

# THE NAVAJO NATION

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JONATHAN NEZ | PRESIDENT MYRON LIZER | VICE PRESIDENT




## Memorandum

Date: October 19, 2020

To: Honorable Jonathan Nez, President  
Office of the President/Vice President

Honorable Seth Damon, Speaker  
Navajo Nation Council

Honorable JoAnn Jayne, Chief Justice  
Judicial Branch

From:   
Pearline Kirk, Controller  
Office of the Controller

Subject: Controller's Report – Fall Session October 2020

I am pleased to present to you the following information related to the 4<sup>th</sup> Quarter of Fiscal Year 2020.

### **I. Controller's Highlights for the 4rd Quarter for FY-2020:**

During the Fourth Quarter of the Fiscal Year 2020, the following events occurred:

- The Fiscal Year 2019 Annual financial and single audit is completed. The single audit was due to Federal Clearing House June 30; however, because of the pandemic the Navajo Nation had until December 31<sup>st</sup>. The financial audit was reported and accepted passed by the Navajo Nation Council in September 2020. The single audit was completed and submitted to the Federal Clearinghouse the month.
- The Office of the Controller is currently going through Fiscal Year 2020 closeout process. Final closeout scheduled for October 23, 2020. Once completed the final closeout numbers will be calculated and financials will be completed.



- The Navajo Nation passed a Continuing Resolution for the upcoming Fiscal Year to continue government operations. The Navajo Nation Council has no later than 30 days before the end of the end of the Continuing Resolution period which is December 31, 2020 to consider and pass the Comprehensive Budget for FY 2021. The Navajo Nation Council will conduct Comprehensive Budget hearings at the beginning of November 2020.
- Because of COVID-19 there are some proprietary funded programs that are able to generate revenues as they normally did. This affected their budgetary levels for the upcoming Fiscal Year. In addition, for the Gaming Development Fund, the Arizona tribes which had entered into the Slot Leases were not able to make their scheduled payments. This affected the amounts available for the Navajo Nation Gaming Regulatory Department.
- The Navajo Nation has received a total amount of \$714,189,631.47 in CARES Act funding. Funding breakdown is as follows:
  - May 6, 2020 \$600,559,530.10
  - June 16, 2020 86,358,877.04
  - June 18, 2020 27,271,224.33
  - **TOTAL \$714,189,631.47**

Treasury has provided several guidance for State, Territorial, Local and Tribal Governments on the use of these funds. The Office of Controller has been working closely with our external auditors and our financial consultants on the use of these funds since they have needed specialized knowledge on CARES compliance. These dollars need to be expended by December 30, 2020 and any remaining funding will revert to the United States Treasury. These funds are subject to the Single Audit act, internal controls, uniform guidance and subrecipient monitoring, et. Seq., 2 CFR 200.

There are five legislations which have been approved utilizing the CARES funding to help mitigate COVID related items on the Navajo Nation. Resolutions and summary are as follows:

CJN-47-20	\$10,000,000	Food and Basic Needs
	\$ 2,000,000	Computer Hardware and Software for govt telework capabilities
	\$ 3,500,000	Bathroom additions and upgrade
	\$ 3,000,000	Assistance to P.L. 93-638 Healthcare facilities
	\$ 2,559,530.10	Expense to facilitate improvement of Financial System
<b>Total</b>	<b>\$21,059,530.10</b>	
CJN-46-20	\$21,000,000	Special Duty Pay (Administered by Office of Controller)



	\$10,000,000	Personal Protection Equipment (Administered by Health Command Center)
	\$10,000,000	Facility Safety Assurance (Administered by Facility Maintenance)
<b>Total</b>	<b>\$41,000,000</b>	
CJY-67-20	\$130,005,095	Water Projects
	\$44,220,832	Powerline Projects
	\$53,224,989	Broadband-Telecommunication
	\$35,192,000	Solar Projects
	\$1,000	Hardship Assistance
	\$24,600,000	Navajo Nation Enterprise
	\$136,664,653	Navajo Nation Departments
	\$9,633,863	Judicial Branch
	\$42,123,760	Payroll Support
<b>Total</b>	<b>\$476,666,192</b>	
CS-73-20	\$90,000,000	Chapters Hardship Assistance
	\$2,000,000	Division of Community Development
	\$15,000,000	Broadband amending CJY-67-20
	\$20,008,798	Office of the Controller
<b>Total</b>	<b>\$127,008,798</b>	
CS-74-20	\$49,454,416	Hardship Assistance
<b>Total</b>	<b>\$49,454,416</b>	
<b>Grand Total</b>	<b>\$714,189,631</b>	

The updated CARES schedule as of October 15, 2020 (**Exhibit "A"**) has an amount of \$159,214,497.92 expended, open commitments of \$108,647,490.44 and a remaining budget of \$284,863,428.64, as of Fiscal Year September 30, 2020. The budgets for CS-73-20 and CS-74-20 are pending being set up within the FMIS system as of this report.

- A donations web page was set up for monetary donations to the Navajo Nation for the COVID-19. As of October 14, 2020 the online payments received were \$2,267,256.84, and deposits from checks and wires were \$4,387,730.98, GoFundMe amount of \$1,824,150.00 for a total





amount of \$8,479,137.82. Navajo Nation Resolution CJY-52-20 was passed and signed into law to appropriate these financial donations. The Navajo Nation Department of Emergency Management will need to develop a fund management plan and will be recommended from the Health, Education and Human Services Committee and approved by the Budget and Finance Committee.

- The current unaudited un-appropriated balance in the Sihasin Fund is \$441,900,565 as of September 30, 2020. The amounts that have been expensed and reserved, are the following:
  - Resolution CJA-12-16 Water/Wastewater Projects. The water projects are in the fifth year of projects in Fiscal Year 2020. The total dollar amount to be spent over 5 years will total \$180,175,924. There has been an amount of \$101,201,057.52 expended, an amount of \$897,526.93 encumbered up to September 30, 2020.
  - CJY-39-16 Gaming C-Store. The total amount of \$10 million was approved for the C-Store at the Twin Arrows site. The opening of the travel center was September 18, 2020.
  - CO-57-16 USDA Pasture, Rangeland. The initial insurance payments have been refunded back to the USDA Pasture, Rangeland to bring the committed balance back to the original amount of \$19,835,612. This amount is to guarantee annual Crop year insurance premiums for 6,984,343 acres, which shall only be drawn down from the Sihasin Fund if the PRF Insurance Program indemnity is insufficient to cover the insurance premium. The fund management plan was approved by resolution RDCAU-74-18. The funding source will be the indemnity after it refunds the Sihasin its portion of the initial payment. The new fund has been set up and a refund to the Sihasin will be issued shortly. CMY-54-18 extended the use of this until the end of the 2023 Crop Year.
  - CN-57-16 CDFI Economic Development. CDFI received the \$20 million grant in two draws. There has not been an updated breakdown of loan types in the recent past.
  - CAP-39-18- Crownpoint Student Housing- An amount of \$14,300,000 has been reserved for the Crownpoint Student Housing. The funds will be released pursuant to a construction plan or other such schedule agreed to by the Office of the Controller and Navajo Technical University (NTU). Meetings for this funding have been ongoing with Office of Controller and Navajo Technical University. NTU shall return any and all cost-savings to the Sihasin Fund once the Crownpoint Student Housing project is fully constructed or with the approval of the Naabik'l'ya'ti Committee.





- CAP-35-18 Powerline and Chapter Projects Expenditure Plan. An amount of \$21,572,820.55 is reserved within the fund and an amount of \$77,843,846.45 has been set up in the FMIS system for the chapters to begin utilizing for the 1<sup>st</sup> and 2<sup>nd</sup> year projects. A total of \$99,416,667 is authorized to be utilized for these projects through Navajo Nation Council Resolution CAP-35-18. The resolution as further states that any individual powerline or waterline project funds that are not spent or encumbered within twenty-four (24) months of distribution to NTUA shall be returned to the Sihasin Fund. Additionally, any individual chapter or non-NTUA Powerline Project funds that are not spent or encumbered within twenty-four (24) months of distribution to CPMD or transferred to an LGA Certified Chapter shall be returned to the Sihasin Fund. The 24-month period begins once the budgets are set up within the FMIS. The timelines of the legislation are specific to the allocations each year. This was the topic of a memo issued by the Controllers' Office entitled "*Interpretation related to CAP-35-18*" which was dated May 13, 2019. There are a few legislations that are changing projects that had previously been approved under the original legislation.
  
- CMY-18-19 Crownpoint Youth Center. An amount of \$2,500,000 has been reserved for the Crownpoint Youth Center. The funds will be released pursuant to a construction plan or other such schedule agreed to by the Office of the Controller and the Office of Youth Development. Office of Youth Development shall return any and all cost-savings to the Sihasin Fund once the Crownpoint Youth Center is completed. There have been ongoing meetings between, Office of Dine Youth, Navajo Housing Authority and the Office of the Controller. Budget is pending set up.
  
- CO-31-19 Churchrock Industrial Park. An amount of \$14,281,600 has been setup in the FMIS system for the purpose of funding a new manufacturing facility with infrastructure to manufacture Nitrile gloves on the Navajo Nation. The total cost estimate being \$19,297,576 with \$14,281,600 being funded through the Sihasin fund and \$5,000,000 through the Division of Economic Development five-year plan.
  
- CO-34-19 Tonalea Chapter. An amount of \$3,000,000 has been reserved for the Tonalea Chapter Community Building Replacement project. The funds will be distributed by the end of the first quarter of the respective Navajo Nation Fiscal Year. Any and all cost-savings shall be returned to the Sihasin Fund once the Tonalea Chapter Community Building Replacement is completed.



- CJY-57-20 Ganado Senior Citizen and Veterans Center. An amount of \$1,444,032 has been reserved for the Ganado Chapter Senior Citizen and Veterans Center. The funds shall be released to the Capital Project Management Department within ninety (90) days following enactment of the Ganado Chapter Senior Citizen and Veterans Center Expenditure Plan. Any and all cost-saving shall be returned to the Sihasin Fund once the Ganado Chapter Senior Citizen and Veterans center is completed.
- The Permanent Fund Five year plan. The Permanent Fund five year plan shall conclude with the excess audited 2019 Permanent Fund income of \$25,477,000 to be utilized by the Navajo Nation General Fund. is its fifth year of projects in the five-year plan. Funding for the projects will be coming from the audited FY 2019 Permanent Fund derived income. The projects amount total \$30,500,000 for the fifth year that have been authorized. The projects are as follows:
- The Permanent Fund Contingency Fund. In October 2016, CO-54-16 was passed which set up the Permanent Fund 5-year Contingency Fund. This fund was to maintain a reserve of dollars from the portion of excess amount from the Permanent Fund 5-year plan to General Fund for future use. The amount of \$10,958,583 will be utilized for the Fiscal Year 2021 Budget.

## II. Controller's Office Financial Information for the 4<sup>th</sup> Quarter of FY 2020:

The Office of Controller is an essential program and has remained open and processed payroll, accounts payable and reporting on financial matters during Navajo Nation government closure from the pandemic.

1) The Payroll section has run 1,500 checks and processed 34,861 direct deposits with a gross wage amount of \$53,075,881 paid out in the Fourth Quarter of Fiscal Year 2020. Payroll continues to move away from costly payroll checks and move to direct deposits.

	<u>Direct Deposits</u>	<u>Checks</u>	<u>Gross Payments</u>
Jul 2020	10,006	496	\$14,848,994
Aug 2020	9,931	366	\$14,497,008
Sep 2020	14,924	638	\$23,729,879
Total:	34,861	1,500	\$53,075,881



2) The **Accounts Payable section** has run 18,027 checks and ACH payments, with a net total dollar amount of \$113,455,547 paid out in the Third Quarter of Fiscal Year 2020.

	<u>Number of Checks &amp; ACH payments</u>	<u>Amount</u>
Jul 2020	4,657	\$ 21,727,929
Aug 2020	4,939	\$ 26,719,765
Sep 2020	8,314	\$ 65,007,853
Total:	17,910	\$ 113,455,547

3) **The General Fund Financial data is as follows:**

The unaudited gross General Fund Recurring Revenues (see **Exhibit "B"**) as of September 30, 2020 is \$214,030,336, unaudited gross General Fund Non-Recurring Revenues are \$18,132,500, and the total set asides total \$58,189,310. The Net Revenue for the General Fund is \$232,162,836, which is 108.99% of the projection. The average price of barrel of oil for the quarter has been \$40.93, the lowest month being September 2020 with a price per barrel of \$39.63. (See below) This schedule shows the monthly revenue deposited into the Navajo Nation General Fund Revenues for oil. An amount of \$4,345,582 has been received in oil and gas revenues for the Fourth Quarter of the Fiscal Year.

<b>Oil and Gas Revenue</b>		
	*Average Price of Oil <u>Per Barrel</u>	<u>Monthly NN Revenue</u>
July 2020	\$40.77	\$ 1,462,698
August 2020	42.39	1,177,680
September 2020	39.63	1,705,204
	\$40.93	\$ 4,345,582

\*Source:www.onrr.gov

The other significant revenue source is the Tax Revenues for the General Fund. The following is a schedule compiling the collections by month of the Tax Revenues. Total collections for the Fourth Quarter were \$9,717,416.

<b>Tax Revenue</b>	
	<u>Monthly NN Revenue</u>
Jul 2020	\$ 3,061,709
Aug 2020	4,609,199
Sep 2020	2,046,507
	\$ 9,717,416





The total unaudited expenditures by branch are shown on **Exhibit "C"**.

- The Legislative Branch has expenditures of \$14,227,064, encumbrances of \$1,039,294 with a remaining budget of \$4,563,200.
- The Executive Branch expenditures are \$131,390,967; encumbrances are \$12,156,634 with a remaining budget of \$42,385,259.
- The Judicial Branch expenditures are \$12,683,769; encumbrances of \$4,201 and remaining budget of \$2,882,345.
- Fixed Cost has expenditures of \$18,551,037, encumbrances are \$3,150,427 and a remaining budget of \$11,472,981.
- Total General Fund and Fixed Cost expenditures are \$176,902,837; total encumbrances are \$16,350,558 with an overall remaining budget of \$61,303,816.

The updated UUFB as of September 30, 2020 is **\$37,189,207** (see **Exhibit "D"**); with the audited fund balance. There have been six supplemental requests that have been approved for FY 2020.

#### **4) Contract and Grant Information:**

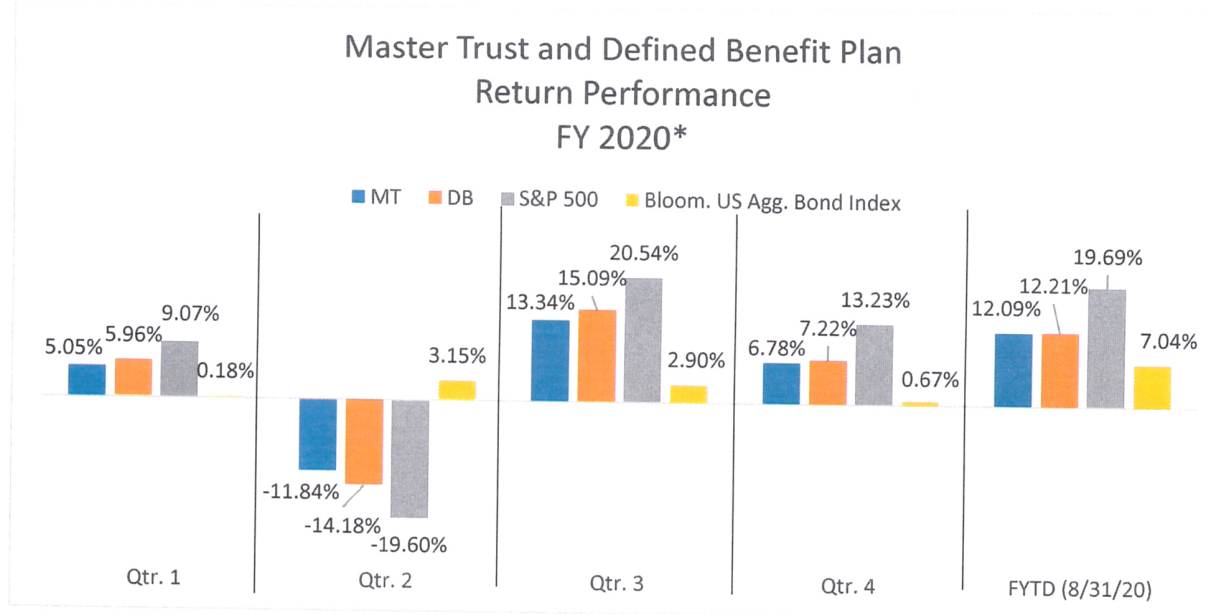
Attached is a summary of the Active Federal Funds by Division (See **Exhibit "E"**). Unaudited Summary totals for the active federal report shows the revised budget to be \$806,858,895, actual expenses of \$323,726,450, encumbrances of \$59,710,564 and a remaining budget of \$423,421,882 as of August 31, 2020.

**Exhibit "F"** shows the Active State Funds Report by Division. Unaudited Summary totals for the active State report show the revised budget to be \$57,810,125, actual expenditures of \$14,763,434, encumbrances of \$9,143,549 and a remaining budget of \$33,903,142 as of August 31, 2020.

**Exhibit "G"** is the BIA-IHS Fund Report. Summary totals for the Active BIA-IHS report show the revised budget to be \$896,174,644, actual expenditures of \$534,877,070, encumbrances of \$30,640,953 and a remaining budget of \$330,629,622 as of August 31, 2020.



## 5) Investment Information:



### Master Trust

As of August 31, 2020, the Master Trust ("MT") had a market value balance of approximately \$4.04 billion with a total return of 12.09% FYTD; with a total return of 6.78% for the 4<sup>th</sup> quarter.

### Defined Benefit Plan

As of August 31, 2020, the Defined Benefit Plan ("DB") had a market value balance of approximately \$1.045 billion with a total return of 12.21% FYTD; with a total return of 7.22% for the 4<sup>th</sup> quarter.

### Summary

COVID-19 has significantly disrupted financial markets this fiscal year. Equity markets have rebounded from the March Pandemic lows. Ongoing volatility can be explained by, but not limited to, the Presidential election, Global Pandemic, Fiscal and Monetary policy, unemployment, and international trade discussions that continue to vary week to week.

The Fed Rates are virtually at 0%. The Federal Open Market Committee (FOMC) is utilizing Monetary policy to stabilize markets and encourage growth. The Nation's Fixed income exposure has benefitted the Nation's overall performance because of the two Fed rate drops taken in March.

Again, the MT and DB portfolio's diversification continues to minimize volatility and offset low performing allocations. The MT and DB are positive for the FYTD (as of August 31, 2020).

If you should have any questions, you can contact me at tribal extension 6308.

