

**Northern Arizona Intergovernmental Public Transportation Authority
(NAIPTA)
FINANCIAL MANAGEMENT PLAN**

This Financial Management Plan serves two main purposes: it draws together in single document NAIPTA's major financial policies and establishes principles to guide both staff and Board of Director members to make consistent and informed financial decisions.

This Financial Plan establishes NAIPTA policy in the following areas:

1. Revenue Management
2. Cash and Investments
3. Reserves
4. Cost Allocation and Cost Sharing
5. Operating Budget and Compensation Philosophy
6. Capital Improvements Plan
7. Assets Management
8. Debt Management
9. Accounting, Auditing and Financial Reporting
10. Risk Management

The objectives of this Financial Plan are:

- To provide both short term and long term future financial stability by ensuring adequate funding for providing services needed by the region and NAIPTA's partners;
- To protect the Board of Director's policy-making ability by ensuring that important policy decisions are not dictated by financial problems or emergencies to prevent financial difficulties in the future;
- To provide sound principles to guide the decisions of the Board of Directors and management;
- To employ revenue policies which prevent undue or unbalanced reliance on certain revenues, distribute the cost of indirect services fairly, and provide adequate funding to operate requested programs;
- To provide essential equipment and facilities while preventing deterioration of NAIPTA's equipment, facilities and infrastructure;
- To create a document that staff and the Board of Director members can refer to during financial planning, budget preparation and other financial management issues.

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SECTION 1. REVENUE MANAGEMENT.

It is essential to responsibly manage NAIPTA's revenue sources to provide maximum service value to the region and to the partners. The most important revenue policy guidelines established by the Board of Directors are for the three major sources of revenue: Federal and State Funds, Local Funds, and Service Generated Fees.

A. Federal and State Funds

NAIPTA will pursue funding from all available Federal and State Funds, seeking funds available for support of public transportation services. Applications for these funds will reflect services changes and incremental adjustments as needed for continuation or implementation of services. Sources may include Federal Transit Administration funds available through Section 5307, 5309, 5310, 5311, 5316, and 5317 as well as State LTAF II and STP funds. NAIPTA will employ and use combination of sources whenever possible to the greatest good of the various partners and services.

NAIPTA will evaluate with input from each partner the risk associated with dependency on federal funding for maintenance of services or for implementation of service expansion or changes. NAIPTA will use one-time funds to assist first with one-time expenditure needs in order to minimize risk of dependency of reoccurring costs on these funds. The use of federal and state funds for operating will be done with consideration for the following factors:

- Maintenance of partner services.
- Long-term protection of NAIPTA's infrastructure.
- Maintaining adequate fund balance and reserve funds sufficient to operate, maintain, or improve services.

Funds will be designated as directed by planning process with each partner within 12 months of appropriation of funds from granting agency, i.e. State, Federal, etc. Grant funding allocated to a specific NAIPTA member agency will remain with that member agency as long as the following timeframes are met:

- a. The NAIPTA member agency will budget local match adequate to obligate appropriated grant funds on or before the local budget cycle immediately following the grant appropriation. For example: Grant funds appropriated to a member agency during local Fiscal Year 2012 (July 1, 2011 through June 30, 2012) must have local match budgeted to leverage said funds by completion of the local Fiscal Year 2013 budget process (June 30, 2012).
- b. NAIPTA member agency will spend down grant funds within 15 months of the funds being obligated. For example: If grant funds are appropriated in March 2012 and obligated in October 2012, the funds must be spent down by January 2014.

Grant funds for NAIPTA member agencies which do not meet these timeframes may be redirected to another member agency on a case by case basis by action of the Board of Directors.

1. [If redirection of funds is recommended, staff will recommend thru action item to Transit Advisory Committee and Board of Directors.](#)
2. [Member agencies will receive copies of staff report and recommended action prior to meetings as per NAIPTA procedures.](#)

B. Local Funds (Partner Contributions)

NAIPTA will annually consider all available funding, including Local Funds. Increases to partner contributions should reflect service changes and incremental adjustments as needed for continuation or implementation of services. Further, when discussing partner contributions, NAIPTA should simultaneously explore other revenue and expenditure alternatives that will maximize NAIPTA and NAIPTA's member agencies future financial flexibility and ability to provide services. This may include considering options such as grant agreements, service agreements, partner agreements for shared programs, fund swaps, fees and charges, cost allocation, use of reserves, and expenditure cuts.

Possible factors for considering an increase in Partner Contributions include:

- Maintenance of partner services.
- Long-term protection of NAIPTA's infrastructure.
- Meeting legal mandates and compliancy regulations imposed by outside agencies.
- Maintaining adequate fund balance and reserve funds sufficient to operate, maintain, or improve services.

Partner contribution increases to meet other purposes will be based on the following criteria:

- A clear expression of community need.
- The existence of community partnerships willing to share resources.

As per NAIPTA Service Agreements with member and non-member agencies, partner contributions will be requested annually as part of NAIPTA and member agency budget cycles. NAIPTA budget requests will include summary of any recommended service changes as well as information on other funding sources to be used to support programs.

C. Service Generated Fees (Fares and User Fees)

NAIPTA will annually consider all Service Generated Fees for services wherever appropriate for the twin purposes of keeping the partner contribution at a minimum and to fairly share the cost of services to the users of those services. Specifically, NAIPTA will:

- Establish fares to maintain a minimum Farebox Return (ratio of fares to operating cost) of between 14 and 18 percent, consist with industry standards, depending on the service strategy of the partner and the commitment to subsidize the service for the users of those services.
 - Fares for Flagstaff's fixed route system will be adjusted as needed by \$0.25 increments, but no more than once annually, to maintain an 18% farebox return. The fares for para-transit services will never be more than twice those for the fixed route system.
 - Fares will be cognizant of need to offer reduced fares at half price to youth, seniors, and disabled citizens.
- As part of NAIPTA's enterprise effort, evaluate each partner's services and aggressively pursue actions to accomplish the following:
 - Find community based partners to share in fares and services, i.e. ecoPASS programs and encouraged use of Public Transit vs Single Vehicle activity.

- Minimize impact of cost of services on Local Funds through adequate fares and partners.
- Annually review NAIPTA special services or programs and identify those for which charging user fees are appropriate. These services or programs will be identified as enterprise services and a policy for establishing fees will be set for each. The fees will reflect at a minimum NAIPTA's variable cost per hour for operating the special service.
- Identify some enterprise services as entrepreneurial in nature. The intent of entrepreneurial services will be to maximize revenues to the extent the market allows. An example of this would be advertising on and in vehicles as well as at Bus Stops on public transit routes.
- Waive or offer reduced fares and user fees to community service groups, nonprofit organizations, and other special population groups designed to provide service or assistance to individuals and families.

Selected criteria are used to determine the specific rate to charge for Fares or User Fees. The rate criteria can be one of three approaches:

1. Market Comparison
Attempt to set fees in the upper quartile of the market.
2. Maximum set by External Source
Fees set by legislation, International Building Code, etc.
3. Entrepreneurial Approach
Fees will be at the top of the market.

D. Other Revenues

NAIPTA will annually evaluate and examine opportunities for one time revenues, non-reoccurring revenues, from other sources and pursue funding as available to offset local cost for operating and maintaining services. Several revenue sources, such as intergovernmental transfers, one-time grants, recovered fees (fees for damage/repair) and other non-recurring revenues are outside of direct NAIPTA control and must be relied upon conservatively. The Administrative Director and General Manager shall insure that the budget preparation process includes an evaluation of all major non-recurring revenues, in order to minimize reliance on unpredictable revenues for on-going operating costs.

E. NAIPTA General Fund

A NAIPTA general fund shall be established for the purpose of providing NAIPTA with the flexibility to respond to unforeseeable crises or unanticipated opportunities when such response is in the best interest of all NAIPTA member agencies.

- Source of Funds.
 - Unexpended Membership Fees as defined in section 3.4 of NAIPTA's Master IGA
 - 50% of Advertising Revenues as defined in section 8.4 of NAIPTA's Master IGA
 - Grants, gifts or other donations received for the specific purpose of maintaining a NAIPTA general fund.
- Use of Funds. Funds may be used for any lawful purpose that is determined to be in the best interest of all NAIPTA member agencies. Examples of appropriate uses include but are not limited to:

- Operating grants to member agencies to forestall service cuts
- Capital grants or loans to member agencies for buses and bus related facilities
- Marketing programs to promote the NAIPTA brand
- Maintenance of an emergency reserve
- Board, TAC and staff travel or training programs that promote NAIPTA programs or projects or increase requisite expertise of NAIPTA's elected and appointed officials.
- Sponsorships of professional association events such as ADOT Board meetings or State or National Transit Association conferences or events.
- Decision-Making authority.
 - Whenever possible, uses of the NAIPTA general fund will be identified during the annual budget process and adopted by the Board.
 - Off-budget uses of the general fund are possible but such uses must be approved by the Board.
 - NAIPTA reserves the right to attach repayment provisions to grants and loans on a case by case basis.

SECTION 2. CASH AND INVESTMENTS.

Effective cash management is essential to good fiscal management. Investment returns on funds not immediately required can provide a source of revenue for NAIPTA. Investment policies must be well founded and uncompromisingly applied in their legal and administrative aspects in order to protect NAIPTA funds being invested.

A. Purpose

The purpose of this policy is to establish NAIPTA's investment objectives and establish specific guidelines that NAIPTA will use in the investment of NAIPTA and partner funds. It will be the responsibility of Administrative Director with the Financial Analyst to work thru Coconino County Treasurer to invest funds in order to attain a market rate of return while preserving and protecting the capital of the overall portfolio. Investments will be made, based on statutory constraints, in safe, low risk instruments. The County Treasurer maintains a pooled investment portfolio. NAIPTA funds may be invested in the Treasurer's pooled portfolio.

B. Scope/Funds

This policy applies to the investment of all NAIPTA funds available for investment and not needed for immediate expenditure. NAIPTA will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various partners based on their respective participation and in accordance with generally accepted accounting principles.

C. Delegation of Authority

Authority to manage the investment program is granted to Coconino County Treasurer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the treasurer.

The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield:

1. **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to minimize the risk of market fluctuations, such as credit risk and interest rate risk. Credit risk is the risk that the borrower will be unable to make their debt service payments to the investors. Interest rate risk is the risk that rates will (for example) rise while the investments you hold have lower rates – if Treasurer were to sell their investments prior to maturity in this case, they would have to sell the investments at a loss.

2. **Liquidity:** The investment portfolio must remain sufficiently liquid to meet all operating costs that may be reasonably anticipated. The portfolio must be structured so that securities mature concurrent with cash needs to meet anticipated demands. Cash needs will be determined based on cash flow forecasts.
3. **Diversification of instruments:** A variety of investment vehicles must be used so as to minimize the exposure to risk of loss. The investment portfolio must be diversified by individual financial institution, government agency, or by corporation (in the case of commercial paper) to reduce the exposure to risk of loss.
4. **Diversification of maturity dates:** Investment maturity dates should vary in order to ensure that NAIPTA will have money available when it needs it.
5. **Yield:** The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above.

D. Oversight

The Administrative Director shall oversee the NAIPTA's investment program. No less than annually, a status report will be provided to NAIPTA Board of Directors and Transit Advisory Committee. Annually, NAIPTA shall designate if depositories other than the County Treasurer should be sought for investment purposes.

E. County Treasury

The County Treasurer shall invest in various instruments as allowed by Arizona Revised Statute 35-323: Investing public monies; bidding; security and other requirements.

F. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business or that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of NAIPTA.

G. Internal Controls, Audits, External Controls

The Sr Manager, Internal Services is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of NAIPTA are protected from loss, theft, or misuse. Accordingly, compliance with NAIPTA policies and procedures should be assured by the Administrative Director, and addressed through by the annual audit process.

SECTION 3. RESERVES.

It is important for the financial stability NAIPTA maintain reserve funds for unanticipated expenditures or unforeseen emergencies, as well as to provide adequate working capital for current operating needs so as to avoid short-term borrowing. The Reserve Policy NAIPTA is managed closely with NAIPTA's Debt Management Policy. NAIPTA may choose to consider paying cash for capital projects that can be anticipated and planned for in advance. Therefore the NAIPTA's reserve levels fluctuate, in part, based on capital project plans.

Policy Statement

1. NAIPTA will maintain fund balances for each partner agency in the General Fund at a level which will avoid issuing short-term debt to meet the cash flow needs of the current operating budget. Generally, the goal would be to maintain a minimum General Fund balance of 25% of the operating budget; however, this need could fluctuate with each year's budget objectives and appropriations such as large capital expenditures, and variations in the collection of revenues.
2. NAIPTA will not maintain a fund balance for capital. Generally NAIPTA shall strive for a minimum of 3-months operating cash in these funds. (This minimum shall be calculated based on the approved budget multiplied by 25-percent). Capital projects must be identified annually and shall be included in NAIPTA's annual budget document.
3. NAIPTA will annually review the adequacy of all reserve balances.
4. Judicious use of reserves within each partners funds can be used to moderate fluctuations in capital projects and infrastructure maintenance expenses (i.e., Facilities Capital).

SECTION 4. COST ALLOCATION AND COST SHARING PHILOSOPHY.

NAIPTA will have costs that occur in relation to operation of public transportation services on behalf of the partner agencies. The costs are classified in 3 categories:

- 1) Allocated Cost – which represents indirect costs
- 2) Shared Cost – which represents direct costs shared across services or partners
- 3) All Other Cost – which represents direct costs that are not shared

A. Allocated Costs are indirect costs incurred by NAIPTA in order to support the management and oversight of the various systems provided through Service Agreements with our partner agencies. These costs are typically salaries and benefits for some executive level staff (i.e. General Manager, Sr Manager, Internal Services) as well as some other positions that provide a level of support through work across the agency (i.e. HR Officer, Financial Analyst, Network Analyst, Clerk of the Board, etc). Other allocated costs are utilities, building costs, and contracts that are provided to the benefit of all systems versus directly benefit one system.

Allocated costs are allocated across partner agencies based on the Direct Salaries and Benefits methodology. Development of the percentage of allocated costs charged to each system is dependent on the amount of direct salaries and benefits paid in order to operate the system. Annually, within the budget process, each partner is assigned a percentage that correlates to the percent of direct salaries and benefits attributed to their service and that percent is then applied to the allocated cost in order to assign the allocated cost to each system.

The accounting system used by NAIPTA accurately identifies allocated costs within the General Ledger code. Within the GL code (XXXXXXX), NAIPTA utilizes single digit Function and single digit Mode identifiers to identify what type of Function and Mode the code is associated with. The functions are 0 for general, 1 for vehicle operations, 2 for vehicle maintenance, 3 for facilities maintenance, 4 for general administration, 5 for planning, and 6 for safety. The modes are 0 for indirect, 1 for fixed route/motor bus, and 2 for demand response/para-transit. Any GL code with a function of 4 and mode of 0 is classified as an allocated cost.

B. Shared Costs are direct cost incurred by NAIPTA in order to operate and oversee transportation services provided through Service Agreements with our partner agencies. These costs are typically salaries and benefits for staff that are shared amongst services as well as some supplies and fees.

Shared costs are shared across partner agencies based on the Revenue Hours methodology. Development of the percentage of shared costs charged to each system is dependent on the amount of revenue hours performed by the system. Annually, within the budget process, each partner is assigned a percentage that correlates to the percent of revenue hours attributed to their service and that percent is then applied to shared cost in order to charge the shared cost to each system.

C. All Other Costs are those incurred by NAIPTA in order to operate and oversee transportation services provided through Service Agreements with our partner agencies. These costs are typically operator salaries and benefits as well as cost of fuel, maintenance, uniforms, etc that can be attributed directly to operation of a system and can be assigned 100% dependent on amount of service provided.

These costs are not allocated or shared and are based on the service requested and provided. Development of these costs charged to each system is dependent on the amount of service to be performed by the system. Annually, within the budget process, each partner is assigned costs attributed to their service.

Note: Some programs and services may be paid for by multiple agencies. Programs with multiple funding agencies may or may not have separate funding agreements between agencies. If no agreement is developed for identifying proportion or split of cost, NAIPTA will utilize the shared cost methodology described in section 2 of this policy for all program costs including operator salaries, fuel, maintenance, etc.

SECTION 5. OPERATING BUDGET AND COMPENSATION PHILOSOPHY.

A. The Operating Budget is the annual financial plan for funding the costs of NAIPTA services and programs. The General Operating Budget includes the General, Special Revenue and Capital Funds. Enterprise operations are budgeted in separate Enterprise Funds.

1. The General Manager shall submit a balanced budget in which service costs and expenditures do not exceed established or approved Federal and State Funds and Local Funds.
2. NAIPTA will provide for all current expenditures with current revenues. NAIPTA will avoid budgetary procedures that balance current expenditures at the expense of meeting future years' budgets.
3. The General Manager will coordinate the development of the capital improvement budget with the development of the operating budget. Operating costs associated with new capital improvements will be projected and included in future operating budget forecasts.
4. The budget will provide for adequate maintenance of the capital programs and equipment, and for their orderly replacement.
5. The impact on the operating budget from any new programs or activities being proposed should be minimized by providing funding with newly created revenues whenever possible.
6. The General Manager will insure that a budgetary control system is in place to adhere to the adopted budget.
7. Internal Services and Accounting will provide regular monthly reports comparing actual revenues and expenditures to the budgeted amounts.
8. The operating budget will describe the major goals to be achieved and the services and programs to be delivered for the level of funding provided.
9. In addition to operating expenses, Enterprise funds shall be budgeted to provide for replacement costs of property and equipment, if appropriate.

B. The compensation philosophy of NAIPTA is reflective of the Market Analysis completed every three years and established to maintain the competitiveness of NAIPTA compensation and to remain current with changing cost of living for the NAIPTA region. The compensation philosophy includes the following standards and principles:

1. NAIPTA has a market driven philosophy in which employees start according to their level of experience and training, and progress through their job grade according to a combination of acquisition of specific skills and job performance.
2. NAIPTA's compensation philosophy is to pay all categories of employees at competitive levels established by external labor markets considering both salary and benefits as a total compensation package in a manner that can be administratively supported and is financially sustainable.
3. NAIPTA defines the external labor market as public transportation agencies of similar size, population, ridership levels, and economies. NAIPTA will review pay and consider Cost of Living Adjustments every year and complete a formal market analysis every 3 years.

As part of the compensation philosophy, NAIPTA will use a 10 Step Pay plan.

NAIPTA recognizes the value of attracting and retaining qualified and high performing staff who believe in NAIPTA's vision. NAIPTA recognizes the value of containing costs in the areas of recruitment, entry-level training, and management by reducing the turnover of qualified and high performing staff. NAIPTA recognizes the value of a Step policy that provides consistent and predictable pay increases to high performing staff while delaying Step increases to under-performing staff.

1. Upon initial hire, promotion or reclassification, employees will be paid within the pay range for their classification based on education, experience and market factors.
2. Employees may be hired as trainees and paid below the pay range for their classification.
3. Performance will be evaluated annually and employees will be eligible for step increase when they meet the performance standards of the position as determined by their supervisor.
4. Promotions will trigger a new annual review date and a new initial probation period. Time earned towards a step increase in the existing position will not be pro-rated and will have no bearing on pay in the new position.

SECTION 6. CAPITAL IMPROVEMENTS PLAN.

The demand for services and the cost of building and maintaining NAIPTA's infrastructure continues to increase. NAIPTA can not, nor can its partners, afford to accomplish every project or meet every service demand. Therefore, a methodology must be employed that provides a realistic projection of partner needs, the meeting of those needs, and a framework to support NAIPTA Board of Directors prioritization of those needs. That is the broad purpose of the CIP.

The CIP includes the scheduling of improvements for services over a five-year period and takes into account the financial capabilities of acquiring/building improvement as well as ongoing operating costs due to improvement as along with service goals and priorities. A "capital improvement" is defined as any major nonrecurring expenditure for physical facilities of government. Typical expenditures are the cost of land acquisition or interest in land and construction of facilities and transit amenities. Vehicles and equipment can be covered in a CIP or covered separately under an equipment schedule. The CIP is directly linked to goals and policies as well as partner service plans since these sections indicate general policy of development, redevelopment, and the maintenance of transit services.

CIP Development Process

- Compile and prioritize projects based on program needs and approved partner capital improvement programs. Staff will consolidate and prioritize recommended projects into the proposed Capital Improvement Plan.
- Devise proposed funding sources for proposed projects. Recommended funding sources will be clearly stated for each project. Projects for immediate fiscal year must be included in budget requests to partners and be approved by each agency prior to procurement or initiation of project.
- Project and analyze if any debt service may be required for project completion.
- A debt study will be provided summarizing the combined impact of all the existing and proposed debt.

On an annual basis, as part of the Budget process, NAIPTA Board of Directors will evaluate the developed CIP and review the following:

- Project Prioritization
- Funding Source Identification
- Impact on Local Funds
- Impact on ongoing operational cost

SECTION 7. ASSET MANAGEMENT

NAIPTA's management of assets is essential to the success of services and ensures assets are used for full useful life. NAIPTA asset management policy is dependent on guidelines and regulations from NAIPTA's funding sources.

Although expenditures of less than \$5,000 are not considered fixed assets, these items are to be secured and maintained by staff, with appropriate use thru expected useful life. After completed useful life, disposal is permitted with authorization of Financial Analyst. Disposal of such items may be done thru donation to a non-profit or another public agency.

1. NAIPTA will place into service any asset over \$5,000 after properly identifying the asset with an asset identification number. The tag number will correlate to the Asset Depreciation list.
2. Assets will be tracked by tag number, description, and location. This information will be maintained by Financial Analyst and provided by the Facilities and Security Manager and the Fleet Manager.
3. Annually, a physical inspection and inventory will be completed of all assets with a signed confirmation submitted and kept as part of year end records. The financial analyst will use submitted inventory to update the Asset Depreciation List.
4. Annually, the worth of all owned assets, minus the annual depreciation, will be recognized as part of NAIPTA's Cash Statements for Audit purposes.

Disposal

The following steps are required for disposal of all equipment:

1. Contact the Purchasing Specialist for the removal of the non-computer equipment or IT services for removal of computer equipment. Purchasing will require the description, quantity, location, and condition of the items. Please see Section 13 of the NAIPTA Purchasing Policy for procedures for disposing of equipment.
2. Fill out the asset /disposal form. The form must be signed and approved as per NAIPTA Purchasing Policy.
3. Send the disposal form to Administrative Director for final signature before forwarding to Financial Analyst to remove the asset from the asset list.

Items being disposed of may be:

1. sold at public auction with any proceeds directed back to the appropriate program;
2. delivered to junk yard or recycling center with any proceeds directed back to the appropriate program;
3. donated to non-profit group or another public agency; or
4. if appropriate, placed in trash or recycling collection units on NAIPTA property.

NAIPTA Transfer / Disposal Form

F.Y. _____

For Capital Assets

Asset ID# _____

Fill in information below:

Date _____ ID Number _____

Asset Description & Location _____

TRANSFER

	<u>Transferred From</u>	/	<u>Transferred To</u>
Division	_____		_____

Building / Room	_____		_____
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Custodian & Phone #	_____		_____
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If being transferred off-site:

Custodian & Phone #	_____		_____
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Mailing Address	_____		_____
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Building / Room # location	_____		_____
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DISPOSAL

Check One Item:

_____ Asset Stolen Police Report # _____

Report to Purchasing Division PRIOR to taking these actions.

_____ Asset sold Amount Received \$ _____

_____ Asset scrapped

_____ Asset donated

_____ Other (explain below)

Explanation to support transfer or disposal: _____

APPROVAL

Requestor name _____ Phone # _____

Managers Signature _____

Print name _____ Date _____

SECTION 8. DEBT MANAGEMENT.

The use of borrowing and debt is an important and flexible revenue source available to NAIPTA. Debt is a mechanism which allows capital improvements to proceed when needed, in advance of when it would otherwise be possible. It can reduce long-term costs due to inflation, prevent lost opportunities, and equalize the costs of improvements.

Debt management is an integral part of the financial management of NAIPTA. Adequate resources must be provided for the repayment of debt, and the level of debt incurred by NAIPTA must be effectively controlled to amounts that are manageable and within levels that will maintain or enhance NAIPTA's credit rating. A goal of debt management is to stabilize the overall debt burden to ensure that issued debt can be repaid and prevent default on any debt. A debt level which is too high places a financial burden on partners and can create problems for services as a whole.

Policy Statement

Wise and prudent use of debt provides fiscal and service advantages. Overuse of debt places a burden on the fiscal resources of NAIPTA and its partners. The following guidelines provide a framework and limit on debt utilization:

1. NAIPTA will weigh the benefits and costs of long-term borrowing for planned capital improvements and short-term debt for capital outlay.
2. NAIPTA should strive to avoid using long-term debt for current operations.
3. When considering financing of capital expenditures, NAIPTA may consider paying cash for capital financing as well as debt financing.
4. NAIPTA will pay back debt within a period not to exceed the expected useful life of the projects.
5. NAIPTA (by itself or with a financial advisor) will track and identify opportunities for restructuring or refinancing debt.
6. When feasible, NAIPTA will use refunding mechanisms to reduce interest cost and evaluate the use of debt reserves to lower overall annual debt service where possible.

During the budget process, the Board may review whether a debt study is necessary to be prepared in conjunction with the Capital Improvements Plan to provide information about NAIPTA's debt structure. In deciding whether to include a Debt Study, the Board will consider such factors as how long it has been since the last Debt Study, if there have been material changes to the CIP, or if a large amount of debt is expected in the near future.

SECTION 9. ACCOUNTING, AUDITING, AND FINANCIAL REPORTING.

The key to effective financial management is to provide accurate, current, and meaningful information about NAIPTA's operations to guide decision making and enhance and protect NAIPTA's financial position.

Policy Statement

1. NAIPTA's accounting system will maintain records on a basis consistent with generally accepted accounting standards and principles for local government accounting as set forth by the Government Accounting Standards Board (GASB) and in conformance with the State Auditor's requirements per State Statutes.
2. NAIPTA will establish and maintain a high standard of accounting practices.
3. NAIPTA will follow a policy of full disclosure written in clear and understandable language in all reports on its financial condition.
4. The Finance Division will provide timely monthly, quarterly, and annual financial reports to users, including partner agencies on a quarterly basis.
5. An independent public accounting firm will perform an annual audit and issue an opinion on NAIPTA's financial statements.
6. Annually NAIPTA Board will meet with staff, and may meet with the Auditors, to review the audit report.
7. Periodic financial reports on budget performance will be provided to NAIPTA Board. These reports will be provided no less than quarterly as part of the Program Performance Reports.

SECTION 10. RISK MANAGEMENT.

A comprehensive risk management plan seeks to manage the risks of loss encountered in the everyday operations of an organization. Risk management involves such key components as risk avoidance, risk reduction, risk assumption, and risk transfers through the purchase of insurance. The purpose of establishing a risk management policy is to help maintain the integrity and financial stability of NAIPTA, protect its employees from injury, and reduce overall costs of operations.

Policy Statement

1. NAIPTA will maintain a risk management program that will minimize the impact of legal liabilities, natural disasters or other emergencies through the following activities:
 - a) Loss prevention - prevent losses where possible
 - b) Loss control - reduce or mitigate losses
 - c) Loss financing - provide a means to finance losses
 - d) Loss information management - collect and analyze data to make prudent prevention, control and financing decisions
2. NAIPTA will review and analyze all areas of risk in order to, whenever possible, avoid and reduce risks or transfer risks to other entities. Of the risks that must be retained, it shall be the policy to fund the risks which NAIPTA can afford and transfer all other risks to insurers.
3. NAIPTA will maintain an active safety committee (i.e. Accident Review Committee) comprised of NAIPTA supervisors and managers.
4. NAIPTA will periodically conduct educational safety and risk avoidance programs within its various divisions.
5. NAIPTA will, on an ongoing basis, analyze of cooperative funding options in lieu of purchasing outside insurance in order to provide the best coverage at the most economical cost.
6. Staff will report to the Board, annually on the results of NAIPTA's risk management program for the preceding year.

GLOSSARY OF TERMS

AUDIT An annual third party review of financial operations and procedures required by State Statutes.

BALANCED BUDGET A budget in which the sources of funds (revenues) is equal to the uses of funds (expenditures).

BUDGET A financial operations plan of proposed expenditures for a given period of time and the proposed revenues to finance them. Proposed expenditures must equal proposed revenues.

CAPITAL IMPROVEMENT PLAN (CIP) A plan for capital expenditures to be incurred each year for a fixed period of years and the estimated resources to finance the projected expenditures.

CAPITAL OUTLAY Expenditures resulting from the acquisition of fixed assets.

DEBT An obligation resulting from the borrowing of money or the purchase of goods or services.

ENTERPRISE FUND A fund established to account for the financing of services to the general public where all or most of the costs involved are recovered primarily through user fees. (City enterprise funds are water and sewer, ice center, golf course, and storm drainage).

EXPENDITURES Disbursements for operating costs, debt service, capital outlay.

FISCAL YEAR The twelve month period to which the annual budget applies and at the end of which the City determines its financial position. NAIPTA's fiscal year is July 1st to June 30th.

FUND An accounting entity with a self-balancing set of accounts in which assets, liabilities, and equity are recorded for a specific activity or objective.

FUND BALANCE The difference between fund assets and fund liabilities. The fund balance can be used as a revenue source by decreasing an existing positive balance.

FUND SWAPS An exchange of available funds with other public agencies for future funds to eliminate or change the required use of funds or in exchange for additional funding. i.e. interest

GENERAL FUND This fund is used to account for all general operations of the City which are necessary to provide basic governmental services.

GENERAL OPERATING BUDGET The part of the operating budget which includes the general, special revenue, and capital funds. (Excludes the enterprise funds)

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) Uniform minimum standards and guidelines for financial accounting and reporting. The primary authoritative body on the application of GAAP to state and local governments is the Governmental Accounting Standards Board (GASB).

GRANT A contribution of cash or other asset from a government or other organization for a specified purpose, activity, or facility.

INDIRECT COSTS Expenses incurred by agency that are not a direct result of operations, but necessary for appropriate management and oversight. Indirect cost do not necessarily increase or decrease as a result of addition or subtraction of service.

INFRASTRUCTURE Immovable assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems that are of value only to the City.

OPERATING BUDGET The annual financial plan for funding the costs of providing services and programs.

PROGRAM An activity or operation created to achieve a specific purpose or objective.

RESERVES Funds set aside for unanticipated expenditures or unforeseen emergencies, as well as to have adequate working capital for current operating needs to avoid short-term borrowing.

REVENUE Funds collected as income to offset operational expenses including property taxes, charges for service, licenses & permits, etc.

RISK MANAGEMENT The ways and means used to avoid accidental loss or to reduce its consequences if it does occur.