

# SECTION 6

# FINANCIAL REPORTING

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## NAVAJO COUNTY FISCAL POLICY MANUAL

### 6.1 PURPOSE

Navajo County's primary objective in financial reporting is to demonstrate its fiscal and operational accountability to taxpayers and citizens, legislative and oversight bodies, investors and creditors. The Governmental Accounting Standards Board (GASB) provides a financial reporting model that includes government-wide and fund financial statements.

To be valuable to interested parties, these statements must be accurate, reliable, relevant, consistent, and issued timely. The statements include adequate disclosures, explanations, and discussions to aid parties in understanding the financial condition of the County.

### 6.2 LEGAL REQUIREMENTS

- A. Annually Navajo County prepares Basic Financial Statements (BFS) in accordance with generally accepted accounting principles (GAAP). Additionally, Navajo County prepares an Annual Expenditure Limitation Report (AELR) in accordance with the format prescribed by the Arizona Auditor General. A.R.S. §41-1279.07(A)
- B. Navajo County must file the AELR with the Auditor General within 4 months after the close of each fiscal year. Upon written request, the Auditor General may grant up to a 120-day extension if extenuating circumstances exist. A.R.S. §41-1279.07(C)
- C. The Auditor General must audit or contract for an annual audit of the Navajo County's Basic Financial Statement and Annual Expenditure Limitation Report. In addition, the county provides financial information for inclusion in the annual audit that verifies that Highway User Revenue Fund monies received by the county pursuant to Title 28, Chapter 18, Article 2, and any other dedicated state transportation revenues received by the County are being used solely for the authorized transportation purposes. A.R.S. §§41-1279.07(D) and 41-1279.21(A)
- D. Counties that expend \$500,000 or more in federal awards in a given fiscal year must have a federal grant compliance audit in accordance with the requirements of the Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) Circular A-133. Navajo County prepares and issues a Statement of Expenditures of Federal Awards by March 31, nine months after the end of each fiscal year in accordance with federal reporting requirements.

### 6.3 COMPREHENSIVE ANNUAL FINANCIAL REPORT

- A. Navajo County prepares a Comprehensive Annual Financial Report (CAFR) that includes an introductory section, a financial section, and a statistical section.

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1. The Introductory section provides general information on the county as well as other information useful in assessing the County's financial condition.
2. The Financial section includes the management's discussion and analysis, basic financial statements, other required supplementary information, and the independent auditors' report.
3. The Statistical section includes trend data for operating indicators from the current and previous nine years as necessary. Demographic and other miscellaneous information is also presented.

### **6.4 BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION**

Navajo County prepares the basic financial statements and required supplementary information in accordance with generally accepted accounting principles (GAAP).

- A. Management's Discussion and Analysis (MD&A) is a component of the required supplementary information. The MD&A is intended to introduce the basic financial statements and should provide an objective, easily understood analysis of the county's financial activities based on currently known facts, decisions and conditions. The MD&A is prepared in accordance with GASB requirements using the GFOA guidance and includes the following:
  1. A brief discussion of the County's basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide.
  2. Condensed financial information derived from the County's government-wide financial statements comparing the current to prior year.
  3. An analysis of the County's overall financial position and results of operations to assist users in assessing whether the financial position of the county has improved or deteriorated as a result of the year's operations. The analysis also includes reasons for significant changes from the prior year.
  4. An analysis of balances and transactions of individual funds, including reasons for significant changes in fund balances or net assets.
  5. An analysis of significant variation between adopted and final budget amounts, if applicable, and between final budgeted amounts and actual amounts for the general fund.

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6. A description of the county's significant capital asset and long-term debt activity during the year.
7. A description of currently known facts, decisions or conditions that are expected to have a significant effect on the county's financial position.

### B. Government-wide Financial Statements

The government-wide statements contain information about the County excluding fiduciary funds and component units that are fiduciary in nature. They are prepared using the economic resources measurement focus and the accrual basis of accounting.

1. **Statement of Net Assets.** This statement reports all assets and liabilities of the County. Assets and liabilities are presented in order of their relative liquidity. The difference between a government's assets and liabilities is its *net assets*.
2. **Statement of Activities.** This statement reports the County's operations. The statement shows the net (expense) revenue of the county's individual functions. This shows the relative financial burden to taxpayers of each of the County's functions.
3. Government-wide financial statements are prepared using a different measurement focus and basis of accounting than the governmental fund financial statements, therefore, a schedule reconciling the differences is presented.

### C. Fund Financial Statements

1. The focus on governmental and proprietary fund financial statements is on major funds. Funds are considered major based on their relative significance to all funds or if the County determines that it is important to be presented separately. The General Fund is always a major fund.
2. **Governmental funds.** The governmental fund statements report additional and detailed information about the County. They include a balance sheet and a statement of revenues, expenditures, and changes in fund balance. These are presented using the current financial resources measurement focus and the modified accrual basis of accounting.
  - a. **Balance Sheet.** Information on the assets, liabilities and fund balances of each major governmental fund and aggregate information for non-major funds is presented.

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- b. Statement of Revenues, Expenditures, and Changes in Fund Balances. Information about the inflows, outflows, and balances of current financial resources for each of the major governmental funds and aggregate amounts for non-major funds is presented.
  3. Proprietary funds. The proprietary fund financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in fund net assets or fund equity, and a statement of cash flows. These are presented using the economic resources measurement focus and the accrual basis of accounting.
    - a. Statement of Net Assets. This statement distinguishes between current and long-term assets and liabilities.
    - b. Statement of Revenues, Expenses, and Changes in Fund Net Assets. Information on operating and non-operating revenues and expenses is presented.
    - c. Statement of Cash Flows. Information on cash flows is presented as cash flows from operating activities, from noncapital financing activities, from capital and related financing activities, and from investing activities.
  4. Fiduciary Funds. The fiduciary funds statements consist of a statement of fiduciary net assets and a statement of changes in fiduciary net assets. These are presented using the economic resources measurement focus and the accrual basis of accounting.
    - a. Statement of Fiduciary Net Assets. This statement includes information about assets, liabilities and net assets for each fiduciary fund type.
    - b. Statement of Changes in Fiduciary Net Assets. This statement includes information about the additions to, deductions from, and net increase or decrease in net assets for the year, for each fund type.
- D. Notes to the Financial Statements
  1. The notes to the financial statements are an important part of the basic financial statements. The notes include information necessary for a fair presentation of the basic financial statements that is not readily apparent from or cannot be displayed on the face of the financial statements themselves. Navajo County maintains all necessary documentation to support the information

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### E. Other Required Supplementary Information

Other required supplementary information includes budgetary comparison schedules for governmental funds and information about pensions and other post-employment benefits (OPEB).

### 6.5 FINANCIAL REPORTING ENTITY

Navajo County's financial reporting entity consists of the County as the primary government, organizations for which the county is financially accountable, and other organization for which the nature and significance of the relationship with the County is such that exclusion would cause the county's basic financial statements to be is leading or incomplete.

Navajo County prepares all financial statements in accordance with the Governmental Accounting Standards Board Statements Nos. 14 and 39 when determining whether to include potential component units in the financial reporting entity.