

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

Date: March 10, 2020, 4:00 p.m.

Audit Committee: Kellie Menke, City Councilor
Scott Hill, Mayor
Absent: Peter Hofstetter, Budget Committee member

Auditor: Tonya Moffitt, Merina & Company. LLP

Staff: Jeff Towery, City Manager
Jennifer Cuellar-Smith, Finance Director
Dewey Burchell, Accountant II

Handouts: February 12, 2019 Audit Committee Meeting Minutes
June 11, 2019 Audit Committee Meeting Minutes
City of McMinnville, Oregon Comprehensive Annual Financial Report Year Ended June 30, 2019
McMinnville Urban Renewal Agency, Oregon Annual Financial Report For the fiscal year ended June, 30, 2019
Auditor's Management Letter to the Audit Committee and Management of the City of McMinnville, Oregon
Auditor's Management Letter to the Agency Officials of the McMinnville Urban Renewal Agency, Oregon

Minutes from Feb 12, 2019 and June 11, 2019 meetings

The minutes from February 12, 2019 and June 11, 2019 were presented for approval. Scott made a motion to approve the minutes; seconded by Kellie. Motion passed.

Presentation of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2019

Jennifer gave a brief overview of the meeting's agenda at Scott's request and turned the meeting over to Ms. Tonya Moffitt, partner with Merina & Company (MCO).

Tonya started off by thanking the Councilors for allowing MCO to perform the City's audit again this year. She then let the Committee know that both the Comprehensive Annual Financial Report (CAFR) and the McMinnville Urban Renewal Agency's (URA) Annual Financial Report received a clean or "unmodified" opinion from MCO this year. She continued that an "unmodified" opinion is the highest level the auditors can give and that she was very pleased with the work done by all of the staff at the City of McMinnville.

Tonya reminded the Committee that not all sections of the City's CAFR are audited, most notably the Introductory Section and the Statistical Section. Tonya mentioned that the Statistical Section was actually her favorite part of the CAFR to read and that she felt it painted the best picture for outside users for the City's historic changes, milestones, and current state. Tonya explained to the Committee that there was missing information and "n/a" (not available) indications in some areas due to changes the Governmental Accounting Standards Board (GASB) had made in reporting methods over the years. She wanted to assure them that this information was there before, but it was either reported in a different manner or was not required prior to those changes.

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The conversation moved to the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting award that was given to the City for the fiscal year ended June 30, 2018's CAFR. She indicated that this was a very prestigious national award that requires extra work from the City's Staff particularly those in the Finance Department. She mentioned some sections of the City's CAFR that the Committee may be used to seeing are not actually required by the Secretary of State for financial reporting, but rather added in to receive this award. Tonya mentioned that this was the first time in several years that she did not have to go over significant changes to the face of the City's CAFR from the prior year. She indicated that GASB had not required changes outside of additional note disclosures from financial reports this year.

Tonya drew the Committee's attention to the Compliance Section of the City's CAFR document and explained that the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting on an Audit of Financial Statements Performed in Accordance with Oregon State Regulations which mentioned that the Airport Maintenance Fund had a deficit budgetary basis fund balance. She stated that this was not abnormal for Airport funds and it had everything do to with timing issues and should not concern the City Council. She continued by explaining the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards along with the Schedule of Findings and Responses.

Scott mentioned that he felt the Council would be more interested in the remediation of the issues outlined in the Schedule of Findings and Responses rather than the issues themselves. Tonya responded that the Corrective Plan of Action that had been approved by the City's Council on February 25th was well thought out by the City, and that these type of internal control issues were not uncommon in entities going through turnover during the audit process. She indicated that turnover in governmental entities was a time of growth and improvement and that she did not believe the findings MCO had this year would be a continued issue.

Scott wanted to mention that he felt Jennifer had done a wonderful job of stepping in and finishing the audit and that he believed the Council had full faith in her ability to make the necessary changes outlined in the Corrective Action Plan. Scott wanted to extend thanks to the hard work and quality results that the finance team had achieved with the clean audit opinion this year. He continued that with three different staff members in the finance team's leadership role over course of the audit, that he was very pleased with the outcome.

Jennifer spoke to the Committee about receiving a quote from Tyler Technologies on March 9th, 2020 for their Tyler CAFR Builder software and that the City is planning on integrating this with the current ERP (Enterprise Resource Planning) software to smooth out and automate a lot of the manual processes that are currently a part of the audit preparation process. Jennifer indicated that this will cut back on user errors that can happen when performing manual audit preparation and would be part of the City's response to the Corrective Action Plan.

Scott wanted to look into the governmental and specifically the General Fund balances over time and Tonya indicated page 136 in the City's CAFR document would be the best place to see this. Pages 136 and 137 are in the Statistical Section of the CAFR document and show fund balances for the governmental funds of the last ten years. Scott asked if anyone could remember what the City Council was looking for in an ending fund balance with regard to current year expenses. Jeff responded that that the Council had decided on 25% as the base targeted ending fund balance for the General Fund as a percentage of that year's total expenses.

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Tonya brought the Committee's attention to page 25 in the Management's Discussion and Analysis. Page 25 has a table with the breakdown of governmental fund balances for fiscal year ending June 30, 2019 in comparison to fiscal year ending June 30, 2018. Tonya also mentioned that she was not 100% sure how the calculation for the targeted ending fund balance for the City was done, but that she would look it up for Scott. Scott commented that on page 27 in under "General Fund Budgetary Highlights" it mentioned General Fund revenues exceeding budgeted revenues by "approximately \$0.6 million, primarily due to higher than anticipated property taxes and franchise fee revenues offset by lower than budgeted intergovernmental revenue," and that he thought that was a good indicator that the target ending fund balance percentage was above the 25% threshold as in the prior year.

Jeff addressed page 41 of the City's CAFR which has the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual For the Year Ended June 30, 2019. He said if the calculation was as he thought, the General Fund's Ending Fund Balance was \$6,503,166 and the total expenditures were \$22,292,964 so Ending Fund Balance as a percentage of the year's total expenditures would be 29.2%. Tonya indicated that she had found the City's requirement for calculating this target percentage and that it would be from the modified accrual statement on the page 39 of the CAFR. Page 39 shows the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2019.

Jennifer mentioned that next year there would not be a difference between the Budget and Actual fund statements and the modified accrual statements, because the City was planning on changing their budget to a modified accrual basis. She indicated that this would do away with the reconciliation to the modified accrual statements shown at the bottom of the Budget and Actual Fund Statements and make for a smoother audit preparation process. Scott indicated that he liked that idea and remembered that she had made a prior mention of it to the City Council.

Scott commented that by his calculation from the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2019 the General Fund's Ending Fund Balance as a percentage of total expenditures was 37.9%. Jeff and Tonya both indicated that their calculations agreed with his. Scott indicated that this was a very healthy number, and he knew from recent Council Meetings that the expenditures in the current fiscal year ending June 30, 2020 would be higher, but was optimistic. Scott further indicated that both he and Kellie understood through their longevity on the City Council that a healthy Ending Fund Balance did not necessarily mean that they were underspending and would be available able to get them through the next economic rough patch that would inevitably come and may have already started.

Tonya wanted to point out to the Committee that they would need to pass along to the Council that idea of a healthy Ending Fund Balance still requiring careful consideration for all approved expenditures. She indicated that Scott was correct in assuming that at some point in the future there would be another down turn in the economy and that tax revenues would decrease. She wanted to warn them that a healthy Ending Fund Balance did not mean that the City should start adding FTEs (Full Time Equivalents) everywhere and that they should carefully consider all increases in expenditures.

Tonya direct the Committee to page 94 of the CAFR in the Required Supplementary Information Schedules. She indicated that number of government entities, their governing bodies, and citizens have been asking questions and/or are worried about the growing pension liabilities in the State of Oregon. She indicated that this was a good place to see that information as well as lead enquires from those who might have questions about growing pension liabilities. She explained that you could see in the City's Schedule of the Proportionate Share of the Net Pension Liabilities for the last six years, that City has been increasing their share of the net pension liability over the last six years and that the state would

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continue to manage the percentage of covered payroll that governmental entities are required to pay into the pension system to match its long-term goals.

Scott wanted to confirm that on page 95 the City's Schedule of Contributions For the last six fiscal years there had been a consistent increase in the City's contributions as a percentage of covered payroll and that would be paying down their pension liability. Tonya explained that the State of Oregon would continue to increase these percentages so long as the pension system was operating in a hypothetical deficit based on their projections for future pension expenditures for Public Employees Retirement System (PERS).

Scott indicated that he believed the City had taken out debt to pay down their pension liability rather than paying a higher interest rate to PERS. Jennifer explained that the bank loan the City had taken out was to cover the transition liability of the City of McMinnville when they entered the State of Oregon's State and Local Government Rate Pool (SLGRP). Tonya explained that due to the City entering the SLGRP after it was created there was a transition liability that the City took on to "catch up" to the other entities that had already been in the SLGRP.

Jeff mentioned that the City had also been approved for some of the State's Employer Incentive Fund that matched 25% of designated amount of the City's total pension liability and that the City would be paying into a PERS side account in the coming fiscal year ending June 30, 2021 to receive that match. He explained that this side account would pay-down the City's pension liability and bring down future rates the City is required to pay into the PERS system for pensions.

Tonya drew the Committee's attention to page 81 of the CAFR in the Notes to the Basic Financial Statements Section. This page shows the Actuarial Methods and Assumptions that are used by PERS when setting future rates and forecasting future expenditures. She indicated that PERS used 7.2% as their assumed long-term expected rate of return and that in her opinion that number was overly optimistic. She informed the Committee that the numbers PERS used for their actuarial calculations were purely hypothetical and the valuations created theoretical numbers. She indicated that in her opinion these numbers misrepresent a reporting entity's net position in the government wide financial statements.

Jennifer commented that with this being a valuation year for PERS and the overall economy having been in such a good place on the date used by for the actuarial valuation, she expected a decrease in the mandatory contribution rate for pensions over the next biennium. Jeff and Tonya both agreed that this was possible, but Tonya did reiterate the uncertainty of future mandatory contribution rates and suggested to the Committee that they use the modified accrual financial reports when performing an analysis of the overall health of specific City funds. She also reminded them that the Statistical Section of the CAFR was a great place to point out to any enquiring parties as it told the City's Story over the past ten years.

Tonya mentioned that kudos were in order for Jennifer coming in at the end of the audit process, rolling up her sleeves and completing the work that needed to be done for the City to receive a clean audit this year. Jennifer expressed her appreciation for Tonya and all of the staff at MCO for their patience and persistence in working with the City to complete the Audit this year and mentioned that their help and guidance led to the City's "unmodified opinion" for the CAFR Year Ended June 30, 2019.

Scott reiterated his appreciation for Jennifer and all of the City's Staff for their diligence through the audit process stating that changes in leadership show the good, the bad, and the ugly and the City has come out stronger for it. Kellie also expressed her appreciation for both Jennifer, the City's Staff as well as MCO all working together to complete the audit with a clean opinion this year.

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Presentation of the McMinnville Urban Renewal Agency, Oregon Annual Financial Report For the fiscal year ended June, 30, 2019

Scott indicated that he would like to touch on the McMinnville Urban Renewal Agency, Oregon Annual Financial Report For the fiscal year ended June, 30, 2019 before time ran out. He mentioned that saw more revenue than expenditures in the prior year and it appeared that for fiscal year ended June 30, 2019 expenditures had come in slightly higher than revenues. He asked Tonya for confirmation that he was reading these numbers correctly and that his observation was correct.

Tonya confirmed Scott's observation on the state of the URA indicating that some of that shift to more expenditures than revenues was likely a timing difference from when projects were started and actually completed. Scott said that he and the City Council wanted to ensure that they were taking advantage of all the opportunities they could with URA resources, while still keeping a large enough reserve for more costly opportunities that may present themselves in the future.

Tonya mentioned that as she stated before the McMinnville Urban Renewal Agency, Oregon Annual Financial Report For the fiscal year ended June, 30, 2019 had also received a clean audit or "unmodified opinion" from MCO and that she did not have any concerns about the state the URA was currently in.

Scott mentioned that the Committee felt they would be addressing the Corrective Action Plan at the Council meeting later and did not feel the need to discuss it at this time.

There being no further business to come before the Committee, the meeting was adjourned at 4:51 PM.