



CITY OF GERMANTOWN TENNESSEE

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AUDIT COMMISSION MEETING Monday, February 17, 2010 Administrative Conference Room at 8:00AM

MEMBERS PRESENT: Patrick Lawton, FAC Chairman Julius Moody, Ralph Gabb

MEMBERS ABSENT: Mayor Sharon Goldsworthy, Alderman Ernest Chism

OTHERS PRESENT: Trey Watkins, Watkins Uiberall, PLLC.

CALL TO ORDER

Ralph Gabb, Finance Director, called the February 17, 2010 Audit Commission meeting to order at 8:05 a.m.

GENERAL OVERVIEW

Ralph began by thanking the members of the Audit Commission for coming this morning as well as Trey Watkins, partner from the accounting firm of Watkins Uiberall, PLLC. Ralph Gabb called roll, and it was noted that a quorum was present for the meeting.

APPROVAL OF MINUTES

Ralph Gabb asked for approval of the minutes from the March 23, 2009 meeting.

****MOTION****

Julius Moody moved to approve the minutes from the March 23, 2009 Audit Commission meeting. Patrick Lawton seconded and the motion passed unanimously.

WATKINS UIBERALL REPORT

Trey Watkins reported the City received an unqualified opinion which is a clean opinion. The financial statements are in compliance with generally accepted accounting principles and are materially correct. In addition, there were no problems encountered during the audit. The City has two sets of financial statements in the CAFR. The City reports on an accrual basis and modified basis of cash. The modified basis will match up with the City's budgetary constraints. The modified accrual is a more expenditure driven presentation of accounting. The modified accrual basis begins on page 29 and is what you see internally. Approximately, 8 years ago the Governmental Accounting Standards Board issued GASB 34 which required governments to adjust their records for external reporting from a modified to a full accrual basis of accounting.

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WATKINS UIBERALL REPORT (Cont'd)

In essences, it requires the City to put its' fixed assets and debt on the balance sheet which would be found on most financial statements in the private sector.

Page 58 show the debt the government has in its governmental funds in the amount of \$26 million dollars. The City is required to capitalize and amortize the cost of premiums and issuance cost over the life of the various bonds. Also, when you get into the business activities the debt is carried on the entity books, an example would be the utility fund. The business type activities charge a fee for services that pay the debt. Therefore, taxpayers are not paying the debt of the business activities.

Ralph Gabb reminded the commission members that the City went out for two debt issues. One issue was for the Utility Fund in the amount of \$5.0 million. Also, the General Fund had a debt and refund issue in the amount of \$9.6 million and refunded \$3.6 million dollars. Also, during the year the City pays its semi-annual debt payments. The amount of debt on the City's books is low as it relates to the number of households. Pages 93 through 96 provide a listing of the debt and the various payments owed by the City in the future years.

Trey Watkins asked the commission members to look at pages 54 and 55 as this outlines capital assets of the City in both the governmental funds and enterprise funds. This shows how much land, building, roads and equipment the City has on its books. He reminded the members that the internal books of the governmental fund do not reflect the assets. This is used for external reporting. Under normal governmental reporting if an asset is purchased it is expensed and not treated as capital with depreciation on a monthly/yearly basis. Under the GASB 34 presentation or full accrual method of accounting fixed assets are shown on the balance sheet with accumulated depreciation. Also, on the sales of an asset you would show a gain or loss on the sales of assets which is not shown on the fund basis of governmental accounting. These are some of the complexities of reporting the two methods.

Trey Watkins directed the commission to look at pages 28 and 30 and they could see the reconciliation between the governmental fund basis that utilizes modified accrual and government-wide basis that utilizes a full accrual financial reporting.

Trey Watkins explained that the bottom line for the financial statement is that the City is healthy. There were not audit issues as the City is following generally accepted accounting principles and that the staff is very knowledgeable.

Ralph Gabb explained that the audit went very smoothly and was completed on a timely basis. With this said, the City was able to prepare a Popular Annual Financial Report (PAFR) which is in a condensed format of the Comprehensive Annual Financial Report (CAFR). The PAFR is in a more readable and understandable format without some of the jargon of accounting. The CAFR is a very complex document the City puts together for the State of Tennessee, the Government Finance Officers Association, and rating agencies.

Ralph Gabb addressed the management letter as prepared by the accounting firm. This letter documents any problems that may have been encountered during the audit. The management letter stated that there were no problems encountered and that the internal controls appeared to be sufficient. Trey Watkins pointed out that the firm does not audit the internal controls but documents the internal controls. The City has sufficient people to be able to provide a good segregation of duties. The segregation of duties provides the ability to detect and hopefully prevent errors, omissions and fraud.

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WATKINS UIBERALL REPORT (Cont'd)

Ralph Gabb stated that the City has submitted the audit report to the State of Tennessee and the Government Finance Officers Association (GFOA). The State of Tennessee has accepted the report and the City is waiting acceptance from GFOA. Ralph Gabb felt quite sure the City would again receive the Certificate of Achievement of Excellence in Financial Reporting. Also, the City has submitted its PAFR to the GFOA and felt quite sure the City would receive the Award for Outstanding Achievement in Popular Annual Financial Reporting. Again, the requirement for the PAFR is its ability to provide the reader with an understandable document with reader appeal.

ACCEPTANCE OF AUDIT MANAGEMENT LETTER

Ralph called for a motion to accept the Audit and the Audit Management Letter

****MOTION****

Patrick Lawton moved to accept the Audit and the Management Letter. Julius Moody seconded and the motion passed unanimously.

ADJOURNMENT

Ralph called for a motion to adjourn

****MOTION****

Julius Moody moved to adjourn. Patrick Lawton seconded and the motion passed unanimously.

The meeting adjourned at 8:55 a.m.