

CITY COUNCIL STUDY SESSION

TO: Mayor and City Council

FROM: Mari E. Macomber, City Manager

SESSION DATE: July 11, 2016

TIME: 6:00 pm

PLACE: City Council Chambers

AGENDA:

- Comprehensive Annual Financial Report
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- Council Agenda Review
- Council Newsletter Review

Comprehensive Annual Financial Report (CAFR) and Audit Report

Each year the City contracts with an independent accounting firm to complete an audit of the City's financial statements in accordance with U.S. generally accepted auditing standards. Not only do the auditors review our financial information, but they evaluate the City's internal controls, considering the policies and practices that we have in place as they relate to our financial statements.

As part of this year end process, the Finance Director prepares a comprehensive financial report. This report is the Comprehensive Annual Financial Report (CAFR). The CAFR is a thorough and detailed presentation of the City's financial condition. It's a report on the City's activities and balances for each fiscal year. The CAFR was established as local government's complete accounting record starting in the mid-1940s through the efforts of the Government Finance Officers Association (GFOA) and by the 1970s became the nationwide model for all local governments on financial reporting. Unlike a budget, a CAFR is complete record of assets, investments and gross income from all sources of the City.

Each of you were given copies of the City's Report on Federal Awards which is part of the Audit, along with a copy of the Comprehensive Annual Financial Report (CAFR) for the year ending December 2014. This report provides a 12 month representation of the City's financial activity. To view this document, please go to http://www.kirksvillegov.com/filestorage/72/122/2606/7672/Final_Version_CAFR_2014.pdf

The CAFR is prepared in conformance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards by an independent firm of certified public accountants. The City contracted with audit firm, Hochschild, Bloom & Company from Chesterfield, MO, who began working with the City to complete the 2013

audit. On Monday, Jim Pursley with Hochschild, Bloom & Company will be in attendance to discuss the audit and recommendations from the management letter. Lacy King, Finance Director will be presenting the Council with the 2014 CAFR.

The resulting CAFR has been presented to the GFOA, which conducts a peer review of applicant local government CAFRs and upon review awards their Certificate of Achievement Award for Excellence in Financial Reporting to those local governments that are in compliance with their CAFR accounting standards of preparation. The City, through the leadership of the Finance Director has been successfully recognized by GFOA for many years.

The second document you received was a Report of Federal Funds. All non-Federal entities that expend \$500,000 or more of Federal awards in a year are required to obtain an annual audit in accordance with the Single Audit Act Amendments of 1996. A single audit is intended to provide a cost-effective audit for non-Federal entities and that one audit is conducted in lieu of multiple audits of individual programs. To view this document, please http://www.kirksvillegov.com/filestorage/72/122/2606/7672/Report_on_Federal_Awards.pdf

The City Council will have an opportunity to receive a report from our auditing firm Hochschild, Bloom & Company and review the various components of the CAFR with Finance Director Lacy King. The City Council should be aware of the significant contribution made by our Finance Director and her staff in completing this process and doing so with minimal direction. She has demonstrated not only a strong work ethic but a strong command of governmental accounting standards. She is proving to be an exemplary addition to the City's senior management team.

Health Insurance Report

In preparation for the 2017 budget, Phil Drescher, our insurance benefits consultant with Bukaty Company will be in attendance on Monday to visit with the City Council. Mr. Drescher will be providing an overview of where our health insurance program stands in regard to claims experience. He has been asked to advise us on ways to continue to minimize our health insurance costs and is expected to discuss options with the Council, which will include increases in the individual deductible for our plan.

Though the City's wellness program has shown success in keeping our costs down, what we continue to see is just a small number of claims that make up the majority of our costs.

The City Council will be asked to provide direction to staff on changes you wish to be made to our health coverage.

Attachments

- Staff Report – Comprehensive Annual Financial Report
- Staff Report on E-911 Center

KIRKSVILLE CITY COUNCIL STUDY SESSION ATTACHMENT

SUBJECT: Overview of 2015 Comprehensive Annual Financial Report and Report on Federal Awards

STUDY SESSION MEETING DATE: July 11, 2016

CITY DEPARTMENT: Finance

PREPARED BY: Lacy A. King, Finance Director

Each year, the City undergoes a comprehensive audit of its financial records, financial statements and internal controls over financial reporting for the prior year. The ultimate goal is to achieve an “unmodified opinion” as a result of the audit, which states that the financial statements are presented fairly in all material aspects and that the statements conform to generally accepted accounting principles. The Comprehensive Annual Financial Report (CAFR) and Report on Federal Awards is the end product of the audit and not only represents the financial position of the City but also a dedication of many hours of City staff time.

This year, audit preparation began before year-end in order to compile the required documentation necessary for the auditor review on April 25, 2016. The audit team was on-site that week meeting with City staff, examining City records, work papers and testing of processes. Both the City staff and auditors then use the information to compile one document known as the CAFR. In addition, if the City expends \$750,000 or more in federal awards, it is required to submit a Report on Federal Awards to the Federal Audit Clearinghouse (FAC). The FAC serves as a public database of all audits conducted and submitted and is maintained by the Office of Management and Budget. The CAFR is sent to the Government Finance Officers Association of the United States and Canada (GFOA) for review and evaluation of City eligibility for a Certificate of Achievement for Excellence in Financial Reporting award. The City has been the recipient of this prestigious award for the past 31 years.

The City solicited bids for auditing services in the fall of 2010. The auditing services were awarded to Hochschild, Bloom & Company LLP of Chesterfield, Missouri for a five year period, ending for the fiscal year end December 31, 2014. On May 18, 2015, the City Council authorized the City Manager to execute a letter of engagement to retain Hochschild, Bloom & Company LLP’s audit services on a multi-year basis. A representative with Hochschild, Bloom & Company LLP will be in attendance to review the results of the audit with the City Council, including the presentation of the CAFR, single audit report and the recommendations to management.

KIRKSVILLE CITY COUNCIL STUDY SESSION ATTACHMENT

SUBJECT: Self-Funded Insurance Benefits

STUDY SESSION MEETING DATE: July 11, 2017

CITY DEPARTMENT: Human Resources

PREPARED BY: Pat Meredith

The City of Kirksville partially self-funds the employee medical and dental insurance plan utilizing agreements with Third Party Administrators, Preferred Provider Networks, Pharmaceutical Benefit Managers, Reinsurance Providers and a broker to assist in the administration of the insurance fund and keep us abreast of affordable healthcare requirements and other pertinent changes in the law.

The first six months of 2016 claims expenditures are at (\$543,471) 33% of maximum claims liability budgeted for the year. Pharmaceuticals represent approximately 23% of total claims paid. This year our focus is on pharmaceuticals and how we can control these costs. Controlling pharmaceutical cost is a national problem. The United States represents 5% of the worldwide population and 75% of the prescription drugs used. More people in the United States die from prescription drugs abuse than from cocaine and heroin combined and more than vehicular accidents.

Phil Drescher, Bukaty Companies has been working with the City approximately sixteen years and has recommended many cost saving enhancements to our plan design, wellness program initiatives, and assisted us with Affordable Care Act compliance and will be assisting us with new onerous reporting requirements.

City staff is working with Mr. Drescher to evaluate our current pharmaceutical plan and exploring ways to control costs for both the City and employee.

The City was recently notified by Interactive Health Solutions that we were designated as one of the Healthiest Companies in America for 2015. We are currently reevaluating our wellness program and exploring ways to jump start the program and employees.

Mr. Drescher meets with City Council annually to answer your questions on how we are doing.

KIRKSVILLE CITY COUNCIL STUDY SESSION ATTACHMENT

SUBJECT: Compensation (Changes in the Fair Labor Standards Act)

STUDY SESSION MEETING DATE: July 11, 2016

CITY DEPARTMENT: Human Resources

PREPARED BY: Pat Meredith

The US Department of Labor finalized the Fair Labor Standards Act regulations concerning overtime for executive, administrative and professional (exempt) employees. The new regulation will be effective December 1, 2016.

The new regulations increased the salary basis threshold to \$47,476 per year. In addition, the regulations allow for an update of the salary threshold every three years based on wage growth beginning January 1, 2020. The final rule did not make any changes to the duties test.

To bring the exempt salary pay schedule into compliance, *conservatively*, it will cost approximately \$30,000.

The White House supports the proposal to raise the federal minimum wage to \$10.10 per hour (currently at \$7.25 per hour). No projections what the Federal Government will do with the minimum wage for 2017.

Missouri is one of eleven states whose minimum wage is adjusted annually based on changes to the consumer price index (CPI). The CPI used by Missouri was insufficient to trigger a raise in 2016. We cannot expect the current rate of \$7.65 per hour to continue in 2017. Speculation is that the 2017 Missouri minimum wage will be \$7.80 per hour (2% increase). The approximate cost to increase seasonal/part-time employees to the new minimum wage would be \$5,500.

The lowest hourly rate for hourly employees is \$10.50 per hour. While this rate is higher than the proposed Missouri minimum wage, the City Council may want to consider passing the projected 2% (CPI) minimum wage increase (if passed) on to hourly positions to keep up with these market adjustments. Keeping in mind we do not know what the Federal minimum wage will be.