

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

Date: January 10, 2012, 4:00 p.m.

Audit Committee: Kellie Menke, City Councilor
Scott Hill, City Councilor
Travis Parker, Budget Committee member

Auditor: Rob Moody, Talbot, Korvola & Warwick, LLP
Cinnamon Williams, Talbot, Korvola & Warwick, LLP

Staff: Kent Taylor, City Manager
Marcia Baragary, Finance Director
Julie Orth, Accountant

Handouts: May 13, 2011 Audit Committee Meeting Minutes
September 28, 2011 Audit Committee Meeting Minutes
Comprehensive Annual Financial Report, Year Ended June 30, 2011
Report to the Audit Committee, December 20, 2011

Minutes From May 13, 2011 and September 28, 2011 Meetings

The minutes from the May 13, 2011 and September 28, 2011 meetings were presented for approval. Kellie moved to approve the minutes as drafted; motion seconded by Scott. Motion passed.

June 30, 2011 Audit and CAFR

Rob introduced Cinnamon Williams, manager for the City of McMinnville's audit. Cinnamon will be returning next year along with many of the same audit team members as this year. Rob stated the audit process went very well and City staff and audit staff work well together.

Rob stated that TKW has issued an unqualified or "clean" opinion, which indicates that the City's financial statements are fairly stated in accordance with generally accepted accounting principles. He explained the financial statements are similar to the previous year with a few differences:

- The City implemented GASB Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires that fund balances of governmental funds be classified into five categories: nonspendable, restricted, committed, assigned and unassigned. This statement also clarifies the definition of fund types.
- A single audit was required for fiscal year 2011 due to Federal Aviation Administration (FAA) grant funds expended at the Airport.
- A change in the reporting of the Length of Service Awards Program (LOSAP) plan assets from a fiduciary fund to the General Fund. This correction resulted in a restatement of the General Fund beginning balance, as explained in the notes to the CAFR. Rob detailed the history of the efforts made over the years to report the LOSAP program correctly with limited official guidance from the Governmental Accounting Standards Board (GASB).

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Report to the Audit Committee for fiscal year ended June 30, 2011

Rob reviewed the Report to the Audit Committee which requires certain communications from TKW to the Audit Committee. There were no issues with management and no compliance issues. There was one passed adjusting journal entry related to the fair value of the Local Government Investment Pool (LGIP) – many entities do not make this adjustment, including the City. A material weakness was identified related to the error in classification of the plan assets for the LOSAP. Rob stated that the material weakness was a not significant issue. Although the City's internal controls did not prevent or detect the misstatement, a material weakness by definition, the City, with input from TKW, has put forth significant on-going effort to classify the LOSAP correctly.

Rob discussed the three new GASB's with required implementation for fiscal year ending June 30, 2013 and noted that early implementation is encouraged.

- GASB Statement No. 61 *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* redefines how component units are presented. He explained the City may not need to include the Water & Light Department in its' reporting. Rob would like to work with City staff and have a recommendation by the next Audit Committee meeting regarding whether Water and Light should be included in the City's financial report.
- GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* eliminates a reference in the footnotes and will be implemented fiscal year 2012.
- GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* will replace the current Statement of Net Assets with a Statement of Net Position. Guidance on this GASB is still being drafted so it is likely the City will not implement until fiscal year 2013.

Rob asked if there were any questions and none were raised.

Discussion followed regarding Rob's presentation of the CAFR to the City Council at the January 10, 2012 City Council dinner meeting (immediately following the Audit Committee meeting). At the dinner meeting, Rob will summarize his discussion with the Audit Committee. It was decided that Kellie and Scott would announce at the regular Council meeting that evening that Rob had presented the CAFR and that there was a "clean" opinion.

Update on the Fiscal Forecast

Kent reported the City has completed a financial forecast through fiscal year 2015. If the City budgets conservatively, with some reductions, it should be able to comply with the recommendations in the Fund Balance Policy through fiscal year 2015. Kent explained that, given the current outlook, the City will continue to work with consultant Bob Wells to develop a forecast through fiscal year 2016. Kellie asked when the Council would have more information on the budget outlook. Kent replied that there will be discussion at the Council Goal Setting session. The Council will discuss priorities and provide guidance to management for development of the 2012-13 budget.

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Finance Department staffing changes

Marcia discussed the open Technical Services Accountant position. She explained that previously, the person in the position had been responsible for Project Management during the implementation of Logos, the City's ERP system. As the City has been using Logos since 2007, the position no longer requires a significant amount of time for management of Logos. Also, given the City's budget challenges, the Technical Services Accountant position will be reduced to part-time instead of full-time. From January through June, the person in this position will work on projects as needed and will be full time from July through December while working on drafting the CAFR. Scott Burke from Information Services will be responsible for project management of software changes and also for Logos security. Marcia plans to begin recruiting for a CPA to fill the position sometime in May. Scott asked if Logos is saving time and Marcia replied that it has and that there are additional benefits to Logos. For example, the electronic approvals required for procurement and payment to vendors significantly strengthened internal controls compared to the previous manual system.

Kellie asked for clarification regarding the part-time Senior Accountant position that was not filled last summer and expressed concerns about the Technical Services Accountant becoming part-time. Marcia clarified that another part-time Accountant position became full time when the part-time Senior Accountant position became vacant. Kellie asked if Marcia would prefer a full-time position. She replied that she would prefer to hire a CPA who would be available for drafting the CAFR and otherwise, as needed on a project by project basis. Marcia mentioned that, for example, she would like to develop the Emergency Operations Plan for the Finance Department. This would be a great project for the right person. Discussion continued regarding ideas for help on projects including a Linfield class project or a Linfield internship.

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