

**City of McMinnville
City Council Audit Committee
Meeting Minutes**

Date: February 9, 2016, 4:00 p.m.

Audit Committee: Scott Hill, City Councilor
Kellie Menke, City Councilor
Prospective member: Fred Stemmler, Budget Committee member

Auditor: Tim Gillette, Talbot, Korvola & Warwick, LLP

Staff: Martha Meeker, City Manager
Marcia Baragary, Finance Director
Julie Orth, Accountant

Handouts: June 25, 2015 Audit Committee Meeting Minutes
June 25, 2015 Audit Committee RFP Discussion
Report to the Audit Committee, December 23, 2015, including
Management Representation Letter (Statements on Auditing
Standards 114)
Comprehensive Annual Financial Report for the Year Ended June 30,
2015
McMinnville Urban Renewal Agency Annual Financial Report for the Year
Ended June 30, 2015

Minutes from June 25, 2015 meeting and RFP Discussion

The minutes from the June 25, 2015 meeting and RFP discussion were presented for approval by Scott; motion seconded by Kellie. Motion passed.

Appointment of Fred Stemmler to Audit Committee

Marcia expressed her appreciation to all for attending and noted the Audit Committee meeting is a public meeting and a notice was published.

Previously, Travis Parker, former Budget Committee member appointed to the Audit Committee, notified Marcia he is no longer available to serve on the committees. Marcia thanked Travis for his past service. Marcia read a portion of Resolution No. 2007-05, which states that two City Councilor members may appoint a Budget Committee member to the Audit Committee. Scott commented it was positive to have Fred as a Budget Committee member. Kelley moved to appoint Fred Stemmler to the Audit Committee; motion seconded by Scott. Motion passed.

Presentation of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2015

Tim introduced himself and thanked everyone for coming. Referring to the Independent Auditor's Report on page 15 of the CAFR, he noted the CAFR is the City's document, not TKWs. Tim explained he will briefly review the CAFR with most of the emphasis on matters relating to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was implemented in this fiscal year. TKW has issued an unmodified or "clean" opinion, which indicates that the City's financial statements are fairly stated in accordance with generally accepted accounting principles.

**City of McMinnville
City Council Audit Committee
Meeting Minutes**

Tim directed everyone to page 19 of the CAFR, Management's Discussion and Analysis (MD&A). This is a great place for reviewing the highlights of the CAFR. Tim encouraged everyone to read the MD&A.

Tim reviewed the changes to the CAFR resulting from implementation of GASB 68. Tim explained GASB 68 will improve disclosures related to PERS and similar items. Tim noted GASB 68 is complex and the application is complex. Also, the Oregon Supreme Court decision (Moro decision), made after the measurement date, is expected to have a significant effect on the PERS net pension asset. This will be reflected next year.

Tim reminded everyone that no asset or liability is created by GASB 68, other than on the government wide statements. The fund and budget basis financials are not affected by GASB 68. Martha questioned how this will affect the City's Moody's or other bond rating agencies rating? Tim responded that he could not say. In the past, bond rating agencies speculated GASB 68 would have no effect on bond ratings. Now, with actual numbers, we will have to wait and see. Tim reminded everyone that many assumptions are involved in GASB 68.

Tim noted another item for the City and the Department was a restatement to the beginning net position for a transition liability related to the City and the Department joining the OPERS State and Local Government Rate Pool (SLGRP) in 2001. This transition liability should have been recorded at the time of joining the SLGRP. The transition liability was brought to light during the implementation of GASB 68.

A portion of the employer rates paid by the City and Department is applied to the transition liability. Fred questioned how the interest is calculated and Tim indicated PERS established an amortization schedule. Discussion followed regarding the transition liability and options such as issuing pension bonds to retire the liability. Marcia indicated this will be discussed further in the future.

Tim asked if anyone had any more questions. Scott asked for a review of the bond/debt schedule. Everyone was directed to page 150 of the CAFR, Schedule of Future Debt Service Requirements.

Report to the Audit Committee for fiscal year ended June 30, 2015

Tim directed everyone to the Report to the Audit Committee, December 23, 2015, including the Management Representation Letter. Tim noted this is the required communication to those charged with governance. Tim reviewed the letter and noted this is where he would address any issues that had been identified during the audit. No issues were identified.

For the committee's reference, the Management Representation Letter is attached. Tim asked if anyone had any questions. None were raised.

**City of McMinnville
City Council Audit Committee
Meeting Minutes**

Presentation of the McMinnville Urban Renewal Agency Annual Financial Report for fiscal year ended June 30, 2015

Tim referred everyone to the McMinnville Urban Renewal Agency (URA) Annual Financial Report. Tim noted that although it is much shorter, it is similar to the CAFR. TKW has issued an unmodified or “clean” opinion. Tim directed everyone to the Management’s Discussion and Analysis (MD&A) on page 5 and recommended everyone read it. Tim pointed out the URA has no employees and therefore is not affected by GASB 68.

Marcia explained the URA is a component unit of the City and included in the CAFR. However, the URA does not currently have its’ own Audit Committee. A discussion followed regarding expanding the City Audit Committee to include responsibilities as the URA Audit Committee. It was recommended that the URA Board appoint two members (Scott and Kellie), who will then appoint a third member (Fred).

Fred asked if this was the first year of the URA and Marcia responded that there was no urban renewal tax increment revenue in fiscal year 2014. Marcia asked if there were any additional questions and none were raised.

Other items for discussion

Marcia mentioned an employee fraud hotline has been discussed in the past; Martha indicated the new City website will have a place to report fraud and other employee concerns. A discussion followed regarding use of a third party to manage the hotline versus using the City website and anonymous reporting.

Marcia reported that she has received a proposal from TKW to perform a Transient Lodging Tax audit. A discussion followed regarding the audit approach and timing.

Kellie asked about the fiscal year 2016-17 budget and discussion followed.

The committee agreed Tim would present at tonight’s Council meeting an abbreviated version of this meeting. After Tim’s presentation Scott and Kellie will have comments.

There being no further business to come before the Committee, the meeting was adjourned.