

**ROUND MOUNTAIN TOWN BOARD
SPECIAL MEETING
DONALD L. SIMPSON COMMUNITY CENTER
650 CIVIC DRIVE, HADLEY SUBDIVISION
ROUND MOUNTAIN, NEVADA
rmtownadmin@gmail.com
TUESDAY DECEMBER 28, 2016 – 4:30 P.M.**

MINUTES

Members Present: James Swigart, Chair
Lisa Davila, Vice Chair
Roger Morones, Member
Liandra Dutton, Member

Members Absent: Wes Hubred, Clerk

Also Present: Pearl Olmedo, Town Manager
Tini Mittelstadt, Administrative Aide

Citizens Present: Frank Davila



CALL MEETING TO ORDER

Jim Swigart called the meeting to order at approximately 4:30pm.

PLEDGE OF ALLEGIANCE

The pledge of allegiance was recited.

GENERAL PUBLIC COMMENT (FIRST)

None.

APPROVAL OF DECEMBER 28, 2016 AGENDA

ACTION: Davila motioned to approve the December 28, 2016 agenda. Dutton seconded the motion; the motion passed 4-0.

DANIEL C. MCARTHUR TO PRESENT FINANCIAL AUDIT FOR YEAR ENDING JUNE 30, 2016

Daniel C. McArthur states I am here to discuss the Town's audit for June 30, 2016. There is a few things I need to walk through with you to begin with. I am required to explain what my responsibility is and what the Town's responsibility is as it relates to the audit report. My responsibility is to audit the financials of the Town and to make sure they are presented in conformity for what is call generally accepted accounting principles; lots of

times the County refers to that as GAAP. The Town is responsible for the financial statements and maintaining their records to make sure they do conform to GAAP. As part of the audit I am to look at the accounting policies that the Town uses and make sure they are acceptable and if there are any new accounting policies that are required to go in effect, I am supposed to tell you about those. In this year there is one new accounting policy mandated by what is called the Government of Accounting Standards Board. That policy relates to investments that the Town would have and to explain what that is about. This is supposed to show you what the market value was of those investments at the end of the year. All your money sits with the Nye County Treasurers Office, it gets pooled with their investment pool, and at that time we have to go through and look and say ok, what were those investments really worth as of that date, not necessarily how much was invested, but how much they are worth at that point in time. These financial statements reflect that. When the financial statements were prepared there are some numbers in here that are estimates and if they are significant I need to tell you about those, and there are some estimates in here I want to make you aware of, meaning that it is not necessarily a number tied down to say that you have \$100.00 dollars in the bank, it is an estimate is determined by an Actuarial Consultant. There is one estimate in here that is quite significant in my mind that relates to pensions. I will get to that in a minute, and it ties in to the Public Employees Retirement System and is administered by the state, but because they don't have enough assets to pay everyone's potential pensions payments right now, there is actually a liability an infinite liability and all local governments in the state are required to show their share of the liability on the financial statement. As far as the audit is concerned, we didn't have any audit difficulties that we deem as audit difficulties. There is no corrections that we felt should have been made, that have not been made. We have had no disagreements with management. We did not have to consult with other professionals to get their opinion on anything. So with that in mind let me go into the financial statement itself. On page 2, there is the Independent Auditor's Report and this is on the financial statement itself. You will see several captions here; you will see Management's Responsibility for the Financial, I have discussed that, the Auditor's responsibility, what my responsibility is and then Opinions at the bottom of the page. There are several different financial statements so it is not just one opinion, it is several opinions, but in essence, based on our audit, we've come to the conclusion that the financial statements of the Town have been prepared in accordance with general accounting principles, in other words they are prepared correctly and are being maintained in accordance with those requirements. So that would be deemed a clean audit opinion. I don't need to go through the rest of these pages in this report. On page 72, State statute requires that we look at the Town's compliance with statutes as it relates to finance or accounting matters and comment on any issues that existed this year or last year. On Current Year Statute Compliance, based on our audit this year, we did not find any areas we thought the Town had violated any statutory compliance as it relates to finance. In the prior years, as Progress on Prior Years on Statutory Compliance, there is a comment there related to the Public Safety Tax. I want to talk about that. Nye County passed an ordinance that went into effect April of 2014 to levy an additional sales tax throughout the county. That tax would be used for Fire and for Sheriff, for public safety purposes. Half of the tax collected goes to Fire Department and half to the Sheriff Department. When that initially started the county interpreted the ordinance different than many Town's thought it should be interpreted. The County took the position that the money goes into their fund, they decide how it is spent. Several of the Towns including this Town had a problem with that, and went and got an opinion from the Attorney General's Office. That opinion was issued in November 2015. That opinion said that each of the Town Boards have the responsibility for that tax, to determine whether it is spent properly and determine the spending plan is appropriate. As part of that there was a requirement to have new funds created, and new budgets created. The Department of Taxation had some significant concerns about this so, what the Town of Round Mountain did is, you went through the process of creating new funds, as was required by the Department of Taxation. This comment here is basically indicating that the new funds were created and then the department of taxation also mandated that budgets be prepared for these funds, because there hadn't been budgets in the prior years. So for the budget that was prepared for the year 2016-2017, there was an authorized budget to approve to spend this money. So, there is a requirement for me to follow up on any finding the prior year and what has been done to correct it, basically you have taken all the corrective action, so this won't show up again. I want to take that a step further for right now. In order to spend the Sheriff money, someone from the Sheriff Department from Nye County has to come before this Board and explain to you how they want to spend Round Mountain Town's

share of that money. The Sheriff portion of that tax can only be spent by the sheriff, because it is the only police department in the County, but the Sheriff can't spend it without your approval. From everything I can see, the Sheriff's office has not been here to meet with you to discuss a spending plan and how they may want to spend that money. In this financial statement it shows no expenditures and my assumption there is no expenditures for the current year either. I had been told based on the discussions with the Town Manager in Tonopah that there was consideration of having an agreement between Round Mountain and Tonopah to pool their money together, but based on my discussion with the Board there, that has not happened. I discussed it with your Town Manager and she indicated it has not happened. The Sheriff at some point has to come before the Board before the money can be spent. The way the law works, is that money cannot replace existing spending right now for the Sheriff's office. In other words, the Sheriff's office is spending X percent their budget in Round Mountain right now, they cannot take the money and replace it with that, they have to have this be up and above what they what they are currently spending. Same thing with the Fire Department, the fire department is 100% under your control, there isn't a county fire department, this is your fire department right here, so you have the ability to spend that money with an approved plan as long as you continue to spend the same amount of money in the general fund for fire that you always have, you can use this to supplement what you've been spending. I did look at the budget and I believe there is 25 thousand or 30 thousand budgeted to be spent in this year right now, not the year I am auditing. There is more money in that, if you want to spend more you would have to go through budget augmentation process to spend it, but it is available for you. Let me touch on two other things here and then I want to go on to the financial statement. On page 72 the Current year recommendations. Based on the audit work that we did, we didn't find any, what we call weaknesses in control, so we don't have any recommendations in internal controls, and controls are those check and balances you have in place to make sure assets are used properly. Last year we didn't have any recommendations or comments either. That covers the things I need to go over concerning compliance. I would like to stay on this Public Safety Sale Tax. On page 61 it shows revenue and expenditures of the Sheriff's portion of this public safety sales tax. If you look at these numbers the top line shows that the Town received \$24,488 this year in public safety sales tax and if you follow it on down, because of carry overs from prior years, the end of June 30, 2016 there was \$57 thousand dollars to spend. On average I would estimate you are going to receive between 25 and 30 thousand dollars a year in this sales tax line item for the Sheriff's office. On page 63, it is the public safety sales tax for the fire department and the numbers are identical because it is split 50/50 no expenditures, but just so you see the dollar amounts you have available to spend. From there I would like to go to the Town General Fund on page 46 and 47. Round Mountain Town for several years has just been in real good financial shape and continues to be in good financial position. If you look on page 46 at the numbers it shows at the end of the year the cash in the bank is \$2,663,000 thousand dollars, if we were looking at what the net equity or net worth with this fund is at the end of the year, it is pretty much equivalent to that cash of \$2,624,000. On page 47 where it shows what was budgeted for the year, what was spent and the variances and then it shows the prior year in comparison. You can see under total expenditures; we show expenditures for the year 781 thousand the prior year was 909. A few lines below that you see the caption, "Other financing sources (uses)" operating transfers out 1 million dollars. The decision was made I believe July 2015, to take a million dollars out of this General Fund and move it into the Utilities Fund, so the money was moved over to the Utilities Fund for the sewer project. At that time there was discussion whether that money would be loaned to the Utilities Fund and be repaid, or whether it would just be transferred, the ultimate decision to just transfer the money, as if it was a grant from the General Fund to the Utility Fund. There wasn't a document set up to actually make it a loan to say it has to be repaid. That doesn't mean that in the future you couldn't transfer money out of the Utility Fund back to the General Fund once that fund is making more money. Depending on what you want to do with the rates to repay those million dollars, you don't have to, but if you chose to do that you have that option. In order to do that you have to show that the utilities is generating enough money to pay its way and then transfer money back to the General Fund, but that would be at the discretion of the Board to do that. One of the issues we look at, is we are supposed to make sure there is no budget violations that have taken place during the year. If you look on page 47 it shows you expenditures and shows 4 captions there, General government, Public safety, Public works, and Culture and Recreation. In the variance column we look to make sure this is alright, but there are no negative variances so that is excellent. One other item that shows how healthy the Town is, if I were to take the average expenditures

for the last 2 years, let's just say it was 850 thousand or so, and I look at the fund balance and it is 2.6 million. You have a few years' worth of money set aside right now to cover your operations, which from my prospective is very positive. We are in a mining community here, and a lot of the money received by the Town comes from property tax on net proceeds, I will call it or mineral tax and it is so volatile it is good to have a strong ending fund balance to deal with the ups and downs in receiving that type of property tax. What I am saying there, is it has been managed very well. I would like to go to the Utilities Fund on page 53, this show the assets and the liabilities of the Round Mountain Utilities as of June 30, 2016. I just want to point a few things out to you, under the assets you see Restricted cash – sewer, as of the end of the year of that million dollars there was still 932 thousand that had not been spent yet, but if you go under liabilities, current liabilities, accounts payable, there is account payable in the amount of \$1,127,000 dollars, so at the end of the year there were 2 significant payments that were due to I believe it was Pearson Construction that hadn't been paid at that point in time, it is just the timing of when their invoices come in and when the payment was made. I just wanted to point that out to you, so if you see 'hey, there is a lot of cash here', the reality is there is a big payable against that. As of this point and time at the end of the year, because the project was not completed, if you go back under Assets, you see Capital Assets, below that it says construction progress, at this point there had been \$1,326,000 that had been put into the project and that number includes the payables that are payable to the contractor, includes engineering costs etc., and they are all tied into that number. It remains in construction progress until the point in time that the project is finished and the sewer is in use. If you turn to page 54, this shows the profit and loss for the utility system for the year. In the middle of the page it says Operating income (loss), a potential budgeted loss of \$173,970, but there was actually a profit of \$48,771 this year, if you follow that column down you see the 1 million dollar transfer that came in from the general fund, where we transferred money from one fund to the other fund, you see the million dollars coming in here. Also note from a budgetary point of view, when the budget was initially put together there was a potential to go out for grants or loans for that project, and that was not the ultimate decision. The budget was prepared before the decision was made to actually do the transfer. By utilizing your own money, it reduces frankly a lot of red tape in dealing with USDA and grants and loans. From my perspective looking at this where it still shows a profit, at that point in time the utility looks like it was in pretty good financial position, from my prospective. A couple more items and I have covered pretty much what I wanted to cover. On page 38 it shows the Capital Assets of the Town, land, buildings, equipment, etc. and then it shows depreciation numbers. One of the estimates that appear inside this financial statement, it shows toward the bottom of the page, there is an estimated depreciated number in here for \$182,209 assets that are really owned by governmental funds, which is everything but the utility. There is depreciation in for the water and sewer utility of \$39,570. With this new project coming on line, that number will probably jump to maybe 80 or 90 thousand dollars per year, depending on the life of the sewer system. One other item on page 39, there is a large estimate that sits inside the financial statements. On note number 5 it says "long term debt", and you see governmental activities says compensated absences, that represents vacations, sick time that is estimated to be earned by employees that hasn't been paid yet. So as of that date in time if we took all of accumulated hours of sick and vacation time that people have earned and if you were to pay it out, you'd be paying out at this point in time \$17,280. That dropped quite a bit from the prior year because of the retirement of Dan. Below that you see net pension liability; it says here that at the beginning of the year you were at \$780,000. At the end of the year it is \$853,000 for the governmental funds and business type funds just below it, it is \$102,540 for the end of the year. Between the two funds we are pushing \$955,000 roughly. That is a liability that no one is expecting you to write a check for tomorrow. It is totally driven by an actuarial study done on the retirement system and is based on the fact that if everything had to be paid out and the state doesn't have enough money to cover all of their pension liability and if they went to all the local governments and provided them with their share, your share would be this \$955,000 roughly. Every month you make a payment to the Public Employee Retirement System that is based on the wages of your employees, it is generally 28% of what gets paid in by regular employees then depending on whether you have full time fire employees or not, their rate can be 39-40%. You make the proper payment every month so you are really paying in your required share. The statutes say if you make your payment you are not liable for the \$955,000 payment. Governmental Accounting Principles, however require me to put this liability on your financials. So I have two conflicting rules here. I have NRS saying you are not liable, governmental accounting principles saying 'that's fine, put the liability on the

financial statement'. So another way to look at it might be if everything did go bad and the State couldn't pay it, I don't know where they would go for the money other than to all the local governments in the State or the citizens of the State. They basically have made a commitment to make payments to everyone who has retired, and basically that is what this liability is. It is not one you are going write a check for tomorrow, you are going to continue to make your retirement payments every month then you've met your obligations in my opinion. This is a liability that did not exist on this financial statement two years ago, even though the liability probably existed for years. They made a change in accounting rules last year that now requires this to be on here. Every two years the State has to have an Actuarial Consultant come in and estimate what they think this liability could be. It could be very volatile. We could come back here next year and that number could be \$700,000. I just want to show you why that is, if I could have you go to page 43. In the middle of that page there is a table that says Town's proportionate share of net pension liability, the middle number there where it says discount rate 8%, that \$956,000 is basically the Town's share of the liability if you add all the funds together. That is based on earning an estimate of 8% on the investments that the PERS system has. If they earn 9% based on this table it means your liability drops to \$539,000. If they earn 7% your liability increases to \$1,457,000. It is totally driven by how the economy is doing and what the earnings are they have on all the investments. I just want to be clear that this number is an estimate that is required to be put in the financial statement. Overall, let's get out of talking about liabilities that maybe sound negative, but are a necessary disclosure in here. The Town is in real good financial shape. You have a real strong ending balance in the General Fund. It's the major fund that operates here, you've got a couple extra funds in that public safety tax that you can utilize some money. You also the Road Fund here, it's a small fund that I don't really need to go to. You also have the Capital Project's Fund on page 64 and 65. These are funds that can only be used for what they specifically say for capital projects, for buying assets or constructing assets. There are two funds that exist for the Town. There is one that is just called the Capital Projects fund and usually this fund only gets money in it if you transfer money into it from your General Fund to put money aside for projects in the future. The other fund is called Special Ad Valorem Fund Capital Projects you receive every year anywhere from \$22,000-\$25,000 from the County based on a county wide property tax that is levied, for you to use to purchase equipment or other capital needs. So you have this money also available to you. During this particular year there were no expenditures out of these funds. You have multiple funds where you can pull money from to operate the Town, with the two major funds being the General Fund and the Utility Fund. We thought the audit went well. We've always had a clean set of books up here. We take turns on who comes up to do the audit, Stacey, Hillary, Jocelyn that usually come up at various times and look over the audit here. Over the last several years the books have all been maintained and in great shape. There was a time here several years ago when the fund balance was very low. There was a big concern. It was due to a drop in net proceeds tax and not watching things close, but you look great right now. That is all I wanted to go through with you right now. I am happy to answer any questions you might have.

Morones says I have just a quick question about this Sheriff tax. Is there a limitation to the spending on that or is that always available to the Sheriff's department? In the event they never touch that and 10 years down the line something happens, what happens to that money?

McArthur responds it's the way the sales tax was proven written, it is always the Sheriff's money.

Morones states it's just available to them and they have to. We also talked about whether it happens or not, pooling the resources together with Tonopah. Is that something future we need to look at or prepare for? And who makes that decision?

Olmedo states they have not approached us. I wanted to wait until the audit to talk with their Town Manager to see what that is all about.

Swigart asks what is the benefit of that?

Olmedo answers from my understanding the benefit.

McArthur says the benefit is, the idea behind this extra sales tax is to put more police officers on the road. So, looking at the dollar amount you're going to get \$24,000 a year which is not enough to fund one officer. But if you were to combine both the towns together you'd have enough to fund one full officer. Tonopah Town gets closer to \$75,000 a year. Between the two you're close to \$100,000 a year. So you could use the money to hire a new officer, buy equipment to equip that officer. It gets used for new hires and equipment.

Morones asks who gets to maintain that officer? That's the rivalry. How do they split their time between there and Round Mountain?

Olmedo comments and who is going to track that?

McArthur says and that becomes an issue. I met with Tonopah Town Board a couple of weeks ago and we had an issue with this public safety sales tax. I have to meet with them about it again tonight. That is when we got into the discussion about we think an officer in Round Mountain might be recorded as an expenditure for us because they actually show expenses on their public safety sales tax. And so at that point we did discuss the potential of combining. They were very open to that. We got into a discussion of how do we define that, who's money is whose and how do you draw the line. One of the Board members was pretty shrink on it, but the rest of them were pretty open as long as they have someone covering all of their areas. There is one other are you can go to, the County has what they call a, this tax is broken up into all of the unincorporated towns in the county. Then there is what they call an outside county where there is no unincorporated town and there is some tax that comes from that. So to me in the Smoky Valley area there is some outside county area where sales tax comes in and probably some money from Gabbs that could be brought in and maybe work out some kind of relationship. I'm not sure how you'd make that work and make everybody happy. Ultimately if you had your own police department you could spend the money on your department, but because there is only Nye County Sheriff's Office that covers the entire County, that is why you have to work with Sheriff's office. The intent is for the Sherriff to come before you and present a plan on how they want to spend the money. They have bring the plan before you and show that they are conforming to what the law says they can spend the money on, and that it is not going to be used to pay someone that is already working here. They have to show that to you and you have to approve it. That is the DA's opinion and the Attorney General's opinion.

Swigart comments as a Board we'd welcome the Sheriff and his plan or issues.

Morones comments absolutely.

McArthur says I happened to be in Pahrump today and I did meet with the Sheriff and talked about specifically the public safety tax money. I said you need to make sure you go to every unincorporated town because legally you can't spend this money until you've done that. She said she will make that happen. That hasn't happened yet here only because they haven't spent any money out of your fund. That's a positive thing because they have spent some money out of some other towns without doing that. That's a potential violation of State statutes.

Dutton asks do these audits happen every year?

McArthur responds yes.

Dutton says I'd be curious to see what next year's says after the sewer is all done.

McArthur says yes that will be a big one.

Swigart asks any other questions?

Olmedo says I do have a question. How do you think the net proceeds are going to impact every entity this year? I was informed to ask you, with the mine not buying equipment and leasing it, will that impact us?

McArthur responds no equipment? That will impact you because of the credits they are able to take. There is one other thing to bring up too. The legislature in this last session, they changed the timing of the payments for net proceeds. So for the year we are in right now through June of 2017 you will not get any net proceeds payment.

Davila asks can you say those dates again?

McArthur responds July 2016 through June 2017 which is the current budget year we are in. There will not be any payments and the reason for that is several years ago they forced all the mining operations to prepay their taxes. They forced them to pay a year in advance and so all the mining operators were doing that. Everyone would pay their taxes and it would come into the Town and then a year later the mining operations would file their reports with the State. They would then compare what they estimated the tax to be to what it actually was. Some of the mining operations would end up with a refund and they would have to go to the towns or the county to refund money back. For some entity's that can be a real burden because if you're spending all of your money you have to go find money and pay that. The State changed the law and now they do not pay in advance, so there will be a full year where they don't make an advanced payment. Then we go to the end of the year, so you won't see a net proceeds payment of any significance until probably March of 2018. It will be for the year ending December 2017. It will be a double whammy. They get the credits and you miss a year of payment. For Round Mountain Town, you've always done your budgets different than many and you've never budgeted to receive the net proceeds tax. You've always planned on it to be zero and because of that when you put your budget together, if you don't get anything it doesn't affect your plans. Like in this year the budget was zero, but you actually received \$320,000 in net proceeds. But there were no plans to spend that money so it rolls into next year. There has always been a plan here with the Town's management to never budget that money.

ACTION: Morones moved to accept the audit as written and prepared. Davila seconded the motion; motion passed 4-0.

GENERAL PUBLIC COMMENT (SECOND)

None

ADJOURN MEETING

ACTION: Morones motioned to adjourn the meeting at approximately 5:10 pm. Davila seconded the motion; motion passed 4-0.