



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

**NAVAJO ENGINEERING AND
CONSTRUCTION AUTHORITY
(AN ENTERPRISE OF THE NAVAJO NATION)**

September 30, 2021

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Report of Independent Auditors

To the Board of Directors
Navajo Engineering and Construction Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Navajo Engineering Construction Authority (the Authority), an enterprise of the Navajo Nation (the Nation), which comprise the statement of net position as of and for the year ended September 30, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

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. 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 respective financial position of the Authority as of September 30, 2021, and the respective changes in financial position and cash flows thereof 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 of the Authority are intended to present the financial position, the changes in financial position, and the cash flows of only the Authority. They do not purport to, and do not, present fairly the financial position of the Navajo Nation, as of September 30, 2021, the changes in its financial position or its cash flows 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***

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

Mess Adams LLP

Albuquerque, New Mexico
December 16, 2021

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Statement of Net Position
September 30, 2021

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 19,193,711
Restricted cash	23,512,888
Investments	19,283,875
Accounts and retainage receivable, net	
Construction contracts	10,662,832
Indian Health Service	8,434,182
Trade other, net	1,645,921
Cost and estimated earnings in excess of billings on contracts in progress	13,091,917
Inventory	2,743,058
Prepaid charges and other current assets	<u>75,476</u>
 Total current assets	 <u>98,643,860</u>

NONCURRENT ASSETS

Nondepreciable capital assets	1,046,876
Depreciable capital assets, net of accumulated depreciation	15,666,400
Investments - Four Corners Pre-Cast	<u>3,900,297</u>
 Total noncurrent assets	 <u>20,613,573</u>

TOTAL ASSETS	<u><u>\$ 119,257,433</u></u>
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Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Statement of Net Position
September 30, 2021

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 2,321,661
Accrued payroll and related expenses	1,297,761
Accrued expenses	1,056,940
Billings in excess of costs and estimated earnings on contracts in progress	10,328,293
Current maturities of notes payable	725,457
Current maturities of capital leases	1,091,925
Net advances on Indian Health Service (IHS) agreements	<u>21,779,292</u>

Total current liabilities	<u>38,601,329</u>
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NONCURRENT LIABILITIES

Notes payable, net of current maturities	1,488,608
Capital leases, net of current maturities	<u>2,814,769</u>

Total noncurrent liabilities	<u>4,303,377</u>
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Total liabilities	<u>42,904,706</u>
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NET POSITION

Investment in capital assets, net of related debt	10,592,517
Restricted	23,512,888
Unrestricted	<u>42,247,322</u>

Total net position	<u>76,352,727</u>
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TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 119,257,433</u></u>
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Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended September 30, 2021

OPERATING REVENUES	
Construction contracts	\$ 50,845,373
Indian Health Service projects	29,304,705
Small jobs	<u>1,443,914</u>
Total operating revenues	<u>81,593,992</u>
COST OF REVENUE EARNED	
Construction contracts	46,342,074
Indian Health Service projects	29,304,705
Small jobs	<u>1,221,686</u>
Total cost of revenue earned	<u>76,868,465</u>
Gross profit	<u>4,725,527</u>
GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,906,826</u>
Profit from operations	<u>2,818,701</u>
NONOPERATING REVENUES	
Interest income	486,910
Gain on disposal of capital assets	33,316
Investment gain	2,319,845
Other income	(270,777)
Forgiveness of PPP Loan	<u>3,115,224</u>
Total nonoperating revenues	<u>5,684,518</u>
CHANGE IN NET POSITION	8,503,219
NET POSITION, beginning of year	<u>67,849,508</u>
NET POSITION, end of year	<u><u>\$ 76,352,727</u></u>

See accompanying notes to these financial statements.

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Statement of Cash Flows
Year Ended September 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 77,244,547
Cash paid to suppliers, and subcontractors	(68,958,929)
Cash paid to employees	(5,890,240)
Interest income	486,910

Net cash provided by operating activities	2,882,288
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Repayments on notes payable	(1,059,750)
Repayments on capital leases	(774,685)
Proceeds from the sale of capital assets	581,439
Purchase of capital assets	(2,032,884)

Net cash used in capital financing activities	(3,285,880)
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CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from the sale of investments	2,369,853
Purchase of investments	(1,266,110)

Net cash provided by investing activities	1,103,743
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NET CHANGE IN CASH AND CASH EQUIVALENTS	700,151
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CASH AND CASH EQUIVALENTS, beginning of year	42,006,448
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CASH AND CASH EQUIVALENTS, end of year	\$ 42,706,599
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See accompanying notes to these financial statements.

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Statement of Cash Flows
Year Ended September 30, 2021

RECONCILIATION OF LOSS FROM OPERATIONS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in net position	\$ 8,503,219
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Adjustments to reconcile income from operations
to net cash provided by (used in) operating activities

Depreciation and amortization	4,021,161
Gain on sale of property and equipment	(33,316)
Investment income	(2,319,845)
Forgiveness of PPP Loan	(3,115,224)
Change in operating assets and liabilities	
Accounts and retainage receivable, net	288,930
Inventory	(658,545)
Cost and estimated earnings in excess of billings on contracts in progress	(5,621,786)
Prepaid charges and other assets	(60,730)
Accounts payable	225,045
Accrued payroll and related expenses	(422,251)
Accrued expenses	821,442
Net advances on IHS agreements	(5,372,655)
Billings in excess of costs and estimated earnings on contracts in progress	<u>6,626,843</u>
Net cash provided by operating activities	<u><u>\$ 2,882,288</u></u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS

Cash and cash equivalents	\$ 19,193,711
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Cash and cash equivalents – restricted	<u>23,512,888</u>
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Net reconciliation of cash and cash equivalents	<u><u>\$ 42,706,599</u></u>
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SUPPLEMENTARY NONCASH INVESTING AND FINANCING ACTIVITY

Acquisitions of equipment through long-term debt and capital leases	<u><u>\$ 4,248,861</u></u>
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Navajo Engineering and Construction Authority

(An Enterprise of the Navajo Nation)

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Organization and Activities

Navajo Engineering and Construction Authority (the Authority) was organized in June 1972 as a 100% owned enterprise of the Navajo Nation (the Nation) for the purpose of providing Navajo-owned construction capabilities on behalf of, and for the benefit of the Navajo people, in further efforts to develop the means of increasing financial benefit and training to the Nation. Since then, the Authority has grown into one of the most capable contractors working within the boundaries of the Nation, providing employment and employment-related training opportunities to thousands of Navajo workers.

The Authority provides construction, engineering, and surveying services for roads, sanitation facilities, and other infrastructural development projects. A majority of the services are provided within the boundaries of the Nation.

Reporting Entity

The Authority is an Enterprise fund of the Navajo Nation. The financial statements present only the financial position, the changes in financial position, and cash flows of the Authority and are not intended to present fairly the financial position of the Navajo Nation and the changes in its financial position and cash flows in accordance with generally accepted accounting principles (GAAP).

Basis of Presentation

This summary of accounting policies is presented to assist in understanding the Authority's financial statements and notes, which are representations of management who are responsible for their integrity and objectivity. The Authority's activities are similar to those found in the private sector, where the determination of net income is necessary or useful for sound financial administration. The financial transactions of the Authority are recorded and reported as an enterprise fund since its operations are financed and operated in a manner similar to private business enterprises whereby goods or services are financed or recovered through user charges. As such, these financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America for proprietary funds. The Governmental Accounting Standards Board (GASB) Statements require the Authority to present the following components:

- *Management's discussion and analysis* – A narrative introduction and analytical review of its financial statement in the form of management's discussion and analysis (MD&A) of the Authority's operations and activities. For the fiscal year ended September 30, 2021, management opted not to report the MD&A.
- *Basic financial statements* – The reporting model requires the presentation of a statement of net position, statement of revenues, expenses, and changes in net position, and a statement of cash flows using the direct method.
- *Note disclosures* – Footnote disclosures are required to be presented in support of the basic financial statements mentioned above.

Navajo Engineering and Construction Authority

(An Enterprise of the Navajo Nation)

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Furthermore, GASB Statements also requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- *Invested in capital assets, net of related debt* – Capital assets, net of accumulated depreciation and any outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted component of net position* – Assets, net of related liabilities, that are subject to externally imposed constraints that can be fulfilled by actions of the Authority pursuant to those constraints or that expire by the passage of time.
- *Unrestricted component of net position* – Net amount of assets and liabilities that are not subject to externally imposed constraints. Unrestricted components of net position may be designated for specific purposes by action of the Authority's Management Board or may otherwise be limited by contractual agreements with outside parties.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates included in these financial statements relate to revenue recognition on uncompleted contracts and estimated lives and methods used to depreciate property and equipment.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At September 30, 2021, cash consisted of amounts on hand and at local financial institutions.

All cash deposits of the Authority are made in board designated official depositories and are secured, as required by Authority policy. The Authority may designate, as an official depository, any bank or financial institution, and may establish time deposit accounts such as money market accounts and certificates of deposit.

Restricted Cash

The Authority receives cash deposits from Indian Health Service (I.H.S.) in the amount of 25% of authorized contract values. These cash deposits are considered advances to be used for the construction of I.H.S. projects, and are therefore classified as restricted cash on the statement of net position. At September 30, 2021, deposits in the amount of \$23,512,888 are restricted for the construction of authorized I.H.S. projects.

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. As of September 30, 2021, \$250,000 of the Authority's bank balances were fully insured.

Additionally, for the year ended, September 30, 2021, two customers accounted for 82% of the accounts and retainage receivable balance and three customers accounted for 72% of the Authority's revenue.

Investments

Investments are presented in the financial statements in accordance with GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

The Authority also reports investments under the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is the amount that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement for financial reporting purposes. The statement also provides guidance for applying fair value to certain investments and disclosures.

The Authority's investment policies authorize the Authority to invest in direct obligations of the United States or obligations fully guaranteed by the United States or agencies thereof, interest bearing time deposits, mutual funds, stocks, and bonds. The Authority's investments are managed and invested by an unrelated investment advisor with oversight from the Authority.

Accounts and Retainage Receivable, Net

Accounts and retainage receivable represent the amount billed but uncollected on completed contracts and contracts in progress, and are stated at net realizable value.

Although the Authority considers all of their receivables fully collectible, management maintains a nominal allowance of \$10,000. The allowance for doubtful accounts is estimated based on the Authority's historical losses, the existing economic conditions in the construction industry, and the financial stability of its customers. Receivables are written off when they are determined to be uncollectible. No interest is charged on past due balances.

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Inventory

Inventory consists of construction materials and supplies, vehicle parts and supplies, equipment parts and supplies, and other materials, which have not been consumed or charged to construction projects, but which management expects to be consumed during its next operating cycle. Inventory is stated at the lower of cost or market. Cost is determined using the average unit cost method. At September 30, 2021, inventory consisted of the following:

Warehouse	\$ 2,257,834
Gravel	187,675
Shop	210,902
Fuel	<u>86,647</u>
Total	<u><u>\$ 2,743,058</u></u>

Property, Equipment, Depreciation, and Amortization

Property and equipment are carried at cost. Depreciation and amortization have been computed by the Authority using the straight-line method over the estimated useful lives of respective assets, as follows:

	<u>Years</u>
Construction equipment	3–5
Vehicles	3–6
Shop and other equipment	3–6
Office furniture and fixtures	3–10
Buildings and other improvements	5–25

The Authority capitalized assets with an initial cost of \$10,000 and greater for depreciation and amortization purposes.

Construction costs incurred by the Authority for improvements and facilities constructed are capitalized over the estimated useful life of the related asset. Construction costs include all direct material and labor costs and certain related overhead costs, those productive expenses related to contract performance, such as supplies, tools, repairs, and payroll expenses.

When property or equipment is sold or otherwise disposed of, the related cost and accumulated depreciation and amortization are removed from the accounts and any gain or loss is included in nonoperating revenues.

Maintenance and repairs, including the replacement of minor items, are expensed as incurred and major additions, improvements, and betterments to property and equipment are capitalized.

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Investment in Four Corners Pre-Cast

The Authority has a 100% interest in Four Corners Pre-Cast Inc. (FCPC). The Authority acquired FCPC, the building FCPC operates in, and the land used by FCPC as investment during fiscal year 2006. As such, the investment's value is presented through the equity method of accounting, with subsequent adjustments based on profits, losses, and any dividends produced or distributed. At September 30, 2021, the balance of the investment in investee was \$3,900,297.

Recognition of Revenue on Long-Term Construction Contracts

The accompanying financial statements are prepared according to the "percentage-of-completion" method of accounting for long-term contracts. The amount of revenues recognized is that portion of the total contract amount that the actual cost expended bears to the anticipated final total cost based on current estimates of cost to complete the project (cost-to-cost method). If it becomes known that the final total cost is anticipated to exceed the contract amount, the excess of cost over contract amount is immediately recognized as a loss on the contract. Recognition of profit commences on an individual project only when cost to complete the project can reasonably be estimated and after there has been some meaningful performance achieved on the project. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions (when applicable), and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Changes are made to the transaction price from unapproved contract modifications to the extent the amount can be reasonably estimated, and recovery is probable.

Contract costs include all direct costs consisting of labor, material, subcontract, equipment, and other costs and certain indirect costs directly related to contract performance, including payroll taxes and benefits, equipment costs, and small tools. Also included in indirect costs are equipment usage charges and warehousing fees, which are rates charged on basis of direct labor costs, hours of equipment use, and cost of inventory issued, as applicable. These rates are set with the intent to cover all operating costs of such services.

The current asset reflected on the balance sheet as "Costs and estimated earnings in excess of billings on contracts in progress" represents revenues recognized in excess of amounts billed. The current liabilities reflected on the balance sheet as "Billings in excess of costs and estimated earnings on contracts in progress" and "Billings in excess of costs and estimated earnings on small jobs in progress" represent contractually allowed billings in excess of revenues recognized.

The length of the Authority's contracts varies, but is typically more than one year. The Authority believes all receivables are collectible within one year. As such, assets and liabilities are classified as current in balance sheet.

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

Recognition of Revenue on Indian Health Service Contracts

Since the contracts with I.H.S. are cost-reimbursable in nature, revenues on these agreements are recognized as costs are incurred. Contract costs include direct and indirect costs plus certain rate-based charges for overhead, equipment usage, and warehouse handling fees as outlined in the following paragraph. These rates are determined by the Authority's management and approved by I.H.S.

Equipment Usage

Equipment usage is billed directly to projects as job costs, at rates predetermined by management, based on estimated cost per hour to operate the equipment. The actual equipment costs, exclusive of major repairs, are accumulated for each operating period.

On construction contract and small jobs, the variance between billings and actual equipment costs is charged or credited directly to job costs in the current period.

Due to the cost reimbursement nature of I.H.S. projects, I.H.S. also approves the rates. Furthermore, the variance between billings and actual equipment costs are netted against advances on I.H.S agreements. These rates are adjusted periodically to liquidate or recover these variances.

Dividends to the Navajo Nation

Authorized cash distributions of net position are reflected as transfers to the Nation on the accompanying statement of revenues, expenses, and changes in net position and cash flows. For the year ended September 30, 2021, no distributions were made to the Navajo Nation.

Navajo Nation Sales Tax

The Authority pays a 6% sales tax to the Navajo Nation for work performed by the Authority on Nation land, which are included in operating revenues and cost of revenue earned.

Income Taxes

As the Authority is an enterprise of the Nation, and considers itself exempt from federal and state income taxes, no provision for income taxes is made.

New Governmental Accounting Standards Board (GASB) Pronouncements

The following accounting standards have recently been issued, but not yet been implemented by the Authority.

- *GASB Statement No. 87 and 92* – In June 2017, the GASB issued Statement No. 87, *Leases*. Not expected to have a material impact on the financial statements in fiscal year 2022, the year of implementation.
- *GASB Statement No. 89* – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Costs Incurred before the End of a Construction Period*. Not expected to have a material impact on the financial statements in fiscal year 2022, the year of implementation.

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (continued)

- *GASB Statement No. 90* – In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests an Amendment of GASB Statements No. 14 and No. 61*. No material impact on the financial statements in fiscal year 2021.
- *GASB Statement No. 91* – In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. Not expected to have a material impact on the financial statements in fiscal year 2022, the year of implementation.
- *GASB Statement No. 93* – In March 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. Not expected to have a material impact on the financial statements in fiscal year 2022, the year of implementation.
- *GASB Statement No. 94* – In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. Not expected to have a material impact on the financial statements in fiscal year 2023, the year of implementation.

Note 2 – Investments

As of September 30, 2021, the Authority had the following investments:

Exchange traded funds	\$ 6,377,306
U.S. treasury bonds	5,982,265
Mutual funds	6,610,473
Corporate bonds	<u>313,831</u>
Total	<u><u>\$ 19,283,875</u></u>

General Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (Standard & Poor's or Moody's Investors Service). The Authority places no limit on the specific amounts the Authority may invest in any one issuer; however, investments cannot exceed 5% in any one company, 15% in any one industry, and 20% in any one foreign country.

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 2 – Investments (continued)

At September 30, 2021, credit risk for the Authority's investments was as follows:

<u>Investment Type</u>	<u>Rating</u>	<u>Rating Agency</u>	<u>Percentage</u>
U.S. treasuries	AA+	Standard & Poor's	31.02%
Corporate bonds	BBB+	Standard & Poor's	0.39%
Corporate bonds	A	Standard & Poor's	0.41%
Corporate bonds	AAA	Standard & Poor's	0.41%
Corporate bonds	A	Standard & Poor's	0.42%
			<u>32.65%</u>
Exchange traded funds			33.07%
Mutual funds			<u>34.28%</u>
Total			<u><u>100%</u></u>

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy does not contain legal or policy requirements that would limit the exposure to interest rate risk.

As of September 30, 2021, the Authority held the following investments with maturities:

<u>Investments</u>	<u>Investment Maturities (in years)</u>			
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1–5</u>	<u>6–10</u>
U.S. treasury bonds	\$ 5,982,265	\$ 1,006,770	\$ 4,975,495	\$ -
Corporate bonds	<u>313,831</u>	<u>-</u>	<u>313,831</u>	<u>-</u>
	6,296,096	<u><u>\$ 1,006,770</u></u>	<u><u>\$ 5,289,326</u></u>	<u><u>\$ -</u></u>
Exchange traded funds	6,377,306			
Mutual funds	<u>6,610,473</u>			
Total investments	<u><u>\$ 19,283,875</u></u>			

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 2 – Investments (continued)

Fair Value of Investments – The Authority measures and records its investments using fair value measurement guideline established by generally accepted accounting principles and GASB 72. 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.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt and equity securities categorized as Level 1 are valued based on prices quoted in active markets for those securities. Debt securities categorized as Level 2 are valued using the matrix pricing technique that values securities based on their relationship to benchmark quoted prices. The Authority has no Level 3 investments.

Investments' fair value measurements are as follows at September 30, 2021:

Investments	Fair Value Measurements Using		
	Fair Value	Level 1 Inputs	Level 2 Inputs
Exchange traded funds	\$ 6,377,306	\$ 6,377,306	\$ -
U.S. treasuries	5,982,265	-	5,982,265
Mutual funds	6,610,473	6,610,473	-
Corporate bonds	313,831	-	313,831
Total investments	<u>\$ 19,283,875</u>	<u>\$ 12,987,779</u>	<u>\$ 6,296,096</u>

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 3 – Accounts and Retaining Receivable

Accounts and retainage receivable at September 30, 2021, were as follows:

Construction contracts receivable	\$ 8,026,127
Construction contracts retainage	2,636,705
Indian Health Service	8,434,182
Small jobs	<u>1,655,921</u>
	20,752,935
Less allowance for doubtful accounts	<u>(10,000)</u>
Total	<u><u>\$ 20,742,935</u></u>

Note 4 – Construction Contracts in Progress

Long-term construction contracts in progress at September 30, 2021, are summarized as follows:

Costs incurred on contracts in progress	\$ 204,936,610
Estimated earnings on contracts in progress	<u>13,603,598</u>
Total cost and estimated earnings	218,540,208
Less billings to date	<u>(215,776,584)</u>
Total	<u><u>\$ 2,763,624</u></u>
Included on the balance sheet under the following captions	
Costs and estimated earnings in excess of billings on contracts in progress	\$ 13,091,917
Billings in excess of costs and estimated earnings on contracts in progress	<u>(10,328,293)</u>
Net	<u><u>\$ 2,763,624</u></u>

Navajo Engineering and Construction Authority
(An Enterprise of the Navajo Nation)
Notes to Financial Statements

Note 5 – Capital Assets

The following is a summary of capital assets and accumulated depreciation as of September 30, 2021:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated				
Land	\$ 1,046,876	\$ -	\$ -	\$ 1,046,876
Total capital assets, not being depreciated	1,046,876	-	-	1,046,876
Capital assets, being depreciated				
Construction equipment	22,480,279	5,422,540	(2,506,353)	25,396,466
Vehicles	14,150,149	619,733	(434,315)	14,335,567
Buildings	8,466,711	-	-	8,466,711
Shop and other equipment	3,306,109	-	(569,220)	2,736,889
Office furniture and fixtures	1,961,016	-	-	1,961,016
Other improvements	904,947	-	-	904,947
Total capital assets, being depreciated	51,269,211	6,042,273	(3,509,888)	53,801,596
Less accumulated depreciation				
Construction equipment	14,732,038	2,347,755	(2,002,844)	15,076,949
Vehicles	9,755,795	1,122,539	(418,722)	10,459,612
Buildings	7,002,119	450,338	-	7,452,457
Shop and other equipment	2,936,125	71,971	(540,199)	2,467,897
Office furniture and fixtures	1,915,888	11,708	-	1,927,596
Other improvements	733,835	16,850	-	750,685
Total accumulated depreciation	37,075,800	4,021,161	(2,961,765)	38,135,196
Total capital assets, being depreciated, net	14,193,411	2,021,112	(548,123)	15,666,400
TOTAL CAPITAL ASSETS, net	\$ 15,240,287	\$ 2,021,112	\$ (548,123)	\$ 16,713,276

The Nation granted the land occupied by the Authority's present construction and warehouse operations to the Authority in a land withdrawal agreement. The land is for the Authority's exclusive use. However, title to the property remains with the Nation. Therefore, the cost or other value of the property is not reflected in the accompanying financial statements.

The Authority acquired a piece of land as an investment in Farmington, New Mexico. This land is shown on the statement of net position based at cost.

The Authority financed its primary office building, while the warehousing facilities were financed by certain federal agencies for the benefit of those agencies and the Nation through the Authority. Ownership rights to these facilities have not been transferred to the Authority. Therefore, the cost or other value of these assets has not been reflected in the accompanying financial statements.

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Note 5 – Capital Assets (continued)

Depreciation and amortization expense was \$4,021,161 for the year ended September 30, 2021. Depreciation and amortization expense for construction related equipment and vehicles was \$3,470,294, and is included in the cost of revenue earned in the accompanying statement of revenues, expenses, and changes in net position. The remaining depreciation expense of \$550,867 was for buildings, other improvements, shop equipment, and office furniture and machine and is included in the general and administrative expenses in the accompanying statement of revenues, expenses, and changes in net position.

Note 6 – Investment in Four Corners Pre-Cast

As of September 30, 2021, the balance of the investment in Four Corners Pre-Cast was as follows:

Beginning of year investment in Four Corners Pre-Cast	\$ 3,900,297
Share of net (loss) income for current year	24,088
Unreconciled difference	<u>(24,088)</u>
End of year investment in Four Corners Pre-Cast	<u><u>\$ 3,900,297</u></u>

Summarized financial statements for the Four Corners Pre-Cast as of and for the year ended September 30, 2021, follows:

Assets	
Current assets	\$ 4,108,251
Noncurrent assets	<u>261,435</u>
Total assets	<u><u>\$ 4,369,686</u></u>
Liabilities	
Current liabilities	\$ 445,476
Net position	<u>3,924,210</u>
Total liabilities and net position	<u><u>\$ 4,369,686</u></u>
Revenue	\$ 3,374,491
Expenses	<u>(3,350,403)</u>
Net Income	<u><u>\$ 24,088</u></u>

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Note 7 – Long-Term Debt

The Authority has the following notes payable at September 30, 2021:

Notes payable to John Deere Financial, with payments ranging from \$3,318 per month to \$347,341 per year and maturities ranging from May 2022 to July 2026, including interest ranging from 0.82% to 2.99%. Secured by financed equipment purchased.	\$ 2,214,065
Less current portion of long-term debt	<u>(725,457)</u>
Total	<u><u>\$ 1,488,608</u></u>

The maturity requirements of the notes payable at September 30, 2021, are as follows:

Years Ending September 30,	Principal	Interest	Total
2022	\$ 725,457	\$ 50,821	\$ 776,278
2023	477,592	31,996	509,588
2024	488,925	20,663	509,588
2025	377,579	9,019	386,598
2026	<u>144,512</u>	<u>2,348</u>	<u>146,860</u>
Total	<u><u>\$ 2,214,065</u></u>	<u><u>\$ 114,847</u></u>	<u><u>\$ 2,328,912</u></u>

Long-term liability activity for the year ended September 30, 2021, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases (Note 8)	\$ 2,272,611	\$2,424,599	\$ (790,516)	\$3,906,694	\$1,091,925
Notes payable	<u>1,435,492</u>	<u>1,824,262</u>	<u>(1,045,689)</u>	<u>2,214,065</u>	<u>725,457</u>
Total long-term liabilities	<u><u>\$ 3,708,103</u></u>	<u><u>\$4,248,861</u></u>	<u><u>\$ (1,836,205)</u></u>	<u><u>\$6,120,759</u></u>	<u><u>\$1,817,382</u></u>

Navajo Engineering and Construction Authority
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Notes to Financial Statements

Note 7 – Long-Term Debt (continued)

Paycheck Protection Program – PPP Loan

In April 2020, the Authority was granted a loan in the amount of \$3,115,224, pursuant to the Paycheck Protection Program (the PPP) under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was enacted March 27, 2020. The PPP, established as part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight to twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The loan was forgiven prior to year-end.

The Authority used the proceeds for purposes consistent with the PPP. The Company currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan under the Small Business Administration's (SBA) safe harbor provisions for borrowers of less than \$2 million. A safe harbor will apply to SBA's review of PPP loans for borrowers who, along with their affiliates, received PPP loans with an original principal amount of less than \$2 million. The SBA will presume the borrower's required certification concerning the necessity of the loan was made in good faith.

Note 8 – Commitments

The Authority leases various construction equipment over 36 to 60-month periods. Certain leases essentially transfer the risks of ownership and are accounted for as capital leases.

Leased property under capital leases, included in capital assets at September 30, 2021, includes:

Leased construction equipment	\$ 9,796,608
Less accumulated amortization	<u>(3,051,488)</u>
Total	<u><u>\$ 6,745,120</u></u>

Amortization based on the straight-line method, amounts to \$1,727,297 for the year ended September 30, 2021, and is included in cost of revenue earned.

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Note 8 – Commitments (continued)

At September 30, 2021, the future minimum lease payments under capital leases and rental payments required under operating leases are presented as follows:

Years Ending <u>September 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2022	\$ 1,091,925	\$ 22,035
2023	1,112,461	22,035
2024	902,745	19,837
2025	563,578	17,640
2026	<u>235,985</u>	<u>17,640</u>
Total	<u><u>\$ 3,906,694</u></u>	<u><u>\$ 99,187</u></u>
Current maturities	\$ 1,091,925	
Noncurrent materities	<u>2,814,769</u>	
Total	<u><u>\$ 3,906,694</u></u>	

The Authority leases various printers/copiers and mail shipping equipment subject to operating leases expiring on various dates through December 2026. Lease expense under operating leases totaled \$22,761 for the year ended September 30, 2021.

Payroll Protection Program

Under the CARES Act, Section 1102, Paycheck Protection Program the SBA has five years to audit any applicant. The Authority, at the time of submitting its application, evaluated the economic uncertainty resulting from the COVID-19 pandemic and the potential impact of that uncertainty on the ongoing operations of the business. Based on the risk of the Authority having to limit or close its operations and unavailability of other sources of liquidity it was determined that the loan request was necessary.

Litigation

The Authority is a party who disputes legal actions arising in the normal course of business. The Authority intends to settle such disputes and vigorously defend itself against all such actions.

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Note 9 – Construction Activity

Construction activity is comprised of the following for the year ended September 30, 2021:

	Revenues Earned	Cost of Revenues Earned	Gross Profit	Gross Profit %
Construction contracts				
Contracts in progress at end of year	\$ 50,709,205	46,250,307	\$ 4,458,898	8.8%
Contracts completed during the year	136,168	91,767	44,401	32.6%
	50,845,373	46,342,074	4,503,299	8.9%
I.H.S. projects	29,304,705	29,304,705	-	0.0%
Small jobs	1,443,914	1,221,686	222,228	15.4%
Total	<u>\$ 81,593,992</u>	<u>\$ 76,868,465</u>	<u>\$ 4,725,527</u>	5.8%

Note 10 – Management Contract – International Construction Company

In 1991, the Authority entered into a management agreement with Skanska USA Civil, Inc. (formerly Nielsons, Inc.), a multinational construction and development company based in Sweden. Under this agreement, Skanska USA Civil, Inc. was appointed as the Authority's managing agent. The agreement is currently set to expire on April 16, 2028. However, the agreement allows for future extensions at the discretion of the Authority's Board of Directors. This agreement stipulates that Skanska USA Civil, Inc. is responsible for the management and supervision of the Authority's heavy construction and public health services construction operations. These construction operations include the construction, repair, maintenance, and upkeep of the following infrastructure systems:

- Water facilities
- Distribution systems
- Wells
- Disposal facilities
- Road maintenance on Navajo Nation Lands

The Authority acquires construction and road maintenance contracts on a for-profit basis. To give the management company a direct financial interest in the success of these contracts, the Authority pays the management company a fee of 35% of the gross profits/losses resulting from the for-profit construction and road maintenance contracts. The fee decreased to 27% of the gross profits/losses resulting from the for-profit construction and road maintenance contracts as of December 7, 2020. Monthly advances of management fee shall be made to the management company in the amount of 80% of the monthly net profit realized from the construction and road maintenance contracts, and appropriate and necessary adjustments shall be made immediately upon the determination of the gross profits/losses. The remaining 20% shall be released upon completion of the annual audit.

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Note 10 – Management Contract – International Construction Company (continued)

The Authority performs work on a continuing basis for the I.H.S pursuant to the provisions of Public Law 86-121. This work is performed on a nonprofit, cost reimbursement basis. Applicable law allows reimbursement of administrative cost for the Authority's administration of Public Law 86-121 projects.

In accordance with the management agreement the management company shall assist the Authority in negotiating the administrative cost rate applicable to public health service contracts. The management company's management fee for the Indian Health Service projects shall be calculated pursuant to the following fee schedule, allowed by the United States Indian Health Service as a project cost:

Construction Services

First	\$7,000,000	cost at	5.00%
Over	\$7,000,000	cost at	4.00%

Materials and Outside Services

First	\$5,000,000	cost at	2.50%
Over	\$5,000,000	cost at	1.00%

For the year ended September 30, 2021, the Authority made no monthly advances to Skanska USA Civil, Inc. and reported a management fee of \$2,300,827 that is included in cost of revenue earned and general and administrative expenses.

Note 11 – Backlog (Unaudited)

The following schedule shows a reconciliation of contract construction backlog representing signed contracts in existence at NECA through December 15, 2021. Backlog represents the amount of revenue the Authority expects to realize from work to be performed on contracts in progress at year-end and from contractual agreements on which work has not begun.

	Project Authorizations
Backlog balance at September 30, 2020	\$ 78,499,739
New contracts during fiscal year 2021	<u>22,213,727</u>
	100,713,466
Less contract revenue earned during fiscal year 2021	<u>(50,709,205)</u>
New contracts entered after September 30, 2021	<u>966,053</u>
Backlog balance at December 15, 2021	<u><u>\$ 50,970,314</u></u>

Navajo Engineering and Construction Authority
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Notes to Financial Statements

Note 11 – Backlog (Unaudited) (continued)

The Authority also anticipates doing a significant volume of construction work undersigned I.H.S. contractual agreements. The amount of the I.H.S. projects backlog is not determinable at the present time.

Note 12 – Retirement Plan

The Authority 401(k) Profit Sharing Plan (the Plan) is a defined contribution plan covering all full-time Authority employees. Employees who have completed one year of service and are age 21 or older are eligible to contribute and receive an employer match. The Authority matches 200% of a participant's deferrals up to 4% of participant's eligible compensation. For the year ended September 30, 2021, the employer matching contribution was \$361,087 (included in cost of revenue earned), with employee contributions of \$556,742. The Plan also allows the Authority to make additional contributions at the discretion of their Board of Directors. There was no discretionary contribution made for the year ended September 30, 2021.

Note 13 – Related Parties

The Authority entered into certain transactions with Four Corners Pre-Cast (Note 6) throughout the year. For the year ended September 30, 2021, the Authority recorded approximately \$1,271,056 in expenditures related to transactions to Four Corners Pre-Cast. As of September 30, 2021, the Authority owed Four Corners Pre-Cast the amount of \$1,319 as a result of current year's transactions.

The Authority entered into certain transactions with the Navajo Nation throughout the year. For the year ended September 30, 2021, the Authority has \$11,527,686 due from the Navajo Nation. As of September 30, 2021, the Authority had revenue in the amount of \$46,366,971 as a result of current year's transactions.

Note 14 – Uncertainty

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are resulting in a variety of negative economic consequences, the scope of which are not currently known or quantifiable.

The duration and intensity of the impact of the coronavirus and resulting impact to the Authority is unknown. As of September 30, 2021, the impact to the Authority has been nominal.