

**NAVAJO TECHNICAL UNIVERSITY
Crownpoint, New Mexico**

(A Component Unit of the Navajo Nation)

**Financial Statements
and
Supplementary Information**

For the year ended May 31, 2016

(With Independent Auditors' Report Thereon)

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

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Independent Auditors' Report on Financial Statements and Supplementary Information

Members of the Board of Regents
Navajo Technical University

Report on the Financial Statements

We have audited the accompanying financial statements of the Navajo Technical University (the University) as of and for the year ended May 31, 2016, and the related notes to the financial statements, which collectively comprise the University'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 accounting principles generally accepted in the United States of America; 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 entity'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 entity'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Navajo Technical University, as of May 31, 2016, and the changes in financial position, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic 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.

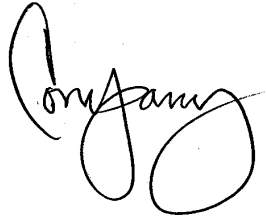
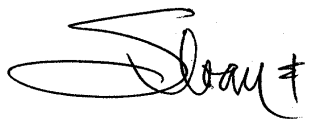
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the University's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 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 expenditures of federal awards is fairly stated in all material respects, in relation to the basic financial statements as a whole.

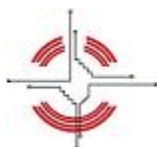
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 University's internal control over financial reporting and compliance.



Albuquerque, New Mexico
February 28, 2016



**NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2016

Our discussion and analysis of the Navajo Technical University's (the University) financial performance provides an overview of the University's financial activities for the fiscal year ended May 31, 2016. The analysis focuses on the University's financial performance as a whole. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Active Mission Statement

Navajo Technical University's mission is to provide university readiness programs, certificates, associate, baccalaureate, and graduate degrees. Students, faculty and staff will provide value to the Dine' community through research, community engagement, service learning, and activities designed to foster cultural and environmental preservation and sustainable economic development. The University is committed to high quality, student-oriented, hands-on-learning environment based on the Dine' cultural principles:

- ◆ Nitsahakees – Thinking.
- ◆ Nahat'a – Planning.
- ◆ Iina – Life.
- ◆ Sihasin – Stability.

Using the Annual Financial Report

This report consists of the Management's Discussion and Analysis (MD&A), the Balance Sheet, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These statements provide both long-term and short-term financial information of the University. The discussion and analysis of the financial statements provides an overview of the University's financial activities for the year ended May 31, 2016.

The statements are prepared under the accrual basis of accounting in a form similar to that used by private sector companies, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Balance Sheet includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the University's financial health when considered with nonfinancial facts such as the number of students, nature of ongoing education initiatives and the condition of the economy.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2016

The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating activities, capital and related financing activities, non-capital financing activities which helps measure the ability to meet financial obligations as they mature.

FINANCIAL ANALYSIS OF THE UNIVERSITY AS A WHOLE

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the University's activities for the year. These two statements report the net assets of the University and changes in them.

Over time, increases or decreases in the University's net assets are indicators of whether its financial health is improving or deteriorating. You can think of the University's net assets - the difference between assets and liabilities - as one way to measure financial health or financial position.

Also consider other non-financial factors such as changes in new or changed legislation both federal, state and Navajo Nation, economic conditions, program development initiatives, and changes in attendance.

University Highlights

- ◆ First Master's Degree conferred May 2016.
- ◆ NTU's radio station 107.3 KZCY, began broadcasting December 2015.
- ◆ Three new degree programs added – Certificate's in Computer Science & Counseling and an A.A.S. in Construction Technology.
- ◆ Significant construction completed on two major projects at the Crownpoint Campus – Library Expansion, 8,000 sq. ft. and Phase III Multipurpose Classroom / Wellness Center (Student Union) 24,000 sq. ft.
- ◆ Navajo Tech Innovation Center (NTIC) was certified by New Mexico Economic Development as the state's first American Indian certified business incubator.
- ◆ The University continued to remain free of long-term debt during the period.

**NAVAJO TECHNICAL UNIVERSITY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2016**



Perry James, first Master's Graduate, is hooded at the May 2016 Commencement.

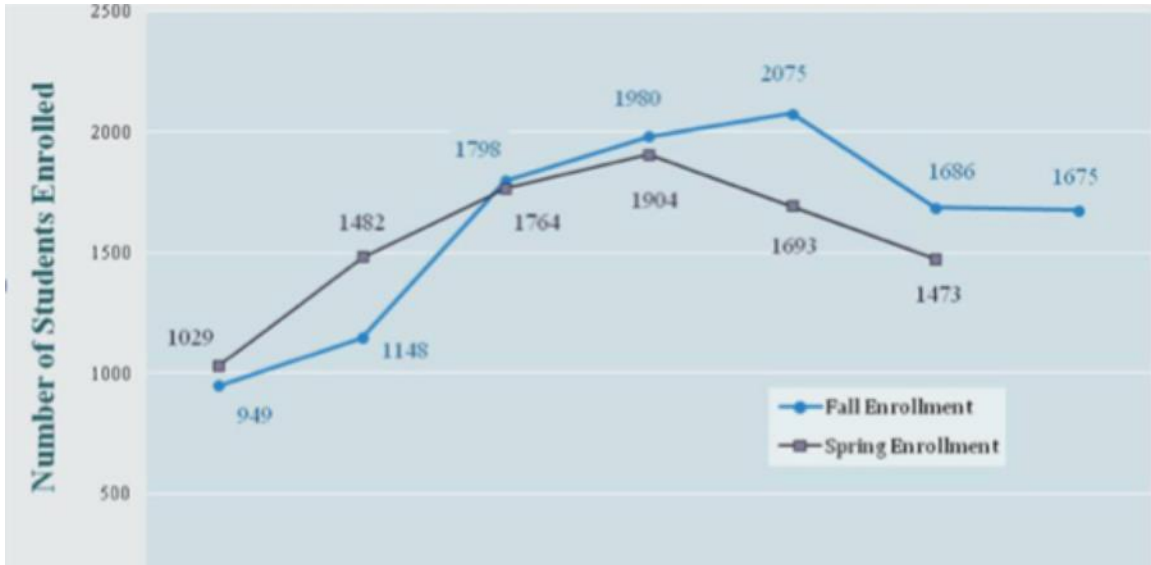
Navajo Technical University Enrollment and Retention Trends

At the end of May 2016, Navajo Technical University offered 48 degrees and certificates - one (1) master's degree, nine (9) Bachelor degrees, sixteen (17) associate degrees and nineteen (21) certificates. Overall enrollment continued to grow in fiscal 2015, but at a much slower pace than the previous few years. The trend is similar at the both the main campus in Crownpoint, NM and the instructional site in Chinle, AZ. Both facilities are near capacity and significant infrastructure upgrades are needed to meet projected growth.

An unexpected dip in enrollment became a concern last year. The rate of enrollment decline leveled out this year, but is still a concern. The biggest percentage decreases occurred at the Chinle Instructional Site, but affected both the Crownpoint campus and Teec Nos Pos Instructional Site as well.

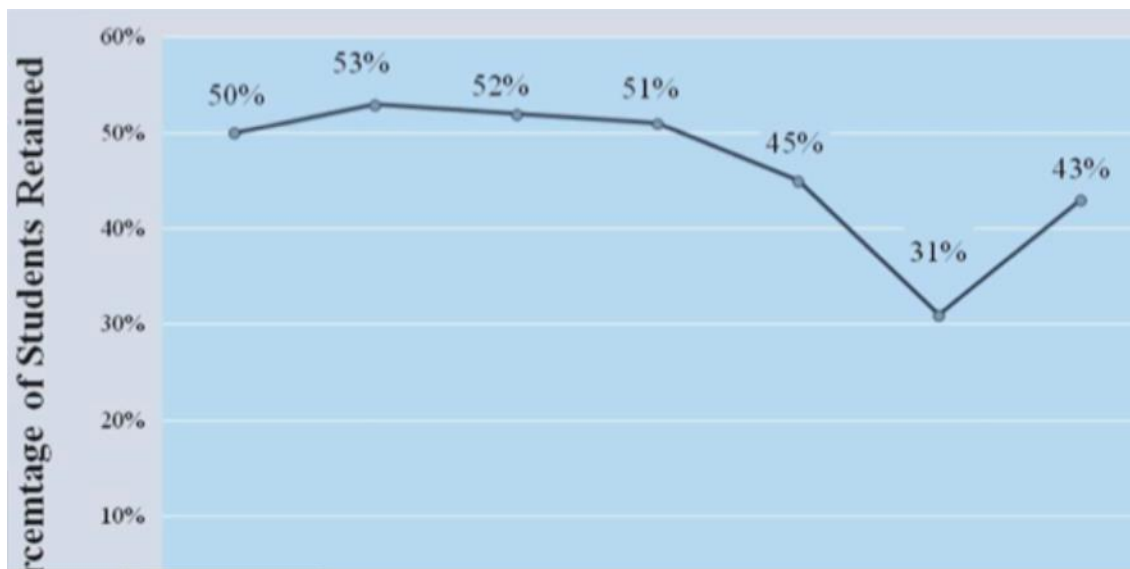
**NAVAJO TECHNICAL UNIVERSITY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2016**



A number of initiatives have been planned to address this challenge, but they are early in the implementation stage at the time this report has been written.

The retention numbers also took a dramatic drop, but have been reversed, which is a positive sign that may also help with enrollment as of next year.



Retention rates need to be over 43%, however. The fall from the 50% and above rates, which were maintained for a number of years, is still concerning. An analysis of some of the reasons for the concern about the retention rates is as follows:

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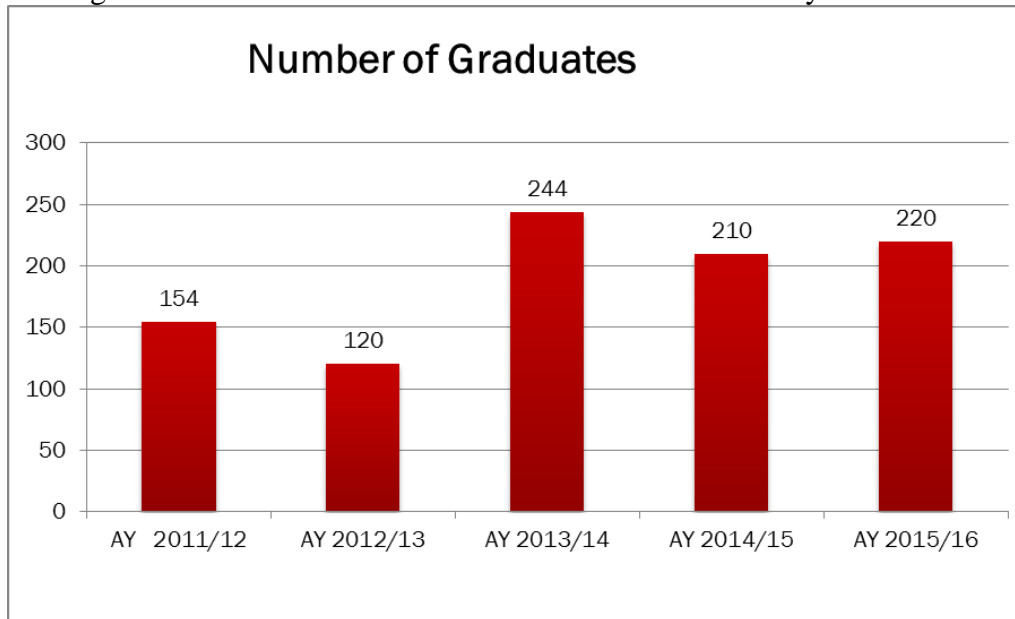
MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2016

- 37% had student bills
- 25% were placed on academic probation or suspension
- 74% took a remedial course during their academic career

The administration and Student Services are working hard to improve retention with a number of initiatives. Some of these efforts appear to be working, based upon the data provided above, but this will be an important indicator to examine to see if the improvement in the rate continues.

Graduation Rates

The number of graduates continued to break the 200 mark for the third year in a row:



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MANAGEMENT'S DISCUSSION AND ANALYSIS
May 31, 2016

The University's cash position continued to increase and the Arizona Transaction Privilege Tax Compact cash increased by nearly \$1,000,000.

The increase in capital assets is due to the start of construction of Phase III of the Comprehensive Multipurpose Classroom / Wellness Center Building, Student Union Building (SUB) and Library Expansion. Significant repair of several University buildings and parking lot improvements also contributed to capital additions as well as the build-out of the FM radio station studio.

Capital equipment purchased included additional technology for the university IT infrastructure, equipment for the new radio station, equipment for the veterinary technician program including a new diesel pick-up for fieldwork.

The University continued to be successful in securing federal awards. USDA awarded the University additional funds. Increases were also awarded by the Bureau of Indian Affairs and Carl Perkins. These increases in funding were due mainly to the increase in Indian student enrollment. Awards were also received from the National Science Foundation for continued work on NTU's STEM programs and Digital / Advanced Manufacturing.

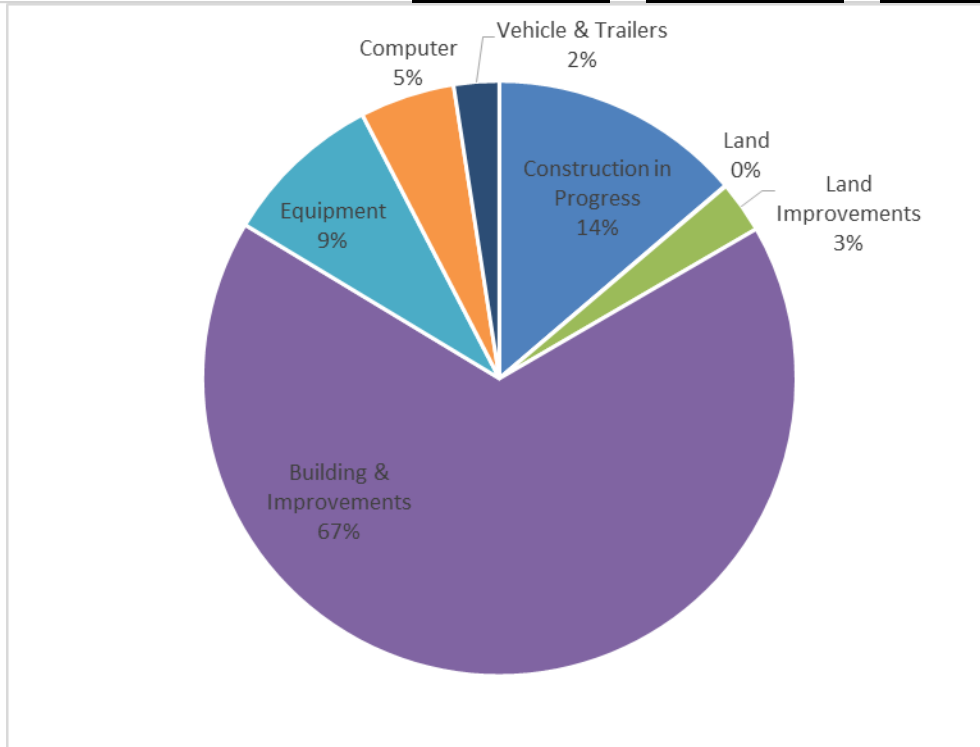
The slight decline in enrollment and related revenues continues to have a corresponding decrease in expense. The University now offers 48 degree / certificate programs including one master's and nine baccalaureate. The Chinle instructional site has seen a significant decline in student attendance. The Teec Nos Pos, AZ instructional site continues to be marginal needs a more successful recruitment strategy and effort.

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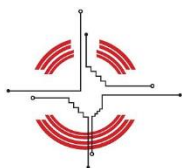
MANAGEMENT'S DISCUSSION AND ANALYSIS
 May 31, 2016

At May 31, 2016, the University had \$25,857,737 invested in capital assets, net of accumulated depreciation of \$25,999,938. The value of capital assets depreciated during the fiscal year equaled \$44,699,422. Capital assets for the year ended May 31, 2016 consisted of the following (Table 4):

	2016	2015	Change
Construction in Progress	\$ 7,139,233	\$ 1,151,431	\$ 5,987,802
Land	19,020	19,020	-
Land Improvements	1,460,331	1,427,455	32,876
Building & Improvements	34,753,427	34,678,849	74,578
Equipment	4,522,302	3,878,234	644,068
Computer	2,678,243	2,645,352	32,891
Vehicle & Trailers	1,285,119	1,235,815	49,304
Total Capital Assets	51,857,675	45,036,156	6,821,519
Accumulated Depreciation	(25,999,938)	(23,696,270)	(2,303,668)
Total Capital Assets, Net	\$ 25,857,737	\$ 21,339,886	\$ 4,517,851



The above pie chart illustrates the University's capital asset components as a percentage of total capital assets (Chart 5).



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MANAGEMENT'S DISCUSSION AND ANALYSIS

May 31, 2016

ACTIVE MISSION STATEMENT

Navajo Technical University's mission is to provide university readiness programs, certificates, associate, baccalaureate, and graduate degrees. Students, faculty, and staff will provide value to the Dine' community through research, community engagement, service learning, and activities designed to foster cultural and environmental preservation and sustainable economic development. The University is committed to high quality, student-oriented, hands-on-learning environment based on the Dine' cultural principles: Nitsahakees, Nahata, Iina, Sihasin.

CONTACTING THE UNIVERSITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Navajo people, the Navajo Nation Government, customers and creditors with a general overview of the University's finances and to demonstrate the University's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the University's Interim Chief Financial Officer at 505-786-4118, or by mail at:

Navajo Technical University
Geraldine Gamble
Interim Chief Financial Officer
P.O. Box 849
Crownpoint, New Mexico 87313

NAVAJO TECHNICAL UNIVERSITY
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BALANCE SHEET
May 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 5,825,498
Accounts receivable, net	1,413,908
Grant receivable	5,914,345
Inventory	1,567,382
Prepaid expenses and deposits	<u>50,000</u>
Total current assets	<u>14,771,133</u>

Noncurrent assets

Restricted Cash	4,588,456
Capital assets, net	<u>25,857,737</u>

 Total noncurrent assets 30,446,193

 Total assets \$45,217,326

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 1,333,358
Accrued liabilities	607,680
Accrued payroll	1,014,278
Refundable deposits	54,165
Other liabilities	28,799
Deferred revenue	<u>4,726,304</u>

 Total current liabilities 7,764,584

 Total liabilities 7,764,584

Net assets:

Invested in capital assets	25,857,737
Restricted for Endowment	4,585,552
Unrestricted	<u>7,009,453</u>

 Total net assets 37,452,742

 Total liabilities and net assets \$45,217,326

NAVAJO TECHNICAL UNIVERSITY
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended May 31, 2016

OPERATING REVENUES AND EXPENSES

Operating revenues:	
Tuition and fees	\$ 3,038,238
Scholarship allowances	<u>(3,037,688)</u>
Net Tuition and fees	550
Housing	612,621
Cafeteria	534,882
Bookstore	972,035
Auxiliary	282,333
Miscellaneous	<u>363,828</u>
Total operating revenues	<u>2,766,249</u>
Operating expenses:	
Instructional	8,501,428
Student services	1,947,593
Academic support	1,426,806
Public services	180,177
Student assistance	2,480,467
Institutional	6,422,076
Auxiliary services	3,401,230
Depreciation	<u>2,325,967</u>
Total operating expenses	26,685,744
Net operating income (loss)	(23,919,495)

NONOPERATING REVENUES AND EXPENSES

Federal grants and contracts	25,049,998
Government appropriations	4,244,068
State and tribal grants and contracts	581,062
Private grants and contracts	213,400
Interest income	<u>2,903</u>
Total nonoperating revenues (expenses)	<u>30,091,431</u>
Change in net assets	6,171,936
Net assets, beginning of year, as restated	<u>31,280,806</u>
Net assets, end of year	<u>\$37,452,742</u>

NAVAJO TECHNICAL UNIVERSITY
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STATEMENT OF CASH FLOWS
For the year ended May 31, 2016

Cash flows from operating activities	
Cash received from students and others	\$ 4,356,584
Cash received from auxiliary and other	2,401,871
Cash payments to suppliers	(9,295,556)
Cash payments for scholarships	(6,453,131)
Cash payment to employees	(11,712,358)
Net cash (used)/provided by operating activities	<u>(20,702,590)</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(6,850,783)</u>
Net cash (used) for capital and related financing activities	<u>(6,850,783)</u>
Cash flows from non-capital financing activities	
Cash received from grantors	<u>29,033,701</u>
Net cash (used)/provided by non-capital financing activities	<u>29,033,701</u>
Cash flows from investing activities	
Interest and other income	<u>2,903</u>
Net cash (used)/provided by investing activities	<u>2,903</u>
Net (decrease)/increase in cash and cash equivalents	1,483,231
Cash and cash equivalents, beginning of period	<u>8,930,722</u>
Cash and cash equivalents, end of period	<u>\$10,413,953</u>
Reconciliation of operating (loss) to net cash provided by operating activities:	
Operating loss	\$(23,919,495)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expenses	2,325,967
Decrease (increase) in account receivable	356,043
Decrease (increase) in inventories	(54,326)
(Decrease) increase in account payable and accrued liabilities	159,973
(Decrease) increase in accrued payroll	419,344
(Decrease) increase in refundable deposit	<u>9,904</u>
Net cash (used)/provided by operating activities	<u>\$(20,702,590)</u>

Fiduciary Fund Financial Statements

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

STATEMENT OF FIDUCIARY NET ASSETS
May 31, 2016

	<u>Student Activity Fund</u>
Assets	
Cash and cash equivalents	<u>\$134,147</u>
Total assets	<u>\$134,147</u>
Liabilities	
Due to student activity fund	<u>\$134,147</u>
Total liabilities	<u>\$134,147</u>

NAVAJO TECHNICAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
May 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and relationship with the Navajo Nation

Navajo Technical University (the "University"), a chartered corporation of the Navajo Nation (the Nation), is a post-secondary educational institute providing educational opportunities to the Navajo people and others at various locations on the Nation. The University's main campus is located in Crownpoint, New Mexico and is governed by a six member Board of Regents, five of whom are appointed by the President of the Nation and confirmed by the Naabik'iyati' Committee of the Navajo Nation Council. The University is considered a component unit of the Nation and receives funding from the Nation.

B. Basis of Presentation

The University follows the provisions of the Governmental Accounting Standards Board (GASB) Statement, No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments;* Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis – for Public University and Universities;* Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;* and Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by these statements provides a comprehensive, entity-wide perspective of the University's assets, liabilities, and net assets, revenues, expenses, changes in net assets, and cash flows.

C. Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged in business-type activities. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra entity transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 1989, unless FASB conflicts with GASB. The University has elected not to apply FASB pronouncements issued after the applicable date.

D. Budgetary Data

The University's grant budgets are subject to annual review and negotiation by their various funding sources. Annual budgets are not required to be legally adopted. As such, no budgetary comparisons are presented as Required Supplementary Information.

**NAVAJO TECHNICAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
May 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the University considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

F. Account Receivable

Accounts receivable consists of amounts due from students for tuition, travel and salary advances to employees, and rents receivable. An allowance for doubtful accounts has been set up for \$1,647,873 for amounts that management has deemed may be uncollectible.

G. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. The capital assets of the University have been recorded at their historical cost.

Depreciation of all exhaustible capital assets used by the University capitalizes all expenditures for property and equipment that have an estimated useful life of one year or more and have a cost of \$5,000 or more per unit. Depreciation has been calculated using the straight-line method over the estimated useful life of the asset as noted below:

<u>Asset Category</u>	<u>Years</u>
Vehicles	5
Furniture and Fixtures	7
Land Improvement	16-20
Building	20

H. Compensated Absences

The University's leave policy for all "full-time" employees under the policy section titled "My Time Off" with regard to annual and sick leave hours as follows:

	<u>Faculty and 10-month staff</u>	<u>General staff</u>	<u>Professional staff</u>
Current year	64	96	192

NAVAJO TECHNICAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
May 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

There is no carryover to the next succeeding year of annual and sick leave for all employees, a use it or lose it policy is now in effect. Upon resignation or employment termination with the University, the employee at the Presidents discretion, will be compensated up to a maximum of 40 hours. As of May 31, 2016 accrued compensated absences balance was \$-0-.

I. Net Assets

Net assets are classified as follows:

Invested in capital assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. The University currently has no debt.

Restricted net assets represent those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. The University is legally or contractually obligated to spend these funds in accordance with the restrictions imposed by external third parties.

Unrestricted net assets consist of those operating funds over which the Board of Regents retains full control to use in achieving any of its authorized purposes.

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

J. Revenues

Revenues are classified as operating or nonoperating according to the following criteria:

Operating revenue includes activities that are generated through the University's normal business activities, such as (a) student tuition and fees, net of scholarship discounts and allowances; (b) sales and services; and (c) contracts and grants.

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as (a) appropriations and (b) gifts. These revenue streams are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Revenues are recognized when all applicable eligibility requirements have been met.

NAVAJO TECHNICAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
May 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Student tuition and fee revenue from students are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on students' behalf. To the extent that revenue from governmental grant programs is used to satisfy tuition and fees, other student charges, and auxiliary enterprises charges, the University has recorded a scholarship allowance.

Certain governmental grants, such as the Pell grant, and other tribal, federal, state, or nongovernmental programs are recorded as operating or nonoperating revenue in the University's financial statements. Contract and grant revenues are recognized when all of the eligibility requirements have been met.

Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. For example, when resources are received by the University before it has a legal claim to them, or prior to the incurrence of qualifying expenditures, revenue is deferred. In subsequent periods, when both revenue recognition criteria are met or when the University has a legal claim to the resources, the liability for deferred revenues is removed and revenue is recognized.

K. Expenses

Expenses are classified as operating or nonoperating according to the following criteria:

Operating expenses include activities that have the characteristics of an exchange transaction, such as (a) employee salaries, benefits, and related expenses; (b) scholarships and fellowships, net of scholarship discounts and allowances; (c) utilities, supplies and other services; (d) professional fees; and (e) depreciation expenses related to University capital assets.

Nonoperating expenses include activities that have the characteristics of nonexchange transactions, such as interest on capital asset-related debt and other expenses that are defined as nonoperating expenses by GASB Statement No.9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34.

Expenditures are subject to review by the funding agency and may result in disallowance in subsequent periods. Grants receivable represents funds due from grantors for program services expenses in excess of reimbursements. All grants receivable are considered collectible by the University. Grant deferred revenues represent amounts received in excess of expenses incurred, but which are to be expended in a future period.

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

NOTES TO FINANCIAL STATEMENTS
May 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

L. Other Non-Exchange Transactions

The University has adopted GASB Statement No. 33, “Accounting and Financial Reporting for Non-exchange Transactions,” which establishes accounting and financial reporting standards for nonexchange finance and capital transactions. The Navajo Nation appropriations received by the University are classified as a voluntary non-exchange transaction as defined by GASB Statement No. 33 and, accordingly, the University recognizes revenue from these transactions when eligibility requirements are met.

M. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

N. Income Tax Status

As an organization described in Internal Revenue Code Section 501(c)(3), the University is exempt from federal income tax on its related income under Section 501(a). The University had no material unrelated business income in the current fiscal year. Accordingly, no provision has been made for income taxes.

O. Accounting Pronouncements

In March 2009 the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which clarifies the definitions of existing governmental fund types and establishes clearer fund balance classifications based on the extent to which a government is bound to observe constraints imposed upon the use of the resources. These requirements are effective for financial statement periods beginning after June 15, 2010. The University is evaluating GASB No. 54 and has not yet determined the impact the adoption will have on the presentation of its financial statements.

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

NOTES TO FINANCIAL STATEMENTS
May 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

In May 2009 the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which incorporates the hierarchy of GAAP into the GASB authoritative literature. The University does not believe implementation of this statement will materially impact its financial statements.

In May 2009 the GASB issued Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards. The objective of the statement is to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This statement addresses three issues not included in GASB authoritative literature that establishes accounting principles - related party transactions, subsequent events and going concern considerations - that are more appropriately included in accounting and financial reporting standards rather than in auditing literature. The University does not believe implementation of this statement will materially impact its financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of the following at May 31, 2016:

Cash on hand	\$ 4,951
Deposit with financial institution	5,820,547
Certificates of deposit	<u>4,588,456</u>
	<u>\$10,413,954</u>

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 University's deposits may not be recovered. The University does not have formal deposit and investment policies that limit its exposure to custodial credit risk. At May 31, 2016, none of the cash balances deposited at financial institutions were uninsured and uncollateralized and none of the overnight repurchase agreements held at financial institutions were uninsured and uncollateralized. The total overnight repurchase agreements were redeposited into the University's account on June 1 of the following fiscal year.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment; the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The University does not have formal investment policies that limit its exposure to interest rates risk.

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

NOTES TO FINANCIAL STATEMENTS
May 31, 2016

NOTE 2 – CASH AND CASH EQUIVALENTS – Continued

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the University. The University does not have formal investment policies that limit its exposure to credit risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the University's investment in a single issuer. The University does not have formal investment policies that limit its exposure to concentrations of credit risk.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable balances consist of the following at May 31, 2016:

Students	\$2,472,194
Employees	553,216
Other	<u>35,981</u>
Less: Allowance for uncollectible balances	<u>(1,647,873)</u>
	<u>\$1,413,908</u>

NOTE 4 – GRANT RECEIVABLES AND DEFERRED REVENUES

Grants receivable represents funds due from grantors for program services expenses in excess of reimbursements. Deferred revenue represents the deficiency of expenditures over advances or reimbursements received on federal state or other award programs. The grants receivable and deferred revenues as of May 31, 2016 are comprised of the following:

	<u>Grants Receivable</u>	<u>Deferred Revenue</u>
U.S. Department of Agriculture	\$ 724,778	\$ 440,089
U.S. Nuclear Regulatory Commission	19,234	-
U.S. Department of HUD	389,600	-
U.S. Department of Interior-BIA	2,340,540	31,085
National Aeronautics and Space Administration	156,527	35,464
U.S. Department of Energy	17,445	15,000
National Science Foundation	274,417	-

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

NOTES TO FINANCIAL STATEMENTS
May 31, 2016

NOTE 4 – GRANT RECEIVABLES AND DEFERRED REVENUES – continued

	<u>Grants Receivable</u>	<u>Deferred Revenue</u>
U.S. Department of Health	-	2,000
U.S. Department of Education	1,137,221	2,070,882
U.S. Department of Commerce	-	35,787
Other Funding Sources	<u>854,583</u>	<u>2,095,997</u>
	<u>\$5,914,345</u>	<u>\$4,726,304</u>

NOTE 5 – CAPITAL ASSETS

The University's capital assets as of May 31, 2016 are composed of the following:

	<u>Balance at May 31, 2015</u>	<u>Increases</u>	<u>Transfers/ Decreases</u>	<u>Balance at May 31, 2016</u>
Capital assets not being depreciated				
Land	\$ 19,020	\$ -	\$ -	\$ 19,020
Construction in Process (CIP)	<u>1,151,431</u>	<u>6,288,382</u>	<u>(300,580)</u>	<u>7,139,233</u>
Total capital assets not being depreciated	<u>1,170,451</u>	<u>6,288,382</u>	<u>(300,580)</u>	<u>7,158,253</u>
Capital assets being depreciated				
Land improvements	1,427,454	32,877	-	1,460,331
Building improvements	34,678,850	46,828	27,749	34,753,427
Furniture and equipment	6,523,586	438,788	238,171	7,200,545
Vehicles	<u>1,235,815</u>	<u>43,908</u>	<u>5,396</u>	<u>1,285,119</u>
Total capital assets being depreciated	43,865,705	562,401	271,316	44,699,422
Less accumulated depreciation	<u>(23,696,270)</u>	<u>(2,325,967)</u>	<u>22,299</u>	<u>(25,999,938)</u>
Total capital assets being depreciated, net	<u>20,169,435</u>	<u>(1,763,566)</u>	<u>293,615</u>	<u>18,699,484</u>
Capital assets, net	<u>\$ 21,339,886</u>	<u>\$4,524,816</u>	<u>\$ (6,965)</u>	<u>\$ 25,857,737</u>

Depreciation expense for the year-end May 31, 2016 was \$2,325,967.

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

NOTES TO FINANCIAL STATEMENTS
May 31, 2016

NOTE 6 – CONTINGENCIES

Amounts received or receivables from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time although the University expects such amounts, if any to be immaterial.

NOTE 7 – ECONOMIC DEPENDENCES

The University receives approximately 59% of its operating revenue from various federal programs, including the U.S. Department of Interior and the U.S. Department of Education. The University does not expect in any way that the support from these governmental agencies will be lost in the near term. However, if funding were withdrawn or diminished, the University's continued operation would be impacted adversely.

NOTE 8 – RETIREMENT PLAN

The University adopted a defined contribution plan, the Navajo Technical College Profit Sharing Plan effective June 1, 1993 covering all employees with at least two years of service. The Plan was established by resolution of the University and the Board of Regents has authority to amend it. The plan is administered in accordance with the Internal Revenue Code and Treasury Regulations. The University makes an annual contribution equal to 7% of all participants' compensation. Employees are 100% vested after 4 years of service at the University, and they are able to direct the investment of certain portions of their interest in the Plan. Total employer and employee contributions for the year ended May 31, 2016 was \$786,743. Employer's contributions were \$538,945 and employee contributions totaled \$247,798.

NOTE 9 – RISK MANAGEMENT

The University is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University participates in the Navajo Nation Risk Management Program, which was established to manage, control, and minimize this risk. Under this program, the Risk Management pool provides coverage for up to a maximum of \$500,000 for each incident. The University has effectively managed risk through various employee education and prevention programs. Risk management expenses for the University are accounted for in operations. Any claims are processed through insurance agents and/or adjusters.

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year Ended May 31, 2016

<u>Federal Grantor/Pass through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
NTU Extension Capacity	10.500	2014-47002-22210	\$84,130
Garden Grant	10.500	2011-47002-30961	44,159
Dine Youth Horse Safety Program	10.500	2014-47002-30961	19,066
Tribal Universities Endowment Program	10.222	2010-38423-06919	110,056
Equity Grant	10.221	2010-38421-21295	88,484
APHIS Vet Services	10.025	14-1001-0868-CA	113,434
APHIS Internship Program for TCU Students Yr. 1	10.025	15-1001-0879-CA	42,168
APHIS Vet Tech Program Development Proj.	10.025	16-1001-0868-CA	4,658
APHIS Internship Program for TCU Student Yr. 2	10.025	16-1001-0879-CA	908
Native Animal, Plant and Wildlife Youth Camp	10.025	13-1001-0859-CA	23,635
APHIS Safeguarding Natural Heritage Youth Camp	10.025	16-1001-0859-CA	2,998
Distance Learning Technology	10.855	NM0720-A16	422,318
Radon Gas Impacts	10.227	2015-38424-24093	5,809
Climate Change	10.227	2015-38424-24053	4,416
Liver Toxic Plant Effects in Livestock of Eastern Agency	10.227	2013-38424-20987	<u>6,578</u>
Total U.S. Department of Agriculture			<u>\$ 972,817</u>
<u>U.S. Nuclear Regulatory Commission</u>			
USNRC-Dev. Geospatial Engineer	77.007	NRC-27-09-514	<u>85,737</u>
Total U.S. Nuclear Regulatory Commission			<u>\$ 85,737</u>
<u>U.S. Department of Interior – Bureau of Indian Affairs</u>			
Bureau of Indian Affairs – PL 93-638	15.024	CTN00X20203	\$ 4,173,858
AIHEC BIE College Bound Initiative	15.028	BIEA15AC00022	<u>2,515</u>
Total U.S. Department of Interior – Bureau of Indian Affairs			<u>\$ 4,176,373</u>
<u>U.S. Department of Energy</u>			
Social Economic Advancement	81.094	DE-ED0000129	\$ 35,421
AIHEC DOE Advance Manufacturing Network Init.	81.123	DE-NA002970	<u>141,599</u>
Total U.S. Department of Energy			<u>\$ 177,020</u>

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year Ended May 31, 2016

<u>Federal Grantor/Pass through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass through Grantor's Number</u>	<u>Expenditures</u>
<u>National Science Foundation</u>			
Sustainable Plan for the 21 st Century	47.076	1023461	\$ 645,333
AIHEC TCU Stem Student Success Collaboration	47.076	DUE-1347778	20,069
Dimensional Metrology Cert. Program	47.076	105211	252,395
NSF STEM Careers Project	47.076	1461546	<u>143,136</u>
Total National Science Foundation			<u>\$ 1,060,933</u>
<u>U.S. Department of Commerce</u>			
Public Telecommunications Facilities Program	11.550	35-01-N10213	\$ <u>125,150</u>
Total U.S. Department of Commerce			<u>\$ 125,150</u>
<u>U.S. Department of Education</u>			
Federal Pell Grant	84.063	016119	\$ 5,518,155
Federal University Work-study	84.033	016119	13,987
Tribally Controlled Postsecondary Career & Tech	84.245A	V245A070005-13	5,413,714
Title III – Culinary Arts Center	84.031T	P031T100417	2,757,675
Title III – Project A	84.031T	P031T100317	3,223,187
Title III – Project A	84.031D	P031D150018	311,170
Title III – Project B	84.031T	P031T150018	<u>226,681</u>
Total U.S. Department of Education			<u>\$17,464,569</u>
Total Federal Awards			<u>\$24,062,599</u>

NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
May 31, 2016

NOTE 1 – Basis of Presentation

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

NOTE 2 – Subrecipients

Of the expenditures presented in the schedule, the University provided no awards to subrecipients.

NOTE 3 – Outstanding Loans

Navajo Technical University has no federal loan balance at May 31, 2016.

NOTE 4 – Reconciliation to Expenditures

The following is a reconciliation of the expenditures reported on the University's schedule of expenditures of federal awards to federal grant revenue reported in the University's statement of revenue, expenditures and change in net assets.

Expenditures reported in the schedule of expenditures of federal awards	\$24,062,599
Capitalized expenditures funded by federal awards	(6,116,793)
Depreciation expense reported in the financial statements	2,325,967
Expenses funded by tribal, state, and other nonfederal sources	<u>6,413,971</u>
Operating expenses reported in the financial statements	<u>\$26,685,744</u>



Report 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”

Members of the Board of Regents
Navajo Technical University

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 Technical University (University) as of and for the year ended May 31, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University'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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

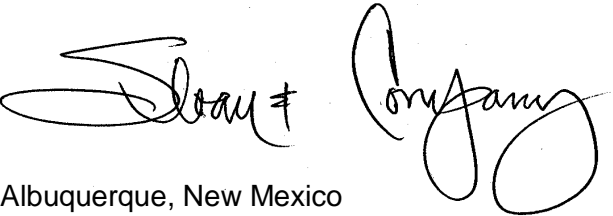
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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*.

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.

A handwritten signature in black ink, appearing to read "Sean P. Company". The signature is written in a cursive style with a large initial "S" and "C".

Albuquerque, New Mexico
February 28, 2016



SLOAN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

8205 Spain NE, SUITE 204 • ALBUQUERQUE, NM 87109 • (505) 858-0050 • FAX (505) 858-0052

HARRY W. SLOAN, JR., C.P.A.

Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Members of the Board of Regents
Navajo Technical University

Report on Compliance for Each Major Federal Program

We have audited the Navajo Technical University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended May 31, 2016. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, The University, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2016.

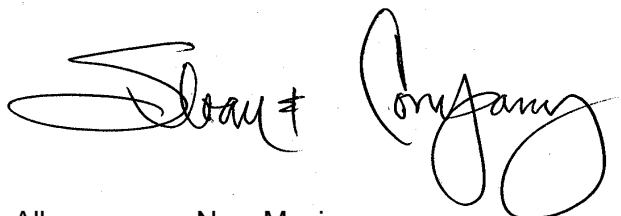
Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in black ink. The signature is written in a cursive style and appears to read "Stuart Company". The word "Stuart" is on the left and "Company" is on the right, with a large, looping flourish at the end of "Company".

Albuquerque, New Mexico
February 28, 2016

**NAVAJO TECHNICAL UNIVERSITY
(A Component Unit of the Navajo Nation)**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended May 31, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Navajo Technical University, (the University).
2. No significant deficiencies material to the financial statements of the University were disclosed during the audit. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of the University were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for the University expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.
7. The programs tested as major programs include:

<u>Program Name</u>	<u>CFDA Number</u>
National Science Foundation	47.076
Federal Pell Grant	84.063

8. The threshold for distinguishing Types A and B programs was \$750,000.
9. The University qualified as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT

None

C. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS

None