

City of Novi, Michigan

**Report to the City Council
June 30, 2009**

November 2, 2009

To the City Council
City of Novi, Michigan

We have recently completed our audit of the basic financial statements of the City of Novi, Michigan (the "City") for the year ended June 30, 2009. In addition to our audit report, we are providing the following results of the audit and informational - legislative matters, which impact the City:

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We are grateful for the opportunity to be of service to the City of Novi, Michigan. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC



Joseph C. Heffernan

Results of the Audit

To the City Council
City of Novi, Michigan

We have audited the financial statements of the City of Novi, Michigan for the year ended June 30, 2009 and have issued our report thereon dated November 2, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 13, 2009, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the City of Novi, Michigan. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the City of Novi, Michigan's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the City of Novi, Michigan's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated November 2, 2009 regarding our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsible for the governance of the City of Novi, Michigan, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Additional Audit Procedures Performed This Year

During the planning stages of our audit, we were asked to pay particular attention to any significant accounting balances that were controlled by manual processes (rather than automated processes initiated by your information technology system). This was in response to the City's determination that the June 30 accrued interest receivable was overstated by an immaterial amount in its enterprise funds.

- We identified the following significant account balances that by necessity are determined as part of manual processes:
 - Investment purchases and sales, including accrued interest receivable on investments
 - Intergovernmental revenue receivable
 - Capital asset additions and disposals
 - Accrued expenses related to the prior period: salaries and wages payable, interest payable, and sick and vacation time payable
 - Estimated losses on tax appeals
 - Government-wide measurement focus adjustments (adjustments to convert the fund-based statements to the government-wide measurement focus): capital assets, special assessment revenue recognition, retiree healthcare benefit asset, and long-term debt related accounts
- Relative to the accrued interest receivable, the City modified its spreadsheet for calculating this account balance, which resulted in a much clearer presentation. In addition, it initiated a review process to provide better internal control over the accuracy of the recorded amount.
- Relative to the other account balances, the City already had a review process in place to provide sound internal control over the accuracy of the recorded amounts. As part of our audit, we reviewed the processes the City has in place and the resulting calculations and accounting record adjustments (journal entries).

- Our review determined that the City has independent data available to use as a double-check for many of the calculated balances (investments can be traced to monthly statements, intergovernmental receivables can be easily traced to subsequent receipt, capital assets to the asset listing which can be test counted for verification, interest payable to the subsequent payment, and long-term debt can be traced to the schedules provided by the bond financial advisor).
- For the other account balances (accrued interest receivable, accrued salaries payable, and sick and vacation time payable), there does not appear to be independent data currently available to provide a double-check (such as a monthly statement). The finance staff is currently evaluating whether there is any data that they can create, in a timely manner, to provide double-checks for the larger or riskier account balances.

Qualitative Aspect of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

- The significant accounting policies used by the City of Novi, Michigan are described in Note I to the financial statements.
- As described in Note 13 and as required by the Governmental Accounting Standards Board, the City changed its accounting policies related to postemployment benefits (retiree health care) by adopting Governmental Accounting Standards Board (GASB) No. 45 in 2009.
- We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.
- There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

- The most sensitive estimates affecting the financial statements were liabilities relating to property tax appeals to the Michigan tax tribunal and contingent liabilities relating to outstanding lawsuits against the City. Management's estimate of liabilities relating to property tax appeals and contingent liabilities is based on historical and current information. We evaluated the key factors and assumptions used to develop the estimates and determined that they are reasonable in relation to the financial statements taken as a whole.

- The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were Note 2 - Deposits and Investments, Note 5 - Capital Assets, Note 7 - Long-term Debt, Note 11 - Defined Benefit Pension Plan, and Note 13 - Other Postemployment Benefits.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were identified during our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 2, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition of our retention as the City's auditors.

To the City Council
City of Novi, Michigan

November 2, 2009

This information is intended solely for the use of the members of the City Council and management of the City of Novi, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 2, 2009

Informational and Legislative Items

City of Novi, Michigan

Informational and Legislative Items

Property Tax Developments

Many communities in Michigan are continuing to face the challenges inherent in the real estate market decline given the effects of Proposal A. Some communities are seeing declines in overall taxable value this year - many will see similar or greater declines in future years. The impact on each community and over what period of time will vary. We strongly urge each community to use either a five-year financial forecast or multiple-year budgeting as a technique to better understand the types of decisions that it may have to fact in upcoming budgets.

Many of the bills related to property taxes pending at the end of the 2008 Michigan legislative session have subsequently died with the changeover in the legislature after the November 2008 election. However, a few of those bills have been reintroduced. One series of bills that is worthy of specific mention is the reintroduction of the concept of the “supercap” legislation from last year. The supercap legislation, which would need to be approved by voters, would place a third limiter on taxable value by reducing it whenever a house’s market value declines. While the 1994 Proposal A legislation disconnected increases in property values from the tax bill, this proposal would use it to reduce tax bills, only when markets are declining. If passed, this would have a significant long-term impact on the City’s tax base.

Revenue Sharing

It appears that the state-wide revenue-sharing payments will be reduced by an overall factor of 11.06 percent if the current budget (as of early November) is ultimately enacted. The constitutional portion is expected to decrease based on the May 2009 revenue-estimating conference from \$649 million to \$621 million (about 4 percent). The statutory portion is expected to be cut from \$388 million to \$314 million (about 19 percent). However, in order to protect the older urban cities, the legislature has created language that would increase the statutory take-away in order to control the total reduction to 11.1 percent for each community, where possible. As a result, the City of Novi, Michigan will receive a 78 percent reduction in statutory revenue sharing, as shown in the chart below:

| State Fiscal Year | Statutory | Constitutional | Total |
|--------------------------|--------------|----------------|--------------|
| 2003 | \$ 1,077,486 | \$ 3,158,894 | \$ 4,236,380 |
| 2004 | 682,876 | 3,124,582 | 3,807,458 |
| 2005 | 566,809 | 3,199,148 | 3,765,957 |
| 2006 | 470,441 | 3,253,613 | 3,724,054 |
| 2007 | 427,145 | 3,186,007 | 3,613,152 |
| 2008 | 346,754 | 3,266,398 | 3,613,152 |
| 2009 | 320,773 | 3,105,109 | 3,425,882 |
| Current estimate of 2010 | 71,000 | 2,976,000 | 3,047,000 |
| Change from 2010: | | | |
| in dollars | (249,773) | (129,109) | (378,882) |
| in % | -77.9% | -4.2% | -11.1% |

City of Novi, Michigan

Informational and Legislative Items (Continued)

It is important to recognize that the constitutional reduction is only an estimate, based on the current projection of sales tax collections; the actual amount of collections may be quite different than this, depending on the actual decline in our state's sales tax collections. In addition, the statutory portion, as you well know, is still subject to legislative changes. We encourage you to continue to budget conservatively when it comes to revenue sharing because a long-term solution to the State's structural deficit has not yet been identified.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Streets Fund (MSF) to their Local Streets Fund (LSF) at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent including the adoption of an asset management process for the major and local streets systems as well as a detailed resolution passed by the City. It is important to note that major street monies transferred for use on local streets cannot be used for construction but may be used for preservation. Current legislation also includes a pilot program that would allow for the combination of the Major Streets Fund and the Local Streets Fund if certain conditions are met.

FDIC Insurance - CDARS

PA 307 and 308 of 2008 make changes to investment laws governing Michigan communities and schools. Specifically, this legislation allows governmental units in Michigan to invest in CDARS - Certifications of Deposit Account Registry Service. The CDARS program is a deposit placement service designed to allow FDIC-insured depository institutions to accept deposits of more than \$250,000 and obtain full coverage for the depositor by spreading the funds among as many separate FDIC-insured institutions as necessary in order to ensure full FDIC coverage.

SEC Disclosure Filings

The SEC announced late last year an amendment to Rule 15c2-12 that will, among other things, replace the existing four Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) with one central NRMSIR at the Municipal Securities Rulemaking Board (MSRB), called the Electronic Municipal Market Access (EMMA) system.

This system, available on the internet at emma.msrb.org, will be the means by which issuers or their agents will submit continuing disclosure documents free of charge. Unlike investors in corporate securities who have direct access to free company information through the SEC's EDGAR system, average investors in municipal securities have had no free and convenient way to get important information about the municipal bonds in which they invest. After the implementation of EMMA, these documents will be made available electronically to the general public at no cost.

City of Novi, Michigan

Informational and Legislative Items (Continued)

This change to using EMMA is required beginning July 1, 2009. All continuing disclosure documents submitted to MSRB will need to be made electronically in portable document format (PDF) to facilitate this. Additionally, the MSRB has indicated that the submissions will need to be made in word-searchable PDF beginning January 1, 2010. Until July 1, 2009, issuers should submit continuing disclosures as they have been doing as required by their outstanding continuing disclosure agreements. The amended SEC rule does not, however, remove an obligation to provide continuing disclosure documents to a SID if required by applicable state law or by an outstanding continuing disclosure agreement in effect prior to July 1, 2009.