Navajo Agricultural Products Industry
An Enterprise of the Navajo Nation

Single Audit Reporting Package
May 31, 2010 and 2009

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MILLER, ALLEN & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Honorable Chairman and Members of the Board of Directors
Navajo Agricultural Products Industry
Farmington, New Mexico

We have audited the accompanying financial statements of Navajo Agricultural Products Industry, an enterprise of the Navajo Nation, as of and for the years ended May 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Navajo Agricultural Product's Industry's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only Navajo Agricultural Products Industry and do not purport to, and do not, present fairly the financial position of the Navajo Nation as of May 31, 2010 and 2009 and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Navajo Agricultural Products Industry as of May 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2010, on our consideration of Navajo Agricultural Products Industry's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted

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principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on Navajo Agricultural Products Industry's basic financial statements. The accompanying schedule of expenditures of federal awards listed in the table of contents is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Miller, Allen & Co PC

August 25, 2010

NAVAJO
PRIDE

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August 25, 2010

Management's Discussion and Analysis

This discussion and analysis introduces the basic financial statements and provides an overview of Navajo Agricultural Products Industry's (NAPI) financial activities for the years ended May 31, 2010 and 2009. Please read it in conjunction with the financial statements, which immediately follow.

Primary Missions:

The Navajo Agricultural Products Industry's primary missions are as follows:

- To operate a profitable commercial farm,
- To plan, develop, and promote the use of agricultural and related resources, including water in compliance with the Navajo Nation Water Code,
- Promote agribusiness development, the multiplier effect, and related businesses and industries in the Navajo Nation.

Financial Highlights:

- The NAPI's overall financial position improved in fiscal year 2010. The assets of NAPI exceeded its liabilities at the close of the fiscal year by $82,044,987. Included in this amount is $35,470,784, which may be used to meet NAPI's ongoing mission of operating a profitable commercial farm.
- NAPI's total net assets increased by $8,169,124.
- At May 31, 2010, total NAPI assets were $96,143,620, compared to $92,854,980 at May 31, 2009. NAPI's most significant current asset is crops in progress of $17,381,180 at May 31, 2010, compared to $16,965,725 at May 31, 2009.
- At May 31, 2010, NAPI's current assets of $29,035,825 were sufficient to cover current liabilities of $7,743,784 (current ratio of 3.75). At May 31, 2009, NAPI's current assets of $32,652,345 exceeded current liabilities of $10,178,747 (current ratio of 3.21).
- NAPI's liabilities totaled $14,098,633 at May 31, 2010 compared to $18,979,117 at May 31, 2009. A $5,536,030 long-term note payable to Wells Fargo Bank represents the largest liability as of May 31, 2010.
- The Navajo Agricultural Products Industry total debt decreased by $2,712,158 (25%) between fiscal years 2010 and 2009.

- NAPI's gross crop revenues were $37,180,472 and $43,374,476 for the years ended May 31, 2010 and 2009, respectively. This represented a decrease in crop revenue of $6,194,004 from the previous fiscal year. Crop revenues decreased significantly as a result of the economic downturn in the economy. The downturn impacted restaurant sales creating an oversupply of potatoes and depressed table stock prices significantly. The dairy industry suffered a significant decline in milk prices impacting alfalfa prices. Quality and yields did not reach targets mainly due to inclement weather during the growing and harvesting season.
- Funding for the Navajo Indian Irrigation Project and other related grants was $14,884,681 and $7,670,383 for the years ended May 31, 2010 and 2009, respectively. This represented an increase in intergovernmental revenue of $7,214,298 or 94% from the previous fiscal year. This increase is a result of additional funding provided by the governmental entities to support the NIIP and related projects under the 638 contract.
- Income from agricultural-related leases was $3,739,825 and $2,286,250 for the years ended May 31, 2010 and 2009, respectively. This represented an increase of $1,453,575 or 64% from the previous fiscal year. This increase was a result of the increase potato acreage being allotted to Navajo mesa Farms.
- Selling and administrative expenses were $5,347,203 and $4,594,626 for the years ended May 31, 2010 and 2009, respectively. This represented an increase of $752,577 or 16% from the previous fiscal year. The increase represents a significant change with NAPI's organizational chart in June 2009 with the addition of a Chief Business Development Officer along with the creation of a security department. Increased lobbying activity also contributed to this expense.
- Interest and fiscal charges were $631,890 and $425,061 for the years ended May 31, 2010 and 2009, respectively. This represented an increase of $206,829 or 49% from the previous fiscal year due to payments on the Center Pivot Rehabilitation Project loan.

Overview of the Basic Financial Statements:

The NAPI's annual financial statements are presented in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This format is similar to the type of financial statements typical of a business enterprise. The basic financial statements consist of the following:

The Statement of Net Assets reflects the financial position of NAPI at May 31, 2010 and 2009. It shows the various assets owned or controlled, related liabilities and other obligations, and the various categories of net assets. Net assets is an accounting concept defined as total assets less total liabilities, and as such, represents equity or ownership in the total assets of NAPI. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of NAPI is improving or deteriorating when considered with nonfinancial facts such as crop statistics (yields, acres in production, etc.) and the condition of facilities.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects the results of operations and other changes for the year ended May 31, 2010 and 2009. It shows the various revenues and expenses, both operating and nonoperating, reconciling the beginning net assets amount to the ending net assets amount – which is shown on The Statement of Net Assets described above.

The Statement of Cash Flows presents the inflows and outflows of cash and cash equivalents for the years ended May 31, 2010 and 2009. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Assets described above. In addition, this statement reconciles cash flows from operating activities to operating income/loss on the Statement of Revenues, Expenses and Changes in Net Assets described above.

The condensed financial information below highlights the main categories of The Statement of Net Assets. Assets and liabilities are distinguished as to their current or noncurrent nature. Current liabilities are typically those obligations intended for liquidation or payment within the next fiscal year while current assets are those resources that are available for use in meeting the operating needs of NAPI, including current liabilities. Net assets are divided into two categories reflecting the equity in assets by broad characteristics.

Condensed Financial Information

Condensed Statements of Net Assets
As of May 31, 2010 and 2009

	May 31, 2010	May 31, 2009
Assets:		
Current assets	$ 29,035,825	$ 32,652,345
Noncurrent assets, other than capital assets	12,178,618	13,379,653
Capital assets, net	54,929,177	46,822,982
Total assets	$ 96,143,620	$ 92,854,980
Liabilities:		
Current liabilities	$ 7,743,784	$ 10,178,747
Noncurrent liabilities	6,354,849	8,800,370
Total liabilities	$ 14,098,633	$ 18,979,117
Net assets:		
Invested in capital assets, net of related debt	$ 46,574,203	$ 35,755,850
Unrestricted net assets	35,470,784	38,120,013
Total net assets	$ 82,044,987	$ 73,875,863

At May 31, 2010, total NAPI assets were $96,143,620, compared to $92,854,980 at May 31, 2009. NAPI's most significant current asset is crops in progress of $17,381,180 at May 31, 2010, compared to $16,965,725 at May 31, 2009.

At May 31, 2010, NAPI's current assets of $29,035,825 were sufficient to cover current liabilities of $7,743,784 (current ratio of 3.75). At May 31, 2009, NAPI's current assets of $32,652,345 exceeded current liabilities of $10,178,747 (current ratio of 3.21).

NAPI's liabilities totaled $14,098,633 at May 31, 2010 compared to $18,979,117 at May 31, 2009. A $5,536,030 long-term note payable to Wells Fargo Bank represents the largest liability as of May 31, 2010.

The Navajo Agricultural Products Industry total debt decreased by $2,712,158 (25%) between fiscal years 2010 and 2009.

As noted earlier, net assets may serve over time as a useful indicator of NAPI's financial position. In the case of the Navajo Agricultural Products Industry, assets exceeded liabilities by $82,044,987 at the close of the most recent fiscal year.

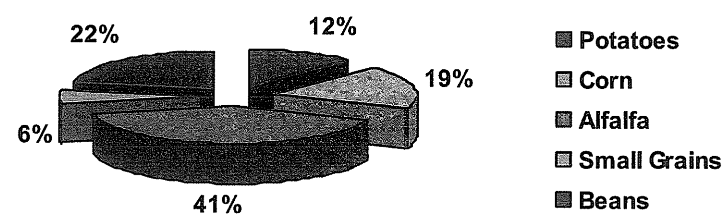
By far the largest portion of the Navajo Agricultural Products Industry's net assets (57%) reflects its investment in capital assets (e.g. land improvements, buildings, irrigation and sprinkler equipment, automotive equipment, office and communication equipment, construction in progress, software, and farm, feedlot, shop and other equipment) less any related debt used to acquire those assets that is still outstanding. The Navajo Agricultural Products Industry uses these capital assets to operate its agricultural activities; consequently, these assets are not available for future spending. Although the Navajo Agricultural Products Industry's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The condensed financial information below highlights the main categories of the Statement of Revenues, Expenses, and Changes in Net Assets. The major sources of gross operating revenues for NAPI are agricultural products: alfalfa, barley, corn, tablestock potatoes, wheat, oats, beans, feed yard, intergovernmental revenue and agricultural-related leases. Depreciation expense is recorded in accordance with the adoption of the economic resources measurement focus. For a description of the difference between operating and nonoperating, please refer to the Summary of Significant Accounting Policies, Note 2 to the basic financial statements.

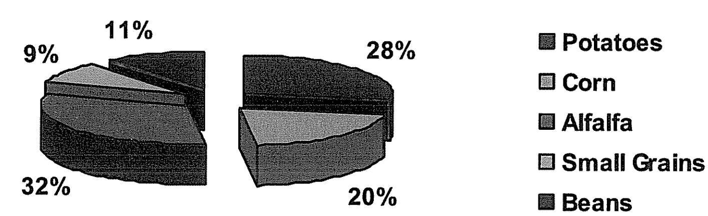
**Condensed Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended May 31, 2010 and 2009**

	May 31, 2010	May 31, 2009
Revenues:		
Operating:		
Crops	$ 37,180,472	$ 43,374,476
Agricultural-related leases	3,739,825	2,286,250
Sale of electric power rights	1,172,375	714,206
Indirect cost recovery	665,395	938,109
Nonoperating:		
Intergovernmental	14,884,681	7,670,383
Investment income	634,241	56,781
Other	1,134,143	(32,058)
Loss on sale of capital assets	(171,513)	(15,410)
Total revenues	59,239,619	54,992,737
Expenses:		
Operating:		
Cost of crops and goods sold:		
Crops	37,506,721	32,823,170
Selling and administrative	5,347,203	4,594,626
Nonoperating:		
Costs associated with the Navajo Indian Irrigation Project and other related grants	7,584,681	7,670,383
Interest and fiscal charges	631,890	425,061
Total expenses	51,070,495	45,513,240
Change in net assets	8,169,124	9,479,497
Net assets, beginning	73,875,863	64,396,366
Net assets, ending	$ 82,044,987	$ 73,875,863

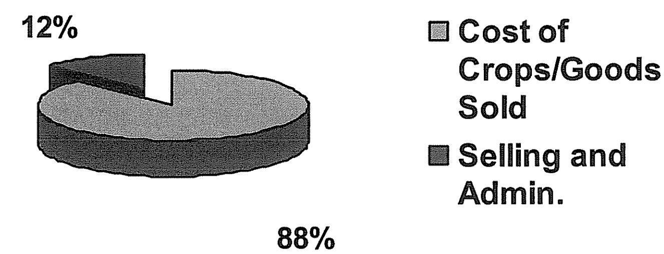
2010 Sigificant Crop Revenue - by Crop



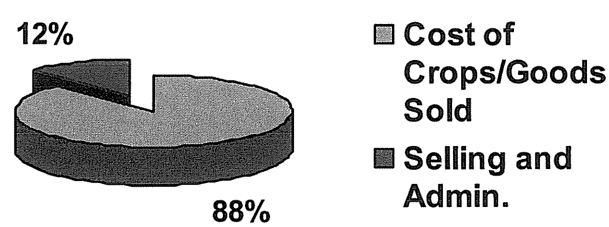
2009 Significant Crop Revenue - by Crop



2010 Operating Expenses - by Type



2009 Operating Expenses - by Type



NAPI's gross crop revenues were $37,180,472 and $43,374,476 for the years ended May 31, 2010 and 2009, respectively. This represented a decrease in crop revenue of $6,194,004 from the previous fiscal year. Crop revenues decreased significantly as a result of the economic downturn in the economy. The downturn impacted restaurant sales creating an oversupply of potatoes and depressed table stock prices significantly. The dairy industry suffered a significant decline in milk prices impacting alfalfa prices. Quality and yields did not reach targets mainly due to inclement weather during the growing and harvesting season.

Funding for the Navajo Indian Irrigation Project and other related grants was $14,884,681 and $7,670,383 for the years ended May 31, 2010 and 2009, respectively. This represented an increase in intergovernmental revenue of $7,214,298 or 94% from the previous fiscal year. This increase is a result of additional funding provided by the governmental entities to support the NIIP and related projects under the 638 contract.

Income from agricultural-related leases was $3,739,825 and $2,286,250 for the years ended May 31, 2010 and 2009, respectively. This represented an increase of $1,453,575 or 64% from the previous fiscal year. This increase was a result of the increase potato acreage being allotted to Navajo Mesa Farms.

Selling and administrative expenses were $5,347,203 and $4,594,626 for the years ended May 31, 2010 and 2009, respectively. This represented an increase of $752,577 or 16% from the previous fiscal year. The increase represents a significant change with NAPI's organizational chart in June 2009 with the addition of a Chief Business Development Officer along with the creation of a security department. Increased lobbying activity also contributed to this expense.

Interest and fiscal charges were $631,890 and $425,061 for the years ended May 31, 2010 and 2009, respectively. This represented an increase of $206,829 or 49% from the previous fiscal year due to payments on the Center Pivot Rehabilitation Project loan.

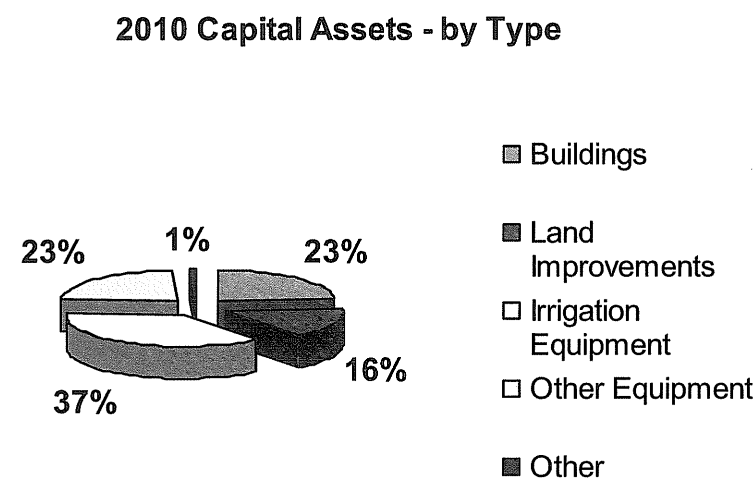
Investment income was $634,241 and $56,781 for the years ended May 31, 2010 and 2009, respectively. This represents an increase of $577,460 or 1017% from the previous fiscal year due to interest payments from NAMI due on their accounts payable to NAPI. The NAMI/NAPI operating agreement outlines the details of this interest payment obligation.

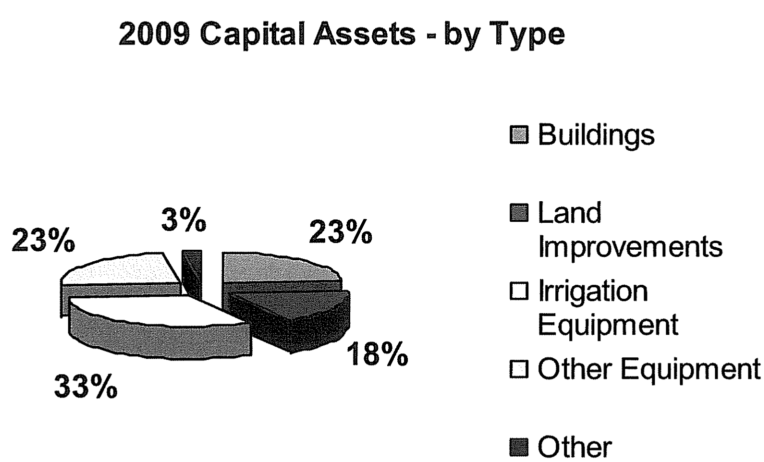
Capital Assets and Debt Administration:

Capital assets – The Navajo Agricultural Products Industry's investment in capital assets (net of accumulated depreciation) as of May 31, 2010 and 2009 amounts to $54,929,177 and $46,822,982, respectively. This investment in capital assets includes land improvements, buildings, irrigation and sprinkler equipment, automotive equipment, office and communications equipment, construction in progress, software, and farm, feedlot, shop, and other equipment. The total increase in the Navajo Agricultural Products Industry's investment in capital assets for the current fiscal year was 17%.

Major capital asset events during the current fiscal year included the following:

- Center Pivot Rehabilitation Project of Block 4 and 5, $7,408,577;
- Improvements to Region II Scale House, $941,146;
- Feed Yard Pond Project, $597,093;
- NAPI Fleet, $792,704;
- Main Office Roof Modifications, $125,940;
- CAT D-8 Dozer, $611,645;
- CAT AWD Grader, $326,052;
- Potato Storage, $1,854,404;
- Challenger Model MT875C, $160,813.





Additional information on the Navajo Agricultural Products Industry's capital assets can be found in Note 6 to the financial statements on page 28.

Long-term debt – As of May 31, 2010 and 2009, NAPI had total long-term debt of $8,354,974 and $11,067,132, respectively. As of May 31, 2010, this long-term debt comprised of 2 bank note payables and equipment lease-purchase agreements. As of May 31, 2009, this long-term debt comprised of 3 bank note payables and equipment lease-purchase agreements. In fiscal year 2009, to finance the purchase of pivot irrigation equipment, NAPI secured a new bank note payable in the amount of $6,458,702. During the years ended May 31, 2010 and 2009, NAPI repaid long-term debt in the amounts of $2,712,158 and $1,984,333, respectively.

payable in the amount of $6,458,702. During the years ended May 31, 2010 and 2009, NAPI repaid long-term debt in the amounts of $2,712,158 and $1,984,333, respectively.

Navajo Agricultural Products Industry's Outstanding Debt

	2010	2009
Capital leases	$ 1,095,127	$ 1,682,038
Notes payable	7,259,847	9,093,494
Credit agreement	-	291,600
Total	$ 8,354,974	$ 11,067,132

Navajo Indian Irrigation Project (NIIP):

In 1962 the United States Congress authorized the construction of the Navajo Indian Irrigation Project (NIIP) for the sole purpose of providing a water delivery system from the Navajo Dam reservoir to the Navajo Nation. This project is a partial satisfaction of The Treaty of 1868 to the Navajo Nation. Revenues and expenditures from the above Public Law 93-638 Programs (Operations and Maintenance, On-Farm Development, and Soil Labs) comprised the most significant portion of NAPI's federal financial assistance. Operation and Maintenance maintains the 71-mile canal system and pipeline that transports irrigated water throughout NAPI, On-Farm Development is responsible for the installation of new irrigation systems; the Soil Labs tests the soil to ensure adequate moisture and fertilizer application.

Intergovernmental revenues from these programs totaled approximately $14,884,681 for the year ended May 31, 2010 and $7,670,383 for the year ended May 31, 2009. Recognized expenditures of such funds were $7,584,681 and $7,670,383 for the year ended May 31, 2010 and for the year ended May 31, 2009, respectively. Intergovernmental revenues exceeded grant expenditures for the year ended May 31, 2010 by $7,300,000 as the result of expenditures that were capitalized for rehabilitation of the center pivots in Blocks 4 and 5.

Economic Outlook and Agricultural Outlook:

Economic Outlook –

- Real GDP (Gross Domestic Product) decreased by 2.5 percent in 2009 and is forecasted to increase by 2.2 percent in 2010. Economic growth is forecasted to be restrained by the aftermath of the recent financial and economic turmoil. Real GDP is not forecasted to accelerate significantly until 2012-2014 with forecasts of 4.4 percent.
- Economic growth will probably be restrained by the aftermath of the financial and economic turmoil. Experience in the United States and in other countries suggests that recovery from recessions triggered by financial crises and large declines in asset prices tends to be protracted.
- Unemployment rate has increased to 9.7 percent through May 2010; however, with the certain indicators predicting continued uncertainty of the US economy, the current estimate is for unemployment to reach 9.9 percent in February of 2011.
- CPI (Consumer Price Index) declined 0.2 percent in May of 2009 with an unadjusted 12 months ending in May of 2010 rate of 2.0 percent.

- The Eurozone and the United States are expected to see real Gross Domestic Product (GDP) grow 1.0 and 3.1 percent, respectively, in 2010. World growth is expected to be between 3.1 and 3.3 percent, with developing economies growing 4.0-4.3 percent. Canada's economy is expected to see 2.8-3.3 percent growth in 2010. The Mexican economy will likely see output up 3.8-4.5 percent for 2010, aided by a modest boost in oil prices.
- The expectation for the federal funds rate is to stay near zero. The forecast for January 2011 is a rate of 0.11%.
- The interest rate on 3-month Treasury bills is expected to remain near 1% through the 2010-2011 fiscal year.
- The interest rate on 10-year Treasury notes is projected to remain below 3% into the early part of 2011.
- Crude oil prices in 2010 are expected to remain between $75 and $85 with no significant price movement through the end of 2010. Gasoline and diesel prices are forecasted to follow this stable pricing at least until the end of 2010.

Agricultural Outlook –

- Exports:
    - Fiscal 2010 agricultural exports are forecast at $104.5 billion, up $4.5 billion from the February forecast and $7.9 billion above final FY 2009 exports. Agricultural trade has seen the beginnings of a recovery in 2010. Violence and political uncertainty along the southern U.S. border with Mexico could affect dry bean and potato exports to Mexico.
    - Grains which were forecasted at a $24.9 billion down $1.3 billion from FY 2009. However, recent events in the Russian wheat harvest in 2010 are projected to impact this forecast significantly. Recent projections call for a reduction in the Russian wheat harvest of 20% from 2009.
    - US corn crop production has increased the forecast for corn production is 13.4 billion bushels in 2010, with soybean production of 3.43 billion bushels. Both estimates would be a 2 percent increase over 2009 crop figures, the current highest annual production on record.
    - China bought more than $10 billion in U.S. farm goods in the first six months of the year to become the country's No. 1 agricultural export market. This trend is expected to continue unabated until the improvement of other trading partner economies.
    - The dairy export forecast is raised slightly to $2.9 billion due to strong global dairy prices and expected recovery in milk powder sales.

- Imports:
    - Fiscal 2010 agricultural imports are forecast at $76.5 billion, down $1 billion from the previous forecast due mostly to declining values of imported vegetable oils. To date, import volumes of vegetable oils and other oilseed products lag behind 2009 levels. While forecast values of vegetable oils, bulk grains, dairy products, and beef are lowered, projections for horticultural crops and tropical products are

up from both the recent forecasts and 2009 values. The major import products will continue to be horticultural products, including sugar and tropical products.

- Imported grains and feed declined $200 million and is attributed to a $500 million reduction in the bulk grain forecast as shipment volume to date is down 27 percent. A $300 million projected rise in imported grain products will offset part of the overall drop.
- Recent gains in the dollar's exchange rate, especially with respect to the euro, reinforce domestic spending growth, which together are expected to boost U.S. food imports through the rest of the year and into 2011.

Other Matters with Potential Impact on Future Operations

Agricultural products experience periodic changes due to uncontrollable market conditions and future commodity pricing cannot be predicted. Adequate supplies of water are also a significant consideration for farming enterprises in the Southwest. NAPI's supply of water has historically been sufficient. NAPI management views this as a competitive advantage until such time that the current drought conditions improve in the region.

Navajo Indian Irrigation Project funding has increased over previous levels for 2010 and 2009. Future funding levels cannot be determined at this time. Additional planned expansion of irrigated cropland may be slowed unless appropriations are returned to previous levels of funding.

Request for Information

This financial report is designed to provide a general overview of the Navajo Agricultural Products Industry's finances for all those with an interest in NAPI's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Pierre Dotson, Chief Financial Officer, PO Drawer 1318, Farmington, New Mexico, 87499.

Basic Financial Statements

Navajo Agricultural Products Industry
Statement of Net Assets
May 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 4,948,030	$ 9,549,505
Investments	2,140,831	2,140,611
Accounts receivable - trade (net of allowance for uncollectibles)	2,726,605	1,128,089
Accounts receivable - Navajo Agricultural Marketing, Inc.	1,091,105	2,000,000
Inventories	17,900,813	17,669,068
Prepaid items	228,441	165,072
Total current assets	29,035,825	32,652,345
Noncurrent assets:		
Accounts receivable - Navajo Agricultural Marketing, Inc.	4,710,552	4,374,579
Temporarily restricted:		
Cash and cash equivalents	8,918	73,128
Investments	4,189,271	4,470,440
Deferred alfalfa stand costs	3,210,043	4,361,533
Deferred conservation program costs	-	40,139
Other assets	59,834	59,834
Capital assets, net	54,929,177	46,822,982
Total noncurrent assets	67,107,795	60,202,635
Total assets	$ 96,143,620	$ 92,854,980
Liabilities		
Current liabilities:		
Accounts payable	$ 2,144,813	$ 2,200,917
Other accrued expenses	488,847	364,073
Deferred revenues	3,109,999	5,346,995
Current portion of long-term debt	2,000,125	2,266,762
Total current liabilities	7,743,784	10,178,747
Noncurrent liabilities:		
Noncurrent portion of long-term debt	6,354,849	8,800,370
Total noncurrent liabilities	6,354,849	8,800,370
Total liabilities	14,098,633	18,979,117
Net Assets		
Investment in capital assets, net of related debt	46,574,203	35,755,850
Unrestricted	35,470,784	38,120,013
Total net assets	$ 82,044,987	$ 73,875,863

The notes to the financial statements are an integral part of these statements.

Navajo Agricultural Products Industry

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended May 31, 2010 and 2009

	2010	2009
Operating revenues:		
Crops	$ 37,180,472	$ 43,374,476
Agricultural-related leases	3,739,825	2,286,250
Sale of electric power rights	1,172,375	714,206
Indirect cost recovery	665,395	938,109
Total operating revenues	42,758,067	47,313,041
Operating expenses:		
Cost of crops and goods sold:		
Crops	36,111,289	32,005,267
Agricultural-related leases	1,347,362	788,767
Feedyard	31,937	10,552
Convenience store operation	16,133	18,584
Total cost of crops and goods sold	37,506,721	32,823,170
Selling and administrative	5,347,203	4,594,626
Total operating expenses	42,853,924	37,417,796
Operating income (loss)	(95,857)	9,895,245
Nonoperating revenues (expenses):		
Intergovernmental revenues	14,884,681	7,670,383
Costs associated with the Navajo Indian Irrigation Project and other related grants	(7,584,681)	(7,670,383)
Investment income	634,241	56,781
Interest and fiscal charges	(631,890)	(425,061)
Loss on sale of capital assets	(171,513)	(15,410)
Other	1,134,143	(32,058)
Total nonoperating revenues (expenses)	8,264,981	(415,748)
Change in net assets	8,169,124	9,479,497
Net assets, beginning	73,875,863	64,396,366
Net assets, ending	$ 82,044,987	$ 73,875,863

The notes to the financial statements are an integral part of these statements.

Navajo Agricultural Products Industry

Statements of Cash Flows

For the Years Ended May 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from customers	$ 40,083,006	$ 46,555,487
Payments to suppliers	(28,561,333)	(29,791,728)
Payments to employees	(8,910,565)	(7,956,205)
Net cash provided by operating activities	2,611,108	8,807,554
Cash flows from noncapital financing activities:		
Net change in accounts receivable (Navajo Agricultural Marketing, Inc.)	572,922	4,701,858
Net cash provided by noncapital financing activities	572,922	4,701,858
Cash flows from capital and related financing activities:		
Subsidy from federal grants	13,724,230	7,758,299
Disbursements of federal grants	(7,367,788)	(7,495,000)
Acquisition and construction of capital assets	(13,011,272)	(4,816,343)
Proceeds from sale of capital assets	99,830	38,598
Principal paid on notes and capital leases	(2,712,158)	(1,984,333)
Interest paid on notes and capital leases	(631,890)	(425,061)
Other receipts	1,134,143	(32,058)
Net cash used by capital and related financing activities	(8,764,905)	(6,955,898)
Cash flows from investing activities:		
Interest and dividends	634,241	56,781
Net purchases and sales of investments	280,949	358,712
Net cash provided by investing activities	915,190	415,493
Net increase (decrease) in cash and cash equivalents	(4,665,685)	6,969,007
Cash and cash equivalents, beginning	9,622,633	2,653,626
Cash and cash equivalents, ending	$ 4,956,948	$ 9,622,633

Reconciliation of operating income (loss) to net cash provided by operating activities:

	2010	2009
Operating income (loss)	$ (95,857)	$ 9,895,245
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	4,633,734	3,284,766
Change in assets and liabilities:		
(Increase) decrease in accounts receivable - trade	(1,598,516)	(32,797)
(Increase) decrease in inventories	(231,745)	(1,135,273)
(Increase) decrease in prepaid items	(63,369)	(50,930)
(Increase) decrease in deferred alfalfa stand costs	1,151,490	(1,957,286)
(Increase) decrease in deferred conservation program costs	40,139	160,852
(Increase) decrease in other assets	-	(42,173)
Increase (decrease) in accounts payable	(272,997)	(374,525)
Increase (decrease) in other accrued expenses	124,774	(215,568)
Increase (decrease) in deferred revenue	(1,076,545)	(724,757)
Net cash provided by operating activities	$ 2,611,108	$ 8,807,554

Noncash Investing, Capital, and Financing Activities:

The following is information about all investing, capital, and financing activities of the Navajo Agricultural Products Industry for years ended May 31, 2010 and 2009 that affect recognized assets or liabilities but do not result in cash receipt or payments:

	2010	2009
Capital assets acquired through long term debt.	$ -	$ 6,750,302

The notes to the financial statements are an integral part of these statements.

Note 1 - Nature of Operations

Navajo Agricultural Products Industry (NAPI), an Enterprise of the Navajo Nation, was created in 1967 for the purpose of administering the development and farming of certain Navajo Nation lands in northwestern New Mexico totaling 110,630 acres. The irrigated farm represents the utilization by the Navajo Nation of a federally funded project [Navajo Indian Irrigation Project (NIIP) established under Public Law 87-483] for irrigation and diversion of water from the San Juan River. The expenditure of federal funds for planning and development of the irrigated farm (NAPI) commenced on July 1971.

Operation of the irrigated farm project, consisting of 11 separate blocks or tracts of land, each consisting of approximately 10,000 acres with total acreage of 110,630, commenced in 1976. Through May 31, 2010, Blocks I through VIII, covering approximately 70,000 acres, have been placed in service and are available for farming purposes. As of May 31, 2010, 714 acres of the Block IX Stage 1 development have been placed in service with the remainder of the Block IX development in progress. The future development of Blocks X and XI, in conjunction with the completion of Block IX is dependent on receipt of additional funding.

NAPI's customers are located primarily in the southwestern United States including New Mexico, Arizona, California, Nebraska, and Texas. NAPI's principal crops are alfalfa, corn, potatoes, small grains, and beans. The revenues from these crops as a percentage of total crop revenues for the years ended May 31, 2010 and 2009 are as follows:

	2010	2009
Alfalfa	41%	32%
Beans	22%	11%
Corn	19%	20%
Potatoes	12%	28%
Small grains	6%	9%

Since NAPI sells a commodity, revenues may fluctuate significantly from year to year, depending on the market prices of the crops. In addition, the quantity and quality of product NAPI has available for sale which is subjected to weather conditions during the planting, growing, and harvesting cycles.

In addition to farming and related operations, portions of the farm and certain adjacent Navajo Nation lands are periodically leased to outside parties for the purpose of agricultural and other farm-related activities.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Navajo Agricultural Products Industry have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to Enterprises of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of NAPI's accounting policies are described below.

A. Reporting Entity

The Navajo Agricultural Products Industry is an Enterprise of the Navajo Nation. The financial statements present only the financial position, changes in financial position and cash flows of NAPI and do not purport to, and do not present fairly the financial position of the Navajo Nation and the changes in its financial position and its cash flows where applicable, in conformity with U.S. generally accepted accounting principles.

B. Basis of Presentation and Accounting

The Navajo Agricultural Products Industry's activities are similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

The financial transactions of NAPI are recorded and reported as an Enterprise since its operations are financed and operated in a manner similar to private business enterprises, in which the intent of NAPI is that costs (expenses, including depreciation) of providing goods or services on a continuing basis be financed or recovered primarily through user charges.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

The financial statements of NAPI have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Enterprise also applies all applicable Financial Accounting Standards Board (FASB) pronouncements in accounting and reporting issued prior to November 30, 1989. The Enterprise has elected not to follow FASB standards issued subsequent to November 30, 1989.

The financial statements include statements of net assets; statements of revenues, expenses, and changes in fund net assets; and statements of cash flows.

A statement of net assets provides information about the assets, liabilities, and net assets of NAPI at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external restrictions or availability of assets to satisfy NAPI obligations. Invested in capital assets net of related debt represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the asset. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

A statement of revenues, expenses, and changes in fund net assets provides information about NAPI's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions. Operating revenues and expenses result from providing services and producing and delivering goods in connection with NAPI principal ongoing operations. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

A statement of cash flows provides information about NAPI's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing or investing.

Cash and Cash Equivalents - For purposes of the statements of cash flows, NAPI considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. NAPI maintains cash and cash equivalents at certain financial institutions that may exceed federally insured amounts.

Inventories - Crops in progress inventories are stated at cost, which represent costs incurred through the fiscal year end. Harvested crops available for immediate delivery and that have a readily determinable and realizable market value are stated at net realizable value. Other inventories are valued at the lower of cost or market on a first-in, first-out basis.

Investments – In accordance with GASB Statement 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Navajo Agricultural Products Industry's investments are stated at fair value.

Capital Assets -

i. Land

The land occupied by present and anticipated future farm operations of NAPI consists of certain portions of the present Navajo Nation reservation and other designated federal, state, and privately owned lands acquired by the Navajo Nation and placed in trust with the Federal Government. The title to such property remains with the Navajo Nation and, therefore, the cost or other value of the property is not reflected in the accompanying financial statements.

ii. Primary Irrigation Facilities and Roads

The primary irrigation canal system, roads, and related facilities were financed by the Federal Government and are maintained primarily by the Federal Government and others for the benefit of the Navajo Nation through NAPI. Ownership rights to these facilities and roads have not been transferred to NAPI and, therefore, the cost or other value of these assets has not been reflected in the accompanying financial statements.

iii. Other

Purchased capital assets are reflected at cost except, as noted elsewhere, contributed capital assets are stated at fair market value at the time of receipt. NAPI capitalizes the contract construction costs, its own incurred direct construction labor, certain related overhead costs of land improvements (Blocks I through VIII), and irrigation and sprinkler equipment. Such land improvement costs are generally incurred during the primary development stage of the respective blocks. Costs of leveling and other expenditures that become a permanent part of the land are capitalized as incurred and are not depreciated or amortized as they have an indefinite useful life. Depreciation or amortization of depreciable assets constructed begins when the acreage is put to use.

Renewals and betterments of capital assets that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Maintenance and repairs are charged to operating costs and expenses as incurred.

Depreciation and Amortization - depreciation and amortization of capital assets are provided using the straight-line method over the estimated useful lives of the respective assets, as follows:

	Useful lives (years)
Buildings	10 to 20
Irrigation and sprinkler equipment	3 to 20
Farm, feedlot, shop, and other equipment	3 to 20
Pre Production Cost	3 to 20
Automotive equipment	3 to 5
Office and communication equipment	5 to 10
Software	5

Capital Asset Capitalization Threshold – Capital assets are defined by NAPI as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year.

Alfalfa-Stand Costs - deferred alfalfa stand costs, net of amortization, represent the direct and indirect costs of preparing alfalfa stands for cultivation. Such deferred costs are amortized to operations over the lives of the alfalfa stands, which are estimated to be five years.

Land Development Cost – Land and development cost include both permanent and limited–life costs. Permanent land costs, such as initial land clearing, leveling and develop are not subject to deprecation. Limited-life development costs, such as water delivery systems, are depreciated over the estimated life of the improvement. When crop production on developed land is at commercial quantities, depreciation of limited life capitalized costs begins. Crop revenues prior to production of commercial quantities reduce expenses in the year recognized.

Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of - NAPI reviews long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Contributed Water and Related Cost - In the course of conducting farm operations, NAPI utilizes irrigation water provided by the Federal Government, as discussed previously under primary irrigation facilities and roads. Neither the cost nor the contribution of the water is reflected in the accompanying financial statements.

Nonexchange Transactions -

Statement No. 33 of the GASB*, Accounting and Financial Reporting for Nonexchange Transactions* (Statement No. 33), establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources and is effective for periods beginning after June 15, 2000. NAPI adopted Statement No. 33 as of March 1, 2001. NAPI receives grants from certain Federal Government agencies, primarily the BIA and the Bureau of Reclamation, which meet the definition of nonexchange transactions in Statement No. 33. Also, as an Enterprise of the Navajo Nation, capital contributions received from the Navajo Nation meet the definition of nonexchange transactions in Statement No. 33.

The Federal Government grants and the capital contributions received by NAPI are classified as voluntary nonexchange transactions as defined by Statement No. 33 and, accordingly, NAPI recognizes revenue for these transactions when all eligibility requirements have been met. Monies received before the eligibility requirements have been fulfilled by NAPI are reported as deferred revenue.

Crop Revenues and Cost Recognition - Crop revenues and associated costs are recognized on a "crop year" basis. The crop year ends when the crop is harvested or when substantially all associated costs are incurred. Costs associated with crops are matched with the corresponding revenue for the crop year. Crop costs incurred subsequent to the crop year are recorded as crops in progress in the fiscal year incurred, and are matched with the corresponding revenues of the following crop year's harvest.

Accounts Receivables - receivables are recorded net of allowance for doubtful accounts to report the receivables at their net realizable values.

Investment Income – investment income is composed of interest, dividends, and net changes in the fair value of applicable investments.

Federal Income Taxes – The Navajo Nation is a recognized Indian Nation and is exempt from Federal and State income taxes. Accordingly, no provision for Federal and State income taxes has been made in the financial statements.

Estimates - 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.

Concentrations of Credit Risk – NAPI's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. NAPI places its cash with high credit worthy institutions. At times such cash may be in excess of the FDIC insurance limit. NAPI routinely assesses the financial strength of its customers and, as a consequence, believes that its accounts receivable credit risk is limited.

Comparative Data – Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Note 3 - Deposits and Investments

At May 31, 2010 and 2009, cash and cash equivalents consisted of the following:

	2010	2009
Cash on hand	$ 1,850	$ 1,850
Cash in bank	380,753	2,091,902
Cash equivalents – repurchase agreements	4,574,345	7,528,881
Total	$ 4,956,948	$ 9,622,633

Deposits – At May 31, 2010, NAPI's cash on hand was $1,850. The carrying amount of NAPI's deposits was $380,753 and the bank balance was $388,893. NAPI does not have a deposit policy for custodial credit risk.

At May 31, 2009, NAPI's cash on hand was $1,850. The carrying amount of NAPI's deposits was $2,091,902, and the bank balance was $2,019,148. NAPI does not have a deposit policy for custodial credit risk.

Investments – NAPI's investments at May 31, 2010 and 2009 were as follows:

Investment Type	2010	2009
Money market mutual funds	$ 6,330,102	$ 6,611,051
Repurchase agreements	4,574,345	7,528,881
Total	$ 10,904,447	$ 14,139,932

Interest Rate Risk – NAPI does not have a formal investment policy that limits investment maturities as a means a managing its exposure to fair value losses arising from increasing interest rates. At May 31, 2010, NAPI's investment maturities are as follows:

		Investment Maturities
Investment Type	Amount	Less Than 1 Year
Money market mutual funds	$ 6,330,102	$ 6,330,102
Repurchase agreements	4,574,345	4,574,345
Total	$ 10,904,447	$ 10,904,447

At May 31, 2009, NAPI's investment maturities are as follows:

		Investment Maturities
Investment Type	Amount	Less Than 1 Year
Money market mutual funds	$ 6,611,051	$ 6,611,051
Repurchase agreements	7,528,881	7,528,881
Total	$ 14,139,932	$ 14,139,932

Credit Risk – Investments. NAPI's investment policy limits investments in U.S. agency securities and money market mutual funds to the following credit quality ratings: AAA – the highest degree of safety with overwhelming repayment capacity; AA – very high degree of safety and capacity for repayment; and A/A-1 strong degree of safety and capacity for repayment. At May 31, 2010, credit risk for NAPI's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
Money market mutual funds	AAA	Standard & Poor's	$ 6,330,102
Repurchase agreements	N/A		4,574,345
		Total	$ 10,904,447

At May 31, 2009, credit risk for NAPI's investments was as follows:

Investment Type	Rating	Rating Agency	Amount
Money market mutual funds	AAA	Standard & Poor's	$ 6,611,051
Repurchase agreements	N/A		7,528,881
		Total	$ 14,139,932

Navajo Agricultural Marketing, Inc. - The Navajo Agricultural Products Industry (NAPI) is the sole common stock shareholder in the Navajo Agricultural Marketing, Inc., a State of New Mexico corporation, (NAMI). NAMI was incorporated to purchase agricultural products in local and regional markets and to market such products in various agricultural markets. NAMI also trades and/or markets agricultural products on the Chicago Board of Trade and the Kansas City Board of Trade, and other commodities exchange markets.

Due to the substantive economic relationship between NAPI and NAMI, management utilizes the equity method of accounting for the investment in NAMI. Under this method, the carrying amount of the investment in NAMI's common stock is periodically increased (decreased) by NAPI's proportionate share of the earnings (losses) and decreased by all dividends received.

During fiscal years 2010 and 2009, NAMI's losses exceeded the carrying amount of NAPI's investment in the common stock. Therefore, management decreased the carrying amount of the investment in NAMI common stock to $0. This practice is in accordance with the equity method of accounting for investments, whereby the investor (NAPI) should discontinue applying the equity method and not recognize additional losses.

Note 4 - Accounts Receivable

At May 31, 2010 and 2009, accounts receivable - trade were as follows:

	2010	2009
Receivables:		
Crops	$ 2,212,349	$ 1,113,836
Other	702,103	95,293
Gross receivables	2,914,452	1,209,129
Less allowance for uncollectibles	(187,847)	(81,040)
Net total receivables	$ 2,726,605	$ 1,128,089

In addition, at May 31, 2010 and 2009, NAPI recognized an accounts receivable in the amount of $5,801,657 and $6,374,579 respectively, from the Navajo Agricultural Marketing, Inc. (NAMI). This accounts receivable represents items such as:

- Short-term cash loans to NAMI;
- Corn and wheat inventory sold to NAMI;
- Fees associated with granary facility storage;
- Other miscellaneous charges paid by NAPI on behalf of NAMI for items such as consultants, travel, and utilities.

NAPI management classified $1,091,105 of the fiscal year 2010 NAMI receivable as "current" due to payments received by NAPI from NAMI through July 2010. In addition, NAPI management classified $2,000,000 of the fiscal year 2009 NAMI receivable as "current" due to payments received by NAPI from NAMI through July 2009.

Note 5 - Inventories

At May 31, 2010 and 2009, inventories were as follows:

	2010	2009
Crops in progress	$ 17,381,180	$ 16,965,725
Repair parts and supplies	519,633	703,343
	$ 17,900,813	$ 17,669,068

Note 6 - Capital Assets

Capital asset activity for the year ended May 31, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Reclass	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	$ 2,668,736	$ 2,097,048	$ -	$ (3,627,161)	$ 1,138,623
Total capital assets, not being depreciated	2,668,736	2,097,048	-	(3,627,161)	1,138,623
Capital assets, being depreciated:					
Land improvements	18,975,594	-	-	-	18,975,594
Buildings	24,721,369	-	(60,015)	2,795,551	27,456,905
Irrigation and sprinkler equipment	35,352,025	7,539,409	-	831,610	43,723,044
Farm, feedlot, shop and other equipment	18,744,008	2,519,364	(664,347)	-	20,599,025
Automotive equipment	2,509,382	836,377	(35,949)	-	3,309,810
Software, office and communications equipment	2,624,164	19,074	-	-	2,643,238
Total capital assets, being depreciated	102,926,542	10,914,224	(760,311)	3,627,161	116,707,616
Less accumulated depreciation for:					
Land improvements	(2,854,985)	(3,837)	-	-	(2,858,822)
Buildings	(19,327,221)	(850,827)	60,015	-	(20,118,033)
Irrigation and sprinkler equipment	(21,719,986)	(1,263,157)	-	-	(22,983,143)
Farm, feedlot, shop and other equipment	(11,606,988)	(1,895,968)	413,548	-	(13,089,408)
Automotive equipment	(1,738,293)	(379,600)	15,405	-	(2,102,488)
Software, office and communications equipment	(1,524,823)	(240,345)	-	-	(1,765,168)
Total accumulated depreciation	(58,772,296)	(4,633,734)	488,968	-	(62,917,062)
Total capital assets, being depreciated, net	44,154,246	6,280,490	(271,343)	3,627,161	53,790,554
Total capital assets, net	$ 46,822,982	$ 8,377,538	$ (271,343)	$ -	$ 54,929,177

Navajo Agricultural Products Industry
Notes to Financial Statements
For the Years Ended May 31, 2010 and 2009

Capital asset activity for the year ended May 31, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Reclass	Ending Balance
Capital assets, not being depreciated:					
Construction in progress	$ 187,249	$ 10,469,649	$ -	$ (7,988,162)	$ 2,668,736
Total capital assets, not being depreciated	187,249	10,469,649	-	(7,988,162)	2,668,736
Capital assets, being depreciated:					
Land improvements	18,975,594	-	-	-	18,975,594
Buildings	24,661,541	59,828	-	-	24,721,369
Irrigation and sprinkler equipment	28,917,220	-	(585,777)	7,020,582	35,352,025
Farm, feedlot, shop and other equipment	17,492,470	286,908	(2,950)	967,580	18,744,008
Automotive equipment	2,078,284	448,663	(17,565)	-	2,509,382
Software, office and communications equipment	2,322,567	301,597	-	-	2,624,164
Total capital assets, being depreciated	94,447,676	1,096,996	(606,292)	7,988,162	102,926,542
Less accumulated depreciation for:					
Land improvements	(2,851,147)	(3,838)	-	-	(2,854,985)
Buildings	(18,538,603)	(788,618)	-	-	(19,327,221)
Irrigation and sprinkler equipment	(21,680,890)	(571,534)	532,438	-	(21,719,986)
Farm, feedlot, shop and other equipment	(10,054,023)	(1,555,620)	2,655	-	(11,606,988)
Automotive equipment	(1,639,555)	(115,929)	17,191	-	(1,738,293)
Software, office and communications equipment	(1,275,596)	(249,227)	-	-	(1,524,823)
Total accumulated depreciation	(56,039,814)	(3,284,766)	552,284	-	(58,772,296)
Total capital assets, being depreciated, net	38,407,862	(2,187,770)	(54,008)	7,988,162	44,154,246
Total capital assets, net	$ 38,595,111	$ 8,281,879	$ (54,008)	$ -	$ 46,822,982

Note 7 - Short-term Debt – Revolving Line of Credit

During fiscal year 2009, NAPI entered into a revolving line of credit with Wells Fargo Bank. This revolving line of credit is to provide for short-term working capital to be used for the purchasing, trading and/or marketing of agricultural products. The responsible parties under this revolving line of credit are NAPI and the Navajo Agricultural Marketing, Inc. (a wholly owned corporation of NAPI). This revolving line of credit is authorized up to $1,100,000, carries an interest rate of $2.375%, and has a maturity date of June 30, 2010. Interest accrued on this revolving line of credit shall be payable on the 15th day of each month, commencing December 15, 2008. During fiscal year 2010 and 2009, NAPI/NAMI did not utilize this revolving line of credit and it had a balance of $-0- at May 31, 2010 and 2009. In June 2010, this agreement was extended until June 2011.

This obligation is secured by crops, inventory and accounts receivable of both responsible parties, in addition to the commodity bank account of the Navajo Agricultural Marketing, Inc.

Note 8 - Long-Term Debt

Capital Leases

NAPI has entered into various lease agreements as the lessee for financing the acquisition of agricultural equipment. These lease agreements qualify as capital

leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.
At May 31, assets acquired through capital leases are as follows:

	May 31, 2010	May 31, 2009
Asset:		
Farm, feedlot, shop, and other equipment	$ 3,200,142	$ 3,200,142
Less: accumulated depreciation	(1,933,861)	(1,364,788)
Total	$ 1,266,281	$ 1,835,354

The future minimum lease obligations and the net present value of these minimum lease payments as of May 31, 2010:

Year ending May 31,	
2011	$ 662,401
2012	317,158
2013	185,009
Total minimum lease payments	1,164,568
Less: amount representing interest	(69,441)
Present value of minimum lease payments	$ 1,095,127

Note Payable

At May 31, 2010 and 2009, NAPI's note payable consisted of the following:

	2010	2009
Wells Fargo bank note payable, secured by equipment, payable in annual installment of $1,199,546, including interest of 6.81%, due April 2016.	$ 5,536,030	$ 6,458,702
Key Equipment Finance note payable, payable in monthly installments of $48,017, including interest of 6.46%, due September 2013.	1,723,817	2,172,800
Wells Fargo bank note payable, secured by crops and accounts receivables, payable in monthly installments of $52,225, including interest at 6.00%, due February 2010.	-	461,992
Total notes payable	7,259,847	9,093,494
Less: current portion of the notes payable	(1,401,533)	(1,656,692)
Noncurrent portion of the notes payable	$ 5,858,314	$ 7,436,802

As of May 31, 2010, annual debt service requirements to maturity for the note payable are as follows:

	Principal	Interest	Total
Year ending May 31,			
2011	$ 1,401,533	$ 491,765	$ 1,893,298
2012	1,433,400	403,817	1,837,217
2013	1,467,388	309,809	1,777,197
2014	1,112,184	216,638	1,328,822
2015	922,672	145,327	1,067,999
2016	922,670	71,743	994,413
Total	$ 7,259,847	$ 1,639,099	$ 8,898,946

Changes in long-term liabilities

Long-term liability activity for the year ended May 31, 2010 was as follows:

	June 1, 2009	Additions	Reductions	May 31, 2010	Due Within One Year
Notes payable	$ 9,093,494	$ -	$ (1,833,647)	$ 7,259,847	$ 1,401,533
Capital leases	1,682,038	-	(586,911)	1,095,127	598,592
Credit agreement	291,600	-	(291,600)	-	-
Total	$11,067,132	$ -	$ (2,712,158)	$ 8,354,974	$ 2,000,125

Long-term liability activity for the year ended May 31, 2009 was as follows:

	June 1, 2008	Additions	Reductions	May 31, 2009	Due Within One Year
Notes payable	$ 3,872,872	$ 6,458,702	$ (1,238,080)	$ 9,093,494	$ 1,656,692
Capital leases	2,428,291	-	(746,253)	1,682,038	610,070
Credit agreement	-	291,600	-	291,600	-
Total	$ 6,301,163	$ 6,750,302	$ (1,984,333)	$ 11,067,132	$ 2,266,762

Note 9 - Deferred Revenue

At May 31, 2010 deferred revenue consisted of the following:

Agricultural operations related:		
1.) Prepaid leases and crop payments	$ 683,737	
2.) Other	41,784	
Total agricultural operations related deferred revenue		$ 725,521
Navajo Indian Irrigation Project (NIIP) and related:		
1.) Portion of grant reimbursements in excess of expenditures.		
U.S. Department of Interior	2,384,478	
Total NIIP and related deferred revenue		2,384,478
Total deferred revenue		$ 3,109,999

At May 31, 2009 deferred revenue consisted of the following:

Agricultural operations related:		
1.) Prepaid leases	$ 1,210,087	
2.) Prepaid crop payments	1,159,081	
3.) Other	49,995	
Total agricultural operations related deferred revenue		$ 2,419,163
Navajo Indian Irrigation Project (NIIP) and related:		
1.) Portion of grant reimbursements in excess of expenditures.		
U.S. Department Interior	2,927,832	
Total NIIP and related deferred revenue		2,927,832
Total deferred revenue		$ 5,346,995

Note 10 - Risk Management

NAPI is exposed to various risks of loss related to torts and civil rights; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and non-employees; and natural disasters. NAPI participates in the Navajo Nation Risk Management Program (Risk Management), which was established to manage, control, and minimize this risk. Under this program, the Risk Management pool provides coverage for up to a maximum of $500,000 for each incident. Risk Management purchases commercial insurance for claims in excess of coverage provided by the Risk Management pool.

Note 11 - Operating Agreements

At May 31, 2010 and 2009 NAPI had various operating agreements as follows:

(a) Pumpkin Patch Fundraisers, Inc.

On February 2, 1998, NAPI entered into an operating agreement with Pumpkin Patch Fundraisers, Inc. (Pumpkin Patch) to plant, grow, harvest, market, sell, and ship pumpkins grown on NAPI land. The parties entered into a revised operating agreement on May 23, 2002. Under this agreement, NAPI provides land, water, maintenance of the NAPI water delivery system, and limited equipment, materials, and labor costs. NAPI receives reimbursement of specified costs, a base lease payment for office space. During the years ended May 31, 2010 and 2009, NAPI recorded revenues of $253,619 and $231,498, respectively, under this agreement. Such revenue is included in agricultural-related joint ventures revenue in the accompanying financial statements. This agreement expires on December 31, 2014.

(b) Upland Desert Popcorn, Ltd.

On September 12, 2003, NAPI entered into an Industrial Park Lease and Facilities Agreement with Upland Desert Popcorn, Ltd. (UDP) to use only the construction, repair and maintenance of storage bins for popcorn. As part of the consideration of Upland Desert Popcorn for the nominal lease payments to be made to NAPI, UDP shall construct and install utilities, roadways and other infrastructure and keep facilities free of liens or any other encumbrances. Under this agreement, UDP has the option to farm corn in rotation with pumpkins. If UDP does so exercise such option, UDP shall pay NAPI $140 per acre per year. During the years ended May 31, 2010 and 2009, NAPI recorded revenues of approximately $534,616 and $493,558 respectively, under this agreement. Such revenue is included in agricultural-related joint ventures revenue in the accompanying financial statements. This agreement expires on December 31, 2014.

(c) Navajo Mesa Farms, LLC

On February 1, 2003, NAPI entered into an operating and lease agreement with Navajo Mesa Farms, LLC (Navajo Mesa) to plant, grow, harvest, and store potatoes grown on approximately 1,595 acres of NAPI land. Under this agreement, NAPI provides land and water, maintenance on the NAPI water delivery system, storage facilities, a disposal area for waste potatoes and wastewater, and reasonable services from NAPI's soils lab. Navajo Mesa provides seed, seed freight, cultivation, center plot irrigation labor, chemigation, pesticide applications, harvest, hauling, storage, shipping, and any costs associated with these operations. This agreement was amended in 2009 to increase the total acres to approximately 4,000 with additional storage as well. NAPI receives rental payments for irrigated croplands and potato storage facilities in the amount of $400 per acre per annum or $1,600,000 per year. In addition, in any year Navajo Mesa exceeds $2,600 per *acre* of gross sales, Navajo Mesa shall pay NAPI 10% of gross sales in excess of $2,600 per acre as participation rent. Further, NAPI also receives payments for the use of the potato storage facility and scales. During the years ended May 31, 2010 and 2009, NAPI recorded revenues of approximately $3,470,315 and $1,492,799 respectively, under this agreement. Such revenue is included in agricultural-related joint ventures revenue in the accompanying financial statements. The agreement expires on October 31, 2018.

(d) Wilbur-Ellis Company

On November 02, 2003 NAPI entered into a facilities and equipment lease, and product sales and application agreement with Wilbur-Ellis Company. Under this agreement, Wilbur-Ellis shall maintain adequate inventories or products at the Facilities to meet NAPI's expected demand for the products. Wilbur-Ellis shall apply aerial application of products on a timely basis as requested by NAPI. NAPI shall lease to Wilbur-Ellis certain facilities for the storage and distribution of the products on NAPI land. During the years ended May 31, 2010 and 2009, revenue of approximately $63,000 and $71,900 respectively, was recognized under this agreement. The agreement expires on October 31, 2010.

(e) Sterling Brothers Construction (a.k.a. Sterling Brothers Feedlot)

On November 2, 2008 NAPI entered into a feedlot agreement with Sterling Brothers Construction. Under this agreement, Sterling Brothers Construction shall perform and manage all its activities on NAPI lands in accordance to the highest standards of agricultural practices in maintaining the NAPI feedlot in accordance to US EPA, NPSES and CAFO regulations. This agreement is not a joint venture with NAPI so no revenue is recognized from the agreement and all costs related to their operations will be paid directly to NAPI. This agreement was terminated on October 1, 2009.

(f) Fruit Picking Agreement – Honorio Perez

On October 26, 2007, NAPI entered into fruit picking permit and agreement with Mr. Honorio Perez to pick fruit on Navajo Nation trust lands administered by NAPI. NAPI agrees to provide any agronomic needs to the crops to ensure their maximum production (water, and in return, the contractor agrees to do as much pruning as possible prior to the beginning of the growing seasons. The contractor will pay NAPI $5,000 for picking fruit under this agreement. This agreement expires on December 31, 2010.

(g) Five Star Oil and Gas

On April 19, 2006, NAPI entered into a facilities agreement with Five Star Oil and Gas for Lessees' rent of Farm-N-Go Convenience Store located near Highway 371 and N3003. Under this agreement, the Contractor shall use the premises only for the repair, maintenance and operation of a service station and related facilities. Contractor also has the option to add on a Laundromat, food mart and feed store at later dates. In lieu of monetary rental payments, Contractor shall provide fuel to NAPI for NAPI's on-farm needs at the Contractor's posted retail prices minus three cents per gallon for a period of one year from the effective date of the agreement. On April 18, 2010, this lease was amended and in liew of providing fuel to NAPI for NAPI's on-farm needs, the Contractor will pay NAPI $850 per month for use of the facilities. This agreement is month to month.

(h) J & M Bailing, Inc.

On October 31, 2008, NAPI entered into an Operations and Rental Agreement with J&M Baling, Inc. Under this agreement, Contractor will custom swath, bale and field stack up to 225,000 bales of three-twine or big bales wheat straw. NAPI will provide up to six combines and two stripper headers, and Contractor will provide four strip headers in good working condition. This agreement expired on October 31, 2009. On November 13, 2009, NAPI entered into an Operations and Rental Agreement with J&M Bailing, Inc. Under this agreement, Contractor will custom rake, bale, and field stack 18,011.8 acres of alfalfa hay into two-twine, three-twine or big bales for NAPI. The

Contractor shall supply all necessary equipment, machinery and qualified personnel needed to ensure the needs and interest of NAPI. This agreement expires on December 31, 2012.

(i) JBS Five Rivers Cattle Feeding, LLC

On September 1, 2009 NAPI entered into a feedlot agreement with JBS Five Rivers. Under this agreement, JBS Five Rivers shall perform and manage all its activities on NAPI lands in accordance to the highest standards of agricultural practices in maintaining the NAPI feedlot in accordance to US EPA, NNEPA, and CAFO regulations. In consideration for the use of NAPI's feedlot JBS Five Rivers will pay $50,000 based rent, not exceeding $100,000 per year, plus an additional amount per year equal to 20% of NAPI's cost to maintain the facility, JBS also agrees to pay NAPI $300 per month for telecommunication services. This agreement is not a joint venture with NAPI so no revenue is recognized from the agreement and all costs related to their operations will be paid directly to NAPI. The agreement expires on August 31, 2011.

Note 12 - Facilities and Equipment Lease, and Product Sales and Application Agreement

In an effort to reduce costs and improve crop yields, NAPI entered into a Facilities and Equipment Lease, and Product Sales and Application Agreement with the Wilbur-Ellis Company (Wilbur-Ellis). According to the terms of the agreement the Wilbur-Ellis will sell and apply various agricultural chemicals, fertilizers, seeds, and micronutrients to NAPI fields. During the years ended May 31, 2010 and 2009, NAPI paid $9,523,380 and $12,773,508 respectively to Wilbur-Ellis for their services. In conjunction with this, NAPI leases Wilbur-Ellis certain facilities and equipment for storage and distribution of the chemicals and fertilizer utilized to treat NAPI's fields. During the years ended May 31, 2010 and 2009, NAPI received approximately $71,900 and $71,900, respectively, in base rental revenue for the facilities and equipment, under the terms of this agreement. Although this agreement expired during fiscal year 2007, an amendment was made, effective November 1, 2006, extending the term three years through October 31, 2010.

Note 13 - Contingencies

All federal and state program expenditures are subject to audit by the various grantors, which may result in disallowed program expenditures. Generally, such audits must commence within three years of the program's termination date. No provision for disallowed costs has been made in the accompanying financial statements, as the disallowed costs, if any, will be recorded in the period they are determined.

NAPI is party to various legal proceedings in the normal course of business. In management's opinion, after consultation with outside legal council, the disposition of these matters will not materially affect the financial position of the farm.

Note 14 - Guarantee of Debt

During fiscal year 2008, the Navajo Agricultural Marketing Inc., a wholly-owned corporation of NAPI, executed a $1,000,000 revolving credit line and a $100,000 standby letter of credit with Wells Fargo Bank, N.A. The following is a recap of significant terms of the two credit lines:

- Revolving credit line – principal associated with this credit line is due and payable fourteen months from the effective date of the loan. The interest rate shall equal 2.37%. Interest payments are due on a monthly basis. As of May 31, 2010, the revolving credit line balance was $0. The maturity date for this credit line is November 2010.
- Standby letter of credit – principal associated with the letter of credit is due and payable as one payment, no later than July 2011. The interest rate shall equal the Wells Fargo Bank Prime Rate minus .88% (floating). Interest payments are due on a monthly basis. As of May 31, 2010 and 2009, the standby letter of credit balance was $-0-.

These obligations are secured by funds held by NAPI in a money market mutual fund.

Note 15 - Related Party Transactions

In June 2005, the Navajo Agricultural Marketing, Inc. (a State of New Mexico corporation) was established for the following purposes:

1. To purchase agricultural products in local and regional markets and to market such products in various agricultural markets;
2. To trade or market agricultural products on the Chicago Board of Trade, Kansas City Board of Trade, and other commodities exchange markets.

The Navajo Agricultural Marketing, Inc. (NAMI) is wholly owned by the Navajo Agricultural Products Industry (NAPI). During fiscal year 2010, the Navajo Agricultural Products Industry transacted the following business transactions with the Navajo Agricultural Marketing, Inc.:

1. NAPI sold corn and wheat inventory to NAMI "on account" in the amount of $6,999,177.
2. During fiscal year 2010, the Company repaid $7,585,651 back to NAPI for corn and wheat inventory purchases, granary charges, and other miscellaneous items incurred during both fiscal years 2010 and 2009.
3. NAMI utilized NAPI's granary facilities to store its purchased corn and wheat inventory. NAPI charged NAMI $692,355 for this storage service;
4. At May 31, 2010, NAPI has recognized an account receivable due from NAMI in the amount of $5,801,657.

During fiscal year 2009, the Navajo Agricultural Products Industry transacted the following business transactions with the Navajo Agricultural Marketing, Inc.:

1. NAPI sold corn and wheat inventory to NAMI "on account" in the amount of $10,073,823.
2. During fiscal year 2009, the Company repaid $15,537,212 back to NAPI for corn and wheat inventory purchases, granary charges, and other miscellaneous items incurred during both fiscal years 2008 and 2009.
3. NAMI utilized NAPI's granary facilities to store its purchased corn and wheat inventory. NAPI charged NAMI $645,449 for this storage service;
4. At May 31, 2009, NAPI has recognized an account receivable due from NAMI in the amount of $6,374,579.
5.

Note 16 - Corn/Wheat Sales Contracts Commitments

The Navajo Agricultural Products Industry entered into various corn/wheat sales contracts by year-end with the Navajo Agricultural Marketing, Inc. The provisions of these contracts stipulated that NAPI is required to deliver a specific number of bushels at a contracted price.

The following schedule provides a brief recap by fiscal year of these outstanding forward purchase contracts at May 31, 2010:

Crop	Fiscal Year	Bushels	Average Price Per Bushel	Extended Amount
Corn	2011	500,000	$ 3.8423	$ 1,921,150
Wheat	2011	10,000	4.7000	47,000

The following schedule provides a brief recap by fiscal year of these outstanding forward purchase contracts at May 31, 2009:

Crop	Fiscal Year	Bushels	Average Price Per Bushel	Extended Amount
Corn	2010	500,000	$ 3.94815	$ 1,974,075
Wheat	2010	150,000	7.2000	1,080,000
Corn	2011	500,000	3.9423	1,971,150

Supplementary Information

Navajo Agricultural Products Industry
Schedule of Expenditures of Federal Awards
For the Year Ended May 31, 2010

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. Department of the Interior			
Bureau of Indian Affairs			
Navajo Indian Irrigation Project	15.CTN00X10213	N/A	$ 6,967,584
Safety of Dams on Indian Lands -Navajo Indian Irrigation Project	15.065	N/A	7,300,000
Bureau of Reclamation:			
Navajo Indian Irrigation Project	15.04-NA-40-2095	N/A	604,749
Cooperative Agreement for Minor Construction	15.05-NA-40-2290	N/A	2,381
E-40	15.9-07-40-R0860	N/A	9,967
Total U.S. Department of Interior			14,884,681
Total Expenditures of Federal Awards			$ 14,884,681

See accompanying notes to schedule.

Navajo Agricultural Products Industry
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended May 31, 2010

Note 1 - Basis of Accounting

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

Note 2 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The program titles and CFDA numbers were obtained from the federal or pass-through grantor or the 2009 Catalog of Federal Domestic Assistance. When no CFDA number had been assigned to a program, the two-digit federal agency identifier, a period, and the federal contract number was used. When there was no federal contract number, the two-digit federal agency identifier, a period, and the word “unknown” was used.

Note 3 – Subrecipients

The Navajo Agricultural Products Industry did not provide federal awards to subrecipients during the year ended May 31, 2010.

Reports on Compliance and Internal Control

MILLER, ALLEN & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Mark L. Landy, CPA
Stephen T. Harris, CPA
Thomas L. Friend, CPA
Robert N. Snyder, CPA

Robert L. Miller, CPA
(1931 - 1992)

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Chairman and Members of the Board of Directors
Navajo Agricultural Products Industry
Farmington, New Mexico

We have audited the financial statements of Navajo Agricultural Products Industry, an Enterprise of the Navajo Nation, as of and for the year ended May 31, 2010, and have issued our report thereon dated August 25, 2010, which was modified to state that the financial statements present only Navajo Agricultural Products Industry's and do not purported to, and do not present fairly, the financial position of the Navajo Nation as of May 31, 2010, and the changes in its financial position and its cash flows, where applicable, for the year then ended. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Navajo Agricultural Products Industry's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Navajo Agricultural Products Industry's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Navajo Agricultural Products Industry's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questions Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other significant deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency, item **10-1,** described in the accompanying Schedule of Findings and Question Costs to be a material weakness.

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A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider items **10-2** through **10-4** as described in the accompanying Schedule of Findings and Question Costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Navajo Agricultural Products Industry's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Navajo Agricultural Products Industry's responses to the findings identified in the audit are described in the accompanying schedule of findings and question costs. We did not audit Navajo Agricultural Products Industry's responses and, accordingly we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Directors and management of Navajo Agricultural Products Industry, the Navajo Nation, federal awarding agencies and pass-through entities and it is not intended to be and should not be used by anyone other than these specified parties.

August 25, 2010

MILLER, ALLEN & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Mark L. Landy, CPA
Stephen T. Harris, CPA
Thomas L. Friend, CPA
Robert N. Snyder, CPA

Robert L. Miller, CPA
(1931 - 1992)

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Honorable Chairman and Members of the Board of Directors
Navajo Agricultural Products Industry
Farmington, New Mexico

Compliance

We have audited the compliance of Navajo Agricultural Products Industry, an Enterprise of the Navajo Nation, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended May 31, 2010. Navajo Agricultural Products Industry's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Navajo Agricultural Products Industry's management. Our responsibility is to express an opinion on Navajo Agricultural Products Industry's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Navajo Agricultural Products Industry's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Navajo Agricultural Products Industry's compliance with those requirements.

In our opinion, the Navajo Agricultural Products Industry, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended May 31, 2010.

Internal Control Over Compliance

Management of Navajo Agricultural Products Industry is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we

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considered Navajo Agricultural Products Industry's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Navajo Agricultural Products Industry's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **10-5** to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item **10-6** to be a significant deficiency.

Navajo Agricultural Products Industry's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit NAPI's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Directors and management of Navajo Agricultural Products Industry, the Navajo Nation, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams & Co PC

August 25, 2010

Navajo Agricultural Products Industry
Schedule of Findings and Questioned Costs
For the Year Ended May 31, 2010

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	**Unqualified**	
	YES	**NO**
Material weaknesses identified in internal control over financial reporting?	X	
Significant deficiencies identified not considered to be material weaknesses?	X	
Noncompliance material to the financial statements noted?		X

Federal Awards

	YES	NO
Material weaknesses identified in internal control over major programs?	X	
Significant deficiencies identified not considered to be material weaknesses?	X	
Type of auditor's report issued on compliance for major programs:	**Unqualified**	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (section .510[a])?	X	

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
15.CTN00X10213	Navajo Indian Irrigation Project
15.04-NA-40-2095	Navajo Indian Irrigation Project
15.065	Safety of Dams on Indian Lands - Navajo Indian Irrigation Project

	YES	NO
Dollar threshold used to distinguish between Type A and Type B programs:	$446,540	
Auditee qualified as low-risk auditee?		X

Other Matters

	YES	NO
Auditee's Summary Schedule of Prior Audit Findings required to be reported in accordance with Circular A-133 (section .315[b])?	X	

Navajo Agricultural Products Industry
Schedule of Findings and Questioned Costs
For the Year Ended May 31, 2010

Section II - Financial Statement Findings

Item: 10-1 [Repeat Finding]

Criteria: Individuals charged with governance, management and other personnel are responsible for designing and implementing the appropriate "internal controls" to provide reasonable assurance about the achievement of the entity's objectives with regards to the reliability of financial reporting.

Condition: Policies and procedures requiring the review of the entity's trial balance and/or general ledger on a monthly basis was not performed. In addition, the reconciliation of certain subsidiary ledgers and/or other accounting records to the general ledger was not performed. This resulted in the following misstatements not being identified until the annual audit:

1. An audit adjustment to properly state contract support costs in the amount of $666,463
2. To state the current and noncurrent portion of the long-term debt in the amount of $176,955;
3. Incorrect posting of a "sweep" account in the amount of $182,583 as a account receivable;
4. An audit adjustment in the amount of $486,375 was necessary to properly record dispositions for the fiscal year;
5. An audit adjustment in the amount of $3,206,242 was necessary to reconcile beginning net assets to the prior fiscal year;
6. To record accounts payable in the amount of $1,136,450;
7. To record accounts receivable and related allowance for doubtful accounts in the amount of $304,284;
8. To properly state deferred conservation costs in the amount $40,139.
9. An audit adjustment to properly record accrued payroll for the 638 company in the amount of $38,528;
10. An audit adjustment to properly state harvested inventory costs in the amount of $231,289 to state inventory at the lower of cost or market.
11. An audit adjustment to properly state deferred revenue in the amount of $592,025.

Effect: The entity's objective of achieving reliable financial reporting process has been limited.

Cause: Policies and procedures have not been developed and implemented requiring the monthly review of the entity's trial balance and the reconciliation to subsidiary ledgers and/or other accounting records is not being performed.

Recommendation: Policies and procedures should be developed and implemented requiring the monthly review of the entity's trial balance and the reconciliation to subsidiary ledgers and/or other account records.

Response: An updated Accounting Policies and Procedures was approved by the NAPI Board of Directors on June 25, 2010. This new policy outlines the internal controls, policies and procedures related to review on a monthly basis of the entity's trial balance and/or general ledger.

Item: 10-2

Criteria: Credit cards are to be used for travel, lodging, meals, fuel, customer entertainment expense and small emergency purchasing (not to exceed $300).

Condition: Proper authorization was not noted for credit card purchases that exceeded the $300 ceiling (not including hotel fees).

Cause: Policies and procedures over credit card purchases are not being followed and enforced.

Effect: Credit card purchases not approved under the established policy and procedures may cause the misappropriation of NAPI assets.

Recommendation: The client should enforce their policy and procedures over credit card purchases to ensure proper methods of purchasing are enforced and to minimize the risk of misappropriation of assets.

Response: An updated Accounting Policies and Procedures was approved by the NAPI Board of Directors on June 25, 2010. This new policy outlines the internal controls, polices and procedure related to credit card use for travel and purchases.

Item: 10-3

Criteria: Evidence of a physical inventory over capital assets performed at least once every two years should be maintained as supporting documentation.

Condition: NAPI is unable to provide supporting documentation of the physical inventory over capital assets performed during fiscal year 2010.

Cause: Polices and procedures have not been established concerning maintaining the supporting documentation of the physical inventory over capital assets.

Effect: NAPI can not provide proof of a physical inventory over capital assets has been performed every two years.

Recommendations: Policies and procedures should be developed and implemented requiring the supporting documentation for the physical inventory of capital assets be maintained.

Response: Inventory took place in 2009 which met the PL 638 requirements. However, the supporting documentation and recording of the assets in an information system were not meet. NAPI is implementing MAXIMO in 2010 which will meet all requirements for this internal control. An updated Accounting Policies and Procedures was approved by the NAPI Board of Directors on June 25, 2010. This new policy outlines the internal controls, policies and procedures related to inventory internal controls for the PL 638 contract.

Item: 10-4

Criteria: The process of entering and updating employee information into the payroll system should be limited to the Human Resources department.

Condition: Policies and procedures were not followed to ensure only Human Resources department enter and update employee information in the payroll system.

Cause: Individuals outside of the Human Resources department have the ability to enter new employee into the payroll system and update employee information in the payroll system.

Effect: Employees can be entered into the payroll system without the knowledge of the Human Resources Department.

Recommendations: Proper safeguards, including software restrictions, should be used to ensure only bona fide new employees are being entered into the payroll system.

Response: A review of the process of updating employee information in the payroll system was conducted by management. Access was restricted only to the payroll clerk and the clerk's backup. Management believes the internal control of having the Controller approve all system generated transaction reviewed prior to processing of payroll is a sufficient control.

Section III - Federal Award Findings and Questioned Costs

Item: 10-5 [Repeat Finding]

CFDA Numbers: 15.CTN00X10213, 15.04-NA-40-2095, 15.065

Programs: Navajo Indian Irrigation Project, Safety of Dams on Indian Lands

Agency: U.S. Department of the Interior

Award Year: June 1, 2009 – May 31, 2010

Award Numbers: CTN00X10213, 04-NA-40-2095, CTN00X10214

Condition: Policies and procedures requiring the review of the entity's trial balance and/or general ledger on a monthly basis was not performed. In addition, the reconciliation of certain subsidiary ledgers and/or other accounting records to the general ledger was not performed. See Section II – Financial Statement Findings, Item **10-1**.

Questioned Costs: Not Applicable

Recommendation: Policies and procedures should be developed and implemented requiring the monthly review of the entity's trial balance and the reconciliation to subsidiary ledgers and/or other account records.

Item: 10-6

CFDA Numbers: 15.CTN00X10213, 15.04-NA-40-2095, 15.065

Programs: Navajo Indian Irrigation Project, Safety of Dams on Indian Lands

Agency: U.S. Department of the Interior

Award Year: June 1, 2009 – May 31, 2010

Award Numbers: CTN00X10213, 04-NA-40-2095, CTN00X10214

Condition: NAPI performed a physical inventory of its capital assets, however, was unable to provide support of that inventory to the auditors. See Section II – Financial Statement Findings, Item **10-3**.

Questioned Costs: Not Applicable

Recommendation: Policies and procedures should be developed and implemented requiring the supporting documentation for the physical inventory of capital assets be maintained.

NAPI Responses

Navajo Agricultural Products Industry
Corrective Action Plan
Year Ended May 31, 2010

Federal Award Findings and Questioned Costs

Item: 10-5

CFDA Numbers: 15.CTN00X10213, 15.04-NA-40-2095, 15.065

Programs: Navajo Indian Irrigation Project, Safety of Dams on Indian Lands

Name of Contact Person: Mr. Pierre Dotson, Chief Financial Officer

Anticipated Completion Date: the position has been advertised as of August 2, 2010 and is anticipated to be filled by September 30, 2010.

Corrective Action: A Program Analyst was placed into the role of maintaining the general ledger for the PL 638 contracts on August 2, 2010. The PL 638 accounting policies follow the NAPI accounting policies. An updated Accounting Policies and Procedures was approved by the NAPI Board of Directors on June 25, 2010. This new policy outlines the internal controls, policies and procedures related to trial balance and/or general ledger reconciliation for the PL 638 contract.

Item: 10-6

CFDA Numbers: 15.CTN00X10213, 15.04-NA-40-2095, 15.065

Programs: Navajo Indian Irrigation Project, Safety of Dams on Indian Lands

Name of Contact Person: Pierre Dotson, Chief Financial Officer

Anticipated Completion Date: January 1, 2011

Corrective Action: Inventory took place in 2009 which met the PL 638 requirements. However, the supporting documentation and recording of the assets in an information system were not meet. NAPI is implementing MAXIMO in 2010 which will meet all requirements for this internal control. An updated Accounting Policies and Procedures was approved by the NAPI Board of Directors on June 25, 2010. This new policy outlines the internal controls, policies and procedures related to inventory internal controls for the PL 638 contract.

Navajo Agricultural Products Industry
Summary Schedule of Prior Audit Findings
Year Ended May 31, 2010

Status of Prior Year Federal Award Findings and Questioned Costs

Finding Number: 08-5; 09-5

CFDA Number: 15.CTN00X10213

Program: Navajo Indian Irrigation Project

Status: Corrected.

Corrective Action: N/A

Finding Number: 08-7; 09-7

CFDA Number: 15.CTN00X10213

Program: Navajo Indian Irrigation Project

Status: Not Corrected.

Corrective Action: A Program Analyst was placed into the role of maintaining the general ledger for the PL 638 contracts on August 2, 2010. The PL 638 accounting policies follow the NAPI accounting policies. An updated Accounting Policies and Procedures was approved by the NAPI Board of Directors on June 25, 2010. This new policy outlines the internal controls, policies and procedures related to trial balance and/or general ledger reconciliation for the PL 638 contract.

Finding Number: 09-4

CFDA Number: 15.04-NA-40-2095

Program: Navajo Indian Irrigation Project

Status: Corrected.

Corrective Action: N/A.

Finding Number: 09-6

CFDA Number: 15.CTN00X10213

Program: Navajo Indian Irrigation Project

Status: Not Corrected.

Corrective Action: Inventory took place in 2009 which met the PL 638 requirements. However, the supporting documentation and recording of the assets in an information system were not meet. NAPI is implementing MAXIMO in 2010 which will meet all requirements for this internal control. An updated Accounting Policies and Procedures was approved by the NAPI Board of Directors on June 25, 2010. This new policy outlines the internal controls, policies and procedures related to inventory internal controls for the PL 638 contract.