



## CHAPTER 4

### KAYENTA TOWNSHIP FINANCE AND FISCAL ADMINISTRATION ORDINANCE

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## FINANCE AND FISCAL ADMINISTRATION ORDINANCE

### SECTION 4-101 Title

This Chapter shall be cited as the Finance and Fiscal Administration Ordinance formerly known as the Finance and Fiscal Policies and Procedures Ordinance.

#### History

KTCAU-70-11 (Aug. 23, 2011) adopted the Finance and Fiscal Policies and Procedures Ordinance.

KTCA-14-13 (April 13, 2013) adopted the revised Finance and Fiscal Administration Ordinance.

KTCS-15-14 (September 25, 2014) adopted the revised Finance and Fiscal Administration Ordinance.

### SECTION 4-102 Definitions

#### A. *Capital Improvement Project* means:

1. Construction of new facilities or improvement of existing facilities that require expenditure in excess of \$150,000 or requiring debt obligation:
2. Purchase of major equipment, furnishings or vehicles valued in excess of \$150,000.

#### B. *Professional services contract or professional service* means a contract or service that requires the vendor or contractor to perform personal services that are technical in nature, that require professional or scientific judgment or other special skills, training, taste or discretion, or that are not subject to uniform specifications.

### SECTION 4-103 Purpose

The financial integrity of the Township is of utmost importance to the public's confidence that public funds and assets are properly managed, accounted for and used effectively and efficiently. It is also essential to the Township's financial integrity that the Township obtain the most efficient and effective value expenditures of public funds and that the Township promote competition in contracting. This ordinance will provide the foundation and framework for maintaining that integrity.

### SECTION 4-104 Annual Operating Budget

- A. The Township shall operate a budget system of receipts and expenditures to be prepared and adopted each fiscal year by the Kayenta Township Commission ("Commission"). The budget shall be adopted by resolution at a regular Commission meeting prior to the commencement of the fiscal year.
- B. The adopted Annual Operating Budget shall be a balanced operating budget where operating revenues are equal to, or exceed operating expenditures.
- C. Any increase in expenditures, decrease in revenues, or combination of the two that would result in an unbalanced budget will require a budget revision that must be approved by the Commission.

- D. The Township shall expend funds in accordance with the adopted budget.
1. No expenditures shall be authorized if sufficient budget capacity is not available; the Finance Manager shall prohibit such expenditures.
  2. No funds shall be drawn from the treasury of the Township, nor shall any obligation for the expenditure of funds be incurred except pursuant to the budget approved by the Commission.
  3. The Township shall submit to the Commission for approval a budgetary control system (rules and regulations) to regulate adherence to the approved budget.
  4. Budget Transfers exceeding ten percent (10%) of the original approved budget must be approved by the Commission.
- E. The Town Manager with the assistance of the Accounting Manager is responsible for the preparation of the annual budget and shall submit the budget to the Commission at least 15 days prior to the commencement of each fiscal year. The annual budget shall also be posted at a minimum of three public places within the Township prior to the monthly Commission meeting at which the budget will be considered for approval.
- F. The Town Manager with the assistance of Department Managers shall annually inventory and assess the condition of all of the Township's capital assets. The Town Manager shall present this inventory and assessment to the Commission. Based on this inventory and assessment, the Town Manager shall also present to the Commission a plan for ongoing financial Commitments as to capital assets that will maximize benefits to the public.
- G. In the development of the annual budget and any amendments thereto, the Township shall:
1. Not utilize one-time revenues to fund recurring expenditures; the Township shall give the highest priority in the use of one-time revenues to fund non-recurring expenditures.
  2. Identify major revenue sources it considers unpredictable and recommend to the Commission how these revenues may be used.
- H. The Township shall set fees and charges for each enterprise fund at a level that fully supports the total direct and indirect cost of the service provided; these fees and charges shall be reviewed and subject to adjustment in the annual budget.

**SECTION 4-105     Annual Audit**

- A. The books, accounts and financial statements of the Township shall be audited at the close of each fiscal year by an independent public accounting firm or an independent certified public accountant selected by the Commission.
- B. The annual audit shall be completed and approved by the Commission prior to the approval of the annual operating budget.
- C. The Commission's selection of the auditor for the annual audit shall be conducted every four years pursuant to the Township's procurement policies and procedures.

**SECTION 4-106 Capital Improvement Plan**

For purposes of this section "capital improvement plan" shall mean a multi-year plan identifying capital improvement projects prioritized for development. The plan shall:

- 1. specify the beginning and ending date of each project.
- 2. the amount of funds to be expended in each year and the method of financing these expenditures; and
- 3. specify the status of each project, i.e., whether the project is in the planning, project ready or construction ready phase. The Department Director shall define the requirements and components of each phase and shall make the determination of the status of each project.

**SECTION 4-107 Reserve Account**

- A. The Township shall maintain an Unreserved Fund Balance within its General Fund at a level no less than fifteen percent (15%) of its recurring General Fund revenue.
- B. The expenditure of the Unreserved Fund Balance shall be restricted to temporary cash flow shortages, emergencies, unanticipated revenue shortfalls and one-time opportunities.
- C. The expenditure of the Unreserved Fund Balance must be approved by a unanimous vote of the Commission.

**SECTION 4-108 Accounting and Financial Reporting**

- A. The Township shall establish and maintain an accounting and financial reporting system that has the capability of producing financial statements in conformance with generally accepted accounting principles and standards of the Government Accounting Board.
- B. The Township shall prepare quarterly financial reports to be submitted to the Commission at their regular meeting.

**SECTION 4-109 Fixed Asset System**

The Township shall establish and maintain a fixed asset system identifying all Township fixed assets, their condition, historical cost, replacement value and useful life.

**SECTION 4-110 Long-Term Debt**

- A. The Township shall confine long-term borrowing to capital improvements with useful lives of five years or more and that cannot be funded from current revenues. Proceeds from long-term debt shall not be used for current on-going operations.
- B. All long-term debt issued, including by lease-purchase methods, will be repaid within a period not to exceed the expected useful lives of the improvements financed by the debt.
- C. The Township shall maintain annual debt service costs of general obligation debt at a level less than fifteen percent (15%) of its annual unrestricted recurring revenue stream.

**SECTION 4-111 Revenue Collection; Refunds**

- A. The Accounting Manager shall be responsible for the prompt and accurate collection of all monies owed to the Township.
- B. The Accounting Manager, with the Town Manager's approval, shall be entitled to make all refunds of monies received but not due the Township up to Ten thousand dollars (\$10,000.00) without the approval of the Commission.

**SECTION 4-112 Procurement**

- A. The Finance Office, through the Town Manager, Accounting Manager and Department Manager shall be responsible for the acquisition of property, supplies, goods and services for capital improvement projects.
- B. The Finance Department, through the Accounting Manager, shall be responsible for the acquisition of property, supplies, goods and services for administrative needs.
- C. All procurement shall be:
  - 1. administered in a fair and impartial manner and to obtain goods and services at the lowest and best cost consistent with specifications required to meet the needs of the Township;
  - 2. in accordance with the Township Procurement Policy and Procedures Manual which may, from time to time, be adopted by the Commission;
  - 3. in conformity with the annual operating budget; where the budget allocation will be exceeded, the procurement shall be submitted to the Commission for approval; and

4. shall be conducted in a competitive manner, except as may be specifically exempted or modified by Township ordinance or rules and regulations enacted pursuant to Section 114 or by applicable Navajo Nation or federal law.
- D. Notwithstanding the requirement for competition, the Township shall make awards only to qualified contractors who satisfactorily demonstrate ability to perform within the time provided and otherwise meet the Township's specifications for the contract and the Township, at its sole discretion, may reject any prospective contractor not satisfying the specified qualifications, responsibility and capability.
- E. The Commission shall approve all procurement exceeding fifty thousand dollars (\$50,000.00).

Cross Reference

By Resolution KTCO-88-2011 the KTC repealed the Purchasing Policies and Procedures Handbook approved by KTCA-12-01 (April 8, 2001), and enacted the Procurement Policy and Procedures Manual.

**SECTION 4-113      Travel Authorization and Expenses; Travel Policy and Procedures Manual**

- A. From time to time, it becomes necessary or appropriate for Commissioners, officials and employees to travel away from the Township to conduct business or perform functions for or on behalf of the Township. The Township shall pay for the mileage, meals, lodging and incidental expenses incurred during such official travel. For purposes of this section, "official travel" shall mean travel that serves a governmental purpose of the Township and that which has been duly approved in accordance with this chapter and the policies and procedures enumerated in the Travel Policy and Procedures Manual.
- B. Unless specifically exempted herein, all requests made by the Commissioners for travel authorization shall be approved by the Town Manager. All requests made by the Town Manager for travel authorization shall be approved by the Chairperson, Vice Chairperson or Secretary/Treasurer of the Commission. The Town Manager shall approve all requests for travel authorization by department directors and department employees.
- C. All claims for reimbursement of travel expenses shall be approved by the Approving Official and the Finance Manager prior to submittal for payment.
- D. The Travel Policy and Procedures Manual shall be distributed to all Commissioners, the Town Manger and department directors and employees, and these officials and employees shall be required to attest that they have read the Manual, understand the provisions, will comply with all provisions thereof and are subject to all sanctions and limits or restrictions on the Township's liability stated therein.
- E. The Township shall not be liable for the expenses of a spouse or family members accompanying a Commissioner, the Town Manager or department directors and employees on official travel.

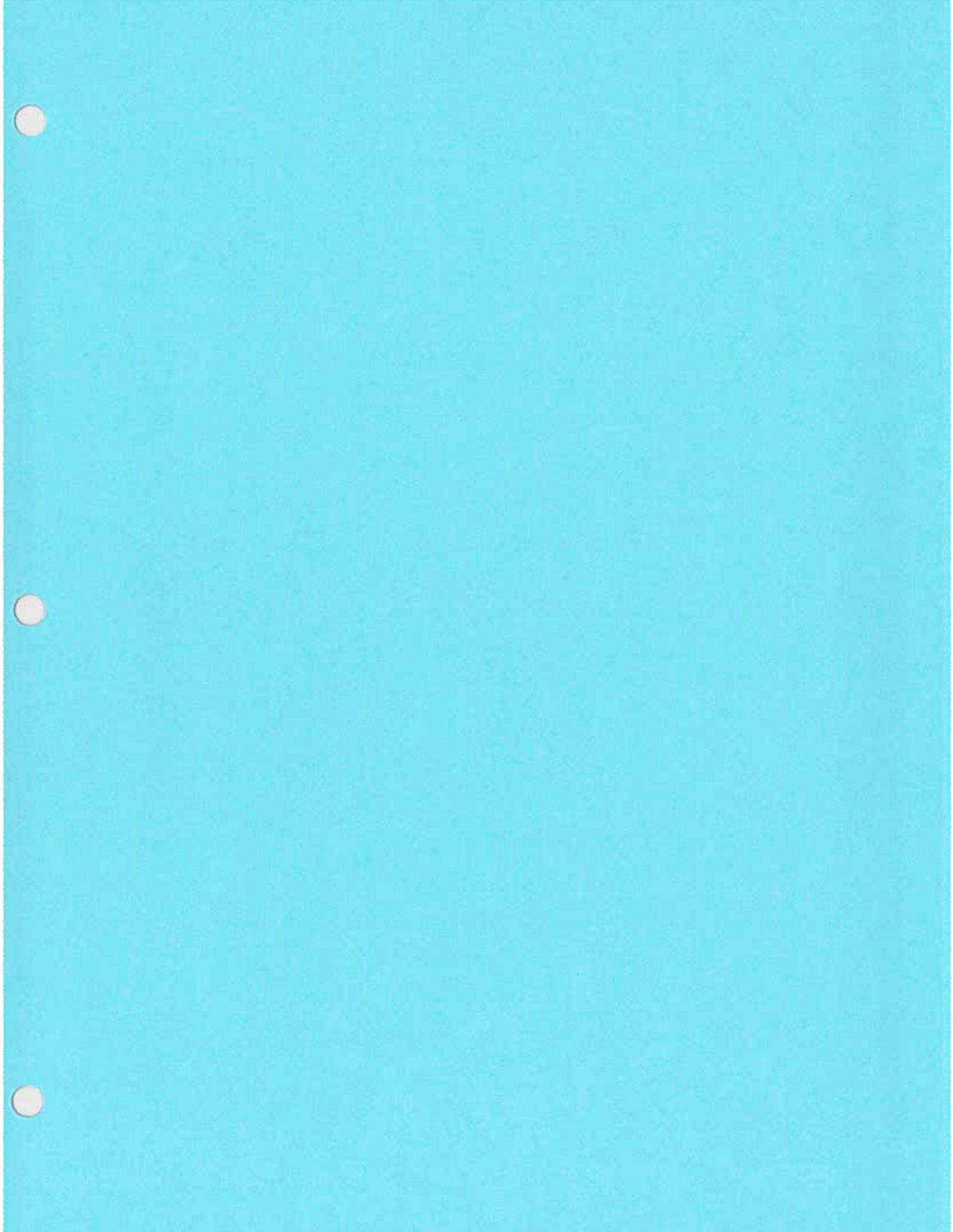
G. Mileage shall be reimbursed at the maximum current rate established by United States Internal Revenue Service from time to time.

Cross Reference

By Resolution KTCF-09-05 (Feb. 14, 2005) the KTC enacted the Travel Policies and Procedures Manual.

**SECTION 4-114     Administrative Rules and Regulations**

The Commission is empowered to adopt rules and regulations, both substantive and procedural, such as may be necessary to the proper and efficient administration of this chapter.







**KAYENTA TOWNSHIP  
FISCAL POLICIES, RULES, REGULATIONS, AND PROCEDURES**

SECTION 4.201	AUTHORITY; PURPOSE; INTENT
SECTION 4.202	FINANCIAL REPORTING; STANDARDS
SECTION 4.203	FUND ACCOUNTING
SECTION 4.204	BUDGET CLASSIFICATION STRUCTURE; FORMAT; CALENDAR
SECTION 4.205	REVENUE FORECAST
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SECTION 4.208	TOWNSHIP GRANTS
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SECTION 4.210	CASH
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SECTION 4.212	TAXES RECEIVABLE
SECTION 4.213	INTERFUND ACTIVITY
SECTION 4.214	CAPITAL ASSETS
SECTION 4.215	PAYROLL; LEAVE; DEDUCTIONS
SECTION 4.216	FINANCIAL CLOSE AND REPORTING

#### **Section 4.201 Authority; Purpose; Intent**

- A. The KTC promulgates these policies, rules and regulations pursuant to Section 4-114 of the Finance and Fiscal Policies and Procedures Ordinance.
- B. The purpose of this manual is to provide the processes and information need to:
  - 1. Make informed decisions:
    - 2. Assess Township officials' stewardship of public funds;
    - 3. Make appropriate taxing and spending decisions as part of the budgetary process and to plan for the future;
    - 4. Ensure and demonstrate that resources are used properly and that Township assets are protected against the risk of loss or misuse'
    - 5. Evaluate the Township's creditworthiness;
    - 6. Ensure that grant funds were used appropriately; and
    - 7. Analyze budget requests. Monitor and control the provision of services in conjunction with the budget and evaluate performance.

#### **Section 4.202 Financial Reporting; Standards**

- A. The Township uses three different types of financial reporting:
  - 1. Internal reports are designed to provide management and Commission with the financial information needed to manager the Township government on a daily basis. Therefore, management and Commission are free to specify the form and content of these reports based upon their own assessment of their specific information needs. Internal reports should be issued on a monthly basis at the regular KTC meetings. The monthly reports should compare actual revenues and expenditures to budgeted amounts.
  - 2. External reports are designed to meet the needs of those without direct access to the information contained in the Township's accounting system (citizens, grantors, investors, creditors, and oversight bodies). The Comprehensive Annual Financial Report (CAFR) or the Basis Financial Statements (BFS), issued annually, is used for external reporting purposes. The CAFR and BFS encompass all funds. The CAFR is an extensive report containing the management's assertions on the fiscal and financial health of the Township (e.g. the letter of transmittal), detailed financial data prepared according to GAAP, and includes statistical data on the Township and its operations. The Basic

Financial Statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The government-wide financial statements are comprised of a statement of net assets and a statement of activities. The fund financial statements are presented by fund category with the reporting emphasis on individual major funds.

3. In addition to internal and external reports, the Township may issue "popular reports" which are generally geared more for public relations and used to inform taxpayers of the extent and efficiency of Township services. These popular reports can take the form of pamphlets, newspaper articles, power-point presentations, etc.
- B. The standards governing the format and content of the Township Basic Financial Statements or the Comprehensive Annual Financial Report are "generally accepted accounting principles" (GAAP).

#### **Section 4.203 Fund Accounting**

A. The Township utilizes fund accounting to account for and report the varying sources and uses of funds. Fund accounting uses fund types to account for and report the diverse governmental activities. The Township shall use only the minimum number of individual funds necessary to be compatible with legal and managerial requirements and to lessen the complexity and cost of financial reporting.

- B. The Township shall classify all funds into one of eleven "fund types":
1. Five "governmental" fund types used to account for governmental-type activities, typically supported by taxes.
  2. Two "proprietary" fund types used to account for business-type activities, typically financed in whole or in part by fees paid by those who directly benefit from the services.
  3. Four "fiduciary" funds types used to account for resources that are held by the government as a trustee or agent for parties outside the government and that cannot be used to support the government's own programs.

#### **C. Governmental Funds**

1. **General Fund:** The general fund is the principle operating fund of the Township and is typically used to account for most of the Township's departments. As a rule, the general fund should be used to account for all the Township's activities unless there is a compelling legal or managerial reason to use some other fund type. There can only be one general fund.

2. **Special Revenue Funds:** Special revenue funds may be used to account for specific revenue sources that can only be legally spent for designated purposes. An example of a special revenue fund would be the housing grants received through NAHASDA.
3. **Debt Services Funds:** Debt service funds may be used to account for accumulations of resources that will be used to pay debts of the Township (e.g. bond sinking funds). Debt service funds should only be used if a debt service fund is legally mandated; resources have been accumulated in excess of one year's principle and interest payments; and if grant resources have been received that are restricted to the payment of principle and interest on general long-term debt. Otherwise, debt service funds budgeted in another fund type may be reported in that fund type rather than in the debt service fund (e.g. capital lease payments).
4. **Capital Projects Funds:** Capital projects funds are used to account for the acquisition or construction of major capital facilities of the Township. A capital project fund may be used for restricted capital grants of the Township.
5. **Permanent Funds:** Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry.

#### D. Proprietary Funds

1. **Enterprise Funds:** Enterprise funds may be used to account for activities financed, in whole or in part, by fees collected from customers (e.g. user fees). The Township's solid waste transfer station is an enterprise fund.
2. **Internal Services Funds:** Internal service funds are typically used to allocate the cost of goods and centralized services to various departments and agencies within a government. The Township at this time has no internal service fund.

#### E. Fiduciary Funds

1. **Fiduciary funds** are used for situations in which the Township holds or manages financial resources in an agent or fiduciary capacity. Trust funds will only be used in cases where there is a written agreement with a party outside of the Township. This fund type is further subdivided into four "subfund types."
  - a. **Investment Trust-Funds** – designed to report government sponsored external investment pools. The Township at this time has no investment trust funds.
  - b. **Private-purpose Trust Funds** – designed to report any trust arrangement not properly reported in a pension fund or an investment trust fund. The Township at this time has no private-purpose trust funds.

- c. Pension trust funds – used to account for pension plans that are managed by the Township. The Township at this time has no pension trust fund.
- d. Agency funds – used in situations where the Township plays a limited role (e.g. simply collecting or temporarily holding resources on behalf of some third party). Only assets and liabilities, not equity, are reported for this fund. As an example, the Township used an agency fund to collect fees and disburse payments for a public economic summit in which the Township assisted in operations.

#### F. Measurement Focus

The measurement focus on the Township's governmental funds (what is measured and reported in a fund's operating statement) is simply the amount of resources available for spending.

1. Governmental funds use a "flow of current financial resources" measurement under which the operating statement attempts to answer the question "Are there more or less resources that can be spent in the near future as a result of events and transactions of the period?" Increased in spendable resources are reported in the operating statements as "revenues" or "other financing sources." Decreases in spendable resources are reported as "expenditures" or "other financing uses."
2. The operating statement of a proprietary fund is designed to answer the question "Is the fund better or worse off economically as a result of events and transactions of the period." Events and transactions that improve the economic position of a proprietary fund are reported as "revenues" or "gains" in the operating statement. Those that diminish the economic position of a proprietary fund are reported as "expenses" or "losses." The government-wide financial statements also use the economic resources measurement focus.
3. There are five practical differences between the measurement focus used by proprietary funds and that used by governmental funds.
  - a. The receipt of the proceeds of long-term debt is reported in the operating statement of governmental funds, but not in the operating statement of proprietary funds.
  - b. The repayment of the principal of long-term debt is reported in the operating statement of governmental funds, but not in the operating statement of proprietary funds.
  - c. Capital outlay is reported in the operating statement of governmental funds, but no in the operating statement of proprietary funds.

- d. The exhaustion of capital assets (i.e. depreciation) is not reported in the operating statement of governmental funds, but is reported in the operating statement of proprietary funds.
- e. Disbursements benefiting future periods normally are deferred and amortized over those periods in the operating statement of proprietary funds (e.g. bond issuance costs), but not in the operating statement of governmental funds.

#### G. Basis of Accounting

A fund's "basis of accounting" determines when a transaction or event is recognized in the fund's operating statement.

1. The Township's governmental funds shall use modified accrual accounting. Revenues are recognized when measurable and available to liquidate liabilities of the current period. Expenditures generally are recognized when an event or transaction is expected to draw upon current spendable resources (rather than future resources).
2. The Township's government wide and proprietary fund financial statements shall use full accrual accounting. Transactions and events recognized when they occur, regardless of the timing of related cash flows.

#### H. Framework of Financial Reporting

1. Assets = Liabilities + Equity, the formula commonly referred to as the "accounting equation," shall serve as the basis of all Township bookkeeping and accounting.
2. For purposes of this manual, "fund balance" shall mean the difference between financial assets and certain liabilities expected to be liquidated in the near future from those assets. Furthermore, fund balance is divided into restricted, committed, assigned, and unassigned categories. The restricted, committed, and assigned categories are used to identify net assets that are not spendable or available for appropriations. Unassigned fund balance is the measure of net available resources (the amount available for appropriations).
  - a. The restricted fund balance category includes amounts that can be spent only for specific purposes stipulated by the Commission or external resource providers.
  - b. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Commission.
  - c. The assigned fund balance classification included amounts that can be used only for the specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

- d. Unassigned fund balance is the residual classification for the Township's general fund and includes all spendable amounts not contained in other classifications.

#### I. Financial Accounting Records

1. The objectives of the Township's accounting system are to provide reliable financial information in conformity with generally accepted accounting principles on a timely basis and to safeguard assets. To achieve these objectives, the accounting system shall ensure that all transactions are recorded in the appropriate accounts for the actual amounts in the fiscal year in which they occur. Additionally the accounting system shall monitor the Township's compliance requirements in its use of financial resources.
2. The Township shall properly maintain accounting records (documentary support) for account balances. Accounting records include source documents, journals, registers, ledgers, and other supplementary records.
  - a. Source documents are used to initiate accounting transactions and should be retained to support each entry recorded in the accounting records. Examples of cash receipts source documents include pre-numbered cash receipt forms, cash register tapes, and validated bank deposit receipts. Examples of cash disbursements source documents include requisitions, purchase orders, receiving reports. And vendor invoices.
  - b. A journal is defined as a book or original entry. Journals provide a chronological, detailed record of daily financial transactions and support balances in the general ledger accounts. Journals may be posted manually or generated by computer.
  - c. The general ledger is the summary of financial transactions and the basis for preparing trial balances and financial reports.

#### J. Account Coding

1. The Township shall have in place a chart of accounts that meets both the current and future needs of the Township. The account structure shall consist of four segments and ten characters (XXX-X-XX-XXXX). The account structure is as follows:
  - a. The first segment, consisting of three characters, denotes the fund, such as general fund, special revenue fund, enterprise fund, etc.
  - b. The second segment, one character, denotes a function, such as general government, public safety, health and welfare, etc.
  - c. The third segment, consisting of two characters, denotes a department, cost center, or a project within a fund.
  - d. The last segment, consisting of four characters, represents the object code.

2. For Township accounting, the following Chart of Accounts will be utilized:

- a. Fund #s                    100-900
- b. Function #s                1-9
- c. Department #s            10-99
- d. Object #s                    1000-1999    Assets  
    2000-2999    Liabilities  
    3000-3999    Fund Balance  
    4000-4999    Revenues  
    5100-7999    Expenditures

3. The Finance Director is hereby authorized to make changes to the Township Chart of Accounts as needed.

4. The following objects of expenditures will be utilized:

- a. Personnel – based on position classifications and wage schedules.
- b. Operating – office supplies, utilities, contractual and maintenance. Estimate based on historical cost plus an inflation factor, and evaluation of demand and need.
- c. Capital – normally last more than one year and cost more than a specified threshold amount.

**Section 4.204 Budget Classification Structure; Format; Calendar**

**A. Budget Classification Structure and Format**

1. The following budget classification structure shall be used:

- a. Fund – an accounting related entity which exists to control and account for funds from various sources;
- b. Two level major/minor object of expenditure – a specific category of cost designed to provide detail in types of commodities or services purchased and the provision of services;
- c. Organizational Units/Departments – for funds appropriated for entities such as the KVFD and the Police Department;



- d. Source of Revenues – type of revenues received such as sales tax;
  - e. Project – a special classification for capital outlays and for federal grant activities;
  - f. Restrictions; and
  - g. Debt Financing.
2. The following data shall be presented in the budget format:
- a. Prior year actual expenditures;
  - b. Current year budget or estimated expenditures;
  - c. Recommended budget;
  - d. Increase/(decrease) between recommended budget & current year estimates;
  - e. Percentage change between recommended budget and current year estimates;
  - f. Brief explanation of change in spending levels and a statement of what proposed budget is for (including how the proposed budget was calculated).
3. The budget document may also contain the following:
- a. Message from the Town Manager which describes major assumptions underlying the budget, major issues to be addressed, and significant changes in proposed budget from current year budget;
  - b. Planning processes such as the strategic plan, long-range financial goals, CIP plans, and their impact upon the budget and budget process;
  - c. A summary of total revenues by source;
  - d. A summary of total expenditures;
  - e. A summary of capital information, a list of major capital projects;
  - f. Goals & Objectives and Performance Measures; and
  - g. Budget Resolution

## B. Budget Calendar

To ensure compliance with the requirement of Section 4-104(A) of the Finance and Fiscal Policies and Procedures Ordinance that the budget be enacted prior to the beginning of the budget fiscal year, a budget calendar that establishes all key dates in the preparation of the budget shall be developed by the Township and approved by the KTC. At a minimum, the calendar should indicate periods during which the following activities will occur:

1. December – Conduct Financial Planning Process – Assess the long-term financial implications of significant changes in its revenues and expenditures. At the same session, the KTC will review progress and accomplishments towards achievement of the strategic plan goals and objectives and update the strategic plan. Other items for consideration during this session will be:
  - a. Current revenue performances and preliminary estimates for the budget year;
  - b. Current expenditures versus budgeted and prospects of a surplus to carry over into the new budget year;
  - c. Trends in inflation and local economic condition;
  - d. Prospects for new taxes or fees or changes in current tax and fee rates;
  - e. Major cost items which will fall due in the budget year;
  - f. Discussion of service issues;
  - g. Basic policies to guide the budget development;
  - h. A range for cost of living adjustments to salaries; and
  - i. An indication of what services should be strengthened, deemphasized, or reduced.
2. January through February – The Township shall gather and review all budget requests, prepare revenue projections, prepare staff performance evaluations and staffing analyses, formulate or update Capital Improvement Plan, prepare budget recommendations and produce the preliminary budget documents.
3. March – Hold a budget work-session to review the recommended preliminary budget documents, make adjustments necessary.
4. April – The adjusted budget document shall be posted at a minimum of three public places within the Township and published.

5. May – At a duly called regular meeting of the KTC, the final budget document is presented for approval.

#### **Section 4.205 Revenue Forecast**

- A. All revenue forecasts shall be conservative and shall consider that the Township's major sources of revenues are sensitive to both local and regional economic conditions. It is Township policy that conservative revenue forecasts will minimize the possibility of revenue shortfalls that create a negative impact on the Township's financial condition.
- B. The Finance Director may utilize a method of trend analysis to project revenues. A trend analysis is a historical collection pattern of each revenue source to predict future revenues.
- C. The Finance Director's revenue forecast shall be prepared in conjunction and coordinated with the Town Manager's assessment of the long term implications of significant changes in revenues and expenses as required by Section 4-104(F) and the Town Manager's inventory and assessment of capital assets as required by Section 4-104(G) of the Finance and Fiscal Policies and Procedures Ordinance.

#### **Section 4.206 Capital Improvement Plan**

- A. The capital improvement plan will directly relate to the long-range plans and policies of the Commission. Operating funds needed to maintain capital improvements and additional staff needs will be established and identified prior to making the decision to undertake specific capital improvement.
- B. Where benefits can be specifically attributed to users of the facility, capital improvement will be financed primarily through user fees, service charges, or developer agreements. Accordingly, development of impact fees shall be established and implemented at levels sufficient to ensure that new development pays its fair share of the cost of constructing necessary community facilities.

#### **Section 4.207 Debt Management**

- A. The Township will fund capital projects with grant funds or on a pay-as-you go basis as much as possible before using debt financing.
- B. Debt financing will be on a competitive basis. Private placements (negotiated financing), upon the prior approval of the Commission, may be used when the market is highly volatile or the debt structure is highly unusual and complex as to financing structure or security structure.
- C. Debt schedules will be prepared and included in the annual budget and the capital improvement plan.

- D. Debt shall be structured in such a way that debt load is explicitly related to the operating budget and the ability to handle debt will not impair operating needs.
- E. The Township will, with the assistance of a financial consultant if deemed necessary by the Finance Director, undertake a feasibility analysis for any proposed long-term financing to determine current and future budgetary impact and reliability of revenue stream to support both debt services requirements and operations. The Commission will review the financing program annually.

#### **Section 4.208 Township Grants**

- A. Any request for a grant from the Township shall meet the following criteria and procedures:
  - 1. Budget requests must be submitted to the Township by January with an approved board resolution or transmittal letter signed by an authorized official.
  - 2. The budget request should be itemized according to object of expenditure and should contain brief justifications. Activity data such as number of emergency responses and the like can be used to supplement the budget request.
    - a. Request involving purchase of vehicles or large equipment should be requested separately with justifications and quotes.
    - b. Funds awarded cannot be expended for legal fees or for any expenditure not identified in the submitted budget.
  - 3. The requesting entity shall be present to make presentations and answer questions when the annual budget is being prepared, reviewed, and considered for adoption.
  - 4. It is the requesting entity's responsibility to:
    - a. Ensure compliance with the legally adopted budget; for this reason, the entity will periodically make summarized financial and budget reports to the Commission and provide hard copies of the reports; and
    - b. Track its budget to actual costs; the Township staff will not be responsible for maintaining reports of expenditures and remaining balances on behalf of the recipient.
- B. The Township will not disburse any award funds directly to the entity, its members, or officers. Funds will be disbursed only vendors and only for those objects of expenditures identified in the budget request.
- C. Request for fund disbursements will be made weekly and signed by the Finance Director.
  - 1. The disbursement request will contain a summarized list of the attached invoices.

2. Original invoices will be attached to the funds disbursements request plus any supporting documentation such as receiving reports. No summary statements will be accepted in place of original invoices.
3. If reimbursements are requested for expenditures already incurred on behalf of the entity, approval must be obtained from the entity's board members or authorizing official.
4. The requesting entity will avoid the accumulation of unpaid invoices which will result in large sums of monies to be paid out at one time.

#### **Section 4.209 Lapse of Appropriations; Limitations**

- A. Appropriations will lapse at the end of each fiscal year unless otherwise designated by the Commission. "Lapse" of appropriated funds means that because the funds were not encumbered for its intended use within the designated time period the funds shall again become part of the General Fund and be available for appropriation in the next budget cycle.
- B. Any limitation, stipulation or condition on the use or expenditure should be explicitly stipulated in the budget resolution to ensure control of local resources.
- C. Spending limits must be entered into accounting records so effective accounting control can be established.

#### **Section 4.210 Cash**

Cash includes currency, coins and certain types of formal negotiable paper, such as bank drafts, cashier's checks, money orders, ordinary checks, and balances on deposit with commercial banks. Cash received directly by the Township may include sales tax receipts, donations, grants, and proceeds from business site leases. Cash is also generated through sales of goods or services by the Township.

- A. Because of the relatively high risk associated with transactions involving cash, the Township shall maintain a cash management system to safeguard cash and provide prompt and accurate reporting, including adequate internal accounting controls over cash receipts and disbursements.
- B. The Township will minimize deposit custodial credit risk, which is the risk of loss of failure of the depository bank (or credit union), by obtaining collateral or bond for all uninsured amounts on deposit, and by obtaining necessary documentation to show a perfected security interest under federal law.
- C. Cash Receipts
  1. Cash-handling and record keeping functions shall be properly segregated among staff or adequately monitored to safeguard cash.

2. Cash must be adequately safeguarded (kept locked at all times), promptly recorded and accurately classified.
3. Employees handling significant amounts of cash must be adequately bonded.
4. Pre-numbered and numerically controlled cash receipt forms shall be prepared in duplicate for each cash payment received. Voided receipts must be retained for accountability purposes.
5. Cash receipts must be deposited intact daily, when significant, or at least weekly.
6. A validated copy of the deposit slip and a bank deposit must be retained for each deposit.
7. Reconciliation of receipts issued and recorded to cash deposited shall be prepared. The same person writing receipts shall not perform reconciliation.
8. The cash receipt shall not be used for replenishment of the petty cash fund or for payment on expenditures until properly deposited and accounted for in the Township's records and bank account.
9. The use of checks or money orders to make payments should be encouraged.
10. Checks received should be immediately stamped "for deposit only."

#### D. Cash Disbursements

1. The Finance Director shall ensure that the duties of individuals approving disbursements and individuals maintaining accounting records shall be segregated.
2. There shall be an accounts payable section, independent of the purchasing and receiving section that is responsible for payment of invoices on a timely basis.
3. A properly authorized order if applicable and a properly completed receiving report are required before an invoice is approved for payment.
4. There shall be a payment requisition system for payment of invoices and other cash disbursements. A requisition will summarize disbursements and provide for authorization. Upon approval of a requisition, the Township shall issue checks corresponding to payments authorized on the requisition.
5. Pre-numbered checks shall be used that include the date, amount, payee, and purpose for which the check was drawn (disbursement code). The check must have two required signatures.

6. Vendors shall mail invoices directly to the accounts payable section. The accounts payable section shall record the date of receipt on invoices. If the invoice has more than one copy, each copy other than the original should be marked "duplicate copy" to prevent duplicate payment. Account payable should match the invoice to the applicable purchases and receiving report.
7. Accounts payable personnel shall compare terms, prices and quantities on the invoice to the purchase order and the receiving report. They shall also check the mathematical accuracy of extensions and footings, verify the propriety of account distribution, and indicate by signing and dating the invoice that the above steps were completed. Discrepancies or errors discovered through this review shall be resolved by contacting the vendor. All paid invoices shall be stamped with "Paid" with the check number, amount, and date of payment.
8. Cash disbursements from authorized bank accounts must be made with pre-numbered checks and used in sequence. Each check should be marked "void after 90 days" to ensure prompt cashing by the payee.
9. Checks must be properly completed before issuance, and must not be written to cash or bearer. Voided checks must be so stamped to prevent reuse and numerically filed with other cancelled checks.
10. Unused checks must be physically safeguarded and access to them must be limited to authorized personnel.
11. Use of signature stamp must be properly authorized by the Commission. The signature stamps must be physically safeguarded and access to them limited to a minimum number of employees who do not have access to the blank checks.

#### E. Petty Cash

1. There is hereby established a Petty Cash Fund in the amount of \$150.00 for minor disbursements when checks are not practical or immediate cash payments are required by checks drawn on the Township's general fund bank account.
2. Petty cash funds shall be maintained on an impress basis. This means that the money in the petty cash box plus Petty Cash Withdrawal Requests and receipts shall equal the authorized petty cash funds amount at all times.
3. The Finance Director shall designate one individual as the petty cash fund custodian. The custodian shall make certain the cash is locked in a safe or a cash box to which only the custodian has access. The petty cash fund custodian shall be a person independent of record keeping functions.

4. Petty cash fund expenditures shall not exceed \$50 for any single purchase.
5. The petty cash fund purchase documents shall be maintained at all times and the expenditures shall be classified.
6. The petty cash fund purchase documents shall be required for the replenishment of the petty cash fund and the petty cash fund shall be replenished as needed.
7. Funds from the Township's checking account shall always be used for the establishment/replenishment of the petty cash fund.
8. The petty cash fund shall, at all times, be kept separate from cash receipts.

#### F. Bank Account

1. Bank accounts must be authorized by Commission resolution and be held in the name of the Kayenta Township. A list of authorized check signers designated by the Commission for each bank account must be kept current. Inactive bank accounts must be closed promptly.
2. Upon a change in authorization of bank account signatures, the Finance Director will immediately notify the bank by submitting the Commission resolution and change the authorization signature form.
3. The Township Tax Identification Number shall be used on all bank accounts.
4. Direct cash withdrawals and ATM/debit cards are prohibited.
5. Funds withdrawn from a savings or investment account must be transferred by authorized signatories to the checking account in order to be expended, which can be in the form of a cashier's check or internal transfer.
6. All bank records shall be sent directly to the Township's mailing address.

#### G. Bank Reconciliations

1. A written bank reconciliation must be prepared monthly on a timely basis. An employee who is not responsible for handling cash issuing checks should prepare the bank reconciliation. The Finance Director shall review and approve the reconciliation.
2. The Township shall receive monthly bank statements that summarize the monthly activity and report the ending cash balance for each bank account. Bank statement cash balances generally do not agree to the Township's records because checks may be outstanding, deposits may be in transit, and the Township may not have recorded bank charges. Therefore, reconciliation is performed to verify the accuracy of both balances.



3. The bank reconciliation shall be signed and dated by the preparer and reviewer.
4. The employee reconciling the account shall:
  - a. Receive the unopened envelope containing the bank statement and canceled checks;
  - b. Obtain the check register and file of validated deposit slips for the bank account;
  - c. Compare the canceled checks to the check register to ensure that the number, date, payee, and amount are in agreement. Canceled checks shall be examined for alterations, authorized signatures, and irregular endorsements;
  - d. Prepare a listing of outstanding checks. Outstanding checks are checks that have been issued and deducted from the check register balance but have not been deducted from the bank balances as shown on the bank statement. If the listing of outstanding checks discloses that have been outstanding for three months (90 days) or longer, the employee shall delete those checks from the listing of outstanding checks and increase the check register by the amount of the voided checks. The prepared shall also notify the bank to issue a stop payment;
  - e. Compare the date and amount of each deposit shown on the bank statement to the validated bank deposit slip maintained on file and to the check register;
  - f. Prepare a listing of deposits in transit. Deposits in transit are deposits made subsequent to the bank statement date and therefore, are not included in the bank balance or shown on the bank statement;
  - g. Differences noted in 4(c) and 4(e) above should be resolved and the check register balance adjusted, if necessary;
  - h. Record the bank charges indicated on the statement in the check register;
  - i. Compute the month-end reconciled balance as follows:  
  
Ending balance per bank statement  
(+) Deposits in transit  
(-) Outstanding checks  
(=) Month-end reconciled balance;
  - j. Compare the balance computed in 4(i) above to the adjusted balance in the check register. Differences should be resolved;
  - k. Sign and date the reconciliation; and

- l. File the reconciliation, bank statement, and canceled checks by account by month.

#### **Section 4.211 Investments**

- A. It is the Township's policy to maintain a balance of high quality, diversified investments to maximize earnings on invisible funds with acceptable levels of credit and interest rate risk exposure. The Township will eliminate investment custodial credit risk by permitting brokers that obtain investments for the Township to hold them only to the extent there is SIPC and excess SIPC coverage available. Securities purchased that exceed available SIPC coverages shall be transferred to the Township's custodian. Certificates of deposit will only be purchased from financial institutions that are fully insured with the Federal Deposit Insurance Corporation.
- B. The Finance Director will review the Township's current cash flow position and future budgeted cash needs on at least a quarterly basis and propose any changes to current levels invested to the Commission.
- C. Only the Commission has the authority to approve investment transactions. All investment decisions shall be documented in the minutes to Commission meetings.
- D. After approval by the Commission, the Finance Director shall initiate the purchase or sale of the investments. See Section 4.210, Cash Disbursements, for procedures outlining the payment requisition system and check preparation and recording.
- E. Third party statements shall be reconciled to the general ledger investment accounts. Any differences must be promptly resolved. If a correcting journal entry is required, the entry must have adequate supporting documentation and be reviewed and approved independently prior to posting.
- F. On at least quarterly basis, the Finance Director will provide the Commission with an investment schedule detailing the type of investments held, cost and fair market value of the investments, interest rates being earned, and the maturity dates. The Commission should review the investments held to determine whether they meet any restrictions or limitations imposed.
- G. Investments will be recorded in the general ledger at fair value.

#### **Section 4.212 Taxes Receivable**

- A. Commissioners approve all sales tax rates. The finance department oversees the collections and recording of business sales taxes. Sales tax revenues are recognized on the accrual basis of accounting. Revenues are recognized when earned; not collected;

- B. The Finance Director shall ensure that the duties of individuals who prepare tax bills and notices are segregated from those individuals who collect taxes receivable, record tax receipts, and authorize write offs of receivable balances.
- C. All entities doing business within the Township are required to submit a Sales Tax Return on a monthly basis. Late notices will be mailed to businesses who do not submit a return by the end of the subsequent month.
- D. Upon receipt of a Sales Tax Return, the finance department checks the return for clerical accuracy and matches the tax due calculated on the return to the cash/check received. See Section 4.210, Cash Receipts, for procedures outlining the cash handling and record keeping functions for cash received.
- E. The Finance Director will prepare a fiscal year end journal entry to record uncollected sales tax revenues. The Finance Director will also analyze the receivable balance and propose an entry to record an allowance for any doubtful accounts.

#### **Section 4.213 Interfund Activity**

- A. Interfund loans and transfers must be approved by the Finance Director prior to transfer of funds.
- B. Interfund receivables and payables must be balanced monthly and reconciled to the general ledger.

#### **Section 4.214 Capital Assets**

Capital assets consist of buildings and improvements, furniture and equipment, and vehicles. These assets represent major investments of Township funds; therefore, adequate control and accountability of these assets must be established through development of a complete property control system. An annual inventory and assessment of capital assets is required by Section 4-104(G) of the Finance and Fiscal Policies and Procedures Ordinance. Section 4-109 of the same ordinance requires that a capital asset system be established and maintained.

- A. The Finance Director will maintain a capital asset listing. This listing and supporting records should include a description of the asset, cost, date acquired, location, useful life, and source of funding.
  - 1. When an asset is disposed of, the asset shall be deleted from the capital assets listing.
  - 2. Obsolete or damaged equipment shall be deleted from the capital assets listing.
- B. The capitalization criteria for capitalizing assets will be unit cost of \$5,000.00 or more and with a useful life of more than one year.

1. Capital assets are valued at actual cost unless donated. If donated, the fair market value as of the date of acquisition will be used.
  2. The cost of a building will include the contract purchase price, expenditures to place the building into serviceable condition. A/E fees, building permits, and permanent fixtures such as heating and cooling equipment, plumbing, lighting fixtures, etc.
  3. Differences between expenditures for improvements and expenditures for repairs and maintenance should be distinguished. Expenditures for repairs and maintenance are not included in the capital assets listing. If the expenditures significantly extends the useful life of an asset, it should be added to the recorded cost of the asset on the capital assets listing.
- C. All capital assets, with the exception of land and construction in progress, will be depreciated using the straight-line method over the asset's estimated useful life.
- D. The Finance Director will:
1. Ensure that capital assets are properly tagged with identification tags.
  2. Record and report in the Township's accounting financial records, the total dollar value of inventory items and changes thereto: including acquisition and disposition of capital assets and funding source.
  3. Make verification of inventory on an annual basis through physical count. Any differences from the financial records will be investigated for cause and the records adjusted accordingly.
  4. Ensure that adequate insurance coverage shall be maintained.

#### **Section 4.215 Payroll; Leave; Deductions**

- A. The following policies shall be implemented to establish an effective internal control over payroll:
1. The Commission shall approve a salary and wage schedule abiding with the applicable minimum wage laws.
  2. Appropriate segregation of duties in payroll processing shall be maintained by the Finances Director. The same employee shall not be assigned the responsibilities for preparing and authorizing payroll and distributing checks.
  3. A delayed payroll system shall be maintained. This type of system allows time for payroll adjustments to be made before payment to help insure that employees receive

only the amount of wages they have earned. The maximum payroll time shall be one working day.

4. The Finance Director shall maintain internal control over processing, storing, and issuing payroll checks and ensure that recording payroll expenses are recorded in the correct fiscal year.
  5. A record of the accrual and use of annual, sick and compensatory leave shall be maintained for all employees.
    - a. Accrual rates of 4 hours per pay period for annual leave and 2 hours per pay period for sick leave shall be maintained.
    - b. The maximum amount of accrued annual leave shall be 104 hours in a fiscal year and 64 hours thereof shall lapse at the end of the fiscal year if not used.
    - c. Upon termination of employment an employee shall be compensated for accrued annual leave.
- B. Payroll records shall be maintained for all personnel. Records shall provide adequate support for payroll expenditures and account distribution, and serve as a basis for preparing payroll vouchers and reports. In order to provide support and information for preparing payroll documents, individual employee files shall include at least the following documents:
1. Personnel/Payroll Action Form. This form shall be prepared and retained to document employment terms.
  2. Employee's Federal Withholding Allowance Certificate (W-4). This form shall be prepared and the employee shall sign it before the first salary or wage payment is made. If an employee has not submitted a signed W-4 form before the end of the first payroll period, federal income tax shall be withheld at the single rate with no withholding allowances.
  3. Voluntary Deduction Authorizations. Voluntary deductions may be withheld at an employee's request for items such as credit union deposits or additional insurance. A voluntary deduction authorization form shall be retained in the employee's payroll file to support each voluntary deduction, and remain in effect until a new one is prepared or a written request canceling the deduction is received from the employee.
  4. Pay or Position Change Notices. Pay or position changes, including employment, termination and rate changes, shall be documented. Proposed pay or position change documentation shall provide for approval by an authorized official for the initiation of the new salary or position.

5. Leave Summaries. Leave Summaries are used to record the accrual of annual leave, sick leave and compensatory time earned or used for each employee and shall be updated at the end of each pay period using the Individual Time Sheet. All leave (other than emergency or sick leave) shall be approved in advance in writing and the balances of annual and compensatory time earned or used shall be verified prior to approval of the leave.
  6. Attendance Records. Attendance records such as individual time sheets or clock cards shall be prepared for each employee for each pay period, signed by the employee, approved by the employee's supervisor, and retained to support payroll. Attendance records for employees shall document regular and overtime hour worked, annual leave, sick leave, leave without pay, and compensatory time taken or earned during the pay period.
  7. Payroll Register. The payroll register shall be updated from attendance records, pay or position change notice, and withholding and voluntary deduction authorization forms. The register shall be reviewed for reasonableness, and exceptions noted on a listing of exceptions. The completed payroll register, and a listing of any exceptions, shall be reviewed and approved by the Finance Director. The payroll register shall include the period covered, employee's names, identification and social security numbers, account numbers and funds charged for payroll, wage or salary rates (regular and overtime), hours worked (regular and overtime), gross pay, federal withholding taxes, Social Security, Medicare, authorized voluntary deductions, and net pay. The payroll register shall also show totals for gross pay, net pay, and mandatory and voluntary deductions for all employees for the pay period, and for the year-to-date.
  8. The Finance Director or her/his designee shall verify that payroll checks and the payroll register amounts agree.
  9. The Finance Director shall refer to applicable Internal Revenue Service (IRS) publications and consult with legal counsel for guidance in determining whether an employer-employee or independent contractor relationship exists.
- C. Pursuant to legal requirements, the Township shall prepare and file the following documents and make appropriate payroll deductions or payments:
1. The Township must prepare and submit a US Department of Treasury Form 1099-Misc. to each vendor to whom \$600 or more in fees, commissions, or other forms of compensation is paid. Such vendors typically include independent contractors, attorneys, accountants and other professionals. These forms must be filed with the Internal Revenue Service by February 28 of the following year.
  2. The Township participates in the Workers' Compensation Program maintained by the Navajo Nation. The Finance Director shall ensure the payment of the required premium. The Township, not an employee, is responsible for paying the premium.

3. The Federal insurance Contribution Act (FICA) provides for a federal system of old-age, survivors, disability and hospital insurance. The old-age, survivors and disability insurance (OASI) portion is financed by the Social Security tax. The hospital insurance portion is financed by the Medicare tax. The Township must withhold Social Security and Medicare taxes from the salaries and wages of employees. In addition to the withholdings, the Township must contribute an equal amount. The Township must also file the appropriate returns and forms with the IRS, and deposit the taxes through the federal tax deposit system.
4. Salaries and wages of non-Navajo employees are subject to federal and states income taxes. Salaries and wages earned by Navajo employees are exempt from state income tax. The Township must withhold federal income tax from salaries and wages in accordance with the Internal Revenue Service Code. The amount withheld is a percentage of the gross salary less contributions to an approved retirement system. Federal income tax must also be withheld from amounts paid to employees as supplemental wages as prescribed in IRS Circular E.
5. The Township contributes to the State Unemployment Compensation Fund by participation in the Navajo Nation Program which is operated pursuant to an agreement between the Navajo Nation and the state of Arizona. The Township contributes to the Fund based on a percentage of total salaries and wages. The Township submits contributions quarterly to the state Department of Economic Security and Department of Employment Security.
6. Pursuant to the same agreement between the Navajo Nation and the state of Arizona mentioned at C (5) above the Township contributes to the fund established under the Federal Unemployment Tax Act (FUTA). The Finance Director shall ensure that Forms 941 and 940 and required payments are filed and paid in a timely manner.
7. The Township may deposit Social Security, Medicare and Federal tax withholdings with Form 8109 on a semi-weekly basis at any authorized financial institution or Federal Reserve Bank, or tax payments can be made through the Electronic Federal Tax Payment System (EFTPS). The Finance Director must insure that timely deposits are made to avoid penalties.

#### **Section 4.216 Financial Close and Reporting**

- A. The Finance Director shall oversee the preparation of the monthly financial statements presented to the Commission. The reports should be released after cash and investment accounts have been reconciled to third-party statements and other significant balance sheet accounts reconciled to subsidiary ledgers. The statements shall be available no later than 30 days after the month end.

- B. The Finance Director will oversee the preparation of recurring journal entries such as the recognition of depreciation expense. All journal entries must have adequate supporting documentation and be reviewed and approved independently prior to posting.
- C. Routine and nonroutine events and transactions occurring near the period end shall be analyzed and reviewed to ensure they are accounted for in the correct accounting period.
- D. All related-party events and transactions shall be identified and a schedule detailing them will be prepared. The schedule shall be presented to the Commission along with the monthly financial statements.
- E. The Finance Director is responsible for developing a process to ensure that the trial balance used in the financial statement preparation process is final, contains all valid journal entries made, and is in balance.