624	9,403,020	—	42,555,024
A	—	3,387,719	386,393,931	3,531,994	—	393,313,644
BBB	1,391,558	534,156	324,768,689	1,694,727	235,173	328,624,303
BB	—	—	27,185,470	2,605,196	5,380,302	35,170,968
B	105,001	—	4,968,826	556,242	13,372,366	19,002,435
CCC	—	—	938,033	1,735,855	—	2,673,888
CC	—	—	23,852	1,040,426	—	1,064,278
D	—	—	—	448,220	—	448,220
Not rated	1,048,951	—	6,452,931	10,877,750	—	18,379,632
U.S. government guaranteed	1,278,972,607	—	—	—	—	1,278,972,607
	<u>\$ 1,308,212,690</u>	<u>7,583,064</u>	<u>842,218,630</u>	<u>74,212,425</u>	<u>19,119,767</u>	<u>2,251,346,576</u>

**(d) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Nation's investment policy states that it will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations. Operating funds will be invested primarily in short-term securities, money market mutual funds, or similar investment pools.

As of September 30, 2019, the Nation had the following investments and maturities:

Investment type	Fair value	Investment maturities			
		Less than 1 year	1–5 years	6–10 years	10 years +
Certificates of deposit	\$ 5,459,500	5,459,500	—	—	—
Government and federal agency obligations	1,308,212,690	730,244,386	134,869,321	86,931,782	356,167,201
Municipal bonds	7,583,064	—	3,586,738	1,048,416	2,947,910
Corporate bonds	842,218,630	310,581,219	295,751,408	112,195,901	123,690,102
Corporate obligations	74,212,425	—	20,567,369	2,612,718	51,032,338
Institutional funds	19,119,767	330,772	1,793,434	16,808,187	187,374
	<u>\$ 2,256,806,076</u>	<u>1,046,615,877</u>	<u>456,568,270</u>	<u>219,597,004</u>	<u>534,024,925</u>

**(e) Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributable to the magnitude of the Nation's investment in a single type of security. The Nation's investment policy prohibits ownership more than 2.5% of the outstanding common shares of any corporation. With the exception of the above limitation, the Nation

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

does not have formal deposit and investment policies that limit its exposure to concentrations of credit risk.

The Nation does not have any investments that represent greater than 5% of total investments with the exception of investments issued or explicitly guaranteed by the U.S. government and mutual funds.

**(f) Foreign Currency Risk**

The Nation's exposure to foreign currency risk derives from its positions in foreign currency denominated investments. The Nation's investment policy permits it to invest in foreign currency denominated investments, provided that the countries are in developed markets and the countries must be represented on the Europe, Australasia, and Far East Asia (EAFE) index. The Nation's exposure to foreign currency risk is as follows:

Country	Currency	Corporate bonds	Municipal bonds and corporate obligations	Government and federal agency obligations	Marketable securities	Total
Argentina	Peso	\$ 181,081	—	—	—	181,081
Australia	Dollar	1,490,303	—	—	3,614,554	5,104,857
Brazil	Real	2,704,348	—	—	—	2,704,348
Canada	Dollar	18,536,088	4,595,701	140,018	11,413,646	34,685,453
Cayman Islands	Dollar	—	1,459,568	—	—	1,459,568
Chile	Peso	1,055,125	—	—	—	1,055,125
China	Yuan	243,901	—	—	3,022,248	3,266,149
Colombia	Peso	946,196	—	—	10,626	956,822
Dominican Republic	Peso	369,877	—	—	—	369,877
EAFE	NA	—	—	—	29,730,333	29,730,333
Europe	Euro	48,903,881	43,554,329	703,897	387,801,465	480,963,572
Guatemala	Peso	250,313	—	—	—	250,313
India	Rupee	1,074,073	—	—	1,935,563	3,009,636
Indonesia	Rupiah	429,031	—	496,062	—	925,093
Israel	Shekel	103,504	—	—	—	103,504
Jamaica	Dollar	23,852	—	—	—	23,852
Japan	Yen	4,872,269	—	—	—	4,872,269
Malayasia	Ringgit	209,014	—	—	—	209,014
Mexico	Peso	3,964,595	—	380,191	—	4,344,786
Multi-National Agencies						
Region	NA	—	—	672,902	—	672,902
Norway	Krone	1,652,646	—	—	—	1,652,646
Panama	Balboa	442,025	—	314,608	—	756,633
Paraguay	Guarani	213,750	—	—	—	213,750
Peru	Inti	414,002	—	—	—	414,002
Singapore	Dollar	200,500	—	—	—	200,500
Thailand	Baht	200,698	—	—	—	200,698
		<u>\$ 88,481,072</u>	<u>49,609,598</u>	<u>2,707,678</u>	<u>437,528,435</u>	<u>578,326,783</u>



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(g) Pledged Securities**

As of September 30, 2019, the Nation pledged a \$5,459,500 certificate of deposit as security for debt of the Navajo Nation Hospitality Enterprise, a related party.

**(h) Fair Value Measurement**

The Nation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- *Level 1* inputs are quoted prices (unadjusted) for identical assets in active markets, accessible at the measurement date. Level 1 inputs include exchange markets, dealer markets, brokered markets, and principal-to-principal markets.
- *Level 2* inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active.
- *Level 3* inputs are unobservable inputs for an asset.

Investments that do not have a readily determinable fair value are recorded using net asset value (NAV). NAV is generally provided by the investment managers, but the Nation considers the reasonableness of the NAV, based on market information, to arrive at the fair value estimates for each investment.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

The Nation has the following recurring fair value measurements as of September 30, 2019:

	Fair value	Fair value measurement using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Investments held by the Nation:				
Certificates of deposit	\$ 5,459,500	5,459,500	—	—
Governmental and federal agency obligations	1,308,212,690	—	1,308,212,690	—
Municipal bonds	7,583,064	—	7,583,064	—
Corporate bonds	842,218,630	—	842,218,630	—
Corporate obligations	74,212,425	—	74,212,425	—
Mutual funds	232,212,884	232,212,884	—	—
Marketable securities	2,566,640,120	2,566,640,120	—	—
Total investments held by the Nation	\$ 5,036,539,313	2,804,312,504	2,232,226,809	—
	Fair Value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments measured at the NAV:				
Real estate funds (1)	\$ 350,974,514	—	45 to 90 days	Quarterly
High yield fixed income funds (2)	19,119,767	—	30 days	Monthly
Total investments measured at the NAV	370,094,281	\$ —		
Total investments held	\$ 5,406,633,594			

- (1) *Real estate funds.* This type includes three real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this type have been determined using the NAV per share of the partner's capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated.
- (2) *High yield fixed income funds.* This type includes one investment in fixed income funds that invest in high yield corporate and governmental obligations. The fair values of the investments in this type have been determined using the NAV per share of the partner's capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(3) Accounts and Notes Receivable**

The notes and accounts receivable in the governmental activities and fiduciary funds comprise the following as of September 30, 2019:

	<b>Governmental activities</b>		<b>Fiduciary</b>	
	<b>Restricted</b>	<b>Unrestricted</b>	<b>funds</b>	<b>Total</b>
Notes receivable:				
Permanent Fund	\$ 140,200,170	—	—	140,200,170
Chapter Government Nation				
Building Fund	7,688,228	—	—	7,688,228
Land Acquisition Fund	—	35,098,808	—	35,098,808
Scholarship Funds	4,834,731	—	—	4,834,731
Navajo Rehabilitation Trust Fund	3,160,293	—	—	3,160,293
Handicapped Services Fund	—	—	1,167,871	1,167,871
Senior Citizen Services Fund	—	—	1,002,397	1,002,397
Vocational Education Fund	—	—	1,166,844	1,166,844
Veterans' Trust Fund	—	—	4,981,343	4,981,343
NNGE note receivable	155,883,422	35,098,808	8,318,455	199,300,685
Sihasin Fund - NNGE and NTUA				
notes receivable	—	55,895,972	—	55,895,972
Receivable from Grantors:				
Grant Fund	40,110,369	—	—	40,110,369
Accounts receivable:				
General Fund	—	1,191,797	—	1,191,797
Grant Fund	148,167	—	—	148,167
Chapter Government Nation				
Building Fund	7,790	—	—	7,790
Office Supply Center	—	572,268	—	572,268
Group Health Self-Insurance Fund	2,610,017	—	—	2,610,017
Property and Casualty Self-Insurance				
Fund	4,120	—	—	4,120
Workers' Compensation Self-Insurance				
Fund	296,068	—	—	296,068
Fleet Management Fund	—	58,468	—	58,468
	<u>\$ 199,059,953</u>	<u>92,817,313</u>	<u>8,318,455</u>	<u>300,195,721</u>

**(a) Governmental Accounts Receivable**

Accounts receivable from grantors represent the majority of the governmental activities restricted accounts receivable balance at September 30, 2019.

**(b) Notes Receivable with Navajo Nation Gaming Enterprise**

Notes receivable in the governmental funds and private-purpose trust funds primarily represent loans to the NNGE, a related party, to fund construction of casinos.

On April 3, 2012, the existing separate notes receivables were consolidated, along with the extension of additional credit in the form of a construction draw down loan for the Twin Arrows Casino, near Flagstaff, Arizona. The total amount available for the consolidation and the construction drawn down



## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2019

loan is \$200,000,000. The note required interest-only payments from the closing date (April 3, 2012) to June 30, 2013. Thereafter, the loan requires interest and principal payments based on a 15-year amortization schedule with the remaining principal balance due at maturity (March 31, 2020).

In connection with the consolidated agreements above, the Nation has entered into an arrangement with NNGE whereby NNGE has granted a security interest in its cash balances to the Nation. The cash balances subject to this security agreement are not considered to be an asset of the Nation and have not been recorded on the Nation's financial statements.

NNGE reported to the Nation in the fall of 2013 that it would be unable to make debt service payments scheduled for December 31, 2013 and April 30, 2014. Consequently, a forbearance agreement was executed on December 11, 2013, whereby the Nation agreed to forbear enforcement of remedies through April 30, 2014. The forbearance agreement suspended quarterly principal payments during the forbearance period and reduced the base interest rate to 9%, payable from excess cash flow after paying all operating expenses. There was also additional interest due at a rate of 4% after NNGE made debt service payments on subordinate debt. Any interest that was not paid on a current basis was accrued as a liability of NNGE.

The forbearance agreement was amended on April 29, 2014, August 31, 2014, and December 31, 2014, to extend the forbearance through August 31, 2014, December 31, 2014, and March 31, 2015, respectively. On January 9, 2015, NNGE and the Nation agreed to a three-year extension of the forbearance agreement to December 31, 2017. Also, on January 9, 2015, the accrued but unpaid interest was added to the principal balance of the Loan. During the period beginning January 9, 2015 through the 24-month period commencing on the effective date, the outstanding balance will carry an interest rate of 8% per annum. For the 12-month period commencing at the beginning of the third year following the effective date, the outstanding balance will carry an interest rate of 8% per annum plus a contingent interest of 1% payable from available cash flow. Commencing on July 1, 2016, principal payments are due based on a 30-year amortization schedule. On January 1, 2018, the repayment terms of the Consolidated Note revert to the terms in the 2012 Credit Agreement if the forbearance agreement is not extended or the 2012 Consolidated Note is not refinanced. The 2012 Consolidated Note requires interest to be paid at a rate of between 10% to 13% based on the leverage ratio of NNGE; principal payments based on a 15-year amortization schedule; and has a maturity date of March 31, 2020. As of September 30, 2019, the principal balance is \$196,140,392.

On December 1, 2017 the Nation amended and restated the loan agreement with NNGE for an amount up to the outstanding principal amount but not to exceed \$208,759,393. The maturity of the note is 15 years after the effective date of December 1, 2017 with an option to renew for an additional 15 years. The interest rate of the loan will be a fixed rate of the 10-year gross annual average return of the Nation's investment portfolio (Master Trust) to be reset every ten years. The interest will be payable quarterly beginning December 1, 2017. Debt service will be based on a 30-year amortization schedule, commencing January 15, 2018.

In 2010, the Navajo Hopi Land Commission entered into an agreement with NNGE to fund the purchase of the land, which the Twin Arrows Casino project sits on for \$3,715,777 funded by the Navajo Nation Rehabilitation Trust Fund. Subsequently, the land was brought into Trust and ownership was transferred to the Navajo Nation. On January 9, 2015, the Navajo Hopi Land Commission agreed

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

to reset the amortization of the note. The note has a 30-year amortization with a 10% interest rate. The outstanding principal balance at September 30, 2019 is \$3,160,293.

**(c) Notes Receivable with NNGE and NTUA**

The notes receivable in the Sihasin Fund represents a loan to NNGE for the planning, development, and construction of the Twin Arrows Travel Center. The term of the note is 15 years at an interest rate of 1.5%. Repayment of the note will commence upon completion of the travel center. As of September 30, 2019, the balance is \$4,000,000.

The notes receivable in the Sihasin Fund also represents a loan to NTUA for the construction of utility infrastructure that was funded during fiscal years 2017 to 2019. Payments from May 2, 2018 through May 1, 2019 are interest only at 2.27%. Payments from May 2, 2019 to September 30, 2019 are interest only at 2.37%. As of September 30, 2019, the note balance is \$51,895,972.

**(d) Notes Receivable in Business-Type Activity Funds**

Notes receivable for business-type activities consist of the following as of September 30, 2019:

	<u>Principal balance</u>	<u>Allowance for doubtful accounts</u>	<u>Total</u>	<u>Portion due within one year</u>
Business industrial development fund:				
Big business loans	\$ 1,963,773	(1,835,713)	128,060	40,017
Small business loans	2,472,008	(2,452,289)	19,719	7,500
Micro loan program	141,600	(140,886)	714	714
	<u>4,577,381</u>	<u>(4,428,888)</u>	<u>148,493</u>	<u>48,231</u>
Loan fund:				
Home loans	5,650,323	(1,026,633)	4,623,690	962,640
Personal loans	515,652	(175,513)	340,139	155,042
Veterans' loans	613,119	(473,383)	139,736	139,736
	<u>6,779,094</u>	<u>(1,675,529)</u>	<u>5,103,565</u>	<u>1,257,418</u>
Business-type activities, note receivable, net	<u>\$ 11,356,475</u>	<u>(6,104,417)</u>	<u>5,252,058</u>	<u>1,305,649</u>

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(4) Capital Assets**

A summary of changes in capital assets for the year ended September 30, 2019 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Governmental activities:					
Capital assets not being depreciated:					
Purchased land	\$ 121,455,546	693,253	—	—	122,148,799
Construction in progress	30,645,455	55,754,194	—	(28,728,788)	57,670,861
Total capital assets not being depreciated	<u>152,101,001</u>	<u>56,447,447</u>	<u>—</u>	<u>(28,728,788)</u>	<u>179,819,660</u>
Capital assets being depreciated:					
Building and improvements	493,161,822	5,121,002	(51,213)	28,728,788	526,960,399
Equipment	87,901,948	5,610,037	(296,916)	—	93,215,069
Furniture and fixtures	7,120,130	101,829	(20,022)	—	7,201,937
Vehicles	117,834,297	16,080,471	(5,448,288)	—	128,466,480
Total capital assets being depreciated	<u>706,018,197</u>	<u>26,913,339</u>	<u>(5,816,439)</u>	<u>28,728,788</u>	<u>755,843,885</u>
Less accumulated depreciation:					
Building and improvements	118,516,176	18,121,447	(34,496)	—	136,603,127
Equipment	68,934,390	6,378,656	(277,077)	—	75,035,969
Furniture and fixtures	5,237,526	1,030,051	(20,022)	—	6,247,555
Vehicles	104,748,729	5,986,572	(4,827,557)	—	105,907,744
Total accumulated depreciation	<u>297,436,821</u>	<u>31,516,726</u>	<u>(5,159,152)</u>	<u>—</u>	<u>323,794,395</u>
Depreciable capital assets, net	<u>408,581,376</u>	<u>(4,603,387)</u>	<u>(657,287)</u>	<u>28,728,788</u>	<u>432,049,490</u>
Governmental activities, capital assets, net	<u>\$ 560,682,377</u>	<u>51,844,060</u>	<u>(657,287)</u>	<u>—</u>	<u>611,869,150</u>



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Business-type activities:					
Capital assets not being depreciated:					
Construction in progress	\$ 3,425,497	1,883,699	—	(138,125)	5,171,071
Land and land development costs	<u>739,419</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>739,419</u>
Total capital assets not being depreciated	<u>4,164,916</u>	<u>1,883,699</u>	<u>—</u>	<u>(138,125)</u>	<u>5,910,490</u>
Capital assets being depreciated:					
Buildings and improvements	27,532,190	239,145	(177,493)	138,125	27,731,967
Equipment	<u>2,039,317</u>	<u>94,675</u>	<u>(61,155)</u>	<u>—</u>	<u>2,072,837</u>
Total depreciable capital assets	<u>29,571,507</u>	<u>333,820</u>	<u>(238,648)</u>	<u>138,125</u>	<u>29,804,804</u>
Less accumulated depreciation for:					
Buildings	10,065,787	462,954	—	—	10,528,741
Equipment	<u>1,302,452</u>	<u>63,631</u>	<u>—</u>	<u>—</u>	<u>1,366,083</u>
Total accumulated depreciation	<u>11,368,239</u>	<u>526,585</u>	<u>—</u>	<u>—</u>	<u>11,894,824</u>
Depreciable capital assets, net	<u>18,203,268</u>	<u>(192,765)</u>	<u>(238,648)</u>	<u>138,125</u>	<u>17,909,980</u>
Business-type activities, capital assets, net	<u>\$ 22,368,184</u>	<u>1,690,934</u>	<u>(238,648)</u>	<u>—</u>	<u>23,820,470</u>

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 5,535,891
Economic development and planning	1,303,940
Community and rural development	2,896,657
Education and training	1,063,101
Natural resources	1,384,099
Public safety	7,786,768
Health and welfare	3,155,966
Culture and recreation	261,938
Transportation	4,439,859
Internal service funds	<u>3,688,507</u>
Total governmental activities depreciation expense	<u>\$ 31,516,726</u>
Business-type activities:	
Business and Industrial Development Fund	\$ 408,508
Parks and Recreation	113,471
Tribal Ranch Fund	<u>4,606</u>
Total business-type activities depreciation expense	<u>\$ 526,585</u>

**(5) Interfund Activity**

At September 30, 2019, the following funds have deficit net positions, as follows:

Fund	Cash and cash equivalents	Net position
Air Transportation Fund	\$ (3,145,943)	(3,138,040)
Fourth of July Celebration Fund	(31,840)	(56,444)
Veterinary Medical Sales Fund	56,310	(22,025)

To the extent that operations of these funds are not sufficient to cover the deficits, the General Fund or other funds will be required to provide financial support.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

Interfund transfers are summarized as follows:

	Transfers from				Purpose
	General Fund	Parks and Recreation Fund	Permanent Fund	Sihasin Fund	
Transfers to:					
Capital Outlay Match Fund	\$ 2,000,000	—	—	—	2,000,000 Required transfer
Water Rights Fund	2,000,000	—	—	—	2,000,000 Required transfer
Fish and Wildlife	1,010,035	—	—	—	1,010,035 Operating
Air Transportation Fund	282,991	—	—	—	282,991 Operating
Contingency Management Fund	1,804,165	—	—	—	1,804,165 Provide support
General Fund	—	—	19,170,000	19,276,459	38,446,459 Provide support
Annual Navajo Nation Fair Fund	—	1,900,000	—	—	1,900,000 Provide support
Total	\$ 7,097,191	1,900,000	19,170,000	19,276,459	47,443,650

**(6) Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of September 30, 2019 are as follows:

	Vendors	Salaries and benefits	Construction contract payables	Other	Total
Governmental activities:					
General Fund	\$ 9,690,518	10,061,704	419,467	4,500,517	24,672,206
Grant Fund	6,815,612	6,766,827	2,958,243	—	16,540,682
Permanent Fund	2,006,327	14,309	7,771	—	2,028,407
Aggregate nonmajor funds	2,984,737	1,111,967	336,353	141,592	4,574,649
Internal service funds	1,940,151	230,144	—	75,177	2,245,472
Total governmental activities	\$ 23,437,345	18,184,951	3,721,834	4,717,286	50,061,416
Business-type activities:					
Enterprise funds	\$ 579,788	236,414	41,574	754,003	1,611,779

**(7) Long-Term Liabilities**

On December 30, 2014, the Nation drew down \$6,300,000 on its unsecured general obligation credit facility with a bank. The note carries a tax-exempt fixed rate of 2.432% and a taxable fixed rate of 3.683%. The loan requires monthly payments, which total \$81,895. The final payment is due January 1, 2022. The note payable is recorded in the governmental activities section of the government-wide financial statements:

Note payable to bank – 3.683% and 2.432% (FMIS)	2,216,874
Total payable	\$ 2,216,874



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

Maturities of the note, which require future annual appropriation, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FMIS:			
2020	937,389	45,355	982,744
2021	961,321	21,423	982,744
2022	318,164	1,716	319,880
	<u>\$ 2,216,874</u>	<u>68,494</u>	<u>2,285,368</u>

On November 17, 2015, the Nation issued \$52,900,000 of general obligation bonds under Securities and Exchange Commission (SEC) Rule 144A. The bonds payable were issued to refinance a general obligation loan. The bonds payable carry tax-exempt coupon rates of 2.9% to 5.5%. The bonds require semiannual debt service payments beginning on November 2016. The bonds mature on December 1, 2020 to December 1, 2030.

Description of issue	Bonds issued	Outstanding balance	Range of interest	Scheduled maturities		First call
				First year	Last year	
General Obligation 2016 Series A	\$ 52,900,000	44,660,000	2.9%–5.5%	2020	2030	2016

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General Obligation Series A – 144A			
2020	2,940,000	2,110,356	5,050,356
2021	3,025,000	2,023,863	5,048,863
2022	3,110,000	1,980,000	5,090,000
2023	3,235,000	1,855,600	5,090,600
2024	3,365,000	1,726,200	5,091,200
2025–2029	19,585,000	5,871,752	25,456,752
2030–2031	9,400,000	782,376	10,182,376
	<u>\$ 44,660,000</u>	<u>16,350,147</u>	<u>61,010,147</u>

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

Changes in long-term liabilities for the year ended September 30, 2019 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Notes payable	\$ 3,130,937	—	914,063	2,216,874	937,389
Bonds payable	47,515,000	—	2,855,000	44,660,000	2,940,000
Bond premium	1,876,330	—	223,710	1,652,620	223,710
Compensated absences	14,754,666	14,075,589	13,627,720	15,202,535	13,627,720
Net pension liability	138,025,210	61,799,396	69,720,717	130,103,889	—
Claims and judgments	7,796,239	35,833,724	33,038,545	10,591,418	8,106,161
Governmental activities long-term liabilities	<u>\$ 213,098,382</u>	<u>111,708,709</u>	<u>120,379,755</u>	<u>204,427,336</u>	<u>25,834,980</u>
	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Business-type activities:					
Compensated absences	\$ 232,041	207,088	195,382	243,747	243,747
Net pension liability	2,625,550	174,328	196,673	2,603,205	—
Business-type activities long-term liabilities	<u>\$ 2,857,591</u>	<u>381,416</u>	<u>392,055</u>	<u>2,846,952</u>	<u>243,747</u>

There were no long-term liabilities recorded in the General Fund, Grant Fund, or the Permanent Fund. The notes payable, bonds payable, and net pension liability in governmental activities will be funded through the General Fund. Compensated absences and claims and judgments in governmental activities will be funded through the General Fund and Internal Service Funds.

**(8) Retirement Plans**

The Nation has implemented GASB Statement No. 68, *Accounting and Reporting for Pensions* (GASB Statement No. 68), which requires that employers report a net pension liability (NPL) and related pension expense as determined by the plan under the requirements contained in GASB Statement No. 67.

The Nation has implemented GASB Statement No. 67, which specified the required approach to measuring the pension liability and required plans to calculate a NPL to be measured as the total pension liability less the amount of the pension plan's fiduciary net position.

GASB Statement 68 does not affect the way that a government may choose to fund their pension obligations. While GASB Statement No. 68 changes the amount of the pension liability that is reported on the financial statements, governments may continue to fund their plan by calculating an actuarially

## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2019

determined contribution and measuring their funded status as it relates to that actuarially determined contribution. GASB Statement No. 68 requires certain disclosures if an actuarially determined contribution has been calculated. The disclosures, which include schedules presenting the actuarially determined contribution, the amount of those contributions recognized by the plan, the difference between the two amounts, the amount of covered-employee payroll, and the contributions as a percentage of covered-employee payroll are included as Required Supplementary Information and Notes to Required Supplementary Information.

In order to provide the necessary disclosures that are required under the various GASB Statements, the disclosures below are separated into the following two sections:

- The first section offers a description of the plan.
- The second section provides information regarding the pension plans that are required by GASB Statement Nos. 67 and 68 – changes in net pension liability, balances of deferred pension outflows of resources and deferred pension inflows of resources (including prospective schedules of amortization of the deferred outflows and inflows), and the calculation of pension expense for the year.

#### 1. Disclosure about the Defined-Benefit Retirement Plan

This section provides the disclosures about the defined-benefit retirement plan required by GASB Statement No. 67, including the plan description, benefits, and membership at September 30, 2019.

##### *Plan Description*

The Nation has established an agent, single-employer defined-benefit retirement plan (the Plan) for all employees of the Nation. All full-time, permanent employees over the age of 21 are eligible to participate in the Plan. Benefits vest after four years of service. Tribal participants who retire at or after the age of 60 (55 for Law Enforcement) with four years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of the average monthly salary for each month of their credited service. The Plan also provides death and disability benefits.

The Nation is the fiduciary for the Plan's assets. All assets of the Plan, including those contributed by the tribal entities, are reported in the Retirement Fund in the accompanying financial statements. The Plan document delegates the authority to establish and amend benefit provisions to the Navajo Nation Budget and Finance Committee upon recommendation of the Navajo Nation Retirement Committee. Separate stand-alone financial statements are not issued for the Plan.

At September 30, 2019, the Nation reported the following membership in the Plan:

		<u>Total</u>
Retired participants	\$	4,254
Terminated vested participants		4,701
Active participants		<u>4,489</u>
Total covered employees	\$	<u>13,444</u>



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The contribution rate for the Plan's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The Plan is entirely employer funded. For the year ended September 30, 2019, the required contribution rate approximated 21% of covered payroll.

**2. Employer and Defined-Benefit Plan Reporting of Pension Liabilities, Pension Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension Plans as required by GASB Statement Nos. 67 and 68**

This section includes the information that is required to be reported by employers per GASB Statement No. 68. It reports information regarding the calculation of the Nation's net pension liability, including changes during the measurement period in both total pension liability and net position; balances in the various components of deferred pension outflows of resources and deferred pension inflows of resources and the amounts to be recognized in pension expense in future periods; and the calculation of pension expense.

This section also includes the information that is required to be presented by GASB Statement No. 67, reporting on the financial statements for the defined-benefit plans for the year ended September 30, 2019. Separate valuations were performed by the Nation's actuary to calculate the total pension liability in accordance with this standard for financial reporting by the pension plan and calculates the net pension liability. The plan elected to base the valuations on plan data as of October 1, 2018 and used update procedures to roll forward the total pension liability to the pension plan's fiscal year-end of September 30, 2019. In addition to presenting the NPL, this section also includes information on the actuarial assumptions used in the valuation, the discount rate that was used to calculate the NPL, and disclosures as to the sensitivity of the NPL to changes in the discount rate.

**(a) Reporting Date, Measurement Date, and Valuation Date**

Net pension liability, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the Nation's reporting date (September 30, 2019) and for the Nation's reporting period (the fiscal year ended September 30, 2019). These amounts are measured as of the measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date as of September 30, 2019, the Nation has chosen to use the end of the current fiscal year-end as the measurement date, and the fiscal year ended September 30, 2019 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and one day earlier than the employer's most recent fiscal year-end. The Nation has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of October 1, 2018, to the measurement date of September 30, 2019.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(b) Net Pension Liability**

The net pension liability is measured as the portion of the actuarial present value of projected benefit payments that is attributable to past periods of employee service, net of the pension plan's fiduciary net position. The changes in the components for the measurement period are as follows:

		Increase (decrease)	
	Total pension liability	Plan fiduciary net position	Net pension liability
	(a)	(b)	(a) – (b)
Balance at September 30, 2018	\$ 1,063,212,242	922,561,419	140,650,823
Changes for the year:			
Service cost	18,164,581	—	18,164,581
Interest	66,661,269	—	66,661,269
Differences between expected and actual experience	(6,961,780)	—	(6,961,780)
Contributions – employer	—	36,588,832	(36,588,832)
Investment income (loss) net of investment expense	—	28,201,947	(28,201,947)
Benefit payments, including refunds of employee contributions	(43,941,249)	(43,941,249)	—
Administrative expenses	—	(1,184,367)	1,184,367
Other changes	(22,165,376)	—	(22,165,376)
Net changes	11,757,445	19,665,163	(7,907,718)
Balance at September 30, 2019	\$ 1,074,969,687	942,226,582	132,743,105

Additional information regarding the changes in the net pension liability for the year ended September 30, 2019 can be found in the Required Supplementary Information immediately following these notes to the financial statements.

**(c) Deferred Pension Outflows of Resources and Deferred Pension Inflows of Resources**

Most changes in the net pension liability are included in pension expense during the year of change. Changes resulting from current period service cost, interest on the total pension liability, and changes in benefit terms are required to be included in pension expense immediately. Similarly, projected earnings on the pension plan's investments are also required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net position liability are required to be included in pension expense over the current and future periods, depending on the nature of the change.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

The effect of the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that these changes result from use of estimates, where probabilities of events range from zero to 100%, while actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will occur with every measurement that incorporates future events.

The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that pensions arise from an exchange between employer and employee of salaries and benefits for employee service each period and that these transactions and related pension measurements are viewed in the context of ongoing, career-long employment relationships.

As of September 30, 2019, the Nation reported the following deferred pension outflows of resources and deferred inflows of resources:

Source	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ —	(5,639,404)
Changes of assumptions	—	(14,116,946)
Net differences between projected and actual earnings on plan investments	—	(14,842,023)
Total	\$ —	(34,598,373)

The deferred pension outflows of resources and deferred pension inflows of resources, as discussed above, will be recognized in pension expense as follows:

Year ending September 30	Amount
2020	\$ (25,278,850)
2021	(16,342,298)
2022	908,168
2023	6,114,607
Total	\$ (34,598,373)



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(d) Pension Expense**

As discussed above, most changes in the net pension liability are included in pension expense in the year of change, including changes resulting from current period service cost, interest on the total pension liability, change in benefit terms, and projected earnings on the pension plan's investments. Other changes in net pension liability are recorded as deferred pension outflows of resources and deferred pension inflows of resources and included in pension expense on a systematic and rational manner over current and future periods.

Pension expense for the year ended September 30, 2019, is as follows:

Service cost	\$ 18,164,581
Interest on the total pension liability	66,661,269
Differences between expected and actual experience	(3,584,525)
Changes of assumptions	7,469,525
Projected earnings on pension plan investments	(58,774,990)
Differences between projected and actual earnings on plan investments	(2,962,109)
Pension plan administrative expense	1,184,367
Total pension expense	<u>\$ 28,158,118</u>

**(e) Actuarial Methods and Assumptions**

Methods and assumptions used to determine pension expense and total pension liability are based on a valuation date of September 30, 2019. The chart below summarizes these methods and assumptions.

Valuation date:	Actuarially determined contribution rates are calculated as of September 30, one year prior to the end of the fiscal year in which contributions are reported
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Asset valuation method	Fair value
Actuarial assumptions:	
Salary increases	Age-graded scale 2.0%–7.0%
Investment rate of return	6.4%
Retirement age	Group-specific rates based on age ranging from 45–75, with 100% by 75 for regular employees, 100% by age 70 for commissioned law enforcement and 100% upon reaching 75% benefit accrual cap.
Mortality:	PUB-10 benefits weighted, with specific tables for females and males, adjusted for plan specific retiree experience from 2013-2017 by a factor of 1.7 for females and 1.2 for males.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

Additional information regarding changes in the net pension liability for the year ended September 30, 2019 can be found in the Other Supplementary Information (Unaudited) section immediately following these notes to the financial statements.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2019 (see the discussion of the pension plan's investment policy):

<b>Asset class</b>	<b>Target allocation</b>	<b>Long-term expected real rate of return</b>
Domestic equity	41.00 %	6.93 %
International equity	12.00	8.84
Fixed income	22.00	4.44
Real estate	10.00	6.47
Global tactical asset allocation	15.00	6.00

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 2.5%.

**(f) Discount Rate**

The discount rate used to measure the total pension liability was 6.4%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made at the actuarially determined contribution rates. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses for the fiscal year ended September 30, 2019 was 3.10%. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(g) Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Nation, calculated using the discount rates determined above, as well as what the Nation's net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<b>1 percentage decrease (5.4%)</b>	<b>Current discount rate (6.4%)</b>	<b>1 percentage increase (7.4%)</b>
Nation's net pension liability	\$ 268,885,226	132,743,105	19,253,079

**(h) Nihibeeso Retirement Savings Plan**

The Nation sponsors the Nihibeeso Retirement Savings Plan, a defined-contribution 401(k) plan available to substantially all employees in which the employer matches 50% of the first 6% of salary contributed by the participant. Matching contributions become fully vested after four years of service. The employer may elect to discontinue matching contributions upon notice to participants; the employer also has the right to terminate the plan. Employer contributions were \$2,599,887 and employee contributions were \$6,470,443 for the year ended September 30, 2019.

**(9) Tax Revenue**

During 1978, the Code was amended by the Navajo Nation Council to provide for taxes on those owning property rights on the Navajo Reservation (possessory interest tax), or doing business on the Navajo reservation (business activity tax). The U.S. Supreme Court affirmed the legality of the taxes in *Kerr McGee Corporation vs. Navajo Tribe of Indians*, on April 16, 1985. Significant provisions of these taxes are summarized as follows:

**(a) Business Activity Tax**

The business activity tax is imposed on those "engaged in trade, commerce, manufacture, power production, or any other productive activity, whether for profit or not, wholly or in part within the Navajo Nation." The tax is assessed on the gross receipts from the sale of services performed and goods produced within the Nation. According to the Navajo Nation Tax Code, the tax rate shall not be less than 4% or more than 8%. The rate in effect from the initial imposition of the tax through September 30, 2019 has been 5%.

Beginning January 1, 2001, any amounts on which the Navajo sales tax has been paid may be excluded from gross receipts.

**(b) Possessory Interest Tax**

The possessory interest tax is imposed on owners of property rights under leases granted by the Nation, including the rights to the leased premises and underlying natural resources. The tax is assessed against the value of the possessory interest, excluding leasehold improvements. According to the Code, the annual tax rate shall not be less than 1% or more than 10%. The rate in effect from the initial imposition of the tax through September 30, 2019 has been 3%.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

**(c) Fuel Excise Tax**

The fuel excise tax is assessed on each gallon distributed for sale within the Nation and used for the powering of motor vehicles. These funds are to be used to meet highway funding regulations and design standards, to improve overall road systems, to improve safety, and to meet community and economic development needs. According to the Code, the annual tax shall not be less than 10 cents per gallon or more than 25 cents per gallon. The tax rates in effect at September 30, 2019 are 18 cents per gallon of gasoline and 25 cents per gallon of diesel fuel.

**(d) Oil and Gas Severance Tax**

Effective October 1, 1985, a tax was imposed on those who are engaged in the severance of oil and natural gas products within the Nation. The taxes are assessed on the value of the products severed. According to the Code, the annual tax rate shall not be less than 3% or more than 8%. The rate in effect from the imposition of the tax through September 30, 2019 has been 4%.

**(e) Sales Tax**

Effective April 1, 2002, a sales tax was imposed on "those engaged in the sale or leasing of real or personal property of any kind, the sale of services of any kind, and any other productive activity of any kind, whether for profit or not, conducted wholly or partially within the Navajo Nation." According to the Code, the annual tax rate shall not be less than 2% or more than 6%. The rate in effect at September 30, 2019 is 6%.

A majority of registered voters of any governance-certified chapter may enact an ordinance imposing an additional tax rate in addition to the rate approved by the Navajo Tax Commission. This additional rate may be from 0.25% to 4%.

**(f) Tobacco Products Tax**

The tobacco products tax is assessed on all tobacco products sold within the Nation. The tax rate in effect since its inception in 1996 ranges from 5 cents to 11 cents per cigarette or cigar and ranges from 2.8 cents to 22.3 cents per ounce on other types of tobacco products.

**(g) Hotel Occupancy Tax**

The hotel occupancy tax is assessed on hotel room rentals within the Nation. The funds are to be used to improve tourism in the Nation. The tax rate in effect during the year ended September 30, 2019 was 8%.

**(h) Junk Food Tax**

Effective October 1, 2014, a junk food tax was imposed on applicable gross receipts from all minimal-to-no nutritional value food items sold. The tax will be reviewed by the Navajo Nation Council at the end of calendar year 2020 for extension. The rate from the imposition of the tax through September 30, 2019 has been 2%.

**(i) Alcohol Tax**

Effective October 1, 2015, a tax was imposed on any retailer or distributor of alcohol products within the Nation. The funds are to be used to improve public safety. The annual tax rate shall not be less

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

than 2% or more than 6%. The rate in effect from the imposition of the tax through September 30, 2019 was 3.25%.

Tax revenues for the year ended September 30, 2019 are summarized as follows:

	General Fund	Navajo Tourism Fund	Navajo Roads Fund	Healthy Dine Act Fund	DPS-Alcohol Tax Fund	Tax Suspense Fund	Total
Business activity tax	\$ 6,737,174	—	—	—	—	137,493	6,874,667
Possessory interest tax	23,774,109	—	—	—	—	485,186	24,259,295
Fuel excise tax	—	—	11,324,169	—	—	231,105	11,555,274
Oil and gas severance tax	4,901,579	—	—	—	—	100,032	5,001,611
Sales tax	46,671,156	—	—	—	—	1,224,070	47,895,226
Tobacco products tax	335,246	—	—	—	—	6,842	342,088
Hotel occupancy tax	—	1,433,387	—	—	—	29,253	1,462,640
Junk food tax	—	—	—	1,687,626	—	34,441	1,722,067
Alcohol tax	—	—	—	—	97,014	1,980	98,994
Total tax revenue	\$ 82,419,264	1,433,387	11,324,169	1,687,626	97,014	2,250,402	99,211,862

The Nation also records net sales tax revenue collected from retail establishments on the Navajo reservation in the Sales Tax Trust Fund. This fund reported \$13,308,265 in tax revenue for the year ended September 30, 2019.

The Tax Commission's fiscal policy provides that 2% of tax collections be held for the potential payment of refunds for overpayment of tax, if any, which is recognized as revenue in the Tax Suspense Fund in the accompanying financial statements.

**(10) Commitments and Contingent Liabilities**

The following are the significant financial commitments and contingent liabilities of the Nation at September 30, 2019, in addition to the items further described in notes 2, 7, 8, 11, and 12:

**(a) Guarantor**

The Nation has guaranteed an obligation of NTUA for a note payable to Economic Development Administration and Rural Economic and Community Development in the amount of \$124,533.

**(b) Various Taxes**

The liabilities of the Nation for various taxes imposed with respect to activities of the Nation off the reservation have not yet been conclusively established. Legal counsel for the Nation is unable to predict or express an opinion as to the ultimate liability, if any, of the Nation for any such taxes.

**(11) Litigation**

**(a) General**

In the normal course of operations, the Nation is a party to various claims and litigation, some of which have been referred to its insurance carriers. Included in these claims are matters involving the Hopi Tribe; damage suits against the Nation for alleged actions of its officials and employees; actions



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

resulting in claims for compensation and/or destruction of property; and various other matters. Except for matters related to the Hopi Tribe, after consultation with outside legal counsel and the attorney general of the Nation, it is not possible to ascertain what ultimate liability, if any, the Nation may have as a result of the various claims. The Nation has, and will, continue to vigorously litigate these matters at both the trial and appellate court levels.

**(b) Matters Related to Grants**

The Nation received notification of potential cost disallowances related to several grants. Cost disallowances could result from these notifications and subsequent proceedings. Management does not believe the potential settlements will be material to the financial statements.

**(c) Unasserted Claims**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. In certain instances, grantor agencies have questioned such costs, to which the Nation responded

**(12) Risk Management**

The Nation is exposed to various risks of loss related to torts and civil rights; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and nonemployees; and natural disasters. The Navajo Nation Risk Management Department was established to manage, control, and minimize this risk. Through Risk Management, the Nation and certain enterprises of the Nation finance their uninsured risk of loss. This activity is accounted for in the Property and Casualty Self-Insurance (Risk Management) Fund, an internal service fund, in the accompanying financial statements. Under this program, the Risk Management Pool provides coverage for up to a maximum of \$500,000 for each incident. Risk Management purchases commercial insurance for claims in excess of coverage provided by the Risk Management Pool. Claims payable amounts have been estimated based upon a review of open claims and an estimate of unreported claims.

The Nation and certain enterprises of the Nation have established a risk management plan codified under the Navajo Nation Code for workers' compensation. The activity is accounted for in the Workers' Compensation Self-Insurance Fund, an internal service fund, in the accompanying financial statements. During the year ended September 30, 2019, premiums of \$3,261,143 were paid into the fund to pay claim amounts and administrative costs. Claims payable amounts are estimated by the Nation based upon a review of open claims and an estimate of unreported claims.

The Nation and certain enterprises of the Nation have established an employee benefits program for health insurance. The activity is accounted for in the Group Health Self-Insurance Fund, an internal service fund, in the accompanying financial statements. Premiums are paid directly to a third-party administrator. The third-party administrator utilizes the premiums to pay claims and maintains excess premium payments as a reserve for future claims. An excess coverage insurance policy covers claims in excess of \$600,000. Claims payable amounts are estimated by the third-party administrator based upon a review of open claims and an estimate of unreported claims.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

The amounts and changes in the Nation's Risk Management program claims payable for the years ended September 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
<b>Property and Casualty Self-Insurance (Risk Management)</b>		
Fund:		
Claims payable, beginning of year	\$ 1,622,225	2,400,427
Current year claims and changes in estimates	3,385,220	2,407,406
Claim payments	<u>(3,204,898)</u>	<u>(3,185,608)</u>
Claims payable, end of year	<u>\$ 1,802,547</u>	<u>1,622,225</u>
<b>Workers' Compensation Self-Insurance Fund:</b>		
Claims payable, beginning of year	\$ 303,614	303,614
Current year claims and changes in estimates	1,548,949	1,859,745
Claim payments	<u>(1,548,949)</u>	<u>(1,859,745)</u>
Claims payable, end of year	<u>\$ 303,614</u>	<u>303,614</u>
<b>Group Health Benefit Self-Insurance Fund:</b>		
Claims payable, beginning of year	\$ 5,500,000	13,500,000
Current year claims and changes in estimates	27,579,998	31,041,345
Claim payments	<u>(27,079,998)</u>	<u>(39,041,345)</u>
Claims payable, end of year	<u>\$ 6,000,000</u>	<u>5,500,000</u>

**(13) Subsequent Events**

**Pandemic Response:**

On March 13, 2020, the Nation declared a public health emergency related to the novel coronavirus (COVID-19) pandemic. In response to the pandemic and in conjunction with Federal and State guidelines, the Tribe and its businesses have taken steps to protect its citizens, employees, customers, and the public at large by taking the following actions:

- Suspending or reducing programs deemed to be non-essential.
- Expanded or revised essential programs to meet the changing needs of our citizens.

The duration and magnitude of the impact of the novel coronavirus and resulting disruption to the Nation's operations is not quantifiable. It is believed by management that the above actions will have a significant financial impact on the Nation, which may include:

- A reduction of tax revenues from businesses that are temporarily closed or suffering from reduced demands given shelter-in-place orders.
- Changes to the Nation's program expenditures.
- Increased costs associated with unemployment benefits reimbursements owed to states.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2019

The Nation intends to pursue all Federal resources available to Tribal governments to mitigate the impact of the financial matters noted above.

**NNGE Note Receivable:**

NNGE reported to the Nation in May 2020 that it would be unable to make a debt service payment scheduled for June 30, 2020 until such time as NNGE and the Nation are able to quantify available funding sources to cover operating expenses. The Nation modified the loan agreement with NNGE to suspend and defer debt service payments until December 31, 2020 and agreed to allow the gaming distribution set-aside to be used to fund the debt service payment due June 30, 2020. In July 2020, NNGE requested permission to use the annual gaming distribution set-aside payment for operations. Consequently, a limited forbearance agreement will be executed, whereby the Nation will agree to forbear enforcement remedies through 2020 or the early part of 2021.

**Navajo Generating Station (NGS) Closure:**

NGS, a 2.25-gigawatt coal-fired power plant located on the Nation, ceased operations in November 2019. The Nation receives a significant portion of its General Fund revenue from coal supplied to NGS. Mining revenue represented approximately 23% of General Fund revenue in fiscal year 2019. In anticipation of this closure, the Nation reduced its General Fund coal revenue projections by approximately 44%. These revised projections were utilized in the Nation's fiscal year 2020 budget.

## THE NAVAJO NATION

## General Fund

Schedule of Revenues, Expenditures, and Changes in  
Fund Balance – Budget to Actual – General Fund

Year ended September 30, 2019

	Original budget	Final budget	Actual (budgetary basis)	September 30, 2019 Designated fund balance carryover	Budget variance favorable (unfavorable)
<b>Revenues</b>					
Natural resource revenue:					
Oil and gas	\$ 27,153,000	27,153,000	27,619,850	—	466,850
Mining	51,369,000	51,369,000	63,171,380	—	11,802,380
Tax revenue, net (note 10)	61,519,000	61,519,000	82,419,264	—	20,900,264
Land, buildings, business site, and right-of-way revenue	61,929,000	61,929,000	67,400,019	—	5,471,019
Interest and dividends	2,900,000	2,900,000	27,007,490	—	24,107,490
Net increase in fair value of investments	—	—	2,132,354	—	2,132,354
Other revenue	900,000	900,000	6,781,565	—	5,881,565
Statutory allocation to permanent fund	(24,692,000)	(24,692,000)	(33,183,831)	—	(8,491,831)
Statutory allocation of current year revenues	(12,346,000)	(12,346,000)	(35,727,011)	—	(23,381,011)
Total revenues	168,732,000	168,732,000	207,621,080	—	38,889,080
<b>Expenditures</b>					
General government	93,095,541	127,431,486	89,967,165	2,813,970	34,650,351
Economic development and planning	5,953,506	6,934,221	4,752,532	—	2,181,689
Community and rural development	34,164,709	42,210,845	34,433,528	540,820	7,236,497
Education and training	22,851,921	33,786,554	19,297,818	3,058,320	11,430,416
Natural resources	20,543,679	21,448,152	19,211,807	—	2,236,345
Public safety	8,592,916	8,808,043	8,306,087	—	501,956
Health and welfare	16,049,963	19,520,543	15,572,492	1,182,100	2,765,951
Culture and recreation	1,053,821	1,281,180	1,136,045	—	145,135
Total expenditures	202,306,056	261,421,024	192,677,474	7,595,210	61,148,340
<b>Other financing sources (uses)</b>					
Transfers	3,428,000	3,428,000	31,349,268	—	27,921,268
Total other financing uses	3,428,000	3,428,000	31,349,268	—	27,921,268
Net change under budgetary basis	\$ (30,146,056)	(89,261,024)	46,292,874	(7,595,210)	5,662,008
Reconciliation of budgetary basis net change to net change from schedule 6:					
Less beginning encumbrances			\$ (15,975,458)		
Add ending encumbrances			13,539,600		
Modified accrual budget net change in fund balance			\$ 43,857,016		

See accompanying independent auditors' report.



## THE NAVAJO NATION

## Pension Other Supplementary Information

Year ended September 30, 2019

## Schedule of Changes in the Net Pension Liability and Related Ratios (dollars in thousands) –

(Unaudited Other Supplementary Information)

	2019	2018	2017	2016	2015	2014	2013	2012
Total pension liability:								
Service cost	\$ 18,165	15,912	13,780	13,267	12,939	14,222		
Interest	66,661	64,519	63,374	60,576	57,582	54,812		(Historical information prior to implementation of GASB 67 and 68 is not required)
Changes of benefit terms	—	—	—	—	302	5,300		
Differences between expected and actual experience	(6,962)	(4,865)	2,672	1,507	4,911	—		
Changes of assumptions	(22,165)	—	61,633	—	—	—		
Benefit payments, including refunds of member contributions	(43,941)	(40,689)	(38,706)	(34,170)	(31,180)	(28,415)		
Net change in total pension liability	11,758	35,077	104,753	41,210	44,554	45,919		
Total pension liability – beginning	1,063,212	1,028,135	923,382	882,172	837,618	791,699		
Total pension liability – ending (a)	1,074,970	1,063,212	1,028,135	923,382	882,172	837,618		
Plan fiduciary net position:								
Contributions – employer	36,589	38,770	42,920	46,473	49,975	47,750		
Contributions – member	—	—	—	—	—	—		
Net investment income	28,202	80,052	98,506	72,162	(8,703)	63,712		
Benefit payments, including refunds of member contributions	(43,941)	(40,689)	(38,706)	(34,170)	(31,179)	(28,415)		
Administrative expense	(1,184)	(1,146)	(1,521)	(1,092)	(1,157)	(1,114)		
Other	—	—	—	—	—	—		
Plan fiduciary net position – beginning	19,666	76,987	103,199	83,373	10,936	81,933		
Plan fiduciary net position – ending (b)	922,561	845,574	742,375	659,002	648,066	566,133		
Nation's net pension liability – ending (a) – (b)	172,888	178,346	173,182	171,504	168,042	179,682		
Covered-employee payroll	172,888	178,346	173,182	171,504	168,042	179,682		
Nation's net pension liability as a percentage of covered-employee payroll	\$ 76.78%	78.86%	105.42%	105.54%	132.81%	105.49%		

## Notes to schedule:

Benefit Changes: All retirees in payment on October 1, 2014 were given a one-time 2% COLA increase to their benefit.

Change of Assumptions: Based on a review of the plan performance the discount rate was changed from 8% to 7% for the fiscal year 2014 valuation.

Change of Assumptions: Based on a review of the plan performance the discount rate was changed from 7% to 6.4% for the fiscal year 2017 valuation.

Change of Assumptions: The following assumptions were updated based the results of an experience study conducted in 2019:

The base mortality tables were updated from the 1983 Group Annuity Mortality table to the PUB-10 benefits weighted tables, with separate tables for females and males, adjusted for plan specific retiree experience from 2013-2017 by a factor of 1.7 for females and 1.2 for males.

The mortality improvement projection scale MP-2019 with base year 2015 was added (previously, no projection scale was used).

The salary increase assumption was updated to be based on age for regular employees, 3.5% for commissioned law enforcement officers, and 6.0% for judges.

Termination rates were updated based on observed differences in rates by service (previously, termination rates were based on age and gender).

Retirement rates were updated based on observed rates by age and group.

The form of payment assumption was updated from 100% electing Single Life Annuity to 55% electing Single Life Annuity, 25% electing Joint &amp; Survivor 50% Annuity, 10% electing Joint &amp; Survivor 100% Annuity, and 10% electing 10 Year Certain &amp; Life Annuity.

The percent married assumption was changed from 50% for males and 40% for females to 80% for both males and females.

The spouse age assumption was updated from wives three years younger than husbands to spouse assumed to be ten years younger than the primary participant.

## THE NAVAJO NATION

## Pension Other Supplementary Information

Year ended September 30, 2019

## Schedule of the Nation's Contributions (dollars in thousands) –

(Unaudited Other Supplementary Information)

Fiscal year ended	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered- employee payroll
2019	26,459	36,589	(10,130)	172,888	21 %
2018	32,004	38,770	(6,766)	178,346	22
2017	44,229	42,920	1,309	173,182	25
2016	42,590	46,473	(3,883)	171,504	27
2015	49,723	49,975	(252)	168,042	30
2014	49,723	47,750	1,973	179,682	27
2013		(Historical information prior to implementation of GASB 67 and 68 is not required)			
2012					
2011					
2010					
2009					
2008					

## Notes to schedule:

## Valuation date:

Actuarially determined contribution rates are calculated as of September 30, one year prior to the end of the fiscal year in which contributions are reported

## Methods and assumptions used to determine contribution rates:

Actuarial cost method

Entry age normal, level percent of pay

Amortization method

Straight line

Remaining amortization period

15 years

Asset valuation method

Fair value

## Actuarial assumptions:

Inflation

2.5%

Salary increases

Age-graded scale 2.0% – 6.0%

Investment rate of return

6.4%

Retirement age

Group-specific rates based on age ranging from 55–75, with 100% by 75 for regular employees, 100% by age 70 for commissioned law enforcement and 100% upon reaching the 75% benefit accrual cap.

Mortality

PUB 10 benefits weighted tables, with separate tables for females and males, adjusted for experience from 2013-2017 by a factor of 1.7 for females and 1.2 for males.

## THE NAVAJO NATION

Pension Other Supplementary Information

Year ended September 30, 2019

Schedule of Investment Returns (dollars in thousands) –

(Unaudited Other Supplementary Information)

<u>Fiscal year ended</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2019	3.10
2018	9.45
2017	13.24
2016	11.15
2015	(1.03)
2014	10.76
2013	(Historical information prior to implementation of GASB 67 is not required)
2012	
2011	
2010	
2009	
2008	



**THE NAVAJO NATION**  
Combining Balance Sheet – General Fund  
Modified Accrual Budget Basis  
September 30, 2019

	General Fund	Navajo Dam Escrow Fund	Oil and Gas Development Fund	Navajo Nation Reforestation Fund	Capital Outlay Match Fund	Shashin Fund	License Plate Revenue Fund	Total General Funds
<b>Assets</b>								
Pooled cash and investments (including \$5,459,500 of pledged securities)	\$ 282,515,416	3,363,798	814,179	279,296	13,730,124	561,147,355	573,903	862,424,071
Accounts receivable, net	1,191,797	—	—	—	—	—	—	1,191,797
Accrued interest receivable	7,151,066	8,530	1,901	—	46,411	1,599,813	—	8,807,721
Note receivable	—	—	—	—	—	55,895,972	—	55,895,972
Due from other funds	23,717,854	—	—	—	—	—	—	23,717,854
Other assets	504,998	—	—	—	—	4,064,511	—	4,569,509
<b>Total assets</b>	<b>\$ 315,081,131</b>	<b>3,372,328</b>	<b>816,080</b>	<b>279,296</b>	<b>13,776,535</b>	<b>622,707,651</b>	<b>573,903</b>	<b>956,606,924</b>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 6,882,597	—	—	—	1,680,085	507,059	—	9,069,741
Accrued liabilities	15,224,150	—	—	211	370,189	7,915	—	15,602,465
Unearned revenue	52,916,039	—	—	—	—	—	—	52,916,039
<b>Total liabilities</b>	<b>75,022,786</b>	<b>—</b>	<b>—</b>	<b>211</b>	<b>2,050,274</b>	<b>514,974</b>	<b>—</b>	<b>77,588,245</b>
<b>Fund balances:</b>								
Nonspendable:	—	—	—	—	—	55,895,972	—	55,895,972
Long-term receivables	—	—	—	—	—	—	—	—
Spendable:								
Restricted for:								
Economic development loans	5,459,500	3,372,328	—	—	—	—	—	8,831,828
Other capital projects	38,240,459	—	—	—	—	946,396	—	39,186,855
Committed for:								
Other capital projects	—	—	—	—	11,726,261	565,350,309	—	577,076,570
Other purposes	60,039,086	—	816,080	279,085	—	—	573,903	61,708,154
Assigned to:								
Other purposes	13,539,600	—	—	—	—	—	—	13,539,600
Unassigned	—	—	—	—	—	—	—	—
General Fund	122,779,700	—	—	—	—	—	—	122,779,700
<b>Total fund balances</b>	<b>240,058,345</b>	<b>3,372,328</b>	<b>816,080</b>	<b>279,085</b>	<b>11,726,261</b>	<b>622,192,677</b>	<b>573,903</b>	<b>879,018,679</b>
<b>Total liabilities and fund balances</b>	<b>\$ 315,081,131</b>	<b>3,372,328</b>	<b>816,080</b>	<b>279,296</b>	<b>13,776,535</b>	<b>622,707,651</b>	<b>573,903</b>	<b>956,606,924</b>

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

General Fund  
Modified Accrual Budget Basis  
Year ended September 30, 2019

Revenues	General Fund	Navajo Dam Escrow Fund	Oil and Gas Development Fund	Navajo Nation Reforestation Fund	Capital Outlay Match Fund	Sihasin Fund	License Plate Revenue Fund	Total General Funds
Natural resource revenue:								
Oil and gas	\$ 27,619,850	—	—	—	—	—	—	27,619,850
Mining	63,171,380	—	—	—	—	—	—	63,171,380
Tax revenue, net	82,419,264	—	—	—	—	—	—	82,419,264
Land, buildings, business site, and right-of-way revenue	67,400,019	—	—	—	—	—	—	67,400,019
Interest and dividends	27,007,490	79,662	15,506	—	370,033	18,793,162	—	46,265,853
Net increase (decrease) in fair value of investments	2,132,354	—	—	—	—	11,040,597	—	13,172,951
Pasture, rangeland, and forage insurance proceeds	—	—	—	—	—	13,103,209	—	13,103,209
Other revenue	6,781,565	—	—	2,209	—	53,247	22,440	6,859,461
Statutory allocation to permanent fund	(33,183,831)	—	—	—	—	—	—	(33,183,831)
Statutory allocation of current year revenues	(35,727,011)	—	—	—	—	—	—	(35,727,011)
Total revenues	207,621,080	79,662	15,506	2,209	370,033	42,980,215	22,440	251,101,145
<b>Expenditures</b>								
Current:								
General government	89,114,074	—	—	—	—	11,190,288	—	100,304,362
Economic development and planning	4,531,592	—	—	—	—	—	—	4,531,592
Community and rural development	34,913,749	—	—	—	4,209,448	23,056,964	—	62,180,161
Education and training	15,675,045	—	—	—	—	—	—	15,675,045
Natural resources	18,527,657	—	—	51,887	—	—	—	18,579,544
Public safety	8,232,376	—	—	—	—	—	—	8,232,376
Health and welfare	15,955,942	—	—	—	—	—	—	15,955,942
Culture and recreation	1,055,711	—	—	—	—	—	—	1,055,711
Capital outlay	6,124,442	—	—	537	1,760,324	5,384,054	—	13,269,357
Debt service – principal	914,063	—	—	—	—	—	—	914,063
Debt service – interest	68,681	—	—	—	—	—	—	68,681
Total expenditures	195,113,332	—	—	52,424	5,969,772	39,631,306	—	240,766,834
Excess (deficit) of revenues over (under) expenditures	12,507,748	79,662	15,506	(50,215)	(5,599,739)	3,358,909	22,440	10,334,311
<b>Other Financing Sources (Uses)</b>								
Transfers	31,349,268	—	—	—	2,000,000	(19,276,459)	—	14,072,809
Total other financing sources (uses)	31,349,268	—	—	—	2,000,000	(19,276,459)	—	14,072,809
Net change in fund balances	43,857,016	79,662	15,506	(50,215)	(3,599,739)	(15,917,550)	22,440	24,407,120
Fund balance, beginning of year	196,201,329	3,292,665	800,574	329,300	15,326,000	639,110,227	551,463	854,611,559
Fund balance, end of year	240,058,345	3,372,328	816,080	279,085	11,726,261	622,192,677	573,903	879,018,679

See accompanying independent auditors' report.

THE NAVAJO NATION  
Combining Balance Sheet  
Nonmajor Governmental Funds  
Modified Accrual Budget Basis  
September 30, 2019

	Special revenue												Debt Service		Permanent Government Building Fund	Total		
	Scholarship Fund	Navajo Tourism Fund	Navajo Nation Environmental Protection Agency Fund	Tax Suspense Fund	Water Rights Fund	Navajo Nation Roads Fund	Land Acquisition Fund	Navajo Rehabilitation Trust Fund	Gaming Development Fund	Gaming Revenue Distribution Fund	Judicial Facilities Fund	DPS Gaming Fund	DPS Alcohol Tax Fund	Healthy Dine Tax Act Fund			Fire & Rescue Services Fund	FMS Key Bank Loan Fund
Assets																		
Pooled cash and investments	\$ 77,036,249	6,157,229	58,151,505	10,731,272	9,714,279	36,149,963	143,032,627	7,654,827	7,677,161	15,261,276	22,301,253	1,802,378	232,545	1,512,546	2,073,417	1,426,381	8,114	65,793,869
Accounts receivable	192,933	16,429	21,142	12,303	16,697	177,962	468,863	35,158	—	—	164,818	—	—	—	—	—	—	325,275
Accrued interest receivable	4,834,731	—	—	—	—	—	35,058,609	3,160,353	—	—	—	—	—	—	—	—	—	1,444,548
Note receivable	5,027,664	16,429	21,142	12,303	16,697	177,962	35,058,671	3,166,851	—	—	164,818	—	—	—	—	—	—	50,762,060
Total receivables	82,060,913	6,173,654	58,172,645	10,743,575	9,730,976	36,327,915	178,616,298	10,791,278	7,677,161	15,261,276	22,466,071	1,802,378	232,545	1,512,546	2,073,417	1,426,381	8,114	518,099,195
Total assets																		
Liabilities and Fund Balance																		
Accounts payable	\$ 54,035	604,022	132,757	—	157,413	1,213,460	120,790	3,485	448,417	4,601	714,880	9,112	—	21,554	517,442	106,610	—	109,031
Total liabilities	54,035	604,022	132,757	—	157,413	1,213,460	120,790	3,485	448,417	4,601	714,880	9,112	—	21,554	517,442	106,610	—	109,031
Fund balance																		
Nonspendable	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Permanent fund principal	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Long-term receivables	4,834,731	—	—	—	—	—	35,058,609	3,160,353	—	—	—	—	—	—	—	—	—	58,500,400
Spending	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	50,762,060
Restricted to																		
Education	69,606,342	—	45,560,252	—	—	—	—	—	—	—	—	—	—	—	—	—	—	69,606,342
Capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,000,000
Other capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	15,144,862
Committed for	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other purposes	7,668,895	5,269,612	15,479,636	10,743,575	9,573,563	35,114,495	143,366,760	—	7,237,744	15,256,676	21,691,091	1,893,266	232,545	1,497,062	1,555,875	—	8,114	178,511,215
Total fund balance	82,060,913	5,269,612	58,039,888	10,743,575	9,573,563	35,114,495	178,485,568	10,789,503	7,237,744	15,256,676	21,691,091	1,893,266	232,545	1,497,062	1,555,875	1,319,771	8,114	514,424,536
Total liabilities and fund balance	82,060,913	6,173,654	58,172,645	10,743,575	9,730,976	36,327,915	178,616,298	10,791,278	7,677,161	15,261,276	22,466,071	1,802,378	232,545	1,512,546	2,073,417	1,426,381	8,114	518,099,195

See accompanying independent auditors' report.



**THE NAVALO NATION**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
 Normalized Governmental Funds  
 Modified Accrual Budget Basis  
 Year ended September 30, 2019

	Special Revenue												Debt Service		Permanent Chapter Government Building Fund	Total
	Scholarship Fund	Navajo Nation Tribal Protection Agency Fund	Tax Season Fund	Water Rights Fund	Navajo Nation Bank Fund	Land Acquisition Fund	Navajo Rehabilitation Trust Fund	Gaming Distribution Fund	Judicial Public Facilities Fund	DPS Gaming Fund	DPS Alcohol Tax Fund	Healthy Owe Tax Act	Fire & Rescue Services Fund	EMRS Key Bank Loan Fund	NTUA Key Bank Loan Fund	
<b>Revenues</b>																
Tax revenue	—	1,433,387	2,250,402	—	11,324,105	—	—	—	—	—	97,014	1,067,626	—	—	—	16,702,508
Land, building, business, etc. and right-of-way revenue	1,841,749	265,335	480,564	—	759,619	5,305,713	693,533	—	402,100	—	—	—	—	—	—	963,533
Interest and dividends	—	—	—	147,738	—	—	479,541	—	—	—	—	—	—	—	—	12,223,009
Net change in fund balance	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Net of investments	2,405,012	1,825,070	—	—	—	4,145,194	—	—	1,000	757,000	—	—	—	—	—	10,113,448
Other revenue	1,347,871	6,996	—	968,646	—	71,464	—	5,000,000	1,000	—	—	—	—	—	16	17,964,763
Statutory allocation to	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Statutory allocation of	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
current year revenues	4,098,377	1,429,065	2,730,966	1,146,384	10,045,438	6,158,979	1,143,174	7,877,020	8,197,156	757,000	(5,821)	(101,258)	8,197,154	—	—	25,565,337
<b>Expenditures</b>	9,772,809	2,150,426	2,730,966	—	15,735,380	15,735,380	—	4,100,000	8,078,256	757,000	79,551	1,383,853	8,197,154	—	—	80,878,223
Community development	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Economic and development	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Education and training	5,631,907	1,961,857	—	3,075,978	—	851,508	—	216,369	—	—	—	1,468,263	—	1,375,041	—	14,861,419
Health services	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7,773,361
Public safety	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,961,857
Culture and recreation	—	1,133,949	—	—	—	—	—	—	905,327	555,601	—	—	2,079,542	—	—	3,540,470
Transportation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,133,949
Transportation - principal	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	3,892,227
Debt service - principal	—	1,613,368	—	—	5,314,811	3,033,283	94,629	—	2,805,000	109,156	—	—	4,559,566	230,984	—	8,892,717
Debt service - interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,865,000
<b>Total expenditures</b>	5,631,907	2,749,317	40,000	3,075,978	8,487,238	3,885,251	110,213	13,445,714	216,369	664,827	—	1,468,263	6,639,158	1,606,025	—	2,164,383
<b>Excess (deficiency) of revenues over expenditures</b>	4,140,902	(1,347,252)	2,690,966	(1,929,594)	1,578,400	11,850,179	1,032,961	(5,568,646)	3,883,631	92,243	79,551	(84,410)	1,558,046	(1,606,025)	—	22,900,289
<b>Other financing sources</b>	—	—	—	2,000,000	—	—	—	—	—	—	—	—	—	—	—	—
<b>Transfers</b>	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total other financing sources</b>	—	—	—	2,000,000	—	—	—	—	—	—	—	—	—	—	—	2,000,000
<b>Net change in fund balance</b>	4,140,902	(1,347,252)	2,690,966	70,406	1,578,400	11,850,179	1,032,961	(5,568,646)	3,883,631	92,243	79,551	(84,410)	1,558,046	(1,606,025)	—	24,900,289
<b>Fund balance, beginning of year</b>	77,868,076	6,610,874	8,053,268	9,503,157	33,536,055	166,646,389	9,754,632	12,800,392	11,377,044	1,801,023	152,864	1,575,562	(2,071)	2,825,796	8,114	489,524,247
<b>Fund balance, end of year</b>	82,009,078	5,263,622	10,744,234	9,573,563	35,114,455	178,496,568	10,787,593	7,231,744	15,260,675	1,893,266	232,545	1,491,092	1,555,975	1,219,771	8,114	514,424,536

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Statement of Net Position  
Enterprise Funds  
September 30, 2019

	Business and Industrial Development Fund	Loan Fund	Employee Housing Fund	Parks and Recreation Fund	Fish and Wildlife Fund	Navajo Nation Code Fund	Navajo Transit Fund	Livestock Custody Fund	Fourth of July Celebration Fund	Annual Navajo Nation Fair Fund	Tribal Ranch Fund	Veterinary Medical Sales Fund	Colorado Ranch Fund	Total
<b>Assets</b>														
Current assets														
Cash and cash equivalents	\$ 31,572,340	2,009,580	810,311	58,603,453	1,919,377	145,059	226,149	822,542	(31,840)	1,206,970	1,634,322	56,310	607,558	99,672,131
Investments	25,059	10,695,417	—	—	—	—	—	—	—	—	—	—	—	10,720,476
Receivables	9,051	42,331	1,694	13,000	—	—	100	—	—	—	—	—	—	66,176
Accrued interest receivable, net	48,231	1,257,416	—	—	—	—	—	—	—	—	—	—	—	1,305,649
Current portion of notes receivable	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total receivables	57,282	1,259,749	1,694	13,000	—	—	100	—	—	—	—	—	—	1,371,875
Total current assets	31,654,681	14,094,746	812,005	58,616,453	1,919,377	145,059	226,249	822,542	(31,840)	1,206,970	1,634,322	56,310	607,558	111,764,432
Noncurrent assets														
Receivables	100,262	3,846,147	—	—	—	—	—	—	—	—	—	—	—	3,946,409
Notes receivable, net	100,262	3,846,147	—	—	—	—	—	—	—	—	—	—	—	3,946,409
Total noncurrent assets	200,524	7,692,294	—	—	—	—	—	—	—	—	—	—	—	7,892,813
Capital assets														
Construction in progress	3,703,181	—	—	1,467,890	—	—	—	—	—	—	—	—	—	5,171,071
Land and land development costs	739,419	—	—	—	—	—	—	—	—	—	—	—	—	739,419
Buildings	18,220,781	—	2,521,076	6,873,922	105,688	—	—	—	—	—	10,500	—	—	27,311,967
Equipment	199,164	—	89,912	1,207,535	94,280	—	113,484	121,614	—	—	242,384	—	5,484	2,072,837
Total capital assets	22,861,545	—	2,610,988	9,540,347	199,968	—	113,484	121,614	—	—	252,864	—	5,484	35,715,294
Accumulated depreciation	7,118,102	—	2,610,988	1,673,774	87,953	—	113,484	43,553	—	—	248,970	—	—	11,894,824
Capital assets, net	15,743,443	—	—	7,875,573	112,015	—	—	78,061	—	—	5,894	—	5,484	23,820,470
Total noncurrent assets	15,843,705	—	—	7,875,573	112,015	—	—	78,061	—	—	5,894	—	5,484	27,766,879
Total assets	\$ 47,498,386	\$ 17,940,893	\$ 812,005	\$ 66,492,026	\$ 2,031,392	\$ 145,059	\$ 226,249	\$ 900,603	\$ (31,840)	\$ 1,206,970	\$ 1,640,216	\$ 56,310	\$ 613,042	\$ 139,531,311
<b>Liabilities, Deferred Inflow of Resources and Net Position</b>														
Current liabilities														
Accounts payable	\$ 75,968	344,210	66,146	27,669	6,285	—	184	—	—	734	—	436	709	522,341
Accrued liabilities	66,872	128,032	27,176	545,075	11,338	—	558	9,516	24,604	160,537	104,827	4,876	6,027	1,080,438
Current portion of compensated absences	8,205	6,383	34,486	116,730	22,309	—	—	—	—	3,449	40,468	5,429	6,289	243,747
Total current liabilities	151,046	478,625	127,808	689,474	39,932	—	742	9,516	24,604	164,720	145,293	10,741	13,025	1,855,526
Noncurrent liabilities														
Net pension liability	39,312	202,177	269,227	1,246,732	452,747	—	—	89	—	121,880	154,745	53,619	62,677	2,603,205
Total noncurrent liabilities	39,312	202,177	269,227	1,246,732	452,747	—	—	89	—	121,880	154,745	53,619	62,677	2,603,205
Total liabilities	190,358	680,802	397,035	1,936,206	452,679	—	742	9,605	24,604	286,600	300,038	64,360	75,702	4,458,731
Pension related inflows	10,247	52,695	70,171	324,950	118,005	—	—	23	—	31,767	40,333	13,975	16,336	675,502
Total deferred inflows of resources	10,247	52,695	70,171	324,950	118,005	—	—	23	—	31,767	40,333	13,975	16,336	675,502
Net position														
Net investment in capital assets	15,743,443	—	—	7,875,573	112,015	—	—	78,061	—	—	—	—	—	23,820,470
Unrestricted	31,954,338	17,207,396	344,799	56,355,297	1,309,693	145,059	225,507	812,914	(56,444)	888,603	1,293,951	(22,025)	515,520	110,973,608
Total net position	47,697,781	17,207,396	344,799	64,230,870	1,420,708	145,059	225,507	890,975	(56,444)	888,603	1,299,845	(22,025)	521,004	134,304,078
Total liabilities, total deferred inflows and net position	\$ 47,498,386	\$ 17,940,893	\$ 812,005	\$ 66,492,026	\$ 2,031,392	\$ 145,059	\$ 226,249	\$ 900,603	\$ (31,840)	\$ 1,206,970	\$ 1,640,216	\$ 56,310	\$ 613,042	\$ 139,531,311

See accompanying independent auditors' report.

## THE NAVAJO NATION

Combining Statement of Revenues, Expenses, and Changes in Net Position

Enterprise Funds

Year ended September 30, 2019

	Business and Industrial Development Fund	Loan Fund	Employee Housing Fund	Parks and Recreation Fund	Fish and Wildlife Fund	Navajo Nation Code Fund	Navajo Transit Fund	Livestock Custody Fund	Fourth of July Celebration Fund	Annual Navajo Nation Fair Fund	Tribal Ranch Fund	Veterinary Medical Sales Fund	Colorado Ranch Fund	Total
<b>Operating revenues:</b>														
Rental income	\$ 1,568,652	—	917,132	2,700	—	—	—	—	—	15,325	—	—	—	2,503,859
Interest income	25,539	347,451	—	—	850,029	—	—	—	—	—	—	—	—	372,990
Charges for services	920	36,897	—	18,732,998	—	5,490	13,370	184,534	33,277	601,063	715,119	296,283	885,835	22,355,815
Other income	—	5,984	—	22,806	86	—	7,136	50	—	—	—	2,085	—	38,067
<b>Total operating revenues</b>	<b>1,595,111</b>	<b>390,252</b>	<b>917,132</b>	<b>18,758,504</b>	<b>850,115</b>	<b>5,490</b>	<b>20,506</b>	<b>184,584</b>	<b>33,277</b>	<b>616,388</b>	<b>715,119</b>	<b>298,368</b>	<b>885,835</b>	<b>25,270,731</b>
<b>Operating expenses:</b>														
Personnel	67,744	531,741	538,545	2,541,988	924,135	—	—	298	—	194,472	232,728	107,389	205,446	5,344,486
Travel, per diem, and vehicle	—	24,894	39,478	350,614	276,722	—	2,637	6,520	—	15,113	27,255	68,437	7,720	819,380
Supplies	9,360	22,550	21,632	464,453	282,737	134	7,693	34,725	467	27,759	3,049	81,623	340,593	1,276,805
Contractual service	—	—	—	183,945	136,551	—	—	—	86,975	2,063,751	—	—	—	2,770,733
Lease, telephone, and utilities	1,840	4,519	51,143	322,059	13,048	—	—	—	621	9,188	(17,546)	4,588	—	426,980
Repairs and maintenance	89,375	10,748	183,955	106,100	40,446	—	155	33,228	1,310	19,339	1,956	—	37,500	337,500
Provision for bad debts	7,379	48,997	—	—	—	—	—	—	—	—	238,201	—	15,792	502,454
Depreciation expense	408,508	—	—	113,471	—	—	—	—	—	—	—	—	—	294,577
Reinsurance premiums	522	4,679	5,116	52,402	8,829	—	—	18	—	1,782	2,934	986	14,956	526,585
Other expense	51,128	106,563	12,554	732,845	51,427	—	9,010	—	5,191	34,573	90,903	40,251	4,374	1,138,819
<b>Total operating expenses</b>	<b>635,876</b>	<b>754,681</b>	<b>852,423</b>	<b>4,867,887</b>	<b>1,713,895</b>	<b>134</b>	<b>19,535</b>	<b>74,789</b>	<b>94,564</b>	<b>2,365,997</b>	<b>584,096</b>	<b>303,274</b>	<b>925,892</b>	<b>13,193,043</b>
<b>Operating income (loss), net</b>	<b>959,235</b>	<b>(364,429)</b>	<b>64,759</b>	<b>13,890,617</b>	<b>(863,780)</b>	<b>5,356</b>	<b>971</b>	<b>109,795</b>	<b>(61,287)</b>	<b>(1,749,609)</b>	<b>131,023</b>	<b>(4,906)</b>	<b>(40,057)</b>	<b>12,077,688</b>
<b>Nonoperating revenues:</b>														
Interest and dividends	96,615	239,968	—	905	—	—	—	—	—	—	—	—	—	337,498
Net increase in fair value of investments	188,429	—	—	—	—	—	—	—	—	—	—	—	—	188,429
Statutory allocations	4,088,577	—	—	—	—	—	—	—	—	—	—	—	—	4,088,577
<b>Total nonoperating revenues</b>	<b>4,383,621</b>	<b>239,968</b>	<b>—</b>	<b>905</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,624,494</b>
<b>Nonoperating revenues, net</b>	<b>4,383,621</b>	<b>239,968</b>	<b>—</b>	<b>905</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>4,624,494</b>
<b>Excess (deficiency) of revenues over (under) expenses</b>	<b>5,342,856</b>	<b>(124,461)</b>	<b>64,759</b>	<b>13,891,522</b>	<b>(863,780)</b>	<b>5,356</b>	<b>971</b>	<b>109,795</b>	<b>(61,287)</b>	<b>(1,749,609)</b>	<b>131,023</b>	<b>(4,906)</b>	<b>(40,057)</b>	<b>16,702,182</b>
<b>Transfers</b>														
Change in net position	5,342,856	(124,461)	64,759	11,991,522	146,255	5,356	971	109,795	(61,287)	150,391	131,023	(4,906)	(40,057)	17,712,217
Net position, beginning of year	41,954,925	17,331,857	280,040	52,239,348	1,274,453	139,703	224,536	781,160	4,843	739,212	1,168,822	(17,119)	561,081	116,681,861
<b>Net position, end of year</b>	<b>\$ 47,297,781</b>	<b>17,207,396</b>	<b>344,799</b>	<b>64,230,870</b>	<b>1,420,708</b>	<b>145,059</b>	<b>225,507</b>	<b>890,975</b>	<b>(56,444)</b>	<b>888,603</b>	<b>1,299,845</b>	<b>(22,025)</b>	<b>521,004</b>	<b>134,394,078</b>

See accompanying independent auditors' report.



**THE NAVAJO NATION**  
Combining Statement of Cash Flows  
Enterprise Funds  
Year ended September 30, 2019

	Business and Industrial Development Fund	Loan Fund	Employee Housing Fund	Parks and Recreation Fund	Fish and Wildlife Fund	Navajo Nation Code Fund	Navajo Transit Fund	Livestock Custody Fund	Fourth of July Celebration Fund	Annual Navajo Nation Fair Fund	Tribal Ranch Fund	Veterinary Medical Sales Fund	Colorado Ranch Fund	Total
Cash flows from operating activities														
Receipts from customers	\$ 1,614,377	758,515	917,182	18,735,608	850,029	5,450	13,370	184,534	33,277	616,388	491,056	296,283	885,835	25,402,034
Receipt of interest on loans	25,539	347,451	—	—	—	—	—	—	—	—	—	—	—	372,990
Payments to employees for services	(80,462)	(412,696)	(552,687)	(2,551,622)	(929,182)	—	—	(186)	—	(248,323)	(317,466)	(105,690)	(129,946)	(5,332,240)
Payments to suppliers	(605,483)	(168,462)	(23,418)	(581,605)	(338,685)	(134)	(7,693)	(36,101)	(2,135)	(121,245)	(111,085)	(93,842)	(329,941)	(2,229,830)
Payments to third parties for services	(151,998)	(109,998)	(287,880)	(1,054,491)	(479,883)	—	(6,641)	(37,780)	(92,403)	(2,113,844)	(15,712)	(83,282)	(377,590)	(4,738,768)
Other receipts (payments)	(33,128)	(100,659)	(12,554)	(314,538)	(51,341)	—	(1,874)	50	(5,191)	(3,533)	(31,333)	(38,195)	(4,374)	(6,114,619)
Net cash from operating activities	758,845	385,920	41,243	14,233,442	(549,062)	5,356	(2,638)	110,561	(66,452)	(1,868,735)	95,779	(28,697)	33,984	12,759,346
Cash flows from capital and related financing activity														
(Acquisition) sale of capital assets	(615,532)	—	—	(1,310,970)	(28,923)	—	—	(39,704)	—	—	21,740	—	(5,484)	(1,978,873)
Net cash from capital and related financing activity	(615,532)	—	—	(1,310,970)	(28,923)	—	—	(39,704)	—	—	21,740	—	(5,484)	(1,978,873)
Cash flows from noncapital and related financing activities														
Transfer	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Statutory allocations	4,098,577	—	—	(1,900,000)	1,010,035	—	—	—	—	1,900,000	—	—	—	1,010,035
Net cash from noncapital and related financing activities	4,098,577	—	—	(1,900,000)	1,010,035	—	—	—	—	1,900,000	—	—	—	4,098,577
Cash flows from investing activities														
Purchases of investments	(19,418,916)	(31,444,714)	—	—	—	—	—	—	—	—	—	—	—	(50,863,630)
Sales of investments	23,449,565	31,221,698	—	—	—	—	—	—	—	—	—	—	—	54,671,263
Interest on investment and cash balances	59,818	256,197	(1,694)	(12,095)	—	—	(100)	—	—	—	—	—	—	322,126
Net cash from investing activities	4,321,857	13,481	(1,694)	(12,095)	—	—	(100)	—	—	—	—	—	—	4,321,449
Net increase (decrease) in cash and cash equivalents	8,573,747	369,401	39,549	11,010,377	32,050	5,356	(2,638)	70,857	(66,452)	31,265	117,519	(28,697)	28,500	20,210,534
Cash and cash equivalents, beginning of year	22,698,593	1,700,179	770,762	47,593,076	1,887,327	139,703	229,087	751,685	34,612	1,175,705	1,516,803	85,007	579,058	79,461,597
Cash and cash equivalents, end of year	\$ 31,572,340	2,069,580	810,311	58,603,453	1,919,377	145,059	226,449	822,542	(31,840)	1,206,970	1,634,322	56,310	607,558	99,672,131
Reconciliation of operating income (loss) to net cash from operating activities														
Operating income (loss)	\$ 955,235	(364,429)	64,759	13,890,617	(963,780)	5,356	971	109,795	(61,287)	(1,749,609)	131,023	(4,906)	(40,057)	12,077,688
Adjustments to reconcile operating income to net cash from operating activities														
Depreciation expense	408,508	—	—	113,471	—	—	—	—	—	—	4,608	—	—	520,585
Provision for bad debts	7,379	48,997	—	—	—	—	—	—	—	—	238,201	—	—	294,577
(Increase) in accounts receivable	—	—	—	—	—	—	—	—	—	—	(224,063)	—	—	(224,063)
(Decrease) in notes receivable	44,855	396,663	—	—	—	—	—	—	—	—	—	—	—	441,468
Decrease in deferred outflow	5,954	12,652	32,825	145,745	53,256	—	—	—	—	19,163	25,566	6,429	597	302,237
Increase (decrease) in accounts payable and accrued liabilities	(638,364)	185,944	(9,373)	238,988	(80,235)	—	(3,809)	654	(5,105)	(65,275)	30,430	(21,490)	(1,459)	(369,154)
Increase (decrease) in net pension liability	(12,756)	92,259	(15,926)	(19,362)	(9,975)	—	—	89	—	(44,589)	(67,345)	(2,230)	57,490	(22,345)
Increase (decrease) in compensated absences	2,783	1,240	2,816	930	2,467	—	—	—	—	539	(1,946)	(100)	2,969	11,705
Increase (decrease) in deferred inflows	(8,749)	12,594	(33,859)	(135,947)	(50,805)	—	—	23	—	(28,964)	(40,680)	(6,400)	14,444	(279,352)
Total adjustments	(150,350)	750,349	(23,516)	342,825	(85,282)	—	(3,809)	766	(5,105)	(119,126)	(35,244)	(23,751)	74,041	681,658
Net cash from operating activities	\$ 758,845	385,920	41,243	14,233,442	(549,062)	5,356	(2,638)	110,561	(66,452)	(1,868,735)	95,779	(28,697)	33,984	12,759,346

See accompanying independent auditors' report.

## THE NAVAJO NATION

Combining Statement of Net Position

Internal Service Funds

September 30, 2019

Assets	Fleet Management Fund	Duplicating Services Fund	Office Supply Center Fund	Air Transportation Fund	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Workers' Compensation Insurance Fund	Contingency Management Fund	Total
Current assets:									
Cash and cash equivalents	\$ 22,825,009	4,159,285	213,949	(3,145,943)	28,127,313	1,777,117	906,364	7,456,021	62,359,115
Investments	—	—	—	—	—	33,850,289	17,977,138	—	51,827,427
Receivables:									
Accrued interest receivable, net	58,468	—	572,268	—	—	174,429	77,133	2,668	254,230
Accounts receivable	58,468	—	572,268	—	2,610,017	4,120	296,068	—	3,540,941
Total receivables	117,936	—	1,144,536	—	2,610,017	4,120	373,201	2,668	3,795,171
Total current assets	22,883,477	4,159,285	786,217	(3,145,943)	30,737,330	35,805,955	19,256,703	7,498,689	117,981,713
Noncurrent assets:									
Capital assets:									
Construction in progress	17,197	—	—	—	—	—	—	—	17,197
Buildings	226,328	—	—	—	—	—	147,411	—	373,739
Vehicles	48,239,834	—	—	—	—	—	—	—	48,239,834
Equipment	912,012	539,988	11,546	4,440,500	—	236,101	86,462	—	6,226,609
Total capital assets	49,395,371	539,988	11,546	4,440,500	—	236,101	233,873	—	54,857,379
Accumulated depreciation	38,234,167	474,424	5,000	4,297,505	—	197,871	77,489	—	43,286,456
Capital assets, net	11,161,204	65,564	6,546	142,995	—	38,230	156,384	—	11,570,923
Total noncurrent assets	11,161,204	65,564	6,546	142,995	—	38,230	156,384	—	11,570,923
Total assets	\$ 34,044,681	4,224,849	792,763	(3,002,948)	30,737,330	35,844,185	19,413,087	7,498,689	129,552,636
Liabilities, Deferred Inflow of Resources, and Net Position									
Current liabilities:									
Accounts payable	\$ 176,673	9,688	2	—	203,798	978,662	7,878	—	1,379,701
Accrued liabilities	696,951	10,134	7,860	—	85,575	37,567	27,884	—	865,771
Current portion of compensated absences	177,723	5,839	7,477	—	6,931	51,904	9,415	—	259,289
Current estimated claims payable	—	—	—	—	6,000,000	1,802,547	303,614	—	8,106,161
Total current liabilities	1,051,347	25,661	15,339	—	6,298,304	2,871,680	348,591	—	10,610,922
Noncurrent liabilities:									
Estimated claims payable	—	—	—	—	—	—	—	2,485,257	2,485,257
Net pension liability	1,645,154	109,855	87,143	107,161	223,721	367,023	112,084	—	2,652,141
Total noncurrent liabilities	1,645,154	109,855	87,143	107,161	223,721	367,023	112,084	2,485,257	5,137,398
Total liabilities	2,696,501	135,516	102,482	107,161	6,522,025	3,238,703	460,675	2,485,257	15,748,320
Pension-related inflows	428,796	28,633	22,713	27,931	58,311	95,662	29,214	—	691,260
Total deferred inflows of resources	428,796	28,633	22,713	27,931	58,311	95,662	29,214	—	691,260
Net position:									
Net investment in capital assets	11,161,204	65,564	6,546	142,995	—	38,230	156,384	—	11,570,923
Restricted, expendable for claims and judgments	19,758,180	3,995,136	661,022	(3,281,035)	24,156,994	32,471,590	18,766,814	5,013,432	75,395,398
Unrestricted	30,919,384	4,080,700	687,568	(3,138,040)	24,156,994	32,509,820	18,923,198	5,013,432	113,113,056
Total net position	51,838,768	8,141,394	1,355,136	(6,459,085)	48,313,988	65,010,410	36,846,396	10,026,864	129,552,636
Total liabilities, deferred inflows and net position	\$ 34,044,681	4,224,849	792,763	(3,002,948)	30,737,330	35,844,185	19,413,087	7,498,689	129,552,636

See accompanying independent auditors' report.

## THE NAVAJO NATION

## Combining Statement of Revenues, Expenses, and Changes in Net Position

## Internal Service Funds

Year ended September 30, 2019

	Fleet Management Fund	Duplicating Services Fund	Office Supply Center Fund	Air Transportation Fund	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Worker's Compensation Insurance Fund	Contingency Management Fund	Total
<b>Operating revenues:</b>									
Insurance premium income	—	—	—	—	51,129,689	10,155,941	3,261,143	—	64,546,773
Charges for services	11,779,661	1,548,265	548,513	152,512	—	205	—	—	14,029,156
Other income	212,515	46,072	6,972	—	2,304,937	1,560	31,343	6,062	2,609,461
<b>Total operating revenues</b>	<b>11,992,176</b>	<b>1,594,337</b>	<b>555,485</b>	<b>152,512</b>	<b>53,434,626</b>	<b>10,157,706</b>	<b>3,292,486</b>	<b>6,062</b>	<b>81,185,390</b>
<b>Operating expenditures:</b>									
Personnel	3,339,253	228,760	177,463	102,089	465,329	715,895	145,629	—	5,174,418
Travel, per diem, and vehicle	186,129	3,803	10,711	19,810	44,206	119,224	32,506	—	416,389
Supplies	5,090,625	28,672	446,704	99,370	98,479	31,979	24,264	—	5,820,093
Contractual service	118,172	740	—	830	4,167,273	768,230	110,168	—	5,165,413
Lease, telephone, and utilities	21,924	237,989	2,643	12,321	7,680	14,777	8,605	—	305,939
Repairs and maintenance	225,554	69,707	313	79,259	3,300	2,798	380,931	—	380,931
Provision (recovery) for bad debts	—	—	—	—	—	1,839	3,457	—	5,296
Depreciation expense	2,074,912	17,466	1,649	1,553,873	—	31,635	8,972	—	3,688,507
Benefits and claims	—	—	—	—	27,579,998	3,385,220	1,548,949	3,319,557	35,933,724
Reinsurance premiums	68,285	1,893	1,590	2,646	3,847,372	2,878,775	2,989	—	6,803,550
Other expense	11,648	—	—	10,906	20,097	38,971	16,291	—	97,913
<b>Total operating expenditures</b>	<b>11,136,502</b>	<b>589,030</b>	<b>641,073</b>	<b>1,881,104</b>	<b>36,233,734</b>	<b>7,989,343</b>	<b>1,901,830</b>	<b>3,319,557</b>	<b>63,692,173</b>
<b>Net operating income (loss)</b>	<b>855,674</b>	<b>1,005,307</b>	<b>(85,588)</b>	<b>(1,728,592)</b>	<b>17,200,892</b>	<b>2,168,363</b>	<b>1,390,656</b>	<b>(3,313,495)</b>	<b>17,493,217</b>
<b>Nonoperating revenues:</b>									
Interest and dividends	—	—	—	—	19,178	696,174	446,408	117,358	1,279,118
Net increase in fair value of investments	—	—	—	—	—	—	532,530	—	532,530
<b>Total nonoperating revenues</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>19,178</b>	<b>696,174</b>	<b>978,938</b>	<b>117,358</b>	<b>1,811,648</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>855,674</b>	<b>1,005,307</b>	<b>(85,588)</b>	<b>(1,728,592)</b>	<b>17,220,070</b>	<b>2,864,537</b>	<b>2,369,594</b>	<b>(3,196,137)</b>	<b>19,304,865</b>
<b>Transfers</b>									
Change in net position	855,674	1,005,307	(85,588)	282,991	—	—	—	1,804,165	2,087,156
<b>Net position, beginning of year</b>	<b>30,063,710</b>	<b>3,055,393</b>	<b>753,156</b>	<b>(1,692,439)</b>	<b>6,936,924</b>	<b>29,645,283</b>	<b>16,553,604</b>	<b>6,405,404</b>	<b>91,721,035</b>
<b>Net position, end of year</b>	<b>\$ 30,919,384</b>	<b>\$ 4,060,700</b>	<b>\$ 667,568</b>	<b>\$ (3,138,040)</b>	<b>\$ 24,156,994</b>	<b>\$ 32,509,820</b>	<b>\$ 18,923,198</b>	<b>\$ 5,013,432</b>	<b>\$ 113,113,056</b>

See accompanying independent auditors' report.



**THE NAVAJO NATION**  
Combining Statement of Cash Flows  
Internal Service Funds  
Year ended September 30, 2019

	Fleet Management Fund	Duplicating Services Fund	Office Supply Center Fund	Air Transportation Fund	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Workers' Compensation Insurance Fund	Contingency Management Fund	Totals
Cash flows from operating activities:									
Receipts from customers	\$ 11,896,910	1,548,265	326,325	152,512	—	3,999,999	—	—	13,924,012
Cash received for premiums from the government	—	—	—	—	32,388,866	6,164,369	1,658,890	—	38,047,755
Cash received from others for premiums	(3,372,884)	(224,172)	(178,028)	(218,960)	22,569,299	(750,856)	1,440,739	—	30,174,407
Payments to employees for services	—	—	—	—	(457,621)	(2,311,042)	(228,901)	—	(5,431,422)
Payment of claims	—	—	—	—	(27,079,998)	(1,548,949)	(1,204,700)	—	(32,144,889)
Payments to suppliers	(5,245,771)	(34,625)	(446,702)	(98,370)	(97,723)	—	(30,336)	(3,499)	(5,956,026)
Payments to third parties for services	(295,765)	(332,378)	(98,627)	(125,772)	(8,208,748)	(3,841,015)	(136,436)	—	(13,038,741)
Other receipts	212,515	46,072	6,972	—	—	860	15,051	6,062	287,532
Net cash from operating activities	3,195,005	1,003,162	(390,060)	(291,590)	19,114,075	3,262,315	1,170,058	(1,202,137)	25,860,828
Cash flows from capital and related financing activity:									
(Acquisition) sale of capital assets	(9,028,622)	(49,701)	(8,185)	(142,995)	—	—	(147,411)	—	(9,376,924)
Net cash from capital and related financing activity	(9,028,622)	(49,701)	(8,185)	(142,995)	—	—	(147,411)	—	(9,376,924)
Cash flows from noncapital and related financing activity:									
Transfer	—	—	—	282,991	—	—	—	1,804,165	2,087,156
Net cash from noncapital and related financing activity	—	—	—	282,991	—	—	—	1,804,165	2,087,156
Cash flows from investing activities:									
Purchases of investments	(5,833,617)	953,461	(398,255)	(151,594)	19,133,253	1,735,884	867,371	2,223,459	18,529,862
Sale of investments	28,658,626	3,205,824	612,204	(2,994,349)	8,984,060	41,233	38,993	5,272,562	43,829,153
Interest on investment and cash balances	—	—	—	—	19,178	654,429	432,440	121,517	1,227,564
Net cash from investing activities	—	—	—	—	19,178	(1,526,431)	(155,276)	1,621,431	(41,098)
Net increase (decrease) in cash and cash equivalents	(5,833,617)	953,461	(398,255)	(151,594)	19,133,253	1,735,884	867,371	2,223,459	18,529,862
Cash and cash equivalents, beginning of year	28,658,626	3,205,824	612,204	(2,994,349)	8,984,060	41,233	38,993	5,272,562	43,829,153
Cash and cash equivalents, end of year	\$ 22,825,009	4,159,285	213,949	(3,145,943)	28,127,313	1,777,117	906,364	7,496,021	62,359,115
Reconciliation of operating income (loss) to net cash from operating activities:									
Operating income (loss)	\$ 855,674	1,005,307	(85,588)	(1,728,592)	17,200,892	2,168,363	1,390,656	(3,313,455)	17,493,217
Adjustments to reconcile operating income (loss) to net cash from operating activities:									
Depreciation expense	2,074,912	17,466	1,649	1,553,873	—	31,635	8,972	—	3,688,507
Provision for bad debts	—	—	—	—	—	1,839	3,457	—	5,296
Decrease (increase) in accounts receivable	117,249	—	(222,189)	—	1,523,539	6,662	(161,514)	—	1,263,748
Increase in deferred outflows	193,110	12,132	10,252	23,209	24,984	45,907	20,746	—	330,350
Increase (decrease) in accounts payable	180,801	(24,199)	(83,368)	—	(118,064)	908,455	11,760	(3,499)	871,886
Increase (decrease) in compensated absences	(11,126)	(2,186)	872	—	(2,983)	736	651	—	(14,046)
Increase (decrease) in net pension liability	(32,404)	4,467	(1,913)	(94,457)	(20,900)	(31,776)	(68,136)	—	(217,622)
Increase in deferred inflows	(183,211)	(9,815)	(9,776)	(45,623)	500,000	160,322	(36,534)	—	(355,687)
(Decrease) in estimated claims payable	—	—	—	—	—	—	—	2,114,857	2,795,179
Total adjustments	2,339,331	(2,145)	(304,472)	1,437,002	1,913,183	1,093,952	(220,599)	2,111,359	8,367,611
Net cash from operating activities	\$ 3,195,005	1,003,162	(390,060)	(291,590)	19,114,075	3,262,315	1,170,058	(1,202,137)	25,860,828

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2019

	Pension Trust Funds				Private-Purpose Trust Funds										Total Private- Purpose Trust Funds	Total Fiduciary Funds
	Retirement Fund	Deferred Retirement Fund	Nhileeso 401 (k) Fund	Total Pension Trust Funds	Handicapped Services Trust Fund	Senior Citizen Services Trust Fund	Vocational Education Trust Fund	Navajo Academy Trust Fund	Navajo Trust Fund	Sales Tax Trust Fund	Local Governance Trust Fund	Veterans' Trust Fund	Navajo Bennett Freeze Trust Fund			
Cash and cash equivalents																
Managed by																
The Navajo Nation																
Managers selected by																
the Navajo Nation																
Bureau of Indian Affairs, as trustee for																
the Navajo Nation																
Total cash and cash equivalents	27,222,234	56,485	(4,213)	27,274,506	437,848	822,850	900,692	434,808	1,680,734	(1,615,042)	14,142,091	35,779,557	1,434,321	80,814,691		
Investments																
Managed by																
The Navajo Nation																
Managers selected by																
the Navajo Nation																
Total investments	913,452,342	2,246,544	106,466,329	1,022,165,215	13,050,090	10,784,167	11,191,435	—	—	—	—	148,835,362	—	1,204,046,269		
Receivables																
Notes receivable	—	—	—	—	1,167,871	1,002,397	1,166,844	—	—	—	—	4,891,343	—	8,318,455		
Participant loans receivable	—	—	9,153,894	9,153,894	—	—	—	—	—	—	—	—	—	9,153,894		
Accrued interest receivable	1,708,395	87	—	1,708,482	43,098	38,582	39,533	1,301	—	73,215	39,171	483,895	6,979	2,435,215		
Total receivables	1,708,395	87	—	1,708,482	1,211,869	1,040,979	1,206,377	1,261	—	73,215	39,171	5,465,238	6,979	19,607,565		
Total assets	942,382,971	2,303,116	115,616,010	1,060,302,097	15,414,954	12,658,296	13,298,504	436,209	1,202,830	10,042,150	14,184,479	188,080,157	4,975,648	1,320,085,164		
Liabilities, Deferred Inflow of Resources, and Net Position																
Accounts payable	125,214	—	—	125,214	8,008	53,039	9,139	—	—	37,556	—	397,638	50,000	555,980		
Accrued liabilities	31,175	—	—	31,175	11,216	—	—	—	—	182,573	—	2,370	—	166,159		
Net pension liability	—	—	—	—	36,011	—	—	—	—	—	—	—	—	36,011		
Total liabilities	156,389	—	—	156,389	55,235	53,039	9,139	—	—	160,129	—	400,008	50,000	759,150		
Pension-related inflows	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
Total deferred inflows of resources	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
Net position held in trust for pension benefits and other purposes	\$ 942,226,582	2,303,116	115,616,010	1,060,145,708	15,359,719	12,604,387	13,289,365	436,209	1,202,830	9,881,921	14,184,479	187,680,149	4,925,648	259,535,531		

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
September 30, 2019

	Pension Trust Funds				Private-Purpose Trust Funds									Total Private-Purpose Trust Funds	Total Fiduciary Funds
	Retirement Fund	Deferred Retirement Fund	Navibessao 401 (k)	Total Pension Trust Funds	Handicapped Services Trust Funds	Senior Citizen Services Trust Fund	Vocational Education Trust Fund	Navajo Academy Trust Fund	Navajo Trust Fund	Sales Tax Trust Fund	Local Governance Trust Fund	Veterans' Trust Fund	Navajo Bennett Freeze Trust Fund		
Additions															
Interest and dividends	\$ 25,397,402	70,641	1,810,119	27,278,162	404,349	340,529	362,356	7,329	477,782	230,778	623,100	3,607,554	100,709	6,154,496	
Net increase in fair value of investments	5,981,872	24,243	1,126,168	7,132,273	598,967	501,674	524,838	—	—	—	—	5,845,197	—	7,470,676	
Contributions to plans	36,598,832	661,762	9,070,329	46,320,923	—	—	—	—	—	13,308,265	—	—	—	13,308,265	
Tax revenue	—	—	—	—	—	—	—	—	—	—	—	142,737	—	142,737	
Other revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Statutory allocation to permanent fund	—	—	—	—	—	—	—	—	—	(1,596,992)	—	—	—	(1,596,992)	
Statutory allocation of current year revenues	—	—	—	—	—	—	—	—	—	(6,254,862)	—	12,317,959	—	6,063,097	
Total additions	67,968,106	756,646	12,006,606	80,731,358	1,003,316	842,203	887,194	7,329	477,782	5,687,189	623,100	21,913,447	100,709	31,542,269	
Deductions															
Personnel	543,267	—	—	543,267	118,637	—	—	—	—	—	—	273,826	—	118,637	
Travel	40,581	—	—	40,581	7,619	—	—	—	—	—	—	13,163	—	281,445	
Supplies	25,362	—	—	25,362	—	—	—	—	—	5,168,500	—	—	—	38,525	
Charter disbursements	—	—	—	—	—	—	—	—	—	—	—	4,556,584	—	5,168,500	
Tribal grants	—	—	—	—	140,657	—	—	—	—	—	—	2,535	—	4,697,241	
Utilities	99,804	—	—	99,804	250	—	—	—	—	—	—	2,785	—	102,589	
Retirement benefits	43,941,249	1,644,825	10,567,626	56,153,700	23,987	20,745	21,007	—	—	—	—	273,520	50,000	56,153,700	
Contractual services	3,574,742	—	277,585	3,852,327	—	—	—	—	—	—	—	—	—	389,259	
Scholarship payments	—	—	—	—	—	—	357,788	—	—	—	—	—	—	4,241,586	
Other	77,936	—	62,100	140,036	50,285	319,315	—	—	—	—	—	117,131	131,827	357,788	
Total deductions	48,302,841	1,644,825	10,907,311	60,855,077	341,635	340,060	378,765	—	—	5,168,500	—	5,236,759	181,827	618,558	
Change in net position	19,665,165	(888,179)	1,099,295	19,876,281	661,681	502,143	508,359	7,329	477,782	518,689	623,100	16,675,688	(81,118)	19,864,693	
Net position, beginning of year	922,561,417	3,181,285	114,516,715	1,040,269,427	14,688,602	12,102,244	12,780,866	428,840	725,148	9,333,332	13,571,379	171,003,461	5,006,766	239,640,838	
Net position, end of year	\$ 942,226,582	2,303,116	115,616,010	1,060,145,708	15,350,283	12,604,387	13,289,265	436,269	1,202,930	9,852,021	14,194,479	187,680,149	4,925,648	259,535,531	
														1,319,681,239	

See accompanying independent auditors' report.





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

To the Navajo Nation Council  
The Navajo Nation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Navajo Nation (the "Nation") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Nation's basic financial statements, and have issued our report thereon dated August 26, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Nation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Nation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nation's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Nation's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2019-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2019-002 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Nation's financial statements are free from 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Nation's Responses to the Findings**

The Nation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Nation's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Moss Adams LLP*

Phoenix, Arizona  
August 26, 2020

**Navajo Nation**  
**Schedule of Findings and Questioned Costs**  
**Year Ended September 30, 2019**

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**2019-001 – Unrecorded Asset and Liability – Material Weakness in Internal Controls Over Financial Reporting**

*Criteria:* A strong internal control system ensures that all material transactions have been recorded timely and accurately through an effective Financial Close and Reporting process and that the month and year-end closing processes are conducted on a timely basis.

*Condition/Context:* During the course of the 2019 audit, the Nation discovered that one of their deposit accounts in the amount of \$46 million as of September 30, 2018, was erroneously not reported in the Nation's financial statements.

The Omnibus Public Land Management Act of 2009 ("PL 111-11") instructed the United States to establish a fund to be known as the Navajo Nation Water Resources Development Trust Fund (the "Trust Fund"). PL 111-11 authorized to be appropriated for deposit in the Trust Fund \$6 million for each of the fiscal years 2010 through 2014 and \$4 million for each of the fiscal years 2015 through 2019 in the Nation's deposit account at the Office of the Special Trustee for American Indians. The condition on these appropriations is that these funds will not be available for expenditure or withdrawal from the Nation before December 31, 2019. As a result, the Nation's cash and unearned revenue balances were adjusted to include this deposit account in the financial statements and increased to \$50 million at September 30, 2019.

*Cause:* The Nation's internal control over identifying unrecorded assets is not operating effectively within the accounting system to prevent material errors on a timely basis.

*Effect:* The lack of a formal monitoring and review process increases the possibility that errors would not be detected or attributed to the proper employee.

*Repeat finding:* This is not a repeat finding.

*Auditor's recommendations:* The Nation should improve its financial close and reporting systems and ensure adequate internal controls are in place to reduce the risk of error.

*Views of responsible officials and planned corrective action:* The Office of the Controller addressed this finding during the preparation for the fiscal year 2019 audit. The Navajo Nation's financial statements are only a one-year presentation. Therefore, by recording the entire \$50 million balance in fiscal year 2019, the finding has been remedied.



**The Navajo Nation**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Fiscal Year Ended September 30, 2019**

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**2019-002 – Information Technology – Significant Deficiency in Internal Controls Over Financial Reporting**

*Criteria:* Information technology (IT) including systems and infrastructure is essential and integral to the efficiency of the Nation's operations and to maintain the confidentiality, integrity, and availability of data. IT internal controls are as important as the internal controls that surround the input of financial transactions into the Nation's general ledger.

*Condition/Context:* The following deficiencies of the Nation's IT internal controls were identified during the course of our audit:

- User access reviews were not completed for the year ending September 30, 2019
- The password policy for JD Edwards was not in accordance with the Nation's standard password policy
- IT is not notified of terminations immediately, which may lead to terminated employees still having active accounts within JD Edwards

*Cause:* The Nation's IT office has indicated that a lack of resources has not enabled them to devote sufficient attention to correct these deficiencies.

*Effect:* The deficiencies increase the risk for systems processing errors and inappropriate systems access.

*Repeat finding:* This finding is a repeat of finding F2018-002 from the prior year schedule of findings and questioned costs.

*Auditor's recommendation:* The Nation should work with the IT office staff to prioritize the most recent findings and establish a timeline to resolve them.

*Views of responsible officials and planned corrective action:* The Office of the Controller has developed an Accounting Policies and Procedures Manual and has been in the process of implementing said manual. Part of this manual includes a Systems Manual Section, which addresses the Office of the Controller's IT functions. Specifically, the sections titled "FMIS User Access and Termination of Access" and "Password Update" address the conditions identified in the finding. The Office of the Controller will devote the necessary resources to correct these observations.

**The Navajo Nation**  
**Summary Schedule of Prior Audit Findings**  
**Fiscal Year Ended September 30, 2019**

Financial Statement Finding Number	Finding	Status
F2018-001	<b>Financial Management Tasks</b>  <i>Condition/Context:</i> Opportunities for continued improvement exist, such as 1.) Inputs to significant accounting estimates should be evaluated to ensure they reflect the current status 2.) Timely reconciliation of accounts payable detail to financial statements 3.) Timely posting of revenue amounts received 4.) Fringe benefit rates incorrectly charged to departments 5.) Timely posting of accounts receivable adjustments 6.) Enhanced review of entries recorded in reverse prior year post close entries, and 7.) Timely roll-forward of fund balances.	Resolved
F2018-002	<b>Information Technology General Controls</b>  <i>Condition/Context:</i> The audit identified several internal control deficiencies over the Financial Management Information System (FMIS). These observations are related to computer access controls and program change controls. We updated our understanding during the current year and noted several of these deficiencies were still present.	Partially resolved, see repeat finding at <b>2019-002</b>  The corrective action was partially achieved as of September 30, 2019. The Office of the Controller has developed an Accounting Policies and Procedures Manual (the "Manual") and has been in the process of implementing it. The Manual was approved by the Navajo Nation Budget and Finance Committee on January 21, 2020. The Manual includes a Systems Manual Section, which addresses the Office of the Controller's IT functions, including computer access controls and program change controls. Specifically, the section of the policies titled "Financial Management Information System (FMIS) and Human Resource Information System Promotion Process for Object Management Workbench (OMW)" addresses the issues identified in finding F2018-002. Management has been adhering to the review of the finding on a quarterly basis. The corrective action was fully achieved by June 30, 2020.

## NAVAJO NATION

9/4/2020

Navajo Nation Council Special Session

05:09:56 PM

Amd# to Amd#	Legislation 0215-20: Accepting	PASSED
MOT Smith	the Audit Report of Moss Adams	
SEC Nez, R	on the Basic Financial Statement	
	of the Navajo Nation for FY 2019	

Yeas : 20

Nays : 1

Excused : 0

Not Voting : 2

## Yea : 20

Begay, E	Freeland, M	Slater, C	Tso, D
Begay, K	Halona, P	Smith	Tso, E
Begay, P	Henio, J	Stewart, W	Walker, T
Crotty	James, V	Tso	Wauneka, E
Daniels	Nez, R	Tso, C	Yazzie

## Nay : 1

Yellowhair

## Excused : 0

## Not Voting : 2

Brown	Charles-Newton
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Presiding Speaker: Damon