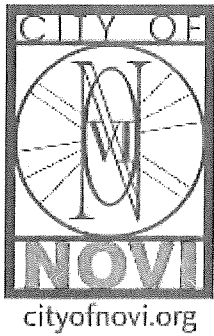


MEMORANDUM



TO: HONORABLE MAYOR GATT AND CITY COUNCIL MEMBERS
FROM: CLAY J. PEARSON, CITY MANAGER
KATHY SMITH-ROY, FINANCE DIRECTOR/TREASURER
CC: LEADERSHIP GROUP
FINANCE/TREASURY STAFF
SUBJECT: AUDIT PRESENTATION – SUMMARY OF INFORMATION PROVIDED
DATE: NOVEMBER 10, 2011

The purpose of this memorandum is to transmit the reports relating to the fiscal year ended June 30, 2011 as follows:

- Comprehensive Annual Financial Report (CAFR)
- Audit Presentation Graphs from Andrews Hooper Pavlik PLC
- Report to City Council from Andrews Hooper Pavlik PLC (also known as SAS 114 letter)
- Federal Awards Supplemental Information Report (also known as Single Audit Report for federal grant funds received)
- Economic Development Corporation Annual Financial Report

The City of Novi received for the 13th time the Government Finance Officers Association (GFOA) award for the Certificate of Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended June 30, 2010. The application for this award for the report for the year ended June 30, 2011 is being submitted. Since the City received greater than \$500,000 in federal grant funds, the City was also required to have a Single Audit, through its auditors, Andrews Hooper Pavlik PLC.

Reporting Highlights

- The *Letter of Transmittal* (page i-ix) provides a brief overview of the report submitted by the Finance Department.
- The *Management's Discussion and Analysis* (pages 3-11) provides a narrative overview of the City's financial activities for the fiscal year.
- The *Statement of Net Assets* and *Statement of Activities* (pages 12-14) are statements presented on a basis similar to private-sector business reporting and provide a longer-term perspective on the City's finances by including such items as capital assets, infrastructure (i.e. roads, drains, etc.), and long-term debt (i.e.

bonds payable, compensated absences, etc.). This format primarily distinguishes between activities of the general government and business-type activities.

- The "traditional" financial statements are presented beginning on page 15 (with the reconciliation between the two statements presented on page 16 and 19).
- The City maintains over 3,500 individual accounts and 79 funds which require separate financial statements to be maintained throughout the year. For budget and for year-end financial reporting purposes, many funds are combined. As of July 1, 2011, 15 funds and over 200 accounts have been closed.

Financial Highlights

- The City received a "clean opinion" (page 1) for the June 30, 2011 audit.
- Services have been substantially maintained even in the tough economic environment with reductions in revenue – and the City's millage rate continues to be one of the lowest in Oakland County.
- The Capital Assets schedule (Note 5, page 38) includes all land, buildings and equipment as well as infrastructure (roads, drains, bridges, etc.) The information includes assets acquired since 1980.
- The City's net assets of \$331,370,971 not only remain strong, but grew by more than \$4,200,000 from the previous year's balance of \$325,833,457.
- The City implemented GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions* during the 2008-9 fiscal year. The statement requires the recognition of the cost of providing retiree healthcare expenses over the working life of the employee, rather than when the expenses are incurred. **The City has made cumulative excess contributions of \$375,800** towards this liability over the last three fiscal years (Note 13 – page 47). This excess contribution comes from the payments made from the General Fund for individuals that retired prior to June 30, 1994. The first two-year actuary report (for fiscal 2008-9 and 2009-10) of implementation of this standard used a percentage of payroll methodology, and since this percentage was used in the budget the contributions are based on budget. Beginning with the 2010-11 fiscal year the new actuary report provides for a fixed annual required contribution (not percent of payroll based), we are not anticipating any significant excess contributions for the current fiscal year.
- The General Fund – Fund Balance results were better than anticipated during the budget process by approximately \$460,000, after the rollovers included in the first quarter amendment for the 2011-12 fiscal year. The revenue was approximately \$237,000 greater (0.8% variance) than estimated during the budget process, and the expenditures were approximately \$223,000 lower (0.8% variance) than estimated during the budget process.

- The employee compensated absences liability (page 12 and Note 1 page 31) includes vacation pay earned from January 1, 2011 to June 30, 2011 not yet reflected in the employee banks. The City's payroll for full-time employees includes payment through the day they work (not back one-to-two weeks as is typically seen). Vacation time is earned throughout the year and is assigned to the employee banks on January 1 of the following year. This provides a "cushion" for employee payments on unexpected terminations, and results in as much as 18 months of vacation time reflected in this liability, rather than a single year. Changes implemented for the Administrative Staff will reduce the City's liability for these vested sick leave benefits by approximately \$590,000 by 2012-13 (three year period).

- The Single Audit Report indicates there are "no findings".

Marina Neumaier did a great job facilitating the audit, the reports, compiling the audit work papers, and making the City compliant with all of the reporting requirements. We also want to recognize the **Andrews Hooper Pavlik PLC's audit team** for their contributions by way of interpretation of recent guidelines, professional expertise/advice and document review.

If you have any questions or need any additional information, please let me know.