

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

Date: February 13, 2018, 4:00 p.m.

Audit Committee: Scott Hill, City Councilor
Kellie Menke, City Councilor

Auditor: Tonya Moffitt, Merina & Company. LLP

Staff: Marcia Baragary, Finance Director
Dewey Burchell, Accountant

Handouts: May 9, 2017 Audit Committee Meeting Minutes
November 11, 2017 Audit Committee Meeting Minutes
Report to the Audit Committee, Auditor Communication to Those Charged
with Governance, January 8, 2018
Comprehensive Annual Financial Report for the Year Ended June 30,
2017
McMinnville Single Audit Report for the Year Ended June 30, 2017
McMinnville Urban Renewal Agency Annual Financial Report for the Year
Ended June 30, 2017
Auditor's Communication to Those Charged with Governance

Minutes from May 9, 2017 meeting & Minutes from November 11, 2017

The minutes from May 9, 2017 and November 11, 2017 were presented. Kellie made a motion to approve the minutes; seconded by Scott. Motion passed.

Presentation of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2017

Tonya thanked the Councilors for allowing her and her staff at Merina & Company. LLP (MCO) to work on the audit this year. Tonya mentioned that the Comprehensive Annual Financial Report (CAFR) requires a lot of work by City staff and that she appreciated all of the effort required to produce the CAFR.

Tonya referred to the Statistical Section of the CAFR for fiscal year ended June 30, 2017, specifically the Changes in Fund Balances, Governmental Funds Last Ten Fiscal Years. She said that this type of historical data is easy to tie out to the main Financials and stated that the information would be very useful for a citizen, business, or potential investor of the City of McMinnville.

Scott asked if the New World ERP (Logos) software helped the Finance staff in drafting the Statistical Section of the CAFR. Marcia mentioned that the strength of the Logos software was its internal controls and it is very helpful in researching historical data for the Statistical Section.

City of McMinnville
City Council Audit Committee
Meeting Minutes

Kellie asked if Logos was used to format the CAFR and Marcia responded that we had used Debbie Smith-Wagner's templates this year as she was the one who drafted the main Financial Statements. Marcia said that New World ERP had recently been bought out by a larger company, Tyler Technologies, which had actually opened up some great opportunities and she had been looking at their CAFR Builder software. Marcia said that Tyler would give us a large discount on the software since we were already using a Tyler Technologies product (Logos) and this was a project that she wanted to pursue in the future.

Scott asked if Logos is a state of the art program. Marcia said that she had not been around prior to Logos, however, her predecessors did a very good job of choosing this program and that she and her staff were very pleased with it. Tonya mentioned that the City should look into how long Tyler Technologies will continue to support Logos. Tonya seconded that Logos is great for internal controls and her overall opinion of the Logos software was favorable. Tonya also mentioned that she and her staff at MCO are always pleased when they hear that a client is working with a consultant like Debbie Smith-Wagner. Debbie and her business partner are both great to work with and very knowledgeable.

Kellie asked if there was a company or organization that Tonya knew of who compared government computer programs like Logos. Tonya said she was not aware of any and due to the small market size and niche type of program she did not think there was a large enough demand for it.

Tonya explained that Merina & Company 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. She also mentioned that MCO performed limited audit procedures on the required supplementary schedules and that the introductory section, including the Letter of Transmittal, as well as the Statistical Section are not audited. However, MCO does review those sections for consistency.

Tonya directed the committee to the Independent Auditor's Report Required by Oregon State Regulation. Merina reported no findings on the items covered in the report.

Tonya directed the Committee to two funds with negative fund balances at the modified accrual level, the Urban Renewal Debt Service Fund and the Ambulance Fund. She explained that the fund balances are not negative on the budgetary basis and she found no reason to be concerned about either fund. An advance to other funds is causing the negative fund balance on the Combining Balance Sheet, Non-Major Governmental Funds (Urban Renewal Debt Service Fund). The large net pension liability for PERS is causing the negative balance on the Statement of Net Position, Proprietary Funds (Ambulance Fund).

Scott asked about the LOSAP (Length of Service Awards Program) account and if this was causing the issue in the Ambulance Fund. Marcia explained that this was separate from the PERS liability in the Ambulance Fund.

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

Marcia mentioned the shift in the prior year from the majority of the City's employees being classified in the PERS system as Tier 1/2 to the majority being classified as OSRP and this should help with the PERS liability in the future. Tonya referred to the RSI Schedule of Contributions, which reflects that the City is not deficient on their PERS statutory required payments. More information on the PERS liability can be found in the detailed Notes to the Basic Financial Statements.

Tonya directed the Committee to section IV.J. of the Notes to the Basic Financial Statements and discussed GASB 75 and GASB 77. She mentioned that GASB 75 was not required to be implemented until the year ended June 30, 2018, however she was pleased that the City had early implemented it this year.

Scott asked about how Tonya felt about working with city staff. Tonya mentioned it was great that the City was fully staffed now and how understaffing is an issue across the state and nation. She also reiterated that although MCO has a great relationship with City staff, the auditors work for and are accountable to the City Council.

Presentation of the McMinnville Urban Renewal Agency Annual Financial Report for fiscal year ended June 30, 2017

Tonya referred the Committee to the McMinnville Urban Renewal Agency (URA) Annual Financial Report and the Independent Auditor's Report. MCO issued an unmodified or "clean" opinion on the URA statements.

Scott asked about parameters that had been set up when the URA was created and if the URA Report could help compare actual results to the original projections. Tonya explained that the URA Financial Report includes some information but does not contain the historical information to which Scott referred. Scott stated it is important to have this information to understand the impact of the \$100,000 forgivable loan to the Atticus Hotel, as well as other UR decisions.

Marcia said that she would work with Heather Richards to add this component to the budget document for next year.

Presentation of the Single Audit Report for Year Ended June 30, 2017

Tonya referred the Committee to the Single Audit Report for Year Ended June 30, 2017. She said that MCO was issuing an unmodified or "clean" opinion to the Single Audit Report. This is the highest opinion they can give and MCO was very pleased that there were no reportable or non-reportable items.

Tonya referred to the Federal Aviation Administration (FAA) grant received by the City for Airport improvement projects. She indicated that the City is managing the FAA grant extremely well and is in compliance with all grant requirements.

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

Tonya commented that she was glad to see the bullet proof vest program included in the Schedule of Expenditures of Federal Awards (SEFA). This is the most common item they find missing from the SEFA. These smaller grants and grants passed through the State of Oregon can be difficult to identify and MCO has often called the Secretary of State to confirm whether a grant should be included on the SEFA. Tonya mentioned that The City has done a thorough job of including all Federal awards on the SEFA.

Scott mentioned that the City may be receiving additional federal grant funds as the City looks to increase their revenues. Marcia said that she had spoken with Heather Richards, the Planning and Building Department Director, who is researching potential Federal awards for planning and economic development.

Tonya explained to the Committee that typically all administrative costs cannot be paid for with Federal grant funds, however, the Federal government is currently discussing this issue.

Auditor Communication to Those Charged with Governance

Tonya directed the Committee's attention to the Auditor's Communication to Those Charged with Governance. She explained GASB 75 and indicated that the City had already implemented this in the year ended June 30, 2017.

Tonya then explained GASB 83 (Certain Asset Retirement Obligations), which should be implemented by the year ended June 30, 2019.

GASB 84 (Fiduciary Activities) includes some minor rule changes that should be implemented by the year ended June 30, 2019.

GASB 85 (Omnibus 2017) is mostly clarification of prior GASB statements and should be implemented in the year ended June 30, 2018.

GASB 86 (Certain Debt Extinguishment Issues) addresses situations where City funds are used for early refunding of debt. This is not refinancing old debt, but rather using current assets to make early payments on current debt. GASB 86 should be implemented in the year ended June 30, 2018.

Other Items for Discussion

Marcia commented that the City staff very much appreciate working with Tonya and her staff and that Tonya and her team are a great asset and help in the completion of the Audit.

Tonya indicated that the next time she will meet with the Committee will be prior to interim fieldwork for the fiscal year 2017-18 audit. Scott asked about the City's contract with MCO. Tonya responded that there is one more year left on the current contract and that there is a renewal option at that point. Scott said that the City and City Council are very pleased with the work performed by MCO and they would like to discuss renewing the contract at that time.

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

Tonya encouraged Scott and Kellie to contact her with any questions regarding the financial reports or with any other concerns.

Marcia encouraged Scott and Kellie to attend the City's GO bond bid opening the morning of the February 14th. Currently eight financial institutions have indicated interest in bidding on the City's new issuance of bonds.

There being no further business to come before the Committee, the meeting was adjourned at 5:06PM.