

**MINUTES
CITY OF FALLON
55 West Williams Avenue
Fallon, Nevada
December 5, 2017**

The Honorable City Council met in a regularly scheduled Council meeting on the above date in the Council Chambers, 55 West Williams Avenue, Fallon, Nevada.

Present:

Mayor Ken Tedford
City Councilman, Robert H. Erickson
City Councilwoman, Kelly Frost
City Councilman, James D. Richardson
City Engineer, Michael E. Miller
Police Chief, Kevin Gehman
City Clerk, Gary C. Cordes
City Attorney, Michael F. Mackedon
Legal & Administrative Director, Robert Erquiaga
Deputy City Clerk, Elsie M. Lee
Deputy Public Works Director, Ryan A. Swirczek
Deputy Public Works Director, Brian A. Byrd

The meeting was called to order by Mayor Tedford at 7:00 p.m.

Mayor Tedford led the Pledge of Allegiance.

Mayor Tedford inquired if the agenda had been posted in compliance with NRS requirements.

City Clerk Cordes advised that the agenda was posted in compliance with NRS 241.

Approval of Council meeting minutes for July 5, 2017, September 19, 2017, October 3, 2017 and November 9, 2017

Mayor Tedford inquired if there were any additions or corrections to the minutes for July 5, 2017, September 19, 2017, October 3, 2017 and November 9, 2017.

No additions or corrections were noted.

Councilman Erickson motioned to approve the Council meeting minutes for July 5, 2017, September 19, 2017, October 3, 2017 and November 9, 2017 as submitted, seconded by Councilman Richardson and approved with a 3-0 vote by the Council.

Approval of Warrants

A) Accounts Payable

- B) Payroll
- C) Customer Deposit

Mayor Tedford inquired if there were any comments regarding the accounts payable, payroll and customer deposit warrants.

No comments were noted.

Councilwoman Frost motioned to approve the accounts payable, payroll and customer deposit warrants and authorize the Mayor to sign the same; seconded by Councilman Erickson and approved with a 3-0 vote by the Council.

Public Comments

Mayor Tedford inquired if there were any public comments. He noted that comments are to be general in nature, not relative to any agenda items. No action may be taken on a matter raised under this item until the matter has been specifically included on an agenda as an item upon which action will be taken.

No public comments were noted.

Consideration of application by Waqas Bashir for a retail liquor license for KWK Stores Inc., dba City Liquor & Food to be located at 189 West Williams Avenue

Deputy City Clerk Lee explained that Waqas Bashir, President of KWK Stores, Inc., has made application for a retail liquor license for KWK Stores, Inc., dba City Liquor & Food to be located at 189 West Williams Avenue. A retail liquor license is a privileged license that allows the licensee to sell alcoholic beverages from a fixed and definite place of business for consumption off of the premises only. The application has been reviewed by Chief Gehman, City Engineer Miller, Deputy City Clerk Lee, and Legal and Administrative Director Erquiaga and has been recommended for approval.

Mayor Tedford inquired if the Council had any questions for Chief Gehman, City Engineer Miller, Deputy City Clerk Lee, or Legal and Administrative Director Erquiaga.

Councilman Erickson asked Chief Gehman if he had given the standard briefing regarding our liquor laws, sales to minors, and other laws we have on the books affecting liquor stores.

Chief Gehman replied affirmatively, they met and discussed the alcoholic beverage laws, our ordinances, as well as other products that could be sold at the store and who is responsible for what is sold at the store.

Mayor Tedford inquired if the Council had any comments or questions for Mr. Bashir.

No comments were noted.

Mayor Tedford inquired if there were any public comments or questions.

No comments were noted.

Councilman Richardson motioned to approve the application by Waqas Bashir for a retail liquor license for KWK Stores, Inc., dba City Liquor & Food to be located at 189 West Williams Avenue; seconded by Councilwoman Frost and approved with a 3-0 vote by the Council.

Consideration of application by Waqas Bashir for a retail liquor license for KWK Stores Inc., dba AB Food & Liquor to be located at 1660 West Williams Avenue

Deputy City Clerk Lee explained that Waqas Bashir, President of KWK Stores, Inc., has made application for a retail liquor license for KWK Stores, Inc., dba AB Food & Liquor to be located at 1660 West Williams Avenue. A retail liquor license is a privileged license that allows the licensee to sell alcoholic beverages from a fixed and definite place of business for consumption off of the premises only. The application has been reviewed by Chief Gehman, City Engineer Miller, Deputy City Clerk Lee, and Legal and Administrative Director Erquiaga and has been recommended for approval.

Mayor Tedford inquired if the Council had any questions for Chief Gehman, City Engineer Miller, Deputy City Clerk Lee, or Legal and Administrative Director Erquiaga.

No questions were noted.

Mayor Tedford inquired if the Council had any comments or questions for Mr. Bashir.

No comments were noted.

Mayor Tedford inquired if there were any public comments or questions.

No comments were noted.

Councilwoman Frost motioned to approve the application by Waqas Bashir for a drinking establishment liquor license for KWK Stores, Inc., dba AB Food & Liquor to be located at 1660 West Williams Avenue; seconded by Councilman Richardson and approved with a 3-0 vote by the Council.

Mayor Tedford reminded Mr. Bashir to call Chief Gehman if he has any trouble at any of his stores. He wished Mr. Bashir the best of luck.

Approval of City of Fallon June 30, 2017 Audited Financial Statements

Ms. Kristen Chinvarasopak of Eide Bailly presented the June 30, 2017 Audited Financial Statements. She is the partner responsible for performance of the audit and the reports she will refer to tonight. Before the Mayor and Council tonight is the Comprehensive Annual Financial Report for the year ended June 30, 2017 along with the required communication letter. She will go over the highlights of the three reports that they issue that were included in the Comprehensive Annual Financial Report. The first report issued in connection with the audit is the audit over the financial statements themselves. This report tells you that we expressed various opinions – eight of them to be precise – and we expressed unmodified opinions over all of those which means a clean opinion. Those financial statements were fairly presented in all material respects and in accordance with generally accepted accounting principles. The second report is a report over the City's internal controls over financial reporting. It is not a report that expresses an opinion, but is referred to as a Yellowbook Report because of its long title. This report tells you that, in accordance with the standards, they do look at the City's internal controls. We do not express an opinion over those controls, but if we find anything that warrants the attention of those charged with governance in the form of what is defined as a significant deficiency or a material weakness, which is a deficiency in internal controls that rises to the level that there is concern that those controls are not strong enough to potentially catch a material misstatement in these financial statements; either a material misstatement that could result because of an inadvertent error or because of fraud. There are two items for attention in this report: Finding 2017-A and Finding 2017-B. Both of those findings are considered significant

deficiencies so they warrant attention so you are aware of these internal control deficiencies that we have brought to management's attention and they have a corrective action plan put in place to remedy and address. Finding 2017-A is a significant deficiency with the respect to capital assets. During the audit, we found a couple of instances of inconsistencies on whether to capitalize or expense certain asset classes. A lot of it related to group assets such as water meters, fire hydrants. Generally accepted accounting principles do not have a steadfast rule when it comes to capitalization; it is a policy that is set by the City. Once the policy is set, you should be consistent in your approach and when we audited some purchases this year, there was not consistency compared to what has historically been done. The recommendation is to enhance controls over purchases of assets to make sure you comply with policy surrounding capitalization of those assets. Finding 2017-B is a deficiency identified and a recommendation to enhance controls over secondary review of journal entries. Journal entries are a hot area when it comes to potential risk of fraud because you can manipulate data, manipulate information through journal entries. A very important control is an effective control in the way of reviewing journal entries. Once they are posted into the system, there should be a secondary review either inside the system that limits the ability to post an entry without a secondary review in the system or, if that is not available due to software limitations, then once journal entries are posted in the system, reports be generated for somebody to look at on a secondary basis to make sure those entries were valid entries to be made. That is their recommendation for Finding 2017-B. The third report issued, and it has been a few years since this report has been issued; is in respect to the single audit. Once the City reaches the expenditure level over \$750,000; you become subject to the single audit, which audits compliance over thresholds for major federal award programs. The City expended about \$835,000 in monies that are eligible for federal award reimbursement. They were required to audit the airport improvement grant. There is a two-part report from this single audit. The first is an opinion over compliance and the second is a report on any deficiencies that we may have identified over internal controls over the compliance over the airport grant. In connection with that report, there were no instances of noncompliance and there were no findings over internal controls in connection with the airport grant. Lastly, the Auditor's Comments are at the end. It is drafted in connection with some of the requirements that Nevada Revised Statutes (NRS) has on communications and things that we need to look at in compliance with NRS. It discusses statute compliance, budgetary statute compliance, and progress on prior year compliance items. It points to Note 2 on the financial statements regarding budgetary overexpenditure and there were a couple of items during fiscal year 2017, overexpenditures of budget and those specific items are listed on page 41. The required communication letter is fairly standard; if we had any disagreements with management it would be listed, we were pleased to report there were none. The audit went very well.

Mayor Tedford inquired if the Council had any comments or questions.

Councilman Erickson asked if we had a new Governmental Accounting Standards Board (GASB) statement coming our way.

Ms. Chinvarasopak replied affirmatively; for fiscal year 2018, the City will be implementing GASB Statement 75. It is around Other Post-Employment Benefits (OPEB). Two years ago, GASB Statement 68 was implemented and it was around pensions; that is when the City had to bring on that liability for its piece of the Public Employees' Retirement System (PERS). GASB is taking a similar approach when it comes to OPEB so now when the actuary does its valuation, that liability will now come onto the books of the City. In the past, under GASB Statement 45, which was what fiscal year 2017 and prior years have been reflecting, as

long as you were making required contributions on a pay as you go basis, no liability needed to be recorded on the financial statements. Now, the liability will be recorded on the books so there will be a little bit of work to do in fiscal year 2018 on implementation of GASB Statement 75; required supplementary information will change with additional schedules, footnote disclosures will significantly change, and the City will have another liability that is going to reduce the bottom line in governmental activities and all the enterprise funds.

Mayor Tedford thanked Ms. Chinvarasopak for all her hard work. Her team was very professional. He also thanked City Clerk Cordes and his staff for their efforts. Also, he directed his appreciation to the Audit Committee consisting of Councilman Erickson, City Attorney Mike Mackedon, and Legal and Administrative Director Erquiaga for their work.

Mayor Tedford inquired if there were any public comments or questions.

No comments were noted.

Councilman Erickson motioned to approve the City of Fallon June 30, 2017 Audited Financial Statements as presented; seconded by Councilwoman Frost and approved with a 3-0 vote by the Council.

Approval of a plan of correction to prevent the recurrence of NRS violations as reported in footnote 2 of the City of Fallon June 30, 2017 Audited Financial Statements

Councilman Erickson explained the corrective action plan is a plan that is submitted to the Nevada Department of Taxation regarding the violations of overexpenditures of certain budgeted accounts. The three accounts involved are:

Unemployment Compensation Fund	\$1,741
Sanitation Enterprise Fund	\$87,834
Data Processing Internal Service Fund	\$47,701

Councilman Erickson continued, the corrective action proposed is all expenditures will continue to be approved by the City Council and a monthly financial statement currently is produced to monitor the fiscal actions to ensure that they are within the adopted budget or if a budget augmentation or transfer needs to be performed. If unanticipated costs are encountered, the Clerk Treasurer will report to the City Council and make the necessary budget adjustments through the normal augmentation process. A worksheet will be created to ensure that all funds have been reviewed for compliance with NRS 354.626. As a matter of explanation, some of these occurred late in the fourth quarter, primarily in the month of June. Some of the invoices were received beyond the June 30 closing date. They were received in July and booked as an account payable expense, some of which were unanticipated and that would throw the total expenditure of the account off. The overexpenditure in the sanitation department occurred as a result of an unusually high amount of repairs and maintenance to our equipment in that account. That ability to augment an enterprise account is restricted to your current net income in that account. If you have a positive net worth you can dip into that to augment current expenditures. But if you have a negative account balance or net worth, which we have in the sanitation department, you cannot augment that. We needed to continue to operate and had to maintain and repair our equipment. We did not have the ability to augment that account for the \$87,000. The next question is probably why we have a negative fund balance in the sanitation department. That is directly attributable to our recognizing the pension liability starting in 2015. In 2015, the actuary determined that we had a pension liability of \$458,377 so we went from a positive net

worth in the sanitation department of \$358,000 to \$102,000 negative net worth in 2015, as a result of recognizing that pension liability. We have progressively reduced that, even though the pension liability increases each year, we reduced it to \$45,000 in 2016, and this year it is down to \$36,480. In 2016, our pension liability climbed to \$517,000 and in 2017 it is \$678,000. So, we did not have the ability to augment that account for that unusually high unanticipated repair and maintenance expense, it was a onetime expense, one of those occurrences where everything seemed to break at once. We did have the ability to augment the other accounts but he wanted to explain the sanitation account and how that occurred and put it into the record. There is that issue with the recognition of these liabilities that are created with pensions and the next one coming up with the next GASB as previously discussed. That will also require us to make adjustments and increase our liabilities and therefore, if we cannot offset with excess revenues over expenses, it will also reduce our account balances. The other accounts have substantial account balances in them so we could probably absorb anything that comes down that pathway but sanitation continues to be an account that we have had to work with, that negative net worth. We have not had the need to augment beyond earnings in any fiscal year since then; this is the first time due to the unusual repair and maintenance expenditure that we had not anticipated. That is an explanation of the reason for those accounts that did overspend.

City Attorney Mike Mackedon asked if one of the reasons for increased costs was the removal of a piece of equipment from the landfill to assist in the digging of the trench in response to the potential flood last spring.

Councilman Erickson noted that was in the landfill account – this is for the sanitation account. In sanitation, we had a major vehicle failure and several other major expenses that we normally do not have. The sanitation account is profitable, our liability in the unfunded pension increased \$100,000 this year over last year and we absorbed that and we were still able to reduce the negative position by \$10,000. It is not that the account, absent the unusual items, is not a healthy enterprise. He wanted to make that point.

Councilman Erickson continued, Nevada PERS was created in 1947 and at the time of its creation and the enabling legislation was that you became a member of PERS and the legislature sets the benefits and they set the contribution rate. They review it every legislative session or when they desire to take it up. The contribution rate is supposed to be adequate to meet all the obligations to pay the pensions and the benefits as prescribed by the state law. But in the ebb and flow of business, the pension plan is invested in the stock market, in real estate transactions, and other investment vehicles, and the rate of return and the value of those holdings go up and down with the economy. So an actuarial makes a determination, which is explained in Note 11, and provides a bracket of what would occur at different rates. The one right now is at 8% and they provide estimates at 7% and 9% and how that would affect your portion of unfunded liability. Our portion is about 1/10 of 1%. The idea is, if you make your contributions then you have no direct liability for the pension plan and legislatively, that has not changed. But GASB, in recognition that all states have different pension laws and this is a national rule not a Nevada rule, require that you disclose the potential liability should you become responsible for the liability on your balance sheet. Even though under current state law, there is no liability. It is more of a contingent liability than a direct liability. We have no control over that but there are ramifications, just like with our sanitation fund, where we did create a negative position and as a result of that, it limited our ability to react to this situation with the unusually high repair and maintenance expenses that we incurred this year. We will not know how this next GASB affects

us until the actuary comes up with their plan and their program; then it will be disclosed in our financial statements just as the pension liability is.

Mayor Tedford stated that he was not comfortable with just having a worksheet; he would like a memo that explained the worksheet that would be attached. He would like that included in the proposed plan of correction.

Councilman Erickson noted that there is room for improvement in the process. Our current methodology is that City Clerk Cordes provides the monthly financial statement when the books are closed for the month and the bills for the expenses have been received, reviewed, and paid. City Clerk Cordes briefs the Council individually on the monthly financial statements. He suggested an additional step, not in the same detail, but in an abbreviated management analysis and discussion of the monthly activity and if there are overages or discussing trends and things like that; a written analysis to accompany the worksheet.

Mayor Tedford concurred; we review the monthly financial statement but if there was a short memo of trends or highlights or lowlights of the month that would be a good step. It would be the Clerk's perspective of that financial statement.

Councilman Erickson added that the monthly financial statement is 60 to 85 pages of numbers – that is pretty formidable – and sometimes it does not give the true picture with just those numbers. For example, you close out the books on September 30 and on October 5 your Caterpillar equipment at the landfill breaks and you will have to spend \$100,000 to repair it. So, on September 30 you are fine and on October 5 you are not fine.

Mayor Tedford referred to City Attorney Mike Mackedon's comment about the increase of expenditures at the landfill due to participation in the Big Dig. He was heavily involved in the Big Dig and knew the repair costs on all the equipment that was out there. One piece was the City's. There was a rental piece of equipment that came from Reno and shut down the same day it arrived. So those guys were out there trying to fix their own piece of rental equipment. This is why it is important to review and look for trends. Even though we have been doing this a long time, we may miss things and the memo will help identify highlights and trends.

Mayor Tedford inquired if the Council had any comments or questions.

Councilwoman Frost noted that it would be nice to have a snapshot because sometimes those 60+ pages can get a little overwhelming and something could be missed so a memo would be a good thing to have.

Councilman Erickson returned to the Big Dig, adding that was a major event for this entire community and the Mayor showed great leadership over there and basically committed the City's assets, under his executive powers, to do everything we could to prevent flooding. As a result of those efforts, not one drop of water entered the City of Fallon. In one of those early meetings that he attended, they were saying that if we had not taken this first step, which was cleaning the river, we would be standing at the Fire House in 6 feet of water today – and that was in the first part of February and that was just the start of the water coming down that river. All of those things really saved the community probably from \$50 million to \$100 million worth of damage, a substantial portion of that within the City. To illustrate the financial impact, the City's share of the costs was \$259,000 in pending claims with FEMA to be reimbursed. If and when we see that money – the reimbursement rate is supposed to be 75%, and under the accounting rules we cannot recognize that because it is just a pending claim and has not been approved yet by FEMA. But it is a potential recovery of expenses we made in 2017. Churchill County is the controlling agency; those claims are being managed by them. It was a tremendous undertaking and it saved the entire community and we should all be very grateful that the

community stepped forward and took preventive measures rather than reactive measures after the disaster happened.

Mayor Tedford concurred; and appreciated Councilman Erickson's comments.

Mayor Tedford inquired if there were any public comments or questions.

No comments were noted.

Councilwoman Frost motioned to approve a plan of correction, amended to add that a worksheet will be created with a memo to ensure that all funds have been reviewed for compliance on a monthly basis; seconded by Councilman Erickson and approved with a 3-0 vote by the Council.

Mayor Tedford thanked everyone for their efforts on this and asked them to pass it on to their staff.

Public Comments

Mayor Tedford inquired if there were any public comments.

No public comments were noted.

Council and Staff Reports

City Attorney Mike Mackedon: Commend Mayor and Council and all City crews for the spectacular Christmas Tree Lighting and decorations throughout the City. He spoke with Eddie and Gloria Venturacci this afternoon and they were very pleased to light the Christmas Tree.

Legal and Administrative Director Erquiaga: Updated the Council on the retirement of Building Inspector Dave Munoz and what we are doing in the interim. For the last few days we have been working on a number of things, one is to evaluate the duties and salary of the position and perform a full analysis. Deputy Public Works Director Byrd, Deputy Public Works Director Swirczek, City Engineer Miller, and Legal and Administrative Director Erquiaga have been conducting inspections and Deputy Public Works Director Byrd and Deputy Public Works Director Swirczek have been in the office a lot and performing the office duties including phone calls, inquiries, and scheduling inspections. Our goal is to keep it as smooth as possible, and try to make it so that contractors and the public do not notice a difference. We are going to keep that in place to make sure the transition is as smooth as possible.

Deputy Public Works Director Swirczek: No comments were noted.

Deputy Public Works Director Byrd: No comments were noted.

Deputy City Clerk Lee: No comments were noted.

City Clerk Cordes: No comments were noted.

Chief Gehman: No comments were noted.

City Engineer Miller: No comments were noted.

Councilwoman Frost: Wanted to reiterate City Attorney Mike Mackedon's comments. She had received nothing but positive comments about the Christmas Tree Lighting and appreciated the City crews and all their hard work to make the City look beautiful. Our City Hall looks great, inside and out. She wanted to thank everyone that had a part in making it such a fine event.

Councilman Richardson: Shared the same comments. Everyone was impressed with how we do the Christmas Tree Lighting here and how many people showed up and the energy and the vibe. It is something that people who do not live in Fallon come to see and they post it on social media so that is neat to see.

Councilman Erickson: Echoed the previous comments. It was a great evening and a great looking Christmas tree.

Mayor Tedford concurred; our crews do a great job. It really takes everybody showing up that night for the Open House to make it right for all the people that come through City Hall to meet and ask questions of staff and the Mayor and Council.

Mayor Tedford: Mayor Tedford was thinking about the plan of correction that was approved earlier. We do this now but we need to do it better. We see a monthly financial statement and then determine when budget augmentations look like they have to be done, and there is nothing wrong with budget augmentations. The budget is really the best guess of what is going to happen and sometimes things change. But you have to make those changes and sometimes we are slow in here to make those changes and we just have to do them. The City Clerk discusses those changes with the Audit Committee and the Mayor and then the Audit Committee comes up with what the budget transfer needs to look like, then it is presented to the Council for approval. Some things come up that you did not see coming – like having to almost rebuild a Caterpillar because of the heavy use at the Big Dig project. Or a bunch of sewer lines erupt or a lift station fails or two garbage trucks break down and cannot be repaired – the list goes on and on over the years. The budget can go awry and it is nobody's fault, it just happens. Councilman Erickson is so well versed in this budget. We know we had enough trouble with the PERS liability provision required by GASB 68 and now we will have OPEB with this new GASB statement. Mayor Tedford thinks it is too much. Mayor Tedford has been saying for years that Gary needs a helper on the financial side of things. Gary says that he does not need anybody because he wants to be conservative with the budget. Mayor Tedford stated that it starts with him and we need to make it happen. Mayor Tedford is convinced that it is a necessity and the Audit Committee is also convinced. We have talked about this for the last several months; it does not have anything to do with the City Clerk's Office, it is the financial side. The financial side has so many requirements now. At the Christmas Tree Lighting Open House, someone asked Mayor Tedford what the worst thing was that he deals with. Mayor Tedford said, besides two state highways crossing through the middle of the City and NDOT requirements; it was federal and state regulations in everything we do, from the City Clerk's Office to what we do in the street in public works and the water treatment plant and everywhere there are state and federal regulations. Not to say that we will never have this type of audit exception again, because this stuff happens. He was waiting for the audit to tell us that we need eight people in the City Clerk's Office to make sure they count the money drawer correctly. We finally had to tell them to quit putting it in the audit; we are not going to hire like the gaming commission in

there. Mayor Tedford noted that (Churchill County Comptroller) Alan Kalt has accountants like Gary over at his office doing the finance side; we only have Gary. Many years ago, Mayor Tedford tried to separate that out so Gary could just focus on the finances and it is just too much. The audit is a lot of work. This will be discussed in the coming days and weeks ahead; it is a big job.

Councilman Erickson noted, as a point of reference, that the audited financial statement when he became a Councilman at the City in the mid-80s the report was 57 pages long and today it is 140. That gives you an idea of the increased regulations and complexity and the increased work and the increased volume.

Mayor Tedford stated that the main financial guy has to literally shut down the entire time the auditors are here because he has to chase down the audit requests. That is unbelievable in the corporate world to have your lead financial guy tagged by the auditors the entire time. Mayor Tedford believed that this is something we really need to do. He had been thinking about it and it really hit home when that person asked him the question about the worst things he dealt with. There are increased regulations in every office in City Hall. We need to add an extra person in the City Clerk's Office and Mayor Tedford remembered that we used to have a part-time person in there and when she retired we never filled that position so we have been working a half person short for years now. We need to move ahead; we had \$28 million in billings and we cannot sit back, we need to be a City on the move.

Executive Session

Mayor Tedford tabled the executive session, as it was not needed at this time.

Adjournment

There being no further business to come before the Council, Mayor Tedford adjourned the meeting at 8:05 p.m.

Attest: 

Gary C. Cordes, City Clerk/Treasurer



Mayor Ken Tedford