



CITY OF GERMANTOWN TENNESSEE

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Audit Commission Meeting

Thursday, March 3, 2016 – 8:30 a.m.
Administrative Conference Room
City Hall, 1930 S. Germantown Road

MEMBERS PRESENT: Alderman Rocky Janda, Patrick Lawton, Julius Moody, and Mayor Mike Palazzolo

CALL TO ORDER

Mr. Gabb, called the March 3rd, 2016 Audit Commission meeting to order.

ESTABLISHMENT OF QUORUM

Mr. Gabb then announced that a quorum was present

INTRODUCTIONS

Mr. Gabb named those in attendance that were non-members. Included were Trey Watkins and Michael Walker both from Watkins Uiberall, PLLC, Ralph Gabb (former Finance Director—City of Germantown), Linda Rathje (Accounting Manager—City of Germantown) and Michael Stoll (citizen).

Mr. Lawton expressed appreciation for everyone's attendance and then shared that he invited Mr. Gabb to sit in on this session as he was "deeply" involved in past audits and procedures and has assisted the City during this interim period without a Finance Director. Mr. Lawton felt that his presence this morning is very important especially because he has worked closely with Mr. Watkins and Mr. Walker on audit preparations and issues that the commission might have.

Mayor Palazzolo commended Ralph and said to let the record state that we can't express enough thanks for his many years of service and that is most appropriate that he is here today.

Because the City receives federal funding, two audits were performed and given an "Unmodified" or clean opinion. The single audit on federal funds goes to the Federal Government as well to show that the City is in compliance with the grantor of these funds.

REVIEW OF 2015 AUDIT

Mr. Michael Walker of Watkins Uiberall said that he appreciated the hard work of the entire City of Germantown's Finance Department as well as the Finance Team for the Germantown Municipal School District (GMSD); both responded quickly and worked well on several issues. Mr. Walker advised that there were a couple of new things that hit this year, one being the first full year of operations for the Municipal District which included and combined in with this year's Comprehensive Annual Financial Report (CAFR). The other big change from an accounting standpoint was a new Accounting Standard (GASB Statement No. 68). Amended by No 71, this means that the large pension liability now has to be reported and incorporated in the government-wide financial statements. Mr. Walker advised that there are two sets of financial statements included in the CAFR: 1) the Government-wide Statements which are meant to mimic and look like a business-type entity and 2) the Modified Accrual Basis Statements

which are basically your fund financial statements that compare the results to budget; this is the report that we really need to look at to see how we did financially, in comparison to the budget. These are also the financial statements that our creditors tend to look at more closely.

Mr. Walker further advised that there are three letters from Watkins Uiberall that are included in the CAFR report—(1) an opinion of the overall financial statements; as mentioned previously by Mr. Gabb, an unmodified opinion was given in that there were no issues. It is the highest level of assurance that can be given on a set of financial statements. Located at the very back of the report are two other letters that relate to single audit testing. Letter (2) regards internal control matters of financial reporting; if there was a control issue that was significant or material within the City or GMSD, it would be reported in this letter. Mr. Walker said that he was happy to report that there were no findings here. And lastly, letter (3) reports on compliance for each major program. Again, an unmodified/clean opinion was rendered here as well. Across the board, per Mr. Walker, we hit the mark on everything.

Mr. Walker then advised that under the "Liabilities" section there are now two new items—1) Net OPEB (Other Post Employee Benefits) Obligation of \$697,857 is the unfunded OPEB obligation for the Municipal School District. With this being a government-wide statement, everybody rolls into one statement that ultimately shows the results for everyone. And 2) the net pension liability in the amount of \$12,637,925 must now be included on this statement; this is the Actuarially Determined Obligation less the Net Pension Assets that gives us a cumulative total for all four pension plans. Mr. Walker said the Net Position of the City (including the school district) is \$227,526,404 with \$187,542,222 representing capital assets. There are some restrictions for the Drug Enforcement Fund and the Library Endowment Fund—a total amount of \$39,408,395 is for unrestricted net assets and is once again, on a full accrual basis.

Mr. Walker further explained that the major funds for this year are: 1) the COG General Fund, 2) the GMSD Board of Education, 3) the COG Utility Fund and 4) the COG Athletic Club Fund. He then turned everyone's attention to the Statement of Activities (Exhibit A-2) and said the bottom line (full accrual basis) and net income equivalent number for the year is \$16,949,434. Looking at the Balance Sheet for Governmental Funds (Exhibit A-3), Mr. Walker said for this statement, again we are dealing with the General Fund and the School District. On Exhibit A-4, the Statement of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds is basically the income statement of the Profit and Losses (P&L) on a fund basis. It was obviously a very good year for governmental funds as the bottom-line, net change in fund balances for the year totaled \$9,607,456 (Exhibit A-5).

Mr. Walker talked about budgetary comparisons (Exhibit A-7). He advised that all of the expenditures were within the final budget amount and that this is a State statute in which the City of Germantown did meet.

The Utility Fund, Athletic Club Fund and Nonmajor Enterprise Funds all make up the Proprietary Funds which are budgeted and presented on a full accrual basis. The net pension liability is allocated between the Proprietary Funds and the Governmental Funds based on the percentage of the contributions that come from each fund type. Referring to Exhibit A-9 (Statement of Net Position for Proprietary Funds), Mr. Gabb directed everyone's attention to the amount of "unrestricted" cash carried by each of the Enterprise Funds—the Utility Fund (\$2,548,878), the Athletic Club Fund (\$3,334,924) and Nonmajor Enterprise Funds (\$1,563,966); as of June 30, 2015 the total for Enterprise funds is \$7,447,768. Mr. Walker said that the Enterprise Funds look good and all have very healthy net positions. Most of it is invested in capital assets but the unrestricted in total and across the board is \$6,720,306.

Exhibit A-10, the Statement of Revenues, Expenses, and Changes in Net Position for the Proprietary Funds is effectively the Income Statement or P&L for the Proprietary Funds. Mr. Walker said for the Utility Fund, the total change in net position is \$1,122,716; this is especially important with the Utility Fund in that this is a *positive* net position change as opposed to the last two or so years being *negative*. The Athletic Club as well as the Nonmajor Enterprise Funds also have healthy position changes with \$807,875 and \$344,590 totals, respectively.

The Statement of Cash Flows (Exhibit A-11) for the Enterprise Funds again shows how the City is doing on a cash basis—are debts and other obligations being covered? By looking at the "net cash provided by operating activities" line gives us a good measurement and tells us that the funds are indeed healthy; a lot of cash is being provided through normal operating activities. The Utility Fund is at \$2,740,164, the Athletic Club Fund is \$1,364,230 and the Nonmajor Enterprise Funds is \$144,346—totaled together gives us \$4,248,740 of net cash from ongoing operations.

Mr. Walker said that Exhibits A-12 and A-13 both are related to "fiduciary" funds whereby in this situation, the City or the School District is considered the fiduciary. This is essentially the layout of the balance sheets for the various pension and OPEB plans that provide information on available deposit funds, school and student activity funds, assets, money due to schools, etc. There also is the "Statement of Changes" for the Amended & Restated Pension Fund, Cash Value Pension Fund and the OPEB Fund. All three of these are funds of the City; according to Mr. Walker, next year once the OPEB Trust Fund has been fully set up for the school district a column will be included on the FY16 statement as well. He advised that the school district's pension plan is not listed on our statements because the City is not the fiduciary; their pension plan is provided through the Tennessee Consolidated Retirement System (TCRS).

Mr. Walker then directed everyone's attention to the *NOTES TO THE FINANCIAL STATEMENTS*. Included in "Note 5" (Pensions) are the new pension related footnotes where much of the written detail is pulled directly from the actuarial reports. Mr. Walker said the table on page 74 summarizes pension liability for the **(I.) Amended and Restated Pension Plan**. Per Mr. Walker, this is the City's "legacy" plan which is now closed to new employees. The net pension liability balance as of June 30, 2015 is \$12,556,875; this is the total across the board for governmental and business-type activities. Mr. Lawton asked if 84.02% was a sufficient number for the net position *as a percentage* of the total pension liability. Mr. Reid advised that anything above 80% is considered to be good. He also advised that market performance and investment rates of return definitely matter. Right now, the City is assuming an 8% return in the market. As indicated on page 76, it specifically shows how a 1% decrease and a 1% increase affect this return. At 1% lower (7%), the City's net pension liability is \$23,370,076; at 1% higher (9%) it is \$4,459,451. The second component on page 78 shows the "new" pension plan which is commonly known as **(II.) Cash Value Plan**. The net pension liability is only \$81,484 because it was just recently started up and had only 46 participants as of June 30, 2015. Theoretically, this plan will continue to grow every year. There are two pension plans for the school district—the **(III.) Legacy Pension Plan** and **(IV.) the Teacher Retirement Plan**. Mr. Walker stated that the latter actually has a very small asset in the amount of \$442, which pretty much breaks even on net pension liability (asset) for this particular TCRS plan.

As for the City's OPEB Plan, there is a net zero balance as shown at the bottom of page 90. The Funded Status and Funding Progress section on page 91 explains that as of June 30, 2015, that the actuarial accrued liability for benefits was \$9,285,322 of which \$2,747,172 was unfunded. As previously mentioned, Mr. Walker said in a couple of years, if these numbers were to remain the same, a liability in the amount of \$2,747,172 would be reflected on the government-wide Statement of Net Position. It would show as a net OPEB *liability* as opposed to a net OPEB *obligation*. Although similar to GMSD, it is different in that they assumed all of these OPEB Obligations from the county when the school district was formed. On page 97 under the same section (Funded Status and Funding Progress), \$11,199,324 was unfunded. Mr. Walker said because this is an "inherited" liability, he believes the plan and provided benefits are being re-evaluated and re-negotiated right now so that this number will hopefully come way down. The Net OPEB Obligation at the end of the year for the school district's OPEB Plan totals \$697,857. Mr. Walker explained that they budgeted for and funded 46% of their annual required contribution. Per Kevin Jones, (GMSD CFO/Finance Director), their plan is to catch this up and zero it out over a number of years instead of taking a one year hit.

Mr. Gabb called for a motion to approve the 2015 Audited Financial Statements as presented.

****MOTION****

Alderman Janda moved to approve the 2015 Audited Financial Statements as presented. Chairman Moody seconded and the motion passed unanimously.

APPROVAL OF MINUTES

Mr. Gabb asked for approval of the minutes from the April 6, 2015 Audit Commission meeting.

****MOTION****

Alderman Janda moved to approve the minutes from the April 6, 2015 Audit Commission meeting. Chairman Moody seconded and the motion passed unanimously.

GOVERNANCE LETTER

Mr. Reid said basically, the big issues this year was the change in financial standards and the importance of filing estimates for the Allowance of Doubtful Accounts (actuarially determined), the Net Pension Liabilities (actuarially determined), the Net OPEB Liabilities (actuarially determined) and the Allowances for Depreciation were identified as being very significant. Mr. Reid further stated that the pension disclosure is also significantly important as part of the Governance Letter. He advised that he and team encountered no difficulties in performing the audit and that everybody was very responsive to questions asked and requested information. Everything was well represented and nothing was withheld according to signed statements. Mr. Reid said the biggest issue this year was the pension plan. He also mentioned that a series of uncorrected and immaterial statements are attached at the back.

Mr. Gabb advised that the Governance Letter was sent to all members of the BMA. He then asked for a motion to accept the Governance Letter as presented.

****MOTION****

Alderman Janda made a motion to accept the Governance Letter as presented. Chairman Moody seconded and the motion passed unanimously.

Mr. Gabb said the City is also responsible for the Poplar Annual Financial Report (PAFR) each year which is a condensed form of the CAFR that allows our citizens to understand it in a very simplified way versus reading a lot of pages. Both the CAFR and the PAFR are sent to the GFOA for approval each year. He then expressed thanks to Mr. Watkins, Mr. Walker and other staff members for performing the City's financial audit for many years now. Mr. Gabb said whenever the City has a question, we can always reach out to the Watkins Uiberall Firm for a level of expertise that allows us to keep a well run and well financed City.

Mayor Palazzolo also thanked Mr. Gabb, Ms. Rathje and the entire finance team for jobs well done in the Finance Department.

ADJOURNMENT

Alderman Janda called for the meeting to be adjourned.