MINUTES OF THE CHURCHILL COUNTY AUDIT COMMITTEE

155 N. Taylor St., Fallon, NV 89406
December 19, 2023

Call to Order:

The regular meeting of the Audit Committee was called to order at 1:35 PM on December 19, 2023.

PRESENT:	Commissioner Harry Scharmann, Member Member Alan Kalt Deputy District Attorney Joseph Sanford, Member Comptroller Sherry Wideman General Manager Mark Feest Chief Financial Officer Jamie Hyde Deputy Clerk to the Board Pamela D. Moore Deputy Clerk Julianne Ikonen
ABSENT:	N/A

Pledge of Allegiance:

The Pledge of Allegiance was recited by the board and public.

Public Comment:

Chairman Scharmann asked if there was any public comment but there was none.

Verification of the Posting of the Agenda:

It was verified by Julianne Ikonen, Deputy Clerk, that the Agenda for this meeting was posted on the 12th day of December 2023, between the hours of 12:00 and 3:00 PM at all of the locations listed on the Agenda, in accordance with NRS 241.

Consideration and possible action re: Approval of Agenda as submitted or revised:

Member Alan Kalt made a motion to approve the Agenda as submitted. Deputy District Attorney Joseph Sanford seconded the motion, which carried by unanimous vote.

Consideration and possible action re: Approval of Minutes of the meeting held on:

A- December 6, 2022.
The Minutes of the meeting held on December 6, 2022 are presented for the committee's consideration and approval.
FISCAL IMPACT: N/A
EXPLANATION OF IMPACT:
FUNDING SOURCE: N/A
ACTION REQUESTED: Accept

Member Kalt said he had a couple of minor corrections and he provided those to the secretary prior to the meeting, which have been made.

Member Alan Kalt made a motion to approve the Minutes of the meeting held on December 6, 2022 as amended. Deputy District Attorney Joseph Sanford seconded the motion, which carried by unanimous vote.

<u>Appointments</u>:

A- Consideration and possible action re: Presentation of the Annual Comprehensive Financial Report for the general Churchill County and CC Communications for the Fiscal Year Ending June 30, 2023.

The Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2023, will be presented to the Audit Committee. After review of the report, the Audit Committee is asked to make a recommendation to the Board of County Commissioners for acceptance and approval of the audit report.

FISCAL IMPACT: As contracted.

EXPLANATION OF IMPACT:

FUNDING SOURCE: General Fund.

ACTION REQUESTED: Accept

Chad Atkinson, Engagement Partner from Hinton Burdick, introduced himself and Kelly Jones-Mesko, Audit Manager. I will share some information and then will turn it over to Kelly to go over the financial highlights. We wanted to say thank you as we begin this audit presentation for the assistance that we received from the county and CC Communications in completing this engagement. The information flow was good. We did have some ups and downs with follow up items but we appreciated the assistance of those that helped us get to the finish line. There are two documents for the Audit Committee to consider, which are updated by management: the Letter of Transmittal and the Management's Discussion and Analysis, which are both a good summary of the activities related to the financial activities of the county and including changes from the previous year. That is prepared by management. We recommend these documents for the board's consideration.

The first auditor's report to go over is on page 15. There is an unmodified or clean opinion of financial statements. We do not believe there are any material modifications that would be made to the financial statements as presented. That is an expected outcome for most audit engagements. Congratulations to the county on that.

Another report is on page 215, which is regarding the internal controls over financial reporting and compliance report. This is part of the governmental auditing standards engagement that is conducted. We are happy to report there are no internal control deficiencies that came across in our test work, including walk-throughs performed or procedures reviewed. Congratulations to the county and CC Communications on this.

There was one budgetary compliance issue, which is on page 225 of the financial statements. There was a new fund created by CC Communications called the Competitive Access Fund

(CAP Fund). The CAP Fund was created after the budget cycle took place, so the budgets were summited without a budget for the CAP Fund. There wasn't a later adjustment to the budget. At the end of the engagement, as we were preparing the financial statements, obviously, there appears to be a budgetary violation because there is no budget for the CAP Fund. The revenues and expenditures were not properly budgeted for. That is what this finding is related to. Jamie from CC Communications provided a response to the finding, which will be included in the submission to the Department of Taxation, which is on page 227.

Member Kalt said, when I was reading the letter from CC Communications, I noticed that the budget was submitted by May 31st (page 227). The CAP Fund, Resolution 10-22, was approved on June 2, 2022. My recollection of the statute is when you establish a new fund, that resolution has certain provisions that are required by statute to be in that fund, where the revenue will come from, expenses, the purpose of the fund, the name of the fund, and other things. Once it is approved by the governing body, it is submitted to the Department of Taxation. If it was approved on June 2nd, by June 30th of 2022 there would have been notice to the Department of Taxation that we had a new fund. The statutes provide opportunities for the proprietary funds to do budget augmentations on the quarterly economic survey reports. As such, there were four opportunities to submit a budget augmentation. I was surprised that the Department of Taxation did not get ahold of the county to ask where the budget for the CAP Fund was. In the future, NRS 354 outlines that the proprietary funds augmentations must be noted in the quarterly economic survey. It is much simpler to do that than on the governmental fund side, which involves publication in the newspaper as a public notice with the funds, amounts stated within the resolution. Hopefully, in the future, we could prevent this by doing the augmentations on the quarterly report. You had up until the fourth quarter report, which was due 45 days after, which would be August 15th. You could have done it on August 15, 2023 for a fund that was created in 2022. I anticipate that this will not happen again. Member Kalt suggested that, in the notes on page 47, we should define what CAP stands for, at least once, for the reader to have an idea of what the fund is for. There is not enough detail in the report to know what it is and it could be confusing to the reader. I am confident it will not happen again and, generally speaking, there are always findings in audits, so this is not abnormal. I want to congratulate staff and the auditors that the audit was done in a timely manner and no extension was needed.

Mr. Atkinson said the next audit report is on compliance with major federal programs, on the internal controls over compliance, and the importance of this guidance (pg. 221). We are happy to report that there were no instances of non-compliance or internal control deficiencies reported. The county continues to have low-risk auditee status, which means that the county's controls, because of the way they are functioning and operating, makes the county a low-risk auditee. This allows auditors to do less test work and it is also favorable for the county to external granting agencies for the county. The major program that was tested was the Corona Virus state and local fiscal recovery funds, CFDA 21.027, and we found there were no problems or issues.

Ms. Jones-Mesko said all funds operated within their approved budget, except for the CAP Fund that was discussed. For the changes in fund balances for the governmental funds, go to page 36. The line item at the bottom outlines all the changes in the fund balance and the same with the proprietary funds/business type funds on page 41 for the changes in net position. We have some trend analysis of the fund balances and net positions of the major funds. First, we have the General Fund. The change in fund balance, as reflected on page 36, was a decrease of $4.7 million overall, which is mostly related to a transfer out on the General Fund to the Special Ad Valorem Capital Project Fund, which we will also talk about. Due to that transfer, the unassigned fund balance decreased about $4 million and, because of that, the unassigned fund balance in the General Fund left only about less than one month of operating reserves that could cover Fiscal Year 2024 expenditures. The GFOA would recommend having two months. However, there is the assigned fund balance of about $5 million, which is appropriated for Fiscal Year 2024 appropriations. There are also some minor non-spendable prepaid balances that make up that fund balance. The General Fund is stable and it still has a significant fund balance.

There is also the Road Fund and its change in fund balance was a decrease of $172,000.00, which leaves the assigned fund balance for street projects, which increased $128,000.00. The restricted for streets balance decreased $300,000.00. With that, the Road Fund is still stable and healthy.

The new major fund, the Special Ad Valorem Capital Projects Fund, saw significant activity in Fiscal Year 2023. This fund balance went up $23 million, which was related to the transfer in from the General Fund and the Navy modernization funding of $15.5 million that was recorded in Fiscal Year 2023. This leaves the assigned balance for these capital projects at the $15.5 million related to the Navy modernization committed as a result of that transfer from the General Fund, which had a final fund balance of $7.2 million and then the restricted capital projects increased to $2.6 million. That is what makes up this increase in fund balance for the Fiscal Year 2023. I believe that this fund is meant to be used for the new district courthouse that is to be built.

For the CC Communications' funds, we have the Telephone Fund, which had a change in net position that increased $1.6 million. The net investment and capital assets went down $5.7 million. This is a result of depreciation, as well as a decrease in unused bond proceeds. Those two items outpaced the capital purchases that occurred in Fiscal Year 2023. That is why this net in capital assets decreased. The unrestricted increased $7.3 million. There is about 8.4 months of operating reserves in that unrestricted balance. This is a good trend.

In the Broadband Fund, the net position went down $7.2 million. A lot of that is contributed to the transfer of items from Broadband to the new CAP fund. The net investment in capital assets went down $10.9 million and a lot of this is due to work orders and the work-in-process that was reclassified from the Broadband Fund to the CAP Fund during Fiscal Year 2023. The unrestricted fund balance increased $3.7 million from $3.1 million. There is currently 6.9 months of operating reserves in the unrestricted net position. This is a healthy good trend and is looking good for Fiscal Year 2023.

With regard to the new CAP Fund, which had a change in net position from $8.8 million, this involved a transfer from the Broadband Fund of $8.5 million. The net investment in capital assets is up to $10.2 million. This is tied into the capital assets and the work-in-progress that was transferred to the CAP Fund. It has also been offset by some debt that was transferred to the CAP Fund. Due to that significant net investment in capital assets, there is a negative unrestricted net position of $1.5 million. Currently, there is no reserve in the CAP Fund to pay for operating reserves in the future. The conclusion would be that the county needs to build up the unrestricted net position for future operating expenses.

The Wastewater Fund's net position decreased $717,000.00. The net investment and capital assets decreased $749,000.00, which would be mostly related to depreciation. The unrestricted went up $31,000.00. There are currently 20+ months of operating reserves in the unrestricted net position.

There are some cash balance trends for governmental funds and business type funds. The governmental funds increased $15.8 million. The bulk of this is due to the Navy modernization money. The business type funds cash decreased by $5.5 million. I would be happy to answer any questions.

Member Kalt said, on page 74, regarding Note 13, the Stabilization Agreement, it appears that there was a transfer out to the General Fund of $380,000.00 to pay for flood mitigation and $120,000.00 to the Road Department. I would submit that these should have been disclosed in Note 13 to make it easier for the reader to understand. Because of the restrictions noted in the 2nd paragraph, you do a great job of explaining how the money can be used, but it did not show that it was actually used. If it was Note 1, I would argue it doesn't need to be included but the fact that you have a separate note for this, the accounting practice should have been to disclose, in my opinion. What would you say, Chad? Mr. Atkinson said I think I need to clarify. I think the transfer did come from the Stabilization Fund, right? Ms. Jones-Mesko said it is outlined in their respective. Mr. Atkinson said you are proposing maybe a couple of lines here that say part of the transfer that occurred in FY23 was related to this Stabilization of Operations? Member Kalt said, no, that the Stabilization of Operation Fund was used in FY23 to pay for expenditures to mitigate a natural disaster, the flood controls, as allowed by resolution and statutes. I think it would make sense to have a third paragraph that justified and noted why those transfers took place. Clearly, the transfers are legal and appropriate. They could have taken a lot more if they wanted to but I think it should just be disclosed. Mr. Atkinson said that sounds reasonable and probably doable at this point. We could update that without any trouble at all. He told Comptroller Wideman to let them know if that is what she wants to do. Member Kalt said rarely does the county ever take money out of it but I think, if you take it out, it would be prudent to disclose that in the notes. Obviously, it is up to you guys to decide whether that is prudent or not.

Member Kalt said, on page 60, regarding the capital asset note related to Impairment of Capital Asset, in 2019, the capital asset of the golf course wastewater treatment plant was taken off the books and we put it on the shelf at $149,186.00. I think, in subsequent years, you may want to confer to see if it should be written off completely. The county has been trying to sell it. I was trying to sell it back in the day when I was with the county. I would argue that the value is significantly less than the $149,000.00. It is not significant but, technically, probably the right answer is to eliminate the value from the capital assets. Congratulations on 18 consecutive years of the certificate for excellence in financial accounting. I don't imagine you will not get it again for this year's report but this could be a review comment that one of the reviewers might comment on in the future, which you would address in subsequent years.

On page 198, Mr. Kalt said, with regard to the top 10 taxpayers, there may be an error in not reporting NV Energy and Southwest Gas as a top 10 taxpayer. I would be surprised if NV Energy was still not in the top 10. I would assume that they are better than $13.8 million of New Millenium Building Systems and then the $15 million for U.S. Bank. Southwest Gas is probably still $30 million +. I am thinking that the Assessor is pulling the wrong reports for the Comptroller's office. I wouldn't recommend making a change there but, in the future, perhaps make sure we are getting the right data. Again, a great job by everybody in preparing the Annual Comprehensive Financial Report.

Chairman Scharmann asked if there was any public comment but there was none.

Member Alan Kalt made a motion to recommend acceptance of the audit report and related findings for the Annual Comprehensive Financial Report for the Fiscal Year Ending June 30, 2023 to the Board of County Commissioners. Deputy District Attorney Joseph Sanford seconded the motion, which carried by unanimous vote.

Public Comment:

Chairman Scharmann asked if there was any public comment but there was none.

Adjournment:

The meeting was adjourned at 2:06 PM.

APPROVED: H J Scharmann
Harry "Bus" Scharmann, Member

APPROVED: Alan Kalt
Alan Kalt, Member

APPROVED:
Joseph Sanford, Member

ATTEST:
Linda Rothery, Clerk/Treasurer
Pamela D Moore
Pamela D. Moore, Deputy Clerk to the Board