

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

Date: January 21, 2015, 4:00 p.m.

Audit Committee: Scott Hill, City Councilor

Absent: Kellie Menke, City Councilor
Absent: Travis Parker, Budget Committee member

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

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

Handouts: May 8, 2014 Audit Committee Meeting Minutes
Report to the Audit Committee, December 17, 2014, including
Management Representation Letter (Statements on Auditing
Standards 114)
Report to the Audit Committee and Management, December 17, 2014
(Statements on Auditing Standards 115 Communication Letter)
Memorandum regarding Resolution that audit finding disclosed in the
auditor's report has been appropriately resolved
Resolution to be presented at January 27, 2015 City Council reflecting
audit finding has been appropriately resolved

Minutes from May 8, 2014 meeting

The minutes from the May 8, 2014 meeting were presented for approval. A quorum was not present to approve the minutes.

CAFR, audit and reports presentation fiscal year ended June 30, 2014

Rob asked if a detail review of the CAFR was preferred and all agreed it was not necessary. Martha indicated she had read the CAFR and had reviewed questions with staff. Rob indicated there were no issues with management.

Rob referred to the Audit Committee letter handout, Statements on Auditing Standards 114 (SAS 114). He explained this is the letter which fulfills the requirement for certain communications from TKW to the Audit Committee.

Rob reviewed the new GASB statements implemented in fiscal year ending June 30, 2014:

- GASB Statement No. 65 *Items Previously Reported as Assets and Liabilities*. The significant item is deferred revenue (property taxes) previously classified as a liability is now classified as a deferred inflow of resources.
- GASB Statement No. 66 *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. This is a housekeeping item to improve the language consistency.

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- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The City currently does not extend nonexchange financial guarantees.

Scott questioned the impact of GASB 70 in relation to Urban Renewal and Rob clarified the City could extend nonexchange financial guarantees in the future and would then need to follow the required disclosures.

Rob pointed out the accounting estimates referred to in the SAS 114 letter and explained they are based upon management's current judgment.

Rob reviewed the audit adjustments. Rob explained the audit adjustments relate to the City historically recording 12 months of revenue, which is correct on the income statement. However, the 12 months recorded were not the correct 12 months of revenue. This became material in the Street Fund this year on the asset section of the balance sheet as a receivable was not recorded. The City opted to review all monthly or periodic revenues and verify they are recorded on a modified accrual basis. This review led to additional audit adjustments in other funds, although these adjustments did not meet the materiality threshold.

Rob referred to the Audit Committee and Management letter handout indicating this is a required communication by Statements on Auditing Standards 115 (SAS 115) regarding the audit adjustments. Marcia referred to the Resolution indicating that the audit finding disclosed in the auditor's report has been appropriately resolved. A resolution is required by the Secretary of State to verify the City Council is informed of the audit finding and the finding has been resolved. Marcia provided Scott clarification on which revenues led to the audit adjustments.

Both Scott and Rob agreed the audit finding has been appropriately resolved. Marcia verified the Resolution indicating the audit finding has been appropriately resolved will be presented at the January 27, 2015 City Council meeting.

Rob referred to the uncorrected misstatements identified in the Management Representation Letter (SAS 114 letter, Attachment A). He explained the misstatements are immaterial and would not mislead a reader of the financial statements. The uncorrected misstatements relate to the year-end payroll accrual, as in the past, and the municipal court receivable accrual.

Rob reviewed the recently issued GASB statements and the required implementation.

- GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This statement will require reporting of the City's share of the Oregon Public Employees Retirement System (PERS) unfunded pension liability and will be implemented in fiscal year 2015.
Martha questioned the reasoning behind the GASB and a discussion followed.
- GASB Statement No. 69 *Government Combinations and Disposals of Government Operations*. This statement is related to government combinations and disposals and is currently not applicable to the City.

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Cinnamon expressed her appreciation to Marcia and her staff. The audit process is efficient; the City is responsive and has items prepared in a timely manner for the auditors. Cinnamon also indicated the City is a pleasure to work with. Appreciation for TKW was expressed by Marcia, noting the ability to communicate and work through any issues.

Rob asked if there were any questions and none were raised. Scott commented the City is upfront and fiscally responsible. Rob reminded everyone that the auditors work for the City Council and that Audit Committee members should feel free to contact TKW with any questions.

Issuance of 2015 General Obligation Bonds for Transportation projects and refunding of 2006 Public Safety Facilities General Obligation Bonds

Marcia brought up the possibility of refunding the 2006 Public Safety Facilities GO bonds at the same time the City issues transportation bonds in April 2015. A discussion followed and it was generally agreed the refunding would save money and it made sense to proceed.

Rob mentioned TKW would appreciate the opportunity to provide escrow verification services required for advanced refunding bonds. TKW is the only local firm performing these services. Rob also mentioned an advance refunding will add some additional requirements in the CAFR.

Audit engagement for fiscal year ended June 30, 2015

Rob expressed TKW was pleased with the opportunity to work with the City for one more year. TKW would also be interested in a proposal for the future.

Rob indicated a different partner, Tim Gillette, will be working with the City on the audit for fiscal year 2015. Marcia clarified that although we are not changing audit firms, we will be rotating partners. Cinnamon will continue to work with the City. Cinnamon will set up a meeting with Tim Gillette.

Rob and Cinnamon excused themselves from the meeting prior to any further discussion regarding the audit for fiscal year 2015 and thereafter.

Martha asked if there were any issues with continuing to use TKW for one more year. A discussion followed, with Scott indicating he had full confidence in TKW and all agreeing Rob is much appreciated. Once a meeting with Tim Gillette takes place, a final decision will be made.

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