

# UTAH NAVAJO ROYALTIES HOLDING FUND

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Annual Financial Report  
For the Year Ended June 30, 2015

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Report No. 15-46



OFFICE OF THE  
UTAH STATE AUDITOR

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

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Annual Financial Report  
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**AUDIT LEADERSHIP:**

Hollie Andrus, CPA, Audit Director

Travis Kartchner, CPA, Audit Staff

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2015

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OFFICE OF THE  
**UTAH STATE AUDITOR**

**INDEPENDENT STATE AUDITOR'S REPORT**

To the Board of Trustees  
and  
Tony Dayish, Trust Administrator  
Utah Navajo Trust Fund

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Utah Navajo Royalties Holding Fund (UNRHF), a private-purpose trust fund of the State of Utah, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the UNRHF's 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 an opinion 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 opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the UNRHF as of June 30, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Utah Navajo Royalties Holding Fund and do not purport to, and do not, present fairly the financial position of the State of Utah as of June 30, 2015, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 10, in the 2015 General Session, the Utah Legislature passed a bill that created the Utah Navajo Trust Fund to replace the UNRHF. As of July 1, 2015, the UNRHF assets and liabilities have been transferred to the Utah Navajo Trust Fund. 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 management's discussion and analysis on pages 3 through 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2016 on our consideration of the UNRHF'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 UNRHF's internal control over financial reporting and compliance.

*Office of the Utah State Auditor*

April 4, 2016

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015**

### **Introduction**

The following is a discussion and analysis of the State of Utah - Navajo Royalties Holding Fund's (UNRHF) financial performance and position for the fiscal year ending June 30, 2015. It is intended to be an introduction to the fund's financial statements.

### **Highlights**

The net position of the UNRHF increased \$3.9 million for the fiscal year or 6.1% and investments increased by nearly \$6.5 million or 12.5% during the fiscal year, largely due to oil royalty revenue, interest income, and reimbursements from the Navajo Revitalization Fund. In the 2015 General Legislative Session, Senate Bill 90 passed, enabling the UNRHF to transition back to the Utah Navajo Trust Fund, operating as it had prior to 2008. This new legislation is effective July 1, 2015.

### **Overview of Financial Statements**

This report includes the Financial Statements for the UNRHF. The Financial Statements include the Statement of Fiduciary Net Position, the Statement of Changes in Fiduciary Net Position, and Notes to the Financial Statements.

#### **Financial Statements**

The Statement of Fiduciary Net Position shows the UNRHF's assets and liabilities as of the end of the fiscal year, with the difference reported as net position. The Statement of Changes in Fiduciary Net Position shows the additions (revenues) and deductions (expenses) for the fund as of the end of the fiscal year. These statements are meant to give a broad overview of the financial position of the fund as well as show the fund's ability to meet its obligations. The statements are prepared using the full-accrual basis of accounting, with the exception of oil royalties revenue, which is prepared using the cash basis of accounting because royalties receivables are not reasonably estimable at year end. All revenues and expenses are recognized when the underlying transactions occur regardless of when cash is received or spent, except for the oil royalties revenue, which is recognized on a cash basis when received.

#### **Notes to Financial Statements**

The Notes to the Financial Statements contain information and schedules that are essential to a complete understanding of the financial statements.

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015**

### **Financial Analysis**

#### **Net Position**

The tables on page 5 summarize the changes in the UNRHF's financial statements between fiscal years 2014 and 2015. As shown on the tables, the fund's net position increased by \$3.9 million or 6.1% during the fiscal year. The largest asset for the fund is the investments. The investments account for 85.6% of the net position and are held in the Public Treasurers' Investment Fund (PTIF).

#### **Additions (Revenues)**

This year the fund received 68.9% of its revenue from oil and gas royalties, 3.9% from investment income, and 6.0% from rental income. Oil royalties for fiscal year 2015 decreased by 30.8% compared to fiscal year 2014 primarily because of the significant decrease in the price of oil.

#### **Deductions (Expenses)**

The fund had expenditures of \$213,362 for chapter projects for the fiscal year. These project expenses include the cost of materials and labor. These chapter projects were approved prior to May 5, 2008 by both the Dineh Committee and the Board of Trustees. By statute, no new projects have been approved by the fund. Other chapter projects are funded by the Navajo Revitalization Fund (NRF) which works in conjunction with the UNRHF on a reimbursement basis. The NRF can only reimburse for expenses already incurred for Utah Navajo projects so the UNRHF is allowed to provide initial funding and oversight of the projects and then is reimbursed by NRF for those expenditures.

The UNRHF awarded \$633,555 for scholarships during the fiscal year, which is a decrease of 6.1% over the prior year. The change in scholarship amounts from each year is a result of student enrollment and award applications. The fund offers a maximum of \$2,500 per student per semester for qualified beneficiary students.

Administration expenses include scholarship administration, financial and accounting services, as well as building maintenance. The building maintenance is for properties owned by the fund within San Juan County, Utah. The UNRHF has an obligation to maintain all assets of the fund.

## UTAH NAVAJO ROYALTIES HOLDING FUND

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015

<b>Condensed Statement of Net Position</b>				
	2015	2014*	\$ Change	% Change
<b>Assets</b>				
Cash	\$ 995,803	\$ 2,367,992	\$ (1,372,189)	-57.9%
Investments	58,542,844	52,055,685	6,487,159	12.5%
Loans Receivable	58,437	69,220	(10,783)	-15.6%
Due from other State Agencies	1,471,534	2,444,661	(973,127)	-39.8%
Capital Assets, Net	7,489,326	7,729,734	(240,408)	-3.1%
<b>Total Assets</b>	<b>68,557,944</b>	<b>64,667,292</b>	<b>3,890,652</b>	<b>6.0%</b>
<b>Total Liabilities</b>	<b>156,141</b>	<b>178,454</b>	<b>(22,313)</b>	<b>-12.5%</b>
<b>Total Net Position</b>	<b>\$ 68,401,803</b>	<b>\$ 64,488,838</b>	<b>\$ 3,912,965</b>	<b>6.1%</b>

<b>Condensed Statement of Changes in Net Position</b>				
	2015	2014*	\$ Change	% Change
<b>Additions (Revenues)</b>				
Investment Income	\$ 288,317	\$ 419,291	\$ (130,974)	-31.2%
Royalties	5,035,054	7,275,439	(2,240,385)	-30.8%
Navajo Revitalization Fund Reimbursements	1,449,282	1,553,470	(104,188)	-6.7%
Rental Income	438,826	423,861	14,965	3.5%
Navajo Nation Project Grant	100,000	-	100,000	100.0%
<b>Total Additions (Revenues)</b>	<b>7,311,479</b>	<b>9,672,061</b>	<b>(2,360,582)</b>	<b>-24.4%</b>
<b>Deductions (Expenses)</b>				
Chapter Projects	213,632	174,858	38,504	22.0%
Scholarships	633,555	674,612	(41,057)	-6.1%
Navajo Revitalization Fund Projects	1,449,282	1,553,470	(104,188)	-6.7%
Depreciation	324,937	311,986	12,951	4.2%
Administrative and General Expenses	777,378	755,186	22,192	2.9%
<b>Total Deductions (Expenses)</b>	<b>3,398,514</b>	<b>3,470,112</b>	<b>(71,598)</b>	<b>-2.1%</b>
<b>Change in Net Position</b>	<b>3,912,965</b>	<b>6,201,949</b>	<b>(2,288,984)</b>	<b>-36.9%</b>
<b>Beginning Net Position</b>	<b>64,488,838</b>	<b>58,286,889</b>	<b>6,201,949</b>	<b>10.6%</b>
<b>Ending Net Position</b>	<b>\$ 68,401,803</b>	<b>\$ 64,488,838</b>	<b>\$ 3,912,965</b>	<b>6.1%</b>

\* Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2015**

### **Financial Outlook**

Oil prices and production significantly affect the financial future of the fund and both are difficult to predict. Production from the Aneth Extension Oil Field has remained relatively stable; however, since October 2014, the market price of crude oil has significantly declined which affects the fund's future royalties revenue. Interest rates on investments and rental income remain stable.

### **Contacting the UNRHF Management**

This financial report is designed to provide all interested parties with a general overview of the UNRHF's finances and to demonstrate its financial accountability over its resources. If you have questions regarding this report or need further information regarding UNRHF, please contact Tony Dayish, Trust Administrator, at 151 East 500 North, Blanding, Utah 84511, or by email at [tdayish@utah.gov](mailto:tdayish@utah.gov).

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

## STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2015

### **ASSETS**

Cash (Notes 1 and 2)	\$ 995,803
Investments (Notes 1, 2 and 5)	58,441,941
Investment Equity (Blue Mountain Diné Apts) (Note 5)	100,903
Loans Receivable (Blue Mountain Diné Apts) (Note 6)	58,437
Due from Other State Agencies (Note 1)	1,471,534
Capital Assets: (Notes 1 and 3)	
Land	270,827
Buildings and Improvements	10,715,135
Less Accumulated Depreciation	(3,647,995)
Equipment	84,556
Less Accumulated Depreciation	(56,772)
Vehicles	187,225
Less Accumulated Depreciation	(63,650)
Total Capital Assets	<u>7,489,326</u>
<b>TOTAL ASSETS</b>	<b><u>68,557,944</u></b>

### **LIABILITIES**

Accrued Expenditures	13,098
Accounts Payable	59,887
Accrued Payroll	68,825
Due to Other State Agencies (Note 1)	<u>14,331</u>
<b>TOTAL LIABILITIES</b>	<b><u>156,141</u></b>

### **NET POSITION**

<b>Restricted for Trust Beneficiaries</b>	<b><u><u>\$ 68,401,803</u></u></b>
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*The accompanying notes are an integral part  
of these financial statements.*

## UTAH NAVAJO ROYALTIES HOLDING FUND

### STATEMENT OF CHANGES IN FIDUCIARY NET POSITION FOR THE FISCAL YEAR ENDED JUNE 30, 2015

#### ADDITIONS

Investment Income (Notes 1, 2, and 5)	\$ 288,317
Oil Royalties	5,035,054
Navajo Revitalization Fund Reimbursements	1,449,282
Rental Income (Note 4)	438,826
Navajo Nation Project Grant	<u>100,000</u>
<b>TOTAL ADDITIONS</b>	<b><u>7,311,479</u></b>

#### DEDUCTIONS

Chapter Projects	213,362
Scholarships	633,555
Navajo Revitalization Fund Projects	1,449,282
Depreciation	324,937
Administrative and General Expenses	<u>777,378</u>
<b>TOTAL DEDUCTIONS</b>	<b><u>3,398,514</u></b>

<b>Change in Net Position</b>	<b>3,912,965</b>
Net Position – Beginning	<u>64,488,838</u>
<b>Net Position – Ending</b>	<b><u><u>\$ 68,401,803</u></u></b>

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

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### **1. Organization and Summary of Significant Accounting Policies**

Organization – The Utah Navajo Royalties Holding Fund (UNRHF) is a private purpose trust fund of the State of Utah and is included in the State’s *Comprehensive Annual Financial Report*. The fund was created under *Utah Code*, Title 51, Chapter 9, Section 504 to account for various revenues received by the State, the majority of which represents the 37 ½ percent of the net oil royalties from the Aneth Extension of the Navajo Indian Reservation. The net oil royalties are paid to the State in accordance with Public Law No. 403, 47 Stat. 1418, as amended by the Act of 1968, 82 Stat. 121, for the health, education, and general welfare of the Utah Navajos residing in San Juan County, Utah. The State of Utah Department of Administrative Services has current oversight authority over the UNRHF (see Note 10 – Entity Transition). Day-to-day program activities are managed by the UNRHF Administrator from offices in Blanding, Utah.

Fund Accounting – The general activities of the UNRHF have been organized and reported as a private purpose trust fund in the financial statements. A private purpose trust fund is a separate accounting entity with a self-balancing set of accounts and is designed to demonstrate legal compliance with the trust requirements and is used to account for assets where both the principal and interest may be spent.

Basis of Accounting – The accounting and reporting policies of the UNRHF conform with accounting principles generally accepted in the United States of America and follow the accrual basis of accounting with the exception of oil royalties revenue. Due to the nature of the transactions and the extended period of time over which the royalties are collected, the UNRHF cannot reasonably estimate royalty receivables at fiscal year end. Thus, oil royalties revenue is accounted for on a cash basis. Under the accrual basis of accounting, additions to the net position and related assets are recognized when earned. Deductions from the net position are recognized when the fund liabilities are incurred. All assets and liabilities of the UNRHF are included on the Statement of Fiduciary Net Position.

Cash and Investments – The UNRHF’s cash is maintained both as bank deposits and as a portion of the State’s pooled cash account controlled by the Utah State Treasurer’s Office. Investments are carried at fair value and include investments in the Utah Public Treasurers’ Investment Fund.

Capital Assets – Land, buildings and improvements, and equipment are reported as capital assets, with related accumulated depreciation as applicable, in the Statement of Fiduciary Net Position. Capital assets are defined by Utah State policy as assets that cost \$5,000 or more when acquired and have an estimated useful life greater than one year. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated or otherwise acquired capital assets are valued at their estimated fair value

# UTAH NAVAJO ROYALTIES HOLDING FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

at the date of acquisition. Buildings, equipment, and other depreciable capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Equipment	3-15
Buildings and Improvements	10-40

The UNRHF also holds a ½ undivided interest in a special collection of indigenous artifacts known as the Shumway Collection. The UNRHF has no intention of selling these artifacts. Due to the nature of this collection, the value cannot be assessed; therefore no value is included in the Statement of Fiduciary Net Position.

Due from/to Other State Agencies – Due from/to other State agencies represents amounts receivable from or payable to the UNRHF and other State agencies. These amounts consist mainly of amounts receivable from the Navajo Revitalization Fund (NRF) (a State of Utah agency) and amounts payable to the State Department of Administrative Services and the Department of Technology Services for printing, telecommunications, motor pool services, and various construction projects.

Inter-Agency Activities – The UNRHF often processes transactions for the NRF related to various construction projects benefiting the Utah Navajos in San Juan County. The UNRHF processes these transactions and then receives reimbursement from the NRF. The UNRHF also provides other administrative services related to NRF Projects such as reviewing budgets and project proposals, providing construction labor, making site visits, attending NRF related meetings and enforcing State of Utah procurement policies.

Pensions – The UNRHF is paying the salaries and benefits, including contributions to the State’s pension systems (Systems), on behalf of eligible State of Utah employees responsible for managing the fund. As a result, the UNRHF may be liable for an apportioned amount of the System’s net pension liability related to these eligible employees. Management estimates the UNRHF’s portion of the State’s June 30, 2015 unfunded pension liability to be less than \$200,000 and considers the estimated pension liability and other related activity immaterial to the fund. As a result, pension-related activity has not been reflected in these financial statements other than to record pension contributions as expenses.

## **2. Cash and Investments**

The UNRHF follows the requirements of the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of all funds received by the UNRHF in a qualified depository. The Act defines a

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted under the authority of the Money Management Act that relate to the deposit and investment of public funds.

### **Deposits**

#### *Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the UNRHF's deposit may not be returned to it. The UNRHF does not have formal deposit policy for custodial credit risk. As of June 30, 2015, \$995,803 of the UNRHF's bank balance was uninsured and uncollateralized.

### **Investments**

The Utah Money Management Act defines the types of securities authorized as appropriate investments for the UNRHF and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the UNRHF to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations; bankers acceptances; obligations of the United States Treasury, including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Utah Money Management Act; and the State of Utah Public Treasurers' Investment Fund (PTIF).

The Utah State Treasurer's Office operates the PTIF, which is available for investment of funds administered by any Utah public treasurer.

## **UTAH NAVAJO ROYALTIES HOLDING FUND**

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Utah Money Management Act. The Act established the Utah Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2015 the UNRHF had investments of \$58,441,941 with the PTIF. The entire balance had a maturity of less than one 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 UNRHF's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the Utah Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270 days – 15 months or less. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. government sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to 5 years. In addition, variable rate negotiable deposits and variable rate securities may not have remaining terms to final maturity exceeding 3 years.

#### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The UNRHF's policy for reducing its exposure to credit risk is to comply with the Utah Money Management Act as previously discussed. At June 30, 2015, all UNRHF investments were unrated.

# UTAH NAVAJO ROYALTIES HOLDING FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### 3. Capital Assets

The changes in capital assets owned by the UNRHF for the year ended June 30, 2015, are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 270,827	\$ -	\$ -	\$ 270,827
Total Capital Assets Not Being Depreciated	<u>270,827</u>	<u>-</u>	<u>-</u>	<u>270,827</u>
Capital Assets Being Depreciated:				
Buildings	10,715,135	-	-	10,715,135
Equipment	78,409	6,147	-	84,556
Vehicles	108,843	78,382	-	187,225
Total Capital Assets Being Depreciated	<u>10,902,387</u>	<u>84,529</u>	<u>-</u>	<u>10,986,916</u>
Less Accumulated Depreciation For:				
Buildings	(3,360,729)	(287,266)	-	(3,647,995)
Equipment	(51,798)	(4,974)	-	(56,772)
Vehicles	(30,953)	(32,697)	-	(63,650)
Total Accumulated Depreciation	<u>(3,443,480)</u>	<u>(324,937)</u>	<u>-</u>	<u>(3,768,417)</u>
Total Capital Assets Being Depreciated, Net	<u>7,458,907</u>	<u>(240,408)</u>	<u>-</u>	<u>7,218,499</u>
Total Capital Assets, Net	<u>\$ 7,729,734</u>	<u>\$ (240,408)</u>	<u>\$ -</u>	<u>\$ 7,489,326</u>

### 4. Operating Leases

Operating Leases – The UNRHF is leasing property to other State agencies. The following schedule summarizes the lease terms and future minimum lease payments receivable.

Government Service Center – Blanding:

Current monthly lease payment	\$ 28,747
Historical cost of leased property	2,958,388
Less: accumulated depreciation	<u>(1,827,240)</u>
Carrying Value	<u>\$ 1,131,148</u>

Lease period July 1997 thru June 2017

Lessees Utah Department of Human Services,  
Department of Workforce Services,  
Court Administrator, Department  
of Public Safety and Office of Rehabilitation.

# UTAH NAVAJO ROYALTIES HOLDING FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

<u>Future Minimum Lease Payments:</u>	<u>Amounts for Related Dates</u>
Fiscal Year 2016	\$ 344,964
Fiscal Year 2017	<u>344,964</u>
Total	<u>\$ 689,928</u>

In addition to the above lease, the UNRHF is leasing other properties on a month-to-month basis.

On June 20, 2006, the UNRFH entered into an agreement to lease a five-acre parcel in Monument Valley from the San Juan School District for the purpose of constructing a health care clinic to serve the area residents, schools, and businesses. The term of the lease began on June 20, 2006 and expires in 50 years with one 25-year renewal option. The lease is a zero value lease with no payments made to the School District.

### **5. Joint Venture**

On November 1, 2002, the UNRHF became the managing member of the Blue Mountain Diné Associates, LLC, which owns and operates a low-income housing apartment complex in Blanding, Utah. The Enterprise Social Investment Corporation (ESIC) asked the UNRHF to become the managing member because of lack of appropriate management over the housing project. Upon entering the LLC, the UNRHF received a \$109,910 equity interest in the organization. At June 30, 2015, the UNRHF's interest in the LLC is \$100,903.

Along with the designation of managing member, the UNRHF accepted additional responsibilities, including oversight of the day-to-day operations of the housing complex. Also, the UNRHF may be asked to guarantee any of the LLC's operating deficits up to \$65,000. As of June 30, 2015, the LLC had not drawn down any money under this agreement. However, the UNRHF has made similar payments under a previous guarantee agreement – See Note 6.

Blue Mountain Diné Associates, LLC issues its own separate audited financial statements. These financial statements can be obtained from the Utah Navajo Royalties Holding Fund, 151 East 500 North, Blanding, Utah 84511.

### **6. Related Party Transactions**

On January 22, 1998, the UNRHF agreed to guarantee any operating deficits of the Blue Mountain Diné Associates, LLC, up to \$65,000. In previous years, Blue Mountain Diné Associates, LLC had drawn down \$36,000 against the contingency commitment. As described in Note 5, the UNRHF is the managing member of the LLC. In January 2005, this contingency commitment expired. Based on the terms of the commitment, the unpaid portion of the amount drawn down is considered a receivable to the UNRHF.

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

In March 2004, the UNRHF paid \$118,602 to satisfy Blue Mountain Diné Associates, LLC's loan due to Zion's Bank, and then issued a loan to the LLC for \$118,602 at a 4 3/8% interest rate to be paid in equal monthly payments of \$995 through April 2017.

Due to the issues addressed above, the LLC has an unpaid principle balance of \$22,437 on the loan and \$36,000 against the contingency commitment as of June 30, 2015 for a total of \$58,437.

### **7. Commitments and Contingencies**

Until May 5, 2008, the Board of Trustees approved allocations for the Navajo Chapters located in Utah. The allocations were used by the chapters to fund various chapter projects. Because most of the projects were long term, the chapters did not spend all their allocation in the year approved by the Board of Trustees. The Board of Trustees also approved projects that would benefit two or more Utah Navajo Chapters. From May 1, 1992 thru May 5, 2008 the Board of Trustees approved \$20,365,147 in projects. The balance left unexpended as of June 30, 2015 is \$326,589.

### **8. Scholarship Endowment Fund**

In February 1993, the UNRHF contributed \$500,000 to the College of Eastern Utah (now Utah State University Eastern) to be used as matching funds for a federal Endowment Challenge Grant Program. The UNRHF's contribution, together with federal program funds, was used to establish the San Juan Navajo Scholarship Endowment Fund, which is administered by Utah State University Eastern. The Endowment Fund is invested in perpetuity to earn income to be used for scholarships for Utah Navajos residing in San Juan County, Utah. The Trust Administrator is the chairperson of the scholarship committee responsible for approving all awards of scholarships from the San Juan Navajo Scholarship Endowment Fund.

### **9. Risk Management**

The UNRHF maintains insurance coverage for property and liability through the Utah State Risk Management Fund. The UNRHF pays an annual premium to Risk Management which provides coverage on property through a combination of self-insurance and private carriers up to \$1,000,000,000 per occurrence and provides coverage on liability through self-insurance.

# **UTAH NAVAJO ROYALTIES HOLDING FUND**

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

### **10. Entity Transition**

During the 2008 General Legislative Session, the Utah State Legislature passed House Bill 352 which recognized the repeal of the Utah Navajo Trust Fund under *Utah Code* Title 63, Chapter 88a, Legislative Oversight and Sunset Act (subsequently recodified to *Utah Code* Title 51, Chapter 9, Sections 501-504), and moved responsibility to fulfill the liabilities and obligations of the repealed Navajo Trust Fund to the Department of Administrative Services (a State of Utah department). The bill provided for a transition process until Congress designates a new recipient of Utah Navajo royalties and authorized the creation of a new trust fund. The Utah Navajo Royalties Holding Fund was created on July 1, 2008 to hold: 1) the monies in the repealed Navajo Trust Fund, 2) Utah Navajo royalties received by the State on or after July 1, 2008, 3) investment earnings, and 4) monies owed to the repealed fund.

In accordance with House Bill 352, no new projects were authorized until Congress appointed a new trustee. The Department of Administrative Services oversees the UNRHF to manage and complete the projects authorized by the repealed Board of Trustees, maintains and preserves the capital assets of the UNRHF and administers the scholarship program as required by *Utah Code* 51-9-504.

During the 2015 General Legislative Session, the Utah State Legislature introduced and passed Senate Bill 90 enabling the UNRHF to operate as a trust fund as it had prior to 2008. This legislation is effective July 1, 2015.