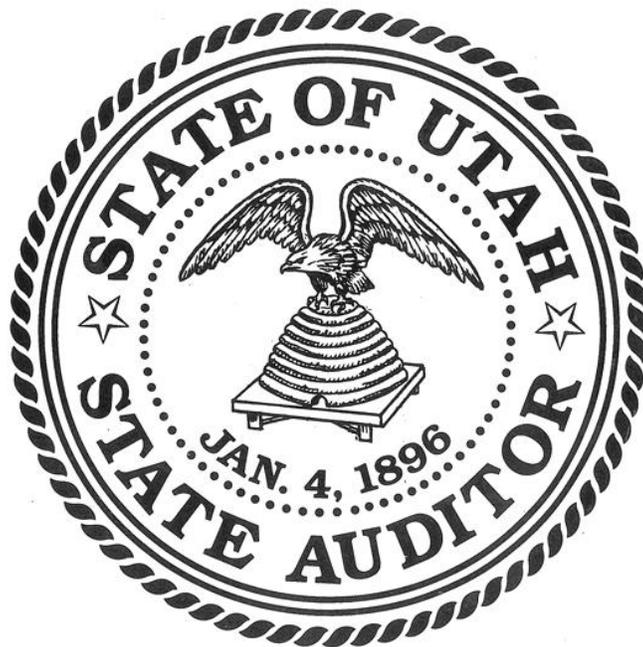


UTAH NAVAJO TRUST FUND

Annual Financial Report
For the Year Ended June 30, 2016

Report No. 16-49



OFFICE OF THE
STATE AUDITOR

UTAH NAVAJO TRUST FUND

Annual Financial Report
For the Year Ended June 30, 2016

Report No. 16-49

AUDIT LEADERSHIP:

John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Travis Kartchner, CPA, Audit Senior

UTAH NAVAJO TRUST FUND

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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OFFICE OF THE
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 Trust Fund (UNTF), a private-purpose trust fund of the State of Utah, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the UNTF'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 UNTF as of June 30, 2016, 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 Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Utah as of June 30, 2016, 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.

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 10, 2017 on our consideration of the UNTF'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 UNTF's internal control over financial reporting and compliance.


April 10, 2017

UTAH NAVAJO TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

Introduction

The following is a discussion and analysis of the Utah Navajo Trust Fund's (UNTF) financial performance and position for the fiscal year ending June 30, 2016. It is intended to be an introduction to the fund's financial statements.

Highlights

The net position of the UNTF increased \$2.19 million, or 3.2%, for the fiscal year, and investments increased by \$2.6 million, or 4.5%, during the fiscal year largely due to oil royalty revenue and interest income. Other highlights include Senate Bill 90 which was passed during the 2015 Legislative session which as of July 1, 2015 enabled the Utah Navajo Royalties Holding Fund to transition back to the Utah Navajo Trust Fund, operating as it had prior to 2008.

Overview of Financial Statements

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

Financial Statements

The Statement of Fiduciary Net Position shows the UNTF'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 royalty revenue, which is on a cash basis because royalty receivables are not reasonably estimable at year end. All revenue and expenses are recognized when the underlying transactions occur regardless of when cash is received or spent, except for the oil royalty revenue, which is recognized on a cash basis when received.

Notes to the 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 TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

Financial Analysis

Net Position

The condensed statements on the following page summarize the changes in the UNTF's financial statements between fiscal years 2016 and 2015. As shown on the Condensed Statement of Net Position, the fund's net position increased by \$2.19 million, or 3.2%, during the fiscal year. The largest asset for the fund is the investments. Investments account for 86.5% of the total net position and are held in the Public Treasurers' Investment Fund (PTIF).

Additions (Revenues)

This year the UNTF received 55.2% of its revenue from oil royalties, 7.6% from investment income and 7.3% from rental income. Investment income increased 49.1% because of an upturn in market interest rates. Other income increased by 303.4% because of a \$400,000 grant from the Navajo Nation Abandon Mine Land for the construction of a new chapter building. Oil royalties for fiscal year 2016 decreased by 37.7% compared to fiscal year 2015 because of the significant decrease in oil prices.

Deductions (Expenses)

The UNTF expended \$291,375 in materials and labor for chapter projects for the fiscal year which is an increase of 36.6% compared to fiscal year 2015. This increase is a result of a concentrated effort from the UNTF to complete the remaining projects that were approved prior to May 5, 2008 by both the former Dine' Advisory Committee and the former Board of Trustees. Other chapter projects are funded by the Navajo Revitalization Fund (NRF) which works in conjunction with the UNTF on a reimbursement basis. The NRF can only reimburse for expenses already incurred for Utah Navajo projects, so the UNTF is allowed to provide initial funding and oversight of the projects and then is reimbursed by NRF for those expenditures.

The UNTF awarded \$488,893 in scholarships during the fiscal year which is a decrease of 22.8% over the prior year. The decline in scholarship amounts is a direct result of student enrollment and scholarship applications. The UNTF offers a maximum of \$2,500 per student per semester for qualified beneficiary students.

The increase in administrative expenses for the fiscal year is a result of having to provide health insurance to all employees as mandated by the Affordable Care Act, increased travel expense because of monthly Dine' Advisory Committee and board meetings, and paying three years of audit expense to the Office of the State Auditor. Other expenses include scholarship administration, financial and accounting services, as well as building maintenance and depreciation. The UNTF has an obligation to maintain all assets of the fund.

UTAH NAVAJO TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

Condensed Statement of Net Position				
	2016	2015	\$ Change	% Change
Assets				
Cash	\$ 1,873,189	\$ 995,803	\$ 877,386	88.1%
Investments	61,070,998	58,441,941	2,629,057	4.5%
Loans Receivable (Blue Mtn. Diné Apts)	47,195	58,437	(11,242)	-19.2%
Other Assets (Blue Mtn Diné LLC)	100,903	100,903	-	0.0%
Due from other State Agencies	638,050	1,471,534	(833,484)	-56.6%
Capital Assets, Net	7,200,718	7,489,326	(288,608)	-3.9%
Total Assets	70,931,053	68,557,944	2,373,109	3.5%
Total Liabilities	343,865	156,141	187,724	120.0%
Total Net Position	\$ 70,587,188	\$ 68,401,803	\$ 2,185,385	3.2%

Condensed Statement of Changes in Net Position				
	2016	2015	\$ Change	% Change
Additions (Revenues)				
Investment Income	\$ 429,754	\$ 288,317	\$ 141,437	49.1%
Oil Royalties	3,138,723	5,035,054	(1,896,331)	-37.7%
Navajo Revitalization Fund Reimbursements	1,302,050	1,449,282	(147,232)	-10.2%
Rental Income	412,956	438,826	(25,870)	-5.9%
Other Income	403,431	100,000	303,431	303.4%
Total Additions (Revenues)	5,686,914	7,311,479	(1,624,565)	-22.2%
Deductions (Expenses)				
Chapter Projects	291,375	213,632	78,013	36.6%
Scholarships	488,893	633,555	(144,662)	-22.8%
Navajo Revitalization Fund Projects	1,302,050	1,449,282	(147,232)	-10.2%
Depreciation	337,390	324,937	12,453	3.8%
Administrative and General Expenses	1,081,821	777,378	304,443	39.2%
Total Deductions (Expenses)	3,501,529	3,398,514	103,015	3.0%
Change in Net Position	2,185,385	3,912,965	(1,727,580)	-44.2%
Beginning Net Position	68,401,803	64,488,838	3,912,965	6.1%
Ending Net Position	\$ 70,587,188	\$ 68,401,803	\$ 2,185,385	3.2%

UTAH NAVAJO TRUST FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

Financial Outlook

Oil prices and production significantly affect the UNTF's financial future 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 future royalties revenue. Interest rates on investments have started to increase and rental income remains stable.

Contacting UNTF Management

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

Utah Navajo Trust Fund

Statement of Fiduciary Net Position

June 30, 2016

Assets

Cash (Notes 1 and 2)	\$ 1,873,189
Investments (Notes 1 and 2)	61,070,998
Loans Receivables (Blue Mtn Dine' Apts) (Note 6)	47,195
Other Assets (Blue Mtn Dine' LLC) (Note 5)	100,903
Due from other State Agencies (Note 1)	638,050
Capital Assets: (Notes 1 and 3)	
Land	270,827
Buildings and Improvements	10,715,135
Less Accumulated Depreciation	(3,935,657)
Equipment	84,556
Less Accumulated Depreciation	(62,886)
Vehicles	224,950
Less Accumulated Depreciation	(107,090)
Software	11,058
Less Accumulated Depreciation	(175)
Total Capital Assets	<u>7,200,718</u>
Total Assets	<u>70,931,053</u>

Liabilities

Accrued Expenditures	53,166
Accounts Payable	213,559
Accrued Payroll	42,387
Due to Other State Agencies (Note 1)	<u>34,753</u>
Total Liabilities	<u>343,865</u>

Net Position

Restricted for Trust Beneficiaries	<u><u>\$ 70,587,188</u></u>
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The accompanying notes are in integral part of these financial statements.

Utah Navajo Trust Fund

Statement of Changes in Fiduciary Net Position

For Fiscal Year Ended June 30, 2016

Additions

Investment Income (Notes 1 and 2)	\$ 429,754
Oil Royalties	3,138,723
Navajo Revitalization Fund Reimbursements	1,302,050
Rental Income (Note 4)	412,956
Navajo Nation Project Grant	400,000
Misc. Income	3,431
Total Additions	5,686,914

Deductions

Chapter Projects	291,375
Scholarships	488,893
Navajo Revitalization Fund Projects	1,302,050
Depreciation	337,390
Administrative and General Expenses	1,081,821
Total Deductions	3,501,529

Change in Net Position	2,185,385
Net Position – Beginning	68,401,803
Net Position – Ending	\$ 70,587,188

The accompanying notes are in integral part of these financial statements.

UTAH NAVAJO TRUST FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

1. Organization and Summary of Significant Accounting Policies

Organization The Utah Navajo Trust Fund (UNTF) is a private-purpose trust fund of the State of Utah and is included in the State's *Comprehensive Annual Financial Report*. The UNTF was established under new legislation, Senate Bill 90, to supersede the Utah Navajo Royalties Holding Fund beginning July 1, 2015. The Trust Fund was originally 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 Federal 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 original Navajo Trust Fund was repealed during the 2008 General Session of the Utah Legislature and replaced with the Utah Navajo Royalties Holding Fund (UNRHF). The responsibility to fulfill the liabilities and obligations of the repealed Navajo Trust Fund was moved to the Department of Administrative Services (a State of Utah department). During the 2015 Legislative Session Senate Bill 90 was introduced and passed enabling the UNRHF to operate as a Trust Fund as it had prior to 2008, effective July 1, 2015.

Fund Accounting The general activities of the UNTF 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 UNTF 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. Oil royalties revenue is accounted for on a cash basis because royalty receivables are not reasonably estimable at fiscal year end due to the nature of the transactions and the extended period of time over which the royalties are collected. 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 UNTF are included on the Statement of Fiduciary Net Position.

Cash and Investments The UNTF'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 recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, and include investments in the Utah Public Treasurers' Investment Fund. The change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

UTAH NAVAJO TRUST FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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 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 UNTF also owns a ½ undivided interest in a special collection of indigenous artifacts known as the Shumway Collection. Due to the nature of this asset, 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 UNTF 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 for various construction projects.

Inter-Agency Activities The UNTF frequently processes transactions for the NRF related to various construction projects benefiting the Utah Navajos in San Juan County. The UNTF processes these transactions and then receives reimbursement from the NRF. The UNTF 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 UNTF 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 UNTF may be liable for an apportioned amount of the System's net pension liability related to these eligible employees. Management estimates the UNTF's portion of the State's June 30, 2016 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.

UTAH NAVAJO TRUST FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

2. Cash and Investments

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the UNTF's deposit may not be returned to it. The UNTF does not have formal deposit policy for custodial credit risk. As of June 30, 2016, \$1,873,189 of the UNTF's bank balance was uninsured and uncollateralized.

Investments

The Utah State Treasurer's Office is responsible for the investments of the fund and shall invest and manage the fund assets as a prudent investor would as outlined in *Utah Code*, Section 51-10-201(4). Currently, all of the UNTF's money is being held in bank deposits and the Public Treasurers' Investment Fund (PTIF).

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

Fair Value of Investments

The UNTF measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

UTAH NAVAJO TRUST FUND

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

At June 30, 2016, the UNTF had the following recurring fair value measurements.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
State of Utah Public Treasurers' Investment Fund	\$61,070,998	-	\$61,070,998	-

The value of the UNTF's investment in the PTIF is calculated by applying the June 30, 2016 fair value factor, as calculated by the Utah State Treasurer, to the UNTF's average daily balance in the fund.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The UNTF does not have a formal policy for managing its exposure to fair value loss arising from increasing interest rates.

At June 30, 2016, the UNTF's investments had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
State of Utah Public Treasurers' Investment Fund	\$61,070,998	\$61,070,998	-	-	-

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The UNTF does not have a formal policy for reducing its exposure to credit risk.

At June 30, 2016, the UNTF's investments had the following quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Quality Ratings</u>			
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurers' Investment Fund	\$61,070,998	-	-	-	\$61,070,998

UTAH NAVAJO TRUST FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The UNTF does not have a formal policy for reducing this risk of loss.

3. Capital Assets

The changes in capital assets owned by the UNTF for the year ended June 30, 2016, 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	84,556	-	-	84,556
Vehicles	187,225	37,725	-	224,950
Software	-	11,058	-	11,058
Total Capital Assets Being Depreciated	<u>10,986,916</u>	<u>48,783</u>	<u>-</u>	<u>11,035,699</u>
Less Accumulated Depreciation For:				
Buildings	(3,647,995)	(287,662)	-	(3,935,657)
Equipment	(56,772)	(6,114)	-	(62,886)
Vehicles	(63,650)	(43,440)	-	(107,090)
Software	-	(175)	-	(175)
Total Accumulated Depreciation	<u>(3,768,417)</u>	<u>(337,391)</u>	<u>-</u>	<u>(4,105,808)</u>
Total Capital Assets Being Depreciated, Net	<u>7,218,499</u>	<u>(288,608)</u>	<u>-</u>	<u>6,929,891</u>
Total Capital Assets, Net	<u>\$ 7,489,326</u>	<u>\$ (288,608)</u>	<u>\$ -</u>	<u>\$ 7,200,718</u>

UTAH NAVAJO TRUST FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

4. Operating Leases

Operating Leases – The UNTF 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>(1,914,252)</u>
Carrying Value	<u>\$ 1,044,136</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.

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

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

On June 20, 2006, the UNTF 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 UNTF 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 UNTF to become the managing member because of lack of appropriate management over the housing project. Upon entering the LLC, the UNTF received a \$109,910 equity interest in the organization. At June 30, 2016, the UNTF interest in the LLC is \$100,903.

UTAH NAVAJO TRUST FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

Along with the designation of managing member, the UNTF accepts additional responsibilities, including oversight of the day-to-day operations of the housing complex. Also, the UNTF may be asked to guarantee any of the LLC's operating deficits up to \$65,000. As of June 30, 2016 the LLC had not drawn down any money under this agreement. However, the UNTF 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 Trust Fund, 151 East 500 North, Blanding, Utah 84511.

During 2016, the Enterprise Social Investment Corporation (ESIC) exited the project granting their full interest to the UNTF.

6. Related Party Transactions

On January 22, 1998, the UNTF 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 UNTF 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 UNTF.

In March 2004, the UNTF 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 \$11,195 on the loan and \$36,000 against the contingency commitment as of June 30, 2016 for a total of \$47,195.

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, 2016 is \$577,386.

UTAH NAVAJO TRUST FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

8. Scholarship Endowment Fund

In February 1993, the UNTF 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 UNTF'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 Administrator of the Trust Fund 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 UNTF maintains insurance coverage for property and liability through the Utah State Risk Management Fund. The UNTF 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.