

CITY COUNCIL STUDY SESSION

TO: Mayor and City Council
FROM: Mari E. Macomber, City Manager
SESSION DATE: August 18, 2014
TIME: 4:30 pm
PLACE: Second Floor Conference Room of City Hall

AGENDA:

- **AUDIT AND CAFR REVIEW**
- **FINANCIAL ADVISOR REPORT**
- **AIRPORT UPDATE**
- **REVIEW CITY COUNCIL AGENDA**
- **REVIEW NEWSLETTER – August 13**
- **COMMITTEE REPORTS**

AUDIT AND CAFR REVIEW

Each year the City contracts with an independent accounting firm to complete an audit of the City's financial statements in accordance with U.S. generally accepted auditing standards. Not only do the auditors review our financial information, but they evaluate the City's internal controls, considering the policies and practices that we have in place as they relate to our financial statements.

As part of this year end process, the Finance Director prepares a comprehensive financial report. This report is the Comprehensive Annual Financial Report (CAFR). The CAFR is a thorough and detailed presentation of the City's financial condition. It's a report on the City's activities and balances for each fiscal year. The CAFR was established as local government's complete accounting record starting in the mid 1940s through the efforts of the Government Finance Officers Association (GFOA) and became mandatory by Federal requirement on all local governments in 1978. Unlike a budget, a CAFR is complete record of assets, investments and gross income from all sources of the City.

Each of you was given copies of the City's Comprehensive Annual Financial Report (CAFR) for the year ending December 2013. This report provides a 12 month representation of the City's financial activity. To view this document, please go to http://www.kirksvillegcity.com/filestorage/72/122/2606/7674/CAFR_2013.pdf.

The CAFR is prepared in conformance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. The City contracted with audit firm, Hochschild, Bloom & Company from Chesterfield, MO, who began working with the City

to complete the 2013 audit. On Monday, Mike Williams, a partner with Hochschild, Bloom & Company will be in attendance to discuss the audit and recommendations from the management letter. Lacy King, Finance Director will be presenting the Council with the 2013 CAFR.

The resulting CAFR will be presented to the GFOA, which conducts a peer review of applicant local government CAFRs and upon review awards their Certificate of Achievement Award for Excellence in Financial Reporting to those local governments that are in compliance with their CAFR accounting standards of preparation. The City, through the leadership of the Finance Director has been successfully recognized by GFOA for many years.

In addition, there is a second report that you will find on our website which is a Report on Federal Funds. All non-Federal entities that expend \$500,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act Amendments of 1996. A single audit is intended to provide a cost-effective audit for non-Federal entities in that one audit is conducted in lieu of multiple audits of individual programs. To view this document, please go to http://www.kirksvillemunicipal.gov/filestorage/72/122/2606/7674/2013_Report_on_Federal_Awards.pdf

The City Council will have an opportunity to receive a report from our auditing firm Hochschild, Bloom & Company and review the various components of the CAFR with Finance Director Lacy King. The City Council should be aware of the significant contribution made by our new Finance Director in completing this process and doing so with minimal direction. She has demonstrated not only a strong work ethic but a strong command of governmental accounting standards. She is proving to be an exemplary addition to the City's senior management team.

FINANCIAL ADVISOR REPORT

The Dodd-Frank Wall Street Reform Act was signed into law on July 21, 2010. This legislation sought to regulate the financial markets and make another economic crisis less likely. Dodd-Frank proposed eight areas of regulation. Toward the end of 2013, the Securities and Exchange Commission adopted a series of rules. One of those rules was intended to clarify which persons were required to register as Municipal Advisors. These rules went into effect on July 1 of this year.

In July the Missouri Municipal League provided a summary report on this issue. A copy of that article was included in a previous Newsletter.

So what does this mean for the City of Kirksville, the City has participated in various financing programs, including the State of Missouri's low interest Revolving Loan Fund. As part of the process, the City has worked with Todd Goffoy of Piper Jaffray serving as our financial advisor. The act requires that we enter into a formal agreement for services with Piper Jaffray serving as our Municipal Advisor.

What is a Municipal Advisor?

- Anyone that provides “Municipal Advisory Activities” which is advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues.”
- Municipal Advisors have a fiduciary duty to their municipal entity clients.

Does the city have to enter into an agreement with a Municipal Advisor? The answer is no, but establishing this clear relationship between the City and a Municipal Advisor will insure that the Advisor is working solely in the City’s best interest and will work to insure favorable financing terms and rates. Though not required, the Government Finance Officers encourage and recommend that cities have a municipal advisor.

Piper Jaffray is already registered as a Municipal Advisor and has served as the City’s financial advisor on each of our SRF financing projects. So executing a Municipal Advisor agreement with Piper Jaffray will not have a material impact to how we operate. The agreement, though will clearly establish this firm as our Municipal Advisor, and will allow them to provide the City advice on all areas of financing including debt capacity, investment, bond election, etc.

AIRPORT UPDATE

It has been almost one year since the City Council was given an update on the airport and introduced to Airport Director Glenn Balliew. Mr. Balliew came to the City in time to assist us with final compliance items from our annual FAA and TSA inspections. This year, the preparation for these annual inspections, were completed by our Airport Director with support from Airport staff and other City personnel.

With the changes that took place over the past year, a certain number of findings would have been expected. We received only one discrepancy during the Part 139 inspection, which was due to a substantial amount of yellow taxiway paint did not have any glass beads and there were a couple of streaks in the white runway paint that will require repainting. The painting was completed in house by our Traffic Control Technician, who is still fairly new with the City. We knew the paint was going to be an issue. The Airport’s administrative paperwork and training efforts received no deficiencies. The TSA inspection did note one finding, which centered on the law enforcement presence at the airport. We are required to have an officer present for at least one flight each day. Due to issues with law enforcement presence at some larger airports across the country, the TSA is evaluating this requirement. The City is taking the offensive and preparing a proposal to try and satisfy the TSA to minimize our expense while still providing that police presence. One significant difference between our airport and many others is that the airports are large enough to have their own law enforcement.

In addition to these inspections efforts have been made to address revenue enhancement and equipment updates.

Monday is an opportunity to give the Council an update on the overall airport operations and to inform the city Council of future items.

REVIEW COUNCIL AGENDA

REVIEW COUNCIL NEWSLETTER – August 13

COMMITTEE REPORTS - *Commission Meetings held from August 4 to August 13 include the following:*

LPRC
ATC
K-REDI

Attachments

Staff Report Audit and CAFR
Financial Advisor Summary
Staff Report Airport

KIRKSVILLE CITY COUNCIL STUDY SESSION ATTACHMENT

SUBJECT: Overview of 2013 Comprehensive Annual Financial Report

STUDY SESSION MEETING DATE: August 18, 2014

CITY DEPARTMENT: Finance

PREPARED BY: Lacy A. King, Finance Director

Each year, the City undergoes a comprehensive audit of its financial records, financial statements and internal controls over financial reporting for the prior year. The ultimate goal is to achieve an “unqualified opinion” as a result of the audit, which states that the financial statements are presented fairly in all material aspects and that the statements conform to generally accepted accounting principles. The Comprehensive Annual Financial Report (CAFR) is the end product of the audit and not only represents the financial position of the City but also a dedication of many hours of City staff time. Audit preparation actually starts before year-end with the final product presented for auditor review in May. The audit team is generally on-site prior to year-end and then for a week in May examining City records, work papers and testing of processes. The City staff prepared CAFR introduction, portions of the management discussion and analysis, notes and statistical section. The auditors compiled these financial statements, notes, supplementary information and City-prepared documents into one report, known as the CAFR. The CAFR is sent to the Government Finance Officers Association of the United States and Canada (GFOA) for review and evaluation of City eligibility for a Certificate of Achievement for Excellence in Financial Reporting award. The City has been the recipient of this prestigious award for the past 30 years.

The City solicited bids for auditing services in the fall of 2010. The auditing services were awarded to Hochschild, Bloom & Company LLP of Chesterfield, Missouri for a five year period, ending for the fiscal year end December 31, 2014. Mike Williams, a partner with Hochschild, Bloom & Company LLP, will be in attendance to review the results of the audit with the City Council, including the presentation of the CAFR, single audit report and the recommendations to management.

Missouri Municipal Finance Update

June 2014

The Piper Jaffray Missouri Municipal Finance Update is a periodic publication summarizing local financing activity in the municipal sector. If you would like to be removed from our list, please [unsubscribe here](#).

ARE YOU READY FOR THE SEC?
MUNICIPAL ADVISOR RULE EFFECTIVE JULY 1 –
WHAT YOU NEED TO KNOW

Piper Jaffray is providing the following information in an effort to make Missouri municipalities aware of the SEC's new regulations concerning municipal advisors. Our public finance professionals can directly discuss in more detail any questions.

On July 1, 2014, the SEC's final rule respecting municipal advisors (the "MA Rule") will go into effect. The MA Rule is part of the continued regulatory efforts that were, in part, a result of the Dodd-Frank Act (the Act) and are meant to protect and inform issuers and investors and regulate previously unregulated parties. A primary part of the MA Rule defines the circumstances under which someone is deemed a Municipal Advisor ("MA") and finalizes the registration regime for MAs and further enforces the fiduciary duty. The term "Municipal Advisor" incorporates the commonly understood meaning of the existing term "Financial Advisor", with which you may already be familiar. Piper Jaffray serves in this capacity for many issuers nationally and within the State of Missouri and is already registered and regulated.

While there are many implications of the Rule, one of the most important to Missouri municipalities is that **underwriters may no longer provide the following information (advice) UNLESS the issuer has a Financial Advisor and has provided written notice to the underwriter of such:**

1. **Approval Advice.** An underwriter may not advise the issuer whether they should approve a transaction.
2. **Debt Capacity Analysis.** An underwriter may not provide advice on an overall debt structure beyond a specific transaction.
3. **Rating Agency Advice.** An underwriter may not provide advice on rating strategy (other than a current transaction) and may not

participate in rating surveillance calls which occur between bond issues.

4. **Bond Election Advice.** An underwriter may not be involved in working with an election committee on election strategy, including any survey work or fundraising advice.
5. **Method of Sale Advice.** An underwriter may not discuss whether to do a competitive or negotiated sale.
6. **Investment Advice.** An underwriter may not provide advice on investment of bond proceeds.
7. **Post-issuance Advice.** An underwriter's allowable advice is limited to the term of the issuance. After the debt is issued, an underwriter must cease providing advice.
8. **Other.** An underwriter may not provide advice on budget planning, financial controls, requests for proposals, project feasibility, etc.

Even if a municipality signs an agreement that provides an underwriter an "underwriter exemption" to provide advice, the above restrictions still apply. In order for a municipality to receive a full array of advice, a municipality should consider utilizing the services of a Financial Advisor (the only party in a transaction with a fiduciary duty).

We encourage each municipality to become familiar with the MA Rule as it is likely to materially impact the debt issuance process and the services and advice a municipality can receive before and after the sale of its bonds. The regulatory agencies have indicated that they intend to enforce the Rule after its July 1 effective date.

Piper Jaffray has represented many of Missouri's largest municipalities in this fiduciary capacity. Piper Jaffray ranked as the fourth largest Municipal Advisor nationally in 2013 (by number of issues completed), and we are well-qualified to serve in the municipal advisory capacity for Missouri municipalities.

Please feel free to contact us if you wish to further understand the impact of the new rules on your district as well as the value of a long-term fiduciary relationship with Piper Jaffray.

KIRKSVILLE CITY COUNCIL STUDY SESSION ATTACHMENT

SUBJECT: Airport Report

STUDY SESSION MEETING DATE: August 18, 2014

CITY DEPARTMENT: Airport

PREPARED BY: Glenn Balliew, Airport Director

New Fuel Provider and Fuel Sales

The new Avgas and Jet-A fuel provider (Avfuel) has made billing and processing more efficient and transparent. There is still a learning process between the Finance Department, Airport and Avfuel billing system. All financial report shows every aspect of the sale. Credit card fees, discounts, cash sales, charges and contract into plane fees are all shown on the report from Avfuel. It also allows the airport to take any valid credit, government multi-serve or aviation contract card to purchase fuel.

The airport sold over 19000 gallons of Jet-A fuel last quarter. Over the past three years the airport has averaged 10,882 in quarterly Jet-A sales. The goal is Jet-A fuel quarterly sales of 25,000 gallons. 100LL fuel sales remain steady at 25,000+ gallons sold quarterly. Jet-A sales are down this month due to the runway/taxiway lighting project resulting in a shortened runway. Once the full runway is opened Avfuel will go out with a marketing campaign for the airport. This should help recover some of the loss in sales.

Runway/Taxiway Lighting Project

The project is on schedule and the timeline for completion in 20 September 2014. The project schedule was modified to get the full length runway back in a shorter time frame. The new lights will allow the airport runway lighting to go high intensity, as of now the system only allows for medium intensity. The taxiway lights will utilize LED technology and will be medium intensity lighting. All lights will be raised from 6 inches to 20 inches in height. The height will be beneficial during winter months and snow season.

Airport Sign

The airport is seeking estimates on a sign based on the existing airport logo. These estimates will be used to determine cost prior to going out for bid. The new sign will be a ground based dimensional sign and be lighted by spot lights. The size will be 16 to 20 feet. The sign will be made of aluminum verses wood to eliminate fading and maintenance. The logo is pictured below.



Airport Fence Rehabilitation

The airport parameter fence has significant heaving damage from last winter. 41 out of 90 concrete based posts have heaved, some to the point of structural failure. MoDOT has agreed to allow the airport to use \$60,000 of non-primary entitlement funding, at a 95%/5% match, to rehabilitate the fence. The plan is to disconnect the fence and repair all concreted post.

Apron Rehabilitation

MoDOT/FAA has agreed to the apron replacement project for 2015. The entire parking apron, to include areas between the T hangers, and Taxiway Bravo to the parallel Taxiway Alpha will be removed and replaced. The project will be phased and will not affect Cape Air flights. It will require some enhanced security measures because Cape Air will have to park on the south end of the apron during north end construction. MoDOT has sent Kirksville a Tentative Allocation (TA) Letter to begin the engineering design phase of the project this year. The cost of the design phase is a 95%/5% funded project.

Vehicle Replacement

The airport has studied the appropriate vehicles necessary for airport operations. The airport fleet needs to have vehicles that can be used year around for both land maintenance and snow removal. According to City Policy 12, both old and revised, almost all vehicles at the airport are due replacement. The airport will request 2 new tractors, with snow blades, in the upcoming capitol budget. One tractor will replace the current airport tractor that is 13 years old and over 3500 hours. The second tractor will replace the 16 year old dump truck that was used for snow removal and has already been sold. The airport is supposed to receive a truck from Public Works to replace the 15 year old $\frac{3}{4}$ ton pickup, with over 110,000 miles, used by the airport for maintenance and daily safety inspections. Having two front wheel assist tractor will allow the airport to use the 15 ft brush cutter and 15 ft finishing mower simultaneously in an effort to maintain over 300 acres that require mowing per Federal standards. The brush cutter tractor can also be used by the Street Department, if needed, to help maintain their mowing requirements. These tractors will also be used for snow removal. There will be a blade on each tractor and the both tractor will have the capability of handling the new large three point hitch snow blower just received at the airport. The airport requires 4 vehicles for snow removal operations. The replacement vehicle for the $\frac{3}{4}$ ton, two new front wheel assist tractors and 12 year old aerial truck, with over 197,000 miles, will be utilized to meet the airport's needs.

Law Enforcement Program

TSA has indicated that the administration will be evaluating Kirksville Regional Airport and will determine if an increase in Law Enforcement presence is required. The TSA Inspector indicated, due to incidents at other locations, the Kirksville's law enforcement presence would require an increase. The Kirksville Police department is preparing a proposal to increase their presents from one flight per date to two flights per day. Chief Hughes will contact the TSA Federal Security Director to negotiate the terms of a new agreement.