NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

Basic Financial Statements
and
Supplementary Information

Years ended May 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

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SLOAN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

8205 Spain NE, SUITE 204 • ALBUQUERQUE, NM 87109 • (505) 858-0050 • FAX (505) 858-0052 HARRY W. SLOAN, JR., C.P.A.

Independent Auditors' Report

Members of the Board of Directors
Navajo Agricultural Products Industry

We have audited the accompanying financial statements of the Navajo Agricultural Products Industry (the NAPI) as of and for the years ended May 31, 2007 and 2006 as listed in the table of contents. These financial statements are the responsibility of the NAPI's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the NAPI's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Navajo Agricultural Products Industry, as of May 31, 2007 and 2006, and the results of its operations 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 October 10, 2007 on our consideration of the NAPI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 13, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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 the basic financial statements of the Navajo Agricultural Products Industry taken as a whole. The accompanying Schedule of Expenditures of Federal Awards 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 also not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

October 10, 2007

Sloan & Company

NAVAJO PRIDE

P.O. DRAWER 1318 · FARMINGTON, NM 87499 · PHONE (505) 566-2600

October 10, 2007

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, 2007 and 2006. 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 2007. The assets of NAPI exceeded its liabilities at the close of the fiscal year by $57,791,417. Included in this amount is $27,391,956 which may be used to meet NAPI's ongoing mission of operating a profitable commercial farm.
- NAPI's total net assets increased by $4,845,076.
- At May 31, 2007, total NAPI assets were $72,354,892, compared to $70,603,392 at May 31, 2006. NAPI's most significant current asset is crops in progress of $13,021,735 at May 31, 2007, compared to $16,048,420 at May 31, 2006.
- At May 31, 2007, NAPI's current assets of $27,391,956 were sufficient to cover current liabilities of $12,078,527 (current ratio of 2.27). At May 31, 2006, NAPI's current assets of $29,075,932 exceeded current liabilities of $14,105,656 (current ratio of 2.06).
- NAPI's liabilities totaled $14,563,475 at May 31, 2007 compared to $17,657,051 at May 31, 2006. A $1,582,863 long-term note payable to Wells Fargo Bank represents the largest liability as of May 31, 2007.
- The Navajo Agricultural Products Industry's total liabilities decreased by $3,093,576.
- NAPI's gross crop revenues were $34,802,982 and $27,132,133 for the years ended May 31, 2007 and 2006, respectively. This represented an increase in crop revenue of $7,670,849 or 22% from the previous fiscal year. This increase was primarily the result of substantial profits achieved in the potato, alfalfa, bean and lease programs through effective production planning and concentrated marketing efforts.

- Funding for the Navajo Indian Irrigation Project and other related grants was $6,654,420 and $5,458,058 for the years ended May 31, 2007 and 2006, respectively. This represented a increase in intergovernmental revenue of $1,196,362 or 18% from the previous fiscal year. In FY 2007, NIIP appropriations continue to stagnate due to the federal governments' obligations to homeland security.
- Income from agricultural-related joint ventures was $2,331,105 and $1,899,456 for the years ended May 31, 2007 and 2006, respectively. This represented an increase of $431,649 or 23% from the previous fiscal year. This increase was primarily the result of re-negotiated higher land rents.
- Income associated with the feedyard was $0 and $228 for the years ended May 31, 2007 and 2006, respectively. This represented an elimination of feedyard revenue from the previous fiscal year. Fiscal year ended May 31, 2007 is the second year NAPI contracted the feedlot to a third party under a five year contract.
- Selling and administrative expenses were $2,800,646 and $3,020,900 for the years ended May 31, 2007 and 2006, respectively. This represented a decrease of $220,254 or 8% from the previous fiscal year. External consultants were retained in the areas of legal, finance and government relations.
- Interest and fiscal charges were $202,813 and $436,851 for the years ended May 31, 2007 and 2006, respectively. This represented a decrease of $234,038 or 54% from the previous fiscal year. This decrease was primarily the result of settlement of various long-term debt.

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, 2007 and 2006. 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, 2007 and 2006. 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, 2007 and 2006. 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 Statement of Net Assets
As of May 31, 2007 and 2006

	May 31, 2007	May 31, 2006
Assets:		
Current assets	$27,391,956	$29,075,932
Noncurrent assets, other than capital assets	7,646,211	6,708,301
Capital assets, net	37,316,725	34,819,159
Total assets	$72,354,892	$70,603,392
Liabilities:		
Current liabilities	$12,078,527	$14,105,656
Noncurrent liabilities	2,484,948	3,551,396
Total liabilities	$14,563,475	$17,657,051
Net assets:		
Invested in capital assets, net of related debt	$32,814,820	$31,150,321
Unrestricted net assets	24,976,597	21,796,020
Total net assets	$57,791,417	$52,946,341

At May 31, 2007, total NAPI assets were $72,354,892, compared to $70,603,392 at May 31, 2006. NAPI's most significant current asset is crops in progress of $13,021,735 at May 31, 2007, compared to $16,048,420 at May 31, 2006.

At May 31, 2007, NAPI's current assets of $27,391,956 were sufficient to cover current liabilities of $12,078,527 (current ratio of 2.27). At May 31, 2006, NAPI's current assets of $29,075,932 exceeded current liabilities of $14,105,656 (current ratio of 2.06).

NAPI's liabilities totaled $14,563,475 at May 31, 2007 compared to $17,657,051 at May 31, 2006. A $1,580,656 long-term note payable to Wells Fargo Bank represents the largest liability as of May 31, 2007.

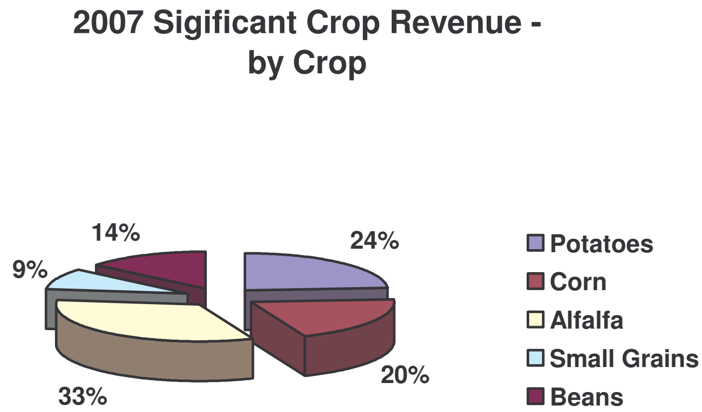
As noted earlier, net assets may serve over time as a useful indicator of NAPI's financial position. In the case of the Navajo Agricultural Products Industry, assets exceeded liabilities by $57,791,417 at the close of the most recent fiscal year. By far the largest portion of the Navajo Agricultural Products Industry's net assets (52 percent) 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.

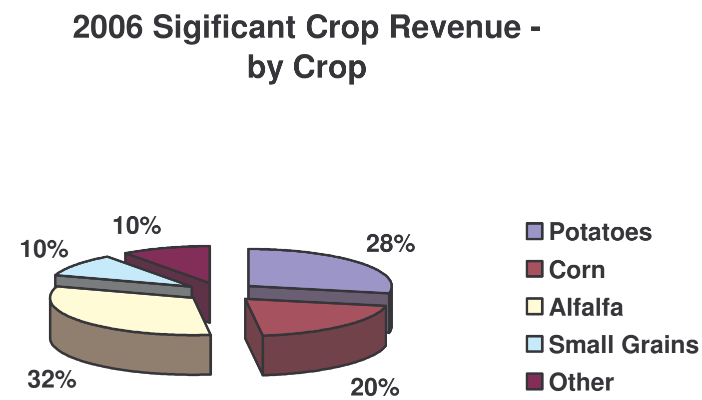
The condensed financial information below highlights the main categories of the Statement of Revenues, Expenses, and Changes in Net Assets. The major sources of gross operating revenues for NAPI are agricultural products: alfalfa, barley, corn, chipper potatoes, tablestock potatoes, wheat, oats, feed yard, intergovernmental revenue and agricultural-related joint ventures. 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.

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY
Management's Discussion and Analysis
May 31, 2007 and May 31, 2006

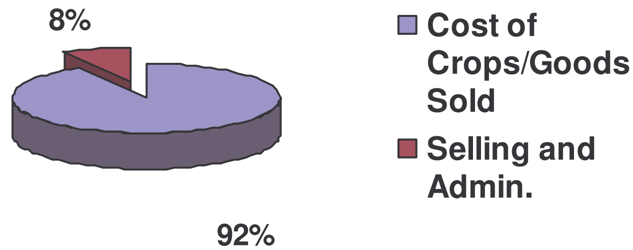
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Years Ended May 31, 2007 and 2006

	May 31, 2007	May 31, 2006
Revenues:		
Operating:		
Crops	$ 34,802,982	$ 27,132,133
Agricultural-related joint ventures	2,331,105	1,899,456
Other	-	298,081
Nonoperating:		
Intergovernmental	6,654,420	5,458,058
Investment income (loss)	531,827	419,799
Other	914,138	76,499
Gain (loss) on sale of capital assets	7,872	51,753
Total revenues	45,242,344	35,335,779
Expenses:		
Operating:		
Cost of crops and goods sold	31,592,132	20,704,938
Selling and administrative	2,800,646	3,020,900
Nonoperating:		
Costs associated with the Navajo Indian Irrigation Project and other related grants	5,801,677	5,458,058
Interest and fiscal charges	202,813	436,851
Total expenses	40,397,268	29,620,747
Change in net assets	4,845,076	5,715,032
Net assets, beginning	52,946,341	47,231,309
Net assets, ending	$ 57,791,417	$ 52,946,341

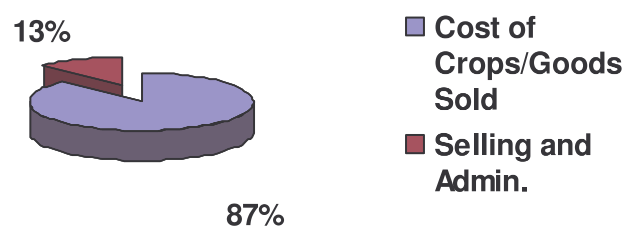

2007 Sigificant Crop Revenue -
by Crop
14%
24%
9%
20%
33%
Potatoes
Corn
Alfalfa
Small Grains
Beans


2006 Sigificant Crop Revenue -
by Crop
10%
10%
28%
32%
20%
Potatoes
Corn
Alfalfa
Small Grains
Other

2007 Operating Expenses - by Type



2006 Operating Expenses - by Type



NAPI's gross crop revenues were $34,802,982 and $27,132,133 for the years ended May 31, 2007 and 2006, respectively. This represented an increase in crop revenue of $7,670,849 or 28% from the previous fiscal year. This increase was primarily the result of substantial revenues attained in the potato, alfalfa, bean and land lease programs through effective production planning resulting in higher yields and concentrated marketing efforts.

Funding for the Navajo Indian Irrigation Project and other related grants was $6,654,420 and $5,458,058 for the years ended May 31, 2007 and 2006, respectively. This represented an increase in intergovernmental revenue of $1,196,362 or 18% from the previous fiscal year. In FY 2007, NIIP appropriations continue to stagnate due to the federal governments' obligations to homeland security.

Income from agricultural-related joint ventures was $2,331,105 and $1,899,456 for the years ended May 31, 2007 and 2006, respectively. This represented an increase of $431,649 or 23% from the previous fiscal year. This increase was primarily the result of re-negotiated higher land rents.

Income associated with the feedyard was $0 and $228 for the years ended May 31, 2007 and 2006, respectively. This represented an elimination of feedyard revenue from the previous fiscal year. Fiscal year ended May 31, 2007 is the second year NAPI contracted the feedlot to a third party under a five year contract.

Selling and administrative expenses were $2,800,646 and $3,020,900 for the years ended May 31, 2007 and 2006, respectively. This represented a decrease of $220,254 or 7% from the previous fiscal year. External consultants were retained in the areas of legal, finance and government relations.

Interest and fiscal charges were $202,813 and $436,851 for the years ended May 31, 2007 and 2006, respectively. This represented a decrease of $234,038 or 54% from the previous fiscal year. This decrease was primarily the result of settlement of various long-term debt.

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, 2007 and 2006 amounts to $37,316,725 and $34,819,157, 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 7%.

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

- Three CAT Combines for $534,000
- Three New Holland Combines for $639,540
- One Used JD CR960 Combine for $179,000
- Two Haysqueeze for $326,930
- Combine Implements for $638,671
- One Telehandler Forklift for $60,500
- Farm implements for $656,555
- Information technology hardware and software for $46,748

Additional information on the Navajo Agricultural Products Industry's capital assets can be found in Note 6 to the financial statements on page 26.

Long-term debt – As of May 31, 2007 and 2006, NAPI had total long-term debt of $5,534,188 and $5,547,972, respectively. This long-term debt comprised of three bank note payables and equipment purchase agreements. To finance the purchase of farm equipment, NAPI secured new capital lease debt of $1,759,169 for the year ended May 31, 2006 and $393,286 for the year ended May 31, 2006. During the years ended May 31, 2007 and 2006, NAPI repaid long-term debt in the amounts of $2,674,350 and $1,770,975 respectively.

Navajo Agricultural Products Industry's Outstanding Debt

	2007	2006
Capital leases	$1,732,585	$ 1,302,637
Notes payable, credit line	3,801,603	4,245,335
Total	$5,534,188	$ 5,547,972

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 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 $6,654,420 for the year ended May 31, 2007 and $5,458,058 for the year ended May 31, 2006. Recognized expenditures of such funds were $5,801,677 and $5,458,058 for the years ended May 31, 2007 and 2006, respectively. Intergovernmental revenues exceeded grant expenditures for the years ended May 31, 2007 and 2006 by $852,743 and $-0-, respectively, as a result of capitalized expenditures for On-Farm Development.

Economic Outlook and Agricultural Outlook:

The Economic Outlook

- GDP (Gross Domestic Product) will increase by 2.1 percent after inflation in 2007 and by 2.9 percent in 2008.
- Unemployment will remain near its current 4.6 percent through 2008.
- CPI (Consumer Price Index) is projected to decline from 2.8 percent this year to 2.3 percent next year.
- Real GDP growth among the United States' major trading partners is forecast to remain above 4 percent for some time – significantly higher than growth in the United States. Average growth during the 2007-2008 period is expected to be about 5 percent for 15 Asian Pacific countries, about 4.5 percent for Latin America, and about 2.5 percent for Western Europe and Canada.
- The expectation exists for the federal funds rate to decrease by 50 basis points by the fall of 2007 and by a total of 100 basis points by the spring of 2008.

- The interest rate on 3-month Treasury bills is expected to rise and average 4.8 percent through 2008.
- The interest rate on 10-year Treasury notes is projected to rise to 5.2 percent in 2008.
- Crude oil prices in 2008 are expected to rise 5 to 6 percent from 2007.
- Gasoline and diesel prices will be up 3 and 6 percent, respectively.
- Farm fertilizer prices will be up 4 to 6 percent in 2008.

The Agricultural Outlook

- **Exports**

  - Compared to an earlier forecast in May 2007, the economic environment is now perceived as more favorable to US farm exports as the rest of the world's growth is stronger and the US dollar is a little weaker in several major markets.
  - Longrun developments for global agriculture reflect increased demand for biofuels, particularly in the United States and the European Union. U.S. agricultural projections reflect large increases in corn-based ethanol production, which affects production, use, and prices of farm commodities throughout the sector.
  - Grain and feed exports are forecast at a record $24.3 billion in fiscal 2008, up $1.3 billion from the revised 2007 estimate.
  - Larger export volumes drive the total value increase for all grains, but higher unit values for **wheat and coarse grains** due to tight global supplies are also a factor.
  - An increase of 1.5 million tons coupled with higher unit value boost **corn** exports to $9.3 billion. The projected record 2007/2008 US corn crop supports both the expansion of exports and domestic ethanol production. At the same time, the drought in Europe boosts sales opportunities for US suppliers as corn from Argentina and Brazil is diverted to Europe.
  - Fiscal 2008 **wheat** exports rise $200 million from the 2007 estimate due to a 500,000-ton increase and higher unit values. Tight global stocks sustain prices above 2007 levels, although stronger competition from key suppliers such as Australia and Russia may constrain US export growth for lower-protein wheat.
  - **Soybean** export value is forecast to rise to $8.7 billion, as sharply higher unit value more than offsets declining volume. Lower production is partly due to reductions in soybean planted acreage as farmers shift to grains.

- **Imports**

  - The preliminary import forecast for 2008 is $75 billion, 6 percent ($4.5 billion) more than 2007.
  - The slowing of import growth in 2008 is the result of domestic economic conditions and the dollar's exchange rate. Higher US interest rates, weaker domestic economic activity, higher prices, as well as the weak dollar combine to slow the demand for imports.

- Initial import projections for 2008 show significant gains for grains and feed which are up $600 million.
- US imports of bulk grains are up nearly 60 percent in value through the first three quarters of fiscal 2007, particularly for wheat, which rose by 120 percent over the 2006 level. All other grains, feeds, and grain product groups jumped by double-digit rates based on value. These imports are spurred by higher domestic prices and reduced domestic supply as more farm acreage in planted to corn. Only import prices of feeds and fodders have fallen.

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 decreased over previous levels for 2007 and 2006. 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 Ms. Colaine Curtis, Chief Financial Officer, PO Drawer 1318, Farmington, New Mexico, 87499.

BASIC FINANCIAL STATEMENTS

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

STATEMENTS OF NET ASSETS
May 31, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalent	$ 6,835,818	6,004,691
Investments	5,222,182	5,067,554
Accounts receivable, net	1,543,803	1,218,651
Inventories	13,727,403	16,671,502
Prepaid items	62,750	113,534
Total current assets	27,391,956	29,075,932
Noncurrent assets:		
Cash and cash equivalents - restricted	5,734,032	5,051,052
Deferred alfalfa stand costs	1,679,121	1,282,412
Deferred conservation program costs	215,397	357,176
Other assets	17,661	17,661
Capital assets, net	37,316,725	34,819,159
Total noncurrent assets	44,962,936	41,527,460
Total assets	$72,354,892	70,603,392
Liabilities		
Current liabilities:		
Accounts payable	$ 2,246,041	2,895,476
Accrued expenses	488,087	685,355
Deferred revenues	6,295,159	8,528,249
Current portion of long-term debt	3,049,240	1,996,576
Total current liabilities	12,078,527	14,105,656
Noncurrent liabilities:		
Noncurrent portion of long-term debt	2,484,948	3,551,395
Total noncurrent liabilities	2,484,948	3,551,395
Total liabilities	14,563,475	17,657,051
Net Assets		
Investment in capital assets, net of related debt	32,814,820	31,150,321
Unrestricted	24,976,597	21,796,020
Total net assets	$57,791,417	52,946,341

See accompanying notes to financial statements.

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Years Ended May 31, 2007 and 2006

	2007	2006
Operating revenues:		
Crops	$34,802,982	27,132,133
Agricultural-related joint ventures	2,331,105	1,899,456
Other	-	298,081
Total operating revenues	37,134,087	29,329,670
Operating expenses:		
Cost of crops and goods sold:		
Crops	30,724,691	19,971,772
Agricultural-related joint ventures	830,806	678,291
Feedyard	18,051	35,766
Convenience store operation	18,584	19,109
Total cost of crops and goods sold	31,592,132	20,704,938
Selling and administrative	2,800,646	3,020,900
Total operating expenses	34,392,778	23,725,838
Operating income (loss)	2,741,309	5,603,832
Nonoperating revenues (expenses):		
Intergovernmental revenues	6,654,420	5,458,058
Costs associated with the Navajo Indian Irrigation Project and other related grants	(5,801,677)	(5,458,058)
Investment income	531,827	419,799
Interest and fiscal charges	(202,813)	(436,851)
Gain (loss) on sale of capital assets	7,872	51,753
Other	914,138	76,499
Total nonoperating revenues (expenses)	2,103,767	111,200
Change in net assets	4,845,076	5,715,032
Net assets, beginning, restated	52,946,341	47,231,309
Net assets, ending	$57,791,417	52,946,341

See accompanying notes to financial statements.

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2007 and 2006

	2007	2006
Cash flows from operating activities:		
Receipts from customers	$35,964,878	31,631,160
Payments to suppliers	(23,750,589)	(19,515,411)
Payments to employees	(7,380,630)	(6,270,450)
Net cash provided by operating activities	4,833,659	5,845,299
Cash flows from capital and related financing activities:		
Subsidy from federal grants	5,265,387	6,430,411
Disbursements of federal grants	(6,654,420)	(5,458,058)
Proceeds from long-term debt	2,759,169	277,000
Acquisition and construction of capital assets	(5,902,835)	(1,092,001)
Proceeds from sale of capital assets	-	24,621
Principal paid on notes and capital leases	(2,772,952)	(1,770,975)
Interest paid on notes and capital leases	(275,596)	(429,271)
Other receipts	-	76,498
Net cash used by capital and related financing activities	(7,581,247)	(1,941,775)
Cash flows from investing activities:		
Interest and dividends	531,827	419,799
Proceeds from investments	8,952,150	1,047,735
Purchases of investments	(5,222,182)	(7,247,274)
Net cash provided (used) by investing activities	4,261,795	(5,779,740)
Net increase (decrease) in cash and cash equivalents	1,514,207	(1,876,216)
Cash and cash equivalents, beginning	11,055,743	12,931,959
Cash and cash equivalents, ending	$12,569,850	11,055,743

(Continued)

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2007 and 2006

	2007	2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$2,741,309	5,603,832
Adjustments to reconcile operating income		
To net cash provided by operating activities:		
Depreciation	2,757,342	2,659,432
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(325,152)	(236,167)
(Increase) decrease in inventories	2,944,099	(6,553,925)
(Increase) decrease in prepaid items	50,784	32,793
(Increase) decrease in deferred alfalfa stand costs	(396,709)	(240,104)
(Increase) decrease in deferred conservation program costs	141,779	30,220
Increase (decrease) in accounts payable	(649,435)	1,961,502
Increase (decrease) in other accrued expenses	(197,268)	50,060
Increase (decrease) in deferred revenue	(2,233,090)	2,537,656
Net cash provided by operating activities	$4,833,659	5,845,299

	2007	2006
Reconciliation to cash and cash equivalents presented in Statement of Net Assets:		
Cash and cash equivalents	$ 6,835,818	6,004,691
Cash and cash equivalents - restricted	5,734,032	5,051,052
Cash and cash equivalents at end of year	$12,569,850	11,055,743

Noncash Investing, Capital, and Financing Activities:

The following is information about all investing, capital, and financing activities of the Navajo Agricultural Products Industry for the years ended May 31, 2007 and 2006 that affect recognized assets or liabilities but do not result in cash receipts or payments:

At May 31, 2007 and 2006, capital assets valued at $1,759,169 and $393,286, respectively, were acquired through capital leases.

See accompanying notes to financial statements.

Note 1- Nature of Operations

Navajo Agricultural Products Industry (NAPI), an enterprise fund 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. Expenditure of funds for planning and development of the irrigated farm commenced in July 1971.

Operation of the irrigated farm project, consisting of 11 separate blocks or tracts of land of approximately 10,000 acres each, commenced in 1976. Through May 31, 2007, Blocks I through VII and a portion of Block VIII have been placed into service (approximately 68,000 acres) and are available for irrigated farming purposes. Of the 13,000 acres in Block VIII, approximately 11,500 acres have been placed into service, with the remaining acreage expected to be placed into service over the next two years. As of May 31, 2007, Blocks IX through XI remained under development, with future development dependent on receipt of additional funding.

NAPI's customers are located primarily in the southwestern United States including New Mexico, Arizona, Nebraska, and Texas. NAPI's principal crops are potatoes, corn, alfalfa, grain and beans. The revenues from these crops as a percentage of total crop revenues for the years ended May 31, 2007 and 2006 are as follow:

	2007	2006
Potatoes	24%	28%
Corn	20%	20%
Alfalfa	33%	32%
Wheat and barley	9%	10%
Beans	14%	7%

As with all commodity-based producers, revenues may fluctuate significantly from year to year, reflective of commodity product's sensitivity to market pricing. Furthermore, weather conditions during the planting, growing, and harvesting cycles directly impacts the quantity and quality of product NAPI has available for sale.

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.

For the years ended May 31, 2007 and 2006, respectively, 41% and 37.5% of NAPI's total revenues were received from three customers.

(Continued)

Note 2 - Summary of Significant Accounting Policies

The financial statements 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 more significant of NAPI's accounting policies are described below.

During the year ended May 31, 2006, the Navajo Agricultural Products Industry implemented the provisions of GASB Statement No. 40, Deposit and Investment Risk Disclosures. GASB Statement No. 40 establishes and modifies the risk disclosures of the Navajo Agricultural Products Industry's deposits and investments. The implementation of GASB Statement No. 40 requires only additional disclosures, and had no effect on reported amounts for deposits, investments, net assets, or changes in net assets.

A. Reporting Entity

NAPI is an enterprise fund 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.

Some component units, despite being legally separate, are intertwined with the primary government that they are, in substance, the same as the primary government. Accordingly, the financial statements of NAPI and the following component unit, Navajo Agricultural Marketing, Inc. (NAMI) are blended with the primary government, NAPI, and reported in a manner similar to the balances and transactions of the primary government.

NAMI was organized for the sole purpose of providing a marketing mechanism for NAPI in the private sector. NAMI's board is governed by a five member board, of which three (3) are appointed by and amongst the NAPI board of directors and two (2) are NAPI management personnel selected by NAPI's General Manager.

B. Basis of Presentation and Accounting

NAPI'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 fund 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)

(Continued)

Note 2 - Summary of Significant Accounting Policies - Continued

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.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund' Accounting,* NAPI has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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.

(Continued)

Note 2 - Summary of Significant Accounting Policies - Continued

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,* NAPI's investments are stated at fair value.

Capital Assets –

i. Land

Land utilized by present operations, as well as, under development for 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.

(Continued)

Note 2 - Summary of Significant Accounting Policies - Continued

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
Automotive	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.

(Continued)

Note 2 - Summary of Significant Accounting Policies - Continued

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 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 fund 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.

(Continued)

Note 2 - Summary of Significant Accounting Policies - Continued

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 and Reclassifications - Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in NAPI’s financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year’s presentation.

Note 3 - Deposits and Investments

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

	2007	2006
Cash on hand	$ 900	900
Cash in bank	(477,940)	873,680
Cash equivalents	13,046,890	10,181,163
Total	$12,569,850	11,055,743

(Continued)

Note 3 - Deposits and Investments - Continued

Deposits

At May 31, 2007, the carrying amount of NAPI's deposits was $(477,940), and the bank balance was $13,608.

At May 31, 2006, the carrying amount of NAPI's deposits was $873,680, and the bank balance was $553,369.

Custodial Credit Risk - Deposits Custodial credit risk is the risk that in the event of a bank failure, NAPI's deposits may not be returned to it. NAPI does not have a policy that directly addresses custodial credit risk. As of May 31, 2007 and 2006, respectively, $ -0- and $453,369 of NAPI's bank balance was uninsured and uncollateralized, an exposure to custodial credit risk.

Investments

NAPI's investments consist of mortgage-backed debt securities, issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. At May 31, 2007 and 2006, NAPI's investments fair values were $5,222,182 and $5,067,554, respectively.

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, 2007 and 2006, all of NAPI's investments consisted of debt securities having original maturities of less than one year.

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, 2007 and 2006, respectively, all of NAPI's investments were rated by Standard & Poor (S&P) as AAA-grade or higher.

Concentration of Credit Risk - NAPI does not have a formal investment policy with respect to concentration of credit risk. As stated previously, NAPI's total investments at May 31, 2007 and 2006, respectively, consisted of U.S. agency mortgaged-backed debt type securities.

Note 4 - Accounts Receivable

At May 31, accounts receivable were as follows:

	2007	2006
Crops	$1,139,672	1,252,313
Other	476,348	46,338
	1,616,020	1,298,651
Less allowance for uncollectibles	(72,217)	(80,000)
Net total receivables	$1,543,803	1,218,651

Note 5 - Inventories

At May 31, inventories were as follows:

	2007	2006
Crops in progress	$11,073,432	10,854,439
Harvested crops	1,948,303	5,193,981
Repair parts and supplies	705,668	623,082
	$13,727,403	16,671,502

Note 6 - Capital Assets

Capital asset activity for the year ended May 31, 2007 was as follows:

	Beginning	Increases	Decreases	Ending
Capital assets, not being depreciated:				
Construction in progress	$ 41,182	1,308,052	-	1,349,234
Capital assets, being depreciated:				
Land improvements	18,930,067	-	-	18,930,067
Buildings	23,612,494	79,551	-	23,692,045
Irrigation and sprinkler equipment	28,227,356	870,482	(359,129)	28,738,709
Farm, feedlot, shop, and other	13,857,330	3,144,033	(2,844,980)	14,156,383
Automotive	1,761,569	386,677	(43,082)	2,105,164
Office and communications	1,718,380	114,040	(308,988)	1,523,432
Total capital assets, depreciated	88,107,196	4,594,783	(3,556,179)	89,145,800
Less accumulated depreciation for:				
Land improvements	(2,846,333)	(1,550)	-	(2,847,883)
Buildings	(16,934,853)	(818,220)	-	(17,753,073)
Irrigation and sprinkler equipment	(20,915,062)	(520,797)	324,621	(21,111,238)
Farm, feedlot, shop, and other	(10,317,626)	(895,179)	2,263,179	(8,949,626)
Automotive	(1,094,341)	(383,272)	60,612	(1,417,001)
Office and communications	(1,221,004)	(138,324)	259,840	(1,099,488)
Total accumulated depreciation	(53,329,219)	(2,757,342)	2,908,252	(53,178,309)
Total capital assets, depreciated, net	34,777,977	1,837,441	(647,927)	35,967,491
Total capital assets, net	$34,819,159	3,145,493	(647,927)	37,316,725

(Continued)

Note 6 - Capital Assets - Continued

Capital asset activity for the year ended May 31, 2006 was as follows:

	Beginning	Increases	Decreases	Ending
Capital assets, not being depreciated:				
Construction in progress	$ 351,210	1,534,863	(1,844,891)	41,182
Capital assets, being depreciated				
Land improvements	18,914,688	15,379	-	18,930,067
Buildings	22,937,366	675,128	-	23,612,494
Irrigation and sprinkler equipment	28,297,686	24,021	(94,351)	28,227,356
Farm, feedlot, shop, and other	13,753,677	531,066	(427,413)	13,857,330
Automotive	1,281,712	521,284	(41,427)	1,761,569
Office and communications	1,593,186	135,884	(10,690)	1,718,380
Total capital assets, depreciated	86,778,315	1,902,762	(573,881)	88,107,196
Less accumulated depreciation for:				
Land improvements	(2,844,911)	(1,422)	-	(2,846,333)
Buildings	(16,131,977)	(802,876)	-	(16,934,853)
Irrigation and sprinkler equipment	(20,467,479)	(459,732)	12,149	(20,915,062)
Farm, feedlot, shop, and other	(10,115,130)	(644,094)	441,598	(10,317,626)
Automotive	(511,332)	(615,940)	32,931	(1,094,341)
Office and communications	(1,092,603)	(135,368)	6,967	(1,221,004)
Total accumulated depreciation	(51,163,432)	(2,659,432)	493,645	(53,329,219)
Total capital assets, Being depreciated, net	35,614,883	(756,670)	(80,236)	34,777,977
Total capital assets, net	$35,966,093	778,193	(1,925,127)	34,819,159

Note 7 - Short-term Debt

Revolving Line of Credit

NAPI utilizes a revolving line of credit to provide for short-term working capital to be used for agricultural purposes. This revolving line of credit is authorized up to $3,000,000 and is fully due and payable on September 30, and shall be renewed in two-year terms thereafter. The revolving line of credit carries an interest rate at the Prime rate minus 0.25%. During the fiscal years ended May 31, 2007 and 2006, respectively, there was no draws, repayments, or outstanding principal balances against the available credit line.

(Continued)

Note 7 - Short-term Debt - Continued

Guarantee of Debt - NAMI

The Navajo Agricultural Marketing Inc. (NAMI), a wholly-owned corporation of NAPI, executed an increase in its original, revolving credit line of $500,000 to a $1,000,000 in September, 2006. NAMI also executed a $1,000,000 standby letter of credit with Wells Fargo Bank, N.A. NAPI has guaranteed both of the these obligations of the NAMI. The following is a recap of significant terms of the two credit lines:

- Revolving credit line – Principal balance associated with this credit line is due and payable fourteen months from the effective date of the loan. The interest rate shall equal the Wells Fargo Bank Prime Rate minus .62% (floating), effective September 14, 2006. Interest payments are due on a monthly basis. At May 31, 2007 and 2006, the principal balance was $1,000,000 and $500,000, respectively;
- Standby letter of credit - principal associated with the letter of credit is due and payable as one payment, no later than September 30, 2007. The interest rate shall equal the Wells Fargo Bank Prime Rate minus .88% (floating), with payments due on a monthly basis. As of May 31, 2007, the revolving credit line balance was $-0-.

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.

The future minimum lease obligations and the net present value of these minimum lease payments as of May 31, 2007 were as follows:

2008	$ 626,341
2009	533,497
2010	439,523
2011	336,167
Total minimum lease payments	1,935,528
Less: Amount representing interest	(200,083)
Present value of minimum lease payments	$1,735,445

(Continued)

Note 8 - Long-Term Debt - Continued

Note Payable

At May 31, notes payable consisted of the following:

	2007	2006
Wells Fargo bank note payable, secured by crops and account receivables, payable in monthly installments of $75,627, including interest at 4.00%, due July 2008	$1,032,283	1,879,133
Wells Fargo bank note payable, secured by the hay barn, payable in monthly installments of $8,548, including 6.86% interest, due April 2009	183,597	270,089
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	1,582,863	2,096,112
	2,798,743	4,245,334
Less: Current portion of notes payable	(1,519,639)	(1,446,592)
	$1,279,104	2,798,742

Annual debt service requirements to maturity for the note payable are as follows:

	Principal	Interest	Total
Year ending May 31,			
2008	$1,519,639	117,154	1,636,793
2009	820,861	51,220	872,081
2010	458,243	11,782	470,025
Total	$2,798,743	180,156	2,978,899

Changes in long-term liabilities

Long-term liability activity for the year ended May 31, 2007 was as follows:

	June 1, 2006	Additions	Reductions	May 31, 2007	Due Within One Year
Capital leases	$1,302,637	1,759,169	1,326,361	1,735,445	529,601
Notes payable	4,245,334	-	1,446,591	2,798,743	1,519,639
Total	$5,547,971	1,759,169	2,772,952	4,534,188	2,049,240

(Continued)

Note 8 - Long-Term Debt - Continued

	June 1, 2005	Additions	Reductions	May 31, 2006	Due Within One Year
Capital leases	$1,374,375	393,286	465,024	1,302,637	549,984
Notes payable	5,274,285	277,000	1,305,951	4,245,334	1,446,592
Total	$6,648,660	670,286	1,770,975	5,547,971	1,996,576

Note 9 - Deferred Revenue

At May 31, deferred revenue consisted of the following:

	2007	2006
1) Prepaid crop payments	$2,948,189	3,543,244
2) Prepaid leases	-	126,902
3) Other	84,274	206,374
Agricultural operations and related	3,032,463	3,876,520
4) Navajo Indian Irrigation Project (NIIP) and related, portion of grant receipts in excess of expenditures - U.S. Department of Interior	3,262,696	4,651,729
Total deferred revenue	$6,295,159	8,528,249

Note 10 - Operating Leases

NAPI has entered into various operating lease agreements for farming equipment. Rental payments for the years ended May 31, 2007 and 2006 totaled approximately $1,610,066 and $1,336,955, respectively.

At May 31, 2007, commitments for minimum future rentals under noncancelable, operating leases are as follows:

2008	$1,531,122
2009	1,048,287
2010	221,510
	$2,800,919

(Continued)

Note 11 - Benefit Plans

Navaio Nation Nihibeeso 401 (k) Defined Contribution Savings Plan (Savings Plan) – NAPI participates in the Navajo Nation's Nihibeeso 401(k) defined contribution savings plan (savings plan), which covers substantially all its employees, wherein NAPI matches 50% of a participating employees contributions up to the first 6% contributed by the employee. NAPI's contributions to the savings plan for the years ended May 31, 2007 and 2006 were approximately $18,250 and $46,778, respectively.

Note 12 - 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 13 - NAPI Operating Agreements

At May 31, 2007 and 2006, respectively, NAPI had various operating agreements as follows:

Pumpkin Patch Fundraisers, Inc.

On February 2, 1988, 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, and a portion of the revenue generated from the sale of pumpkins, including a guaranteed minimum.

During the years ended May 31, 2007 and 2006 NAPI recorded revenues of approximately $530,208 and $311,136, 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, 2007.

(Continued)

Note 13 - NAPI Operating Agreements - Continued

Upland Desert Popcorn, Ltd.

On September 12, 2003, NAPI entered into an Industrial Park Lease and facilities Agreement with upland Desert Popcorn, Ltd. (UPD) 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 linens 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 $90 per acre per year. During the years ended May 31, 2007 and 2006 NAPI recorded revenues of approximately $165,283 and $254,171 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, 2012.

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 3,000 acres and no less than 2,500 acres of NAPI land. An Amended and Restated Operating and Lease Agreement was entered into effective December 1, 2006. 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. NAPI receives rental payments for irrigated croplands and potato storage facilities in the amount of $400 per acre per annum of $1,040,000 per year. In addition, in any year Navajo Mesa exceeds $2,600 per *acre* of gross sales, Navajo Mesa shall pay NAPI 15% 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, 2007 and 2006, NAPI recorded revenues of approximately $1,448,503 and $1,270,760, respectively, under this agreement. Such revenue is included in agricultural-related joint ventures revenue in the accompanying financial statements. The agreement expires on August 31, 2011.

Wilber-Ellis Company

On November 4, 2003 NAPI entered into a facilities and equipment lease, and product sales and application agreement, Wilber-Ellis shall maintain adequate inventories or products at the Facilities to meet NAPI’s expected demand for the products. Wilber-Ellis shall apply aerial application of products on a timely basis as requested by NAPI. NAPI shall lease to Wilber-Ellis certain facilities for the storage and distribution of the products

(Continued)

Note 13 - NAPI Operating Agreements - Continued

on NAPI land. During the years ended May 31, 2007 and 2006, revenue of approximately $72,054 and $52,230, respectively was recognized under this agreement. The agreement was amended on November 1, 2006 and has been extended three years to October 31, 2010.

Cugnini Land and Cattle Company

On January 7, 2002, NAPI entered onto an operating agreement with Cugnini Land and Cattle Company for Lessee's use of NAPI cow camp and related facilities. The parties entered into a first amendment to the operating agreement on January 27, 2004. Under this agreement, NAPI agrees to lease to Lessee the cow camp located on NIIP and Navajo trust lands, Lessee shall be granted two options to renew the lease, the first for an additional two years, through January 7, 2006 and the second for an additional one year through January 7, 2007 subject to Lessee's compliance with certain conditions. The rent for the first option period is $14,000 per year; $7,000 payable every six months. During the years ended May 31, 2007 and 2006 NAPI recognizes revenues of approximately $7,000 and $7,000 respectively, under this agreement. Such revenue is included in agricultural-related joint ventures revenue in the accompanying financial statements. This agreement expired on January 7, 2007.

Sterling Brothers Construction, Inc.

On September 3, 2004, NAPI entered into a feedlot agreement with Sterling Brothers Construction, Inc. for Lessee's use of NAPI's feedlot and related facilities. Under this agreement, NAPI agrees to (1) make available to Contractor the feedlot estimated as 40 acres of pens, facilities, feed storage and associated grounds; (2) supply on a seasonal basis adequate supplies of irrigation water through its irrigation infrastructure and (3) provide feedstuffs. The agreement shall be effective January 7, 2006 and shall remain in effect for five years subject to Lessee's compliance with certain conditions. This agreement expires on August 31, 2009.

Five Star Oil and Gas

On April 19, 2006, NAPI entered into a facilities agreement with Five Star Oil and Gas for Lessess's rent of Farm-N-Go Convenience Store located near Highway 371 and N3003. Under this agreement, 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 Contractor's posted retail prices minus three cents per gallon for a period of one year from the effective date of the agreement. At the end of the one year, both parties shall have the option to enter into a profit-sharing arrangement, mutually agreeable to both parties. This agreement expires April 18, 2010.

(Continued)

Note 13 - NAPI Operating Agreements - Continued

4 Corners Hay Harvesters

On December 8, 2003, NAPI entered into a Custom Swathing Alfalfa Agreement with Four Corners Hay Harvesters. Under this agreement, Contractor agrees to swath NAPI's anticipated crop of alfalfa of approximately 12,000 acres, agrees to supply all equipment, personnel, fuel, supplies and materials necessary. NAPI agrees to grow and have swathed by Contractor approximately 12,000 acres of crop located on NAPI lands and will compensate Contractor at $13.75/acre of swathed alfalfa. This agreement expires on October 31, 2008.

J&M Baling

On February 9, 2004, 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, Contractor will provide four strip headers in good working condition. This agreement expires on October 3, 2008.

Fruit Picking Agreement – Honorio Perez

In January, 2006, NAPI entered into a 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, which expires on December 31, 2007.

Note 14 - 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 Wilber-Ellis will sell and apply various agricultural chemicals, fertilizers, seeds, and micronutrients to NAPI fields. During the years ended May 31, 2007 and 2006, NAPI paid $8,192,715 and $7,455,547, respectively for this chemical/fertilizing operation. In conjunction with this support, NAPI leases Wilber-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, 2007 and 2006 NAPI received $45,828 and $37,500, 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.

(Continued)

Note 15 - 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 16 - Restatement of Financial Statements

The accompanying basic financial statements for the year-ended May 31, 2007 have been restated to reflect the change in presentation of the following financial statement disclosures.

Blended Component Unit

In the prior year, the investment in Navajo Agricultural Marketing Inc. (NAMI) was presented as an investment. Some component units, despite being legally separate, are intertwined with the primary government that they are, in substance, the same as the primary government. Accordingly, NAMI should be considered a blended component unit of NAPI. Therefore, in the current and prior year financial statement presentations, this investment in NAMI has been blended as a component unit and included in the basic financial statements of NAPI.

SUPPLEMENTARY INFORMATION

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended May 31, 2007

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:			
Operation, Maintenance and Repair	15.CTN00X10212	N/A	$3,805,106
On-Farm Development	15.CTN00X10212	N/A	1,879,347
Agricultural Testing Laboratory	15.CTN00X10212	N/A	346,880
Bureau of Reclamation			
Cooperative Agreement for Operation and Maintenance of NIIP Facilities	15.04-NA-40-2095	N/A	108,070
Cooperative for Minor Construction	15.5-FC-470-17060	N/A	48,319
E-40	15.9-07-40-R0860	N/A	466,698
Total U.S. Department of Interior			6,654,420
U.S. Department of Agriculture			
Conservation Reserve Program	10.Unknown	N/A	278,447
Total U.S. Department of Agriculture			278,447
Total Expenditures of Federal Awards			$6,932,867

The accompanying notes are an integral part of this schedule.

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended May 31, 2007

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 OMS 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 2007 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, 2007.

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Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with "Government Auditing Standards"

Members of the Board of Directors
Navajo Agricultural Products Industry

We have audited the financial statements of the Navajo Agricultural Products Industry (the NAPI) as of and for the year ended May 31, 2007, and have issued our report thereon dated October 10, 2007. 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 the NAPI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NAPI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under "Government Auditing Standards".

This report is intended solely for the information and use of the board of directors and management of the NAPI, 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.

October 10, 2007

Sloan & Company

SLOAN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

8205 Spain NE, SUITE 204 • ALBUQUERQUE, NM 87109 • (505) 858-0050 • FAX (505) 858-0052 HARRY W. SLOAN, JR., C.P.A.

Report on Compliance with Requirements Applicable to each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Members of the Board of Directors
Navajo Agricultural Products Industry

Compliance

We have audited the compliance of the Navajo Agricultural Products Industry (the NAPI) with the types of compliance requirements described in the “U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement” that are applicable to each of its major federal programs for the year ended May 31, 2007. The NAPI's major federal programs are identified in the summary of auditors' 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 the NAPI's management. Our responsibility is to express an opinion on the NAPI'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 the NAPI'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 the NAPI's compliance with those requirements.

In our opinion, the NAPI 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, 2007.

Internal Control over Compliance

The management of the NAPI is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the NAPI's internal control over compliance with 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of law, regulation, contract, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors and management of the NAPI, 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.

October 10, 2007

Sloan & Company

NAVAJO AGRICULTURAL PRODUCTS INDUSTRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended May 31, 2007

SUMMARY OF AUDITOR'S RESULTS

The auditor's report expresses an unqualified opinion on the financial statements of Navajo Agricultural Products Industry, (the NAPI).

1. No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.

2. No instances of noncompliance material to the financial statements of the NAPI, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.

3. No reportable conditions relating to the audit of the Major Federal Award Programs are reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.

4. The auditor's report on compliance for the Major Federal Award Programs for the NAPI expresses an unqualified opinion on all major programs.

5. No audit findings that would be required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.

6. The programs tested as major programs include:

Program Name	CFDA Number
Operation, Maintenance and Repair	15.CTN00X10212
On-Farm Development	15.CTN00X10212
Agricultural Testing Laboratory	15.CTN00X10212

7. The threshold for distinguishing Types A and B programs was $300,000.

8. The NAPI qualified as a non low-risk auditee.

B. Findings – Financial Statements Audit

NONE

C. Findings – Major Federal Award Programs Audit

NONE