




MEMORANDUM

To: Honorable Mayor and City Council Members
Clay Pearson, City Manager
Pam Antil, Assistant City Manager

From: Kathy Smith-Roy 

Cc: Leadership Group, Finance/Treasury Staff

Subject: Audit Presentation – Summary of Information Provided

Date: November 2, 2007

Attached are the following reports relating to the fiscal year ended June 30, 2007:

- Comprehensive Annual Financial Report (CAFR)
- Management Letter from Plante & Moran, PLLC
- Federal Awards Supplemental Information Report (also known as Single Audit Report for grants)
- Audit Presentation Graphs from Plante & Moran, PLLC

The City of Novi received for the ninth 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, 2006. The application for this award for the report for the year ended June 30, 2007 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, Plante & Moran, PLLC.

Elements of the Reporting Model

The financial section of the report now includes:

- *Management's Discussion and Analysis* (pages 3-10), which provides a narrative overview of the City's financial activities for the fiscal year.
- The *Statement of Net Assets* and *Statement of Activities* (pages 11-13) 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). This format primarily distinguishes between activities of the general government and business-type activities.

- The "traditional" financial statements are presented in a revised format, but have not changed in content (page 14, with the reconciliation between page 11 and 14 presented on page 15).

What's new?

The audit document procedures, and communications of internal control deficiencies as a result of changes in auditing standards. The auditors indicated in the Management Letter, that they "...became aware of no material weaknesses to report to you."

The Management Letter further includes information regarding additional auditing requirements for next year, which focuses on a deeper understanding of internal controls.

As a result of the transfer to the Ice Arena fund, the fund is no longer in a deficit. Therefore, no resolution to be filed with the State will be required by City Council.

Financial Highlights

- The City received a "clean opinion" (page 1 of CAFR) on its financial statement audit.
- The City's general fund unreserved and undesignated fund balance of \$7,578,862 remains strong, at 22% of budgeted annual expenditures. The reserved fund balance for construction code fees of \$1,037,182 is higher than anticipated as a result of certain fees being deposited sooner than anticipated (in the 2006-7 fiscal year, rather than the 2007-8 fiscal year). The City Council designated \$2,998,733 towards the 2007-8 budget year primarily for infrastructure improvements and reduction of liabilities. For a comparison of the actual results to the estimated results, please see the attached schedule.
- As a result of the continuing growth in the City, services have been maintained-even enhanced – and the millage rate continues to be one of the lowest in Oakland County.
- The City maintains 2,994 individual accounts and over 75 funds which require separate financial statements to be produced throughout the year, and then they are combined for audit and year-end financial reporting purposes.
- The Capital Assets schedule (page 38-40 of the CAFR) includes all land, buildings and equipment as well as infrastructure (roads, drains, bridges, etc.) The information includes assets acquired since 1980.

Marina Neumaier did a great job in preparing the report, compiling the audit work papers, and making the City compliant with all of the new reporting requirements. We also want to recognize the Plante & Moran audit team for their contributions by way of interpretation of recent guidelines and document review.

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

**City of Novi - General Fund - Fund Balance
Estimated during 2007-8 Budget Process vs. Actual**

<u>Fund Balance</u>	<u>Budget</u>	<u>Actual</u>
Beginning Fund Balance, July 1, 2006	\$ 10,513,370	\$ 10,513,370
<u>Estimated 2006-2007</u>		
Revenue	\$ 31,074,922	\$ 31,798,431
Expenditures	(32,662,534)	(30,697,024)
Projected Fund Balance June 30, 2007	8,925,758	11,614,777
2006-2007 Roll-over Budget Items (not completed by June 30, 2007)		(591,465)
Designate to DPW Vehicle & Equipment Acquisitit	(189,695)	(189,695)
Appropriate to 2007-2008*	(2,998,733)	(2,998,733)
Estimated 2007-8 General Fund - Fund Balance**	\$ 5,737,330	\$ 7,834,884
Reserve For Construction Code Fees	(601,600)	(1,034,182)
Total Estimated General Fund - Fund Balance	\$ 5,135,730	\$ 6,800,702
<i>Difference in performance (approximately 5% better than anticipated)</i>		<u>\$ 1,664,972</u>

Analysis of Difference between Estimated and Actual

	<u>Budget Estimate</u>	<u>Actual</u>	<u>Difference</u>
Construction Code Activity	\$ 601,600	\$ 1,034,182	\$ 432,582 a
Interest Earnings	1,290,000	1,659,682	369,682 b
Personal Services Expenditures	24,489,584	23,724,189	765,395 c
Miscellaneous other differences			97,313
			<u>\$ 1,664,972</u>

- a The permit fees were greater than anticipated, do to timing difference (received in 2006-7, anticipated in 2007-8)
- b The interest rate reduction were less frequent, and less aggressive then experts predicted.
- c This represents the differences for all departments is primarily due to staff turnover/vacancies, but also includes differences in estimates for insurance and other benefits.

City of Novi
Audit Presentation
For Year Ended June 30, 2007



Presented by:

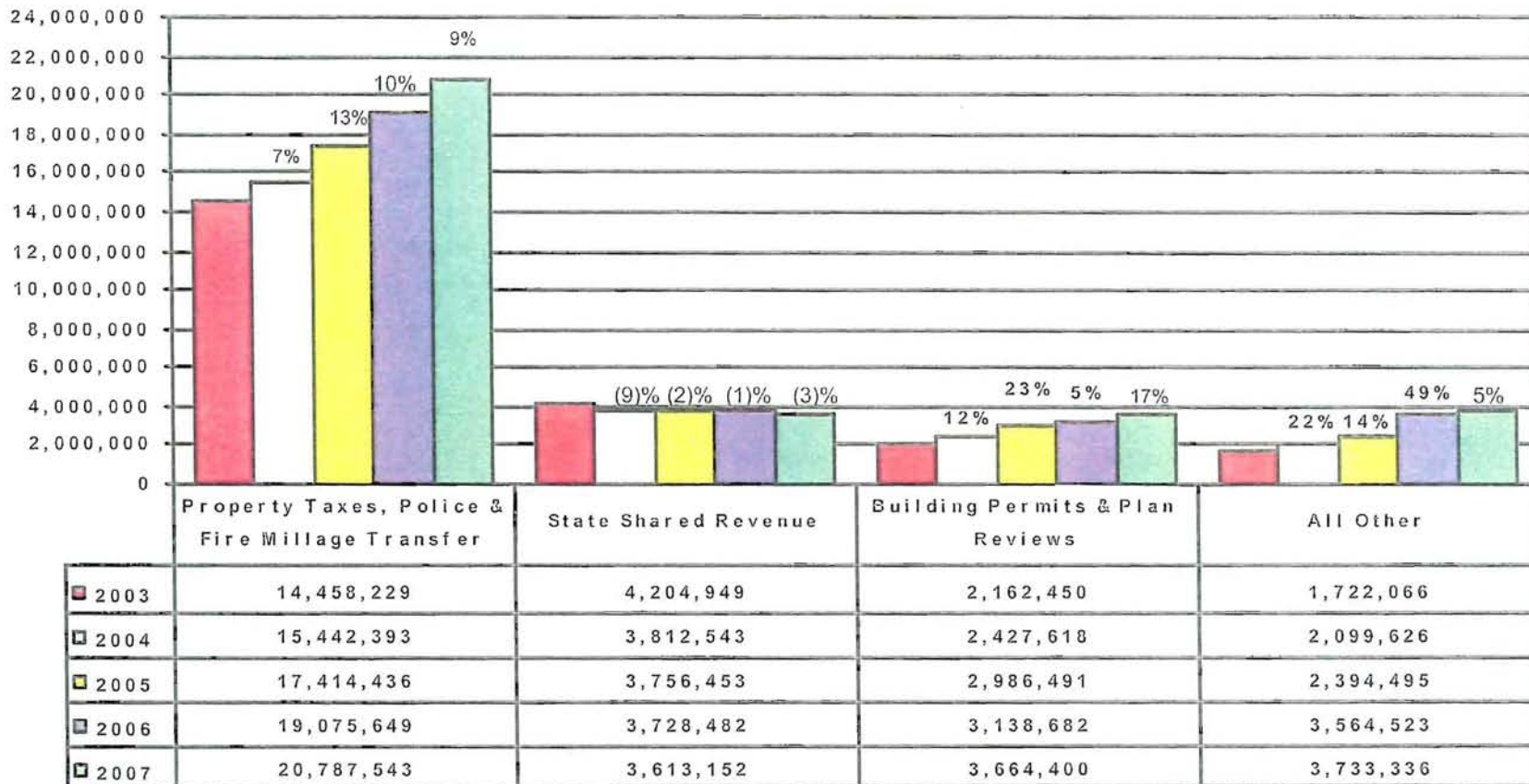
Joe Heffernan
Kathy Kercorian

plante
moran

City of Novi

General Fund Revenue Trends (With % Change)

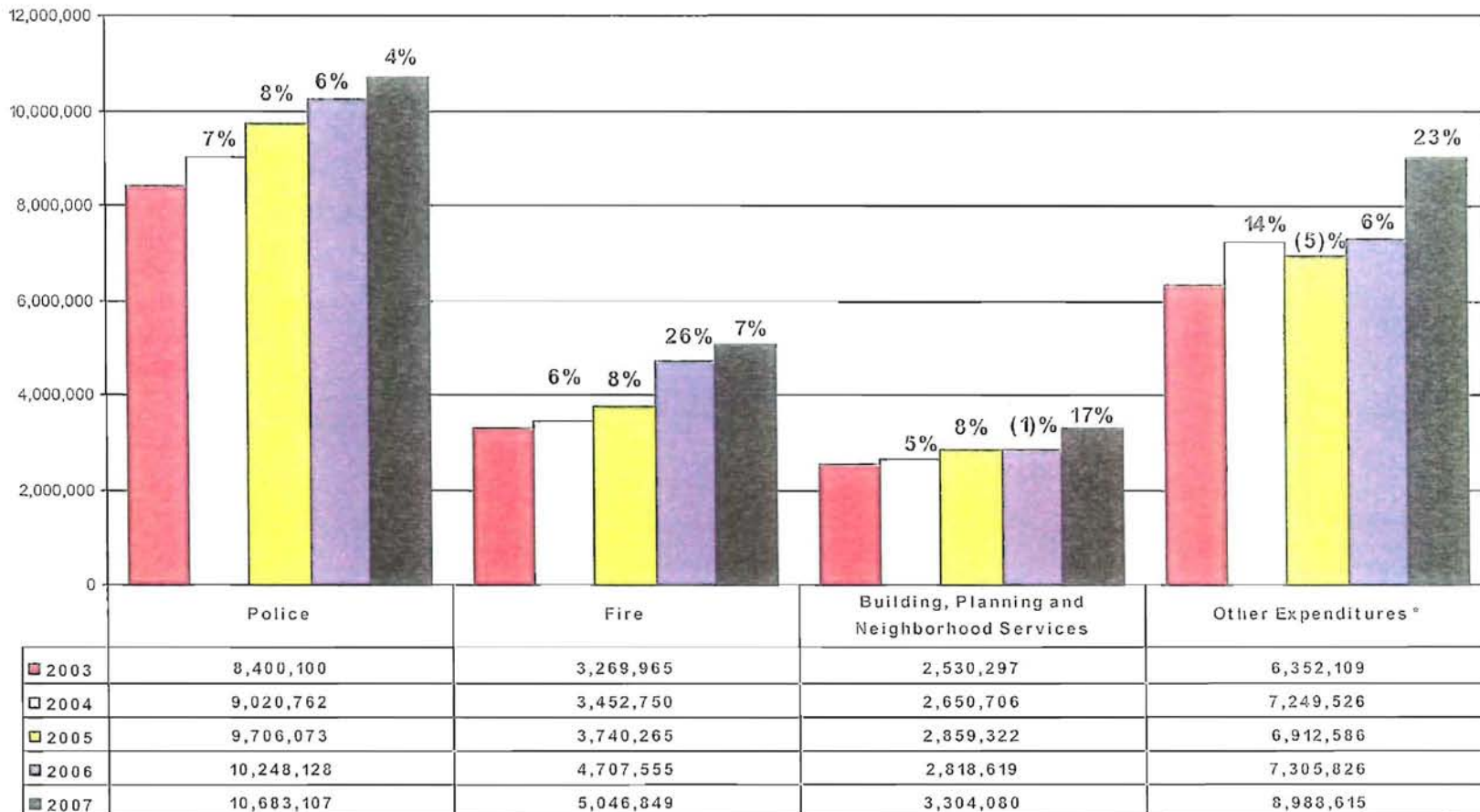
Years Ended June 30, 2003 Through 2007



City of Novi

General Fund Expenditure Trends (With % Change)

Years Ended June 30, 2003 Through 2007

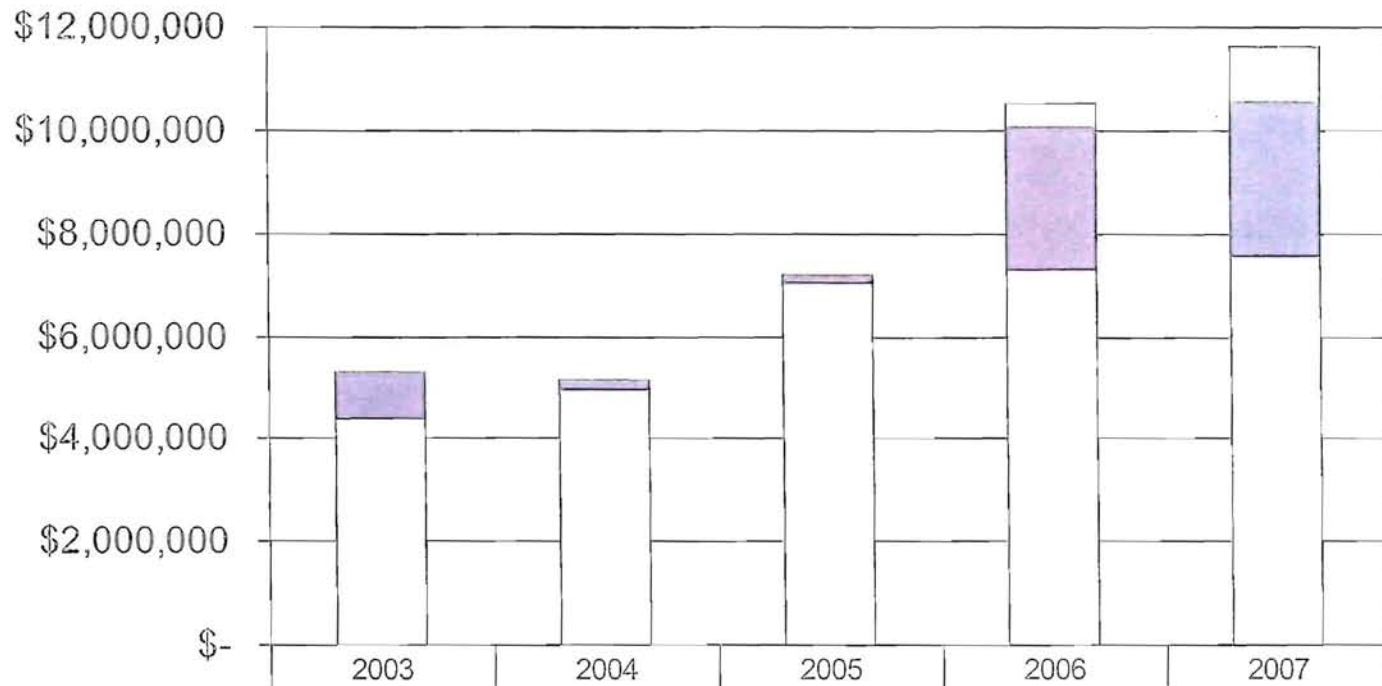


* Excludes operating transfers

City of Novi

General Fund Fund Balance

Years Ended June 30, 2003 Through 2007



	2003	2004	2005	2006	2007
Reserved for construction code fees	\$4,910	\$-	\$64,742	\$454,025	\$1,037,182
Designated for subsequent year's budgeted expenditures	\$896,854	\$177,882	\$84,949	\$2,751,580	\$2,998,733
Undesignated fund balance *	\$4,391,282	\$4,955,425	\$7,054,646	\$7,307,765	\$7,578,862

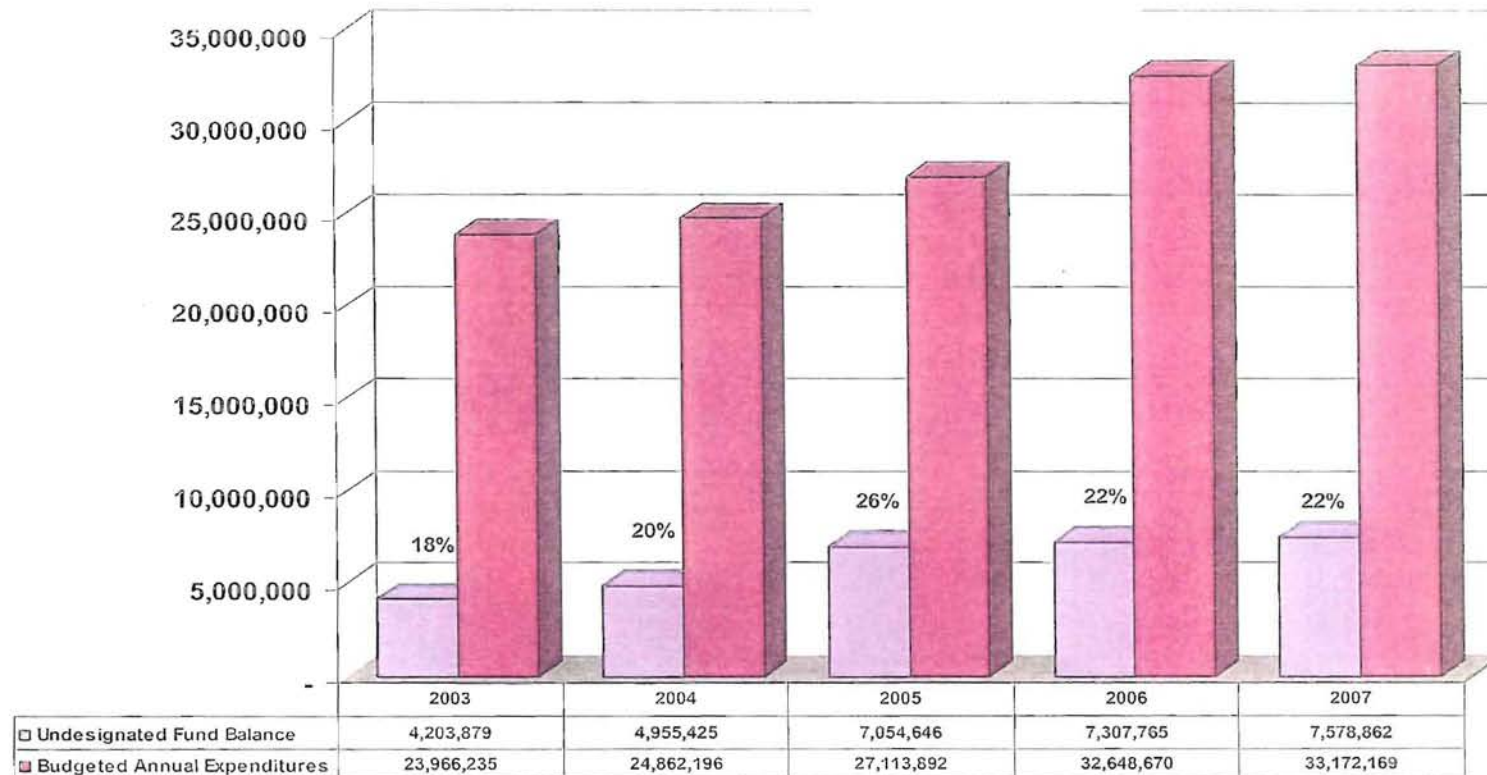
* Included within this amount is \$189,695 designated for capital purchases.

City of Novi

General Fund

Undesignated Fund Balance as a Percentage of Budgeted Annual Expenditures

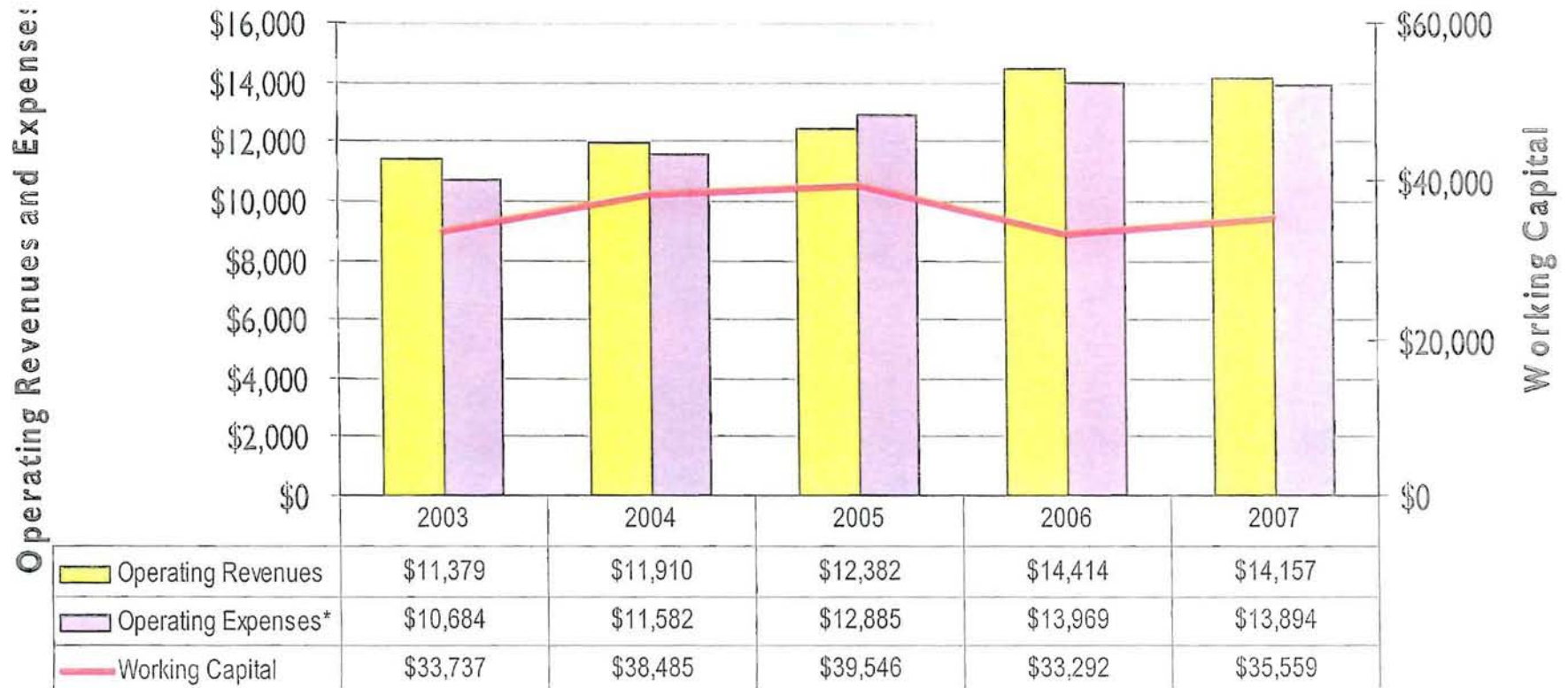
Years ended June 30, 2003 through 2007



City of Novi

Water and Sewer Fund Operations

Years Ended June 30, 2003 Through 2007 (in thousands)

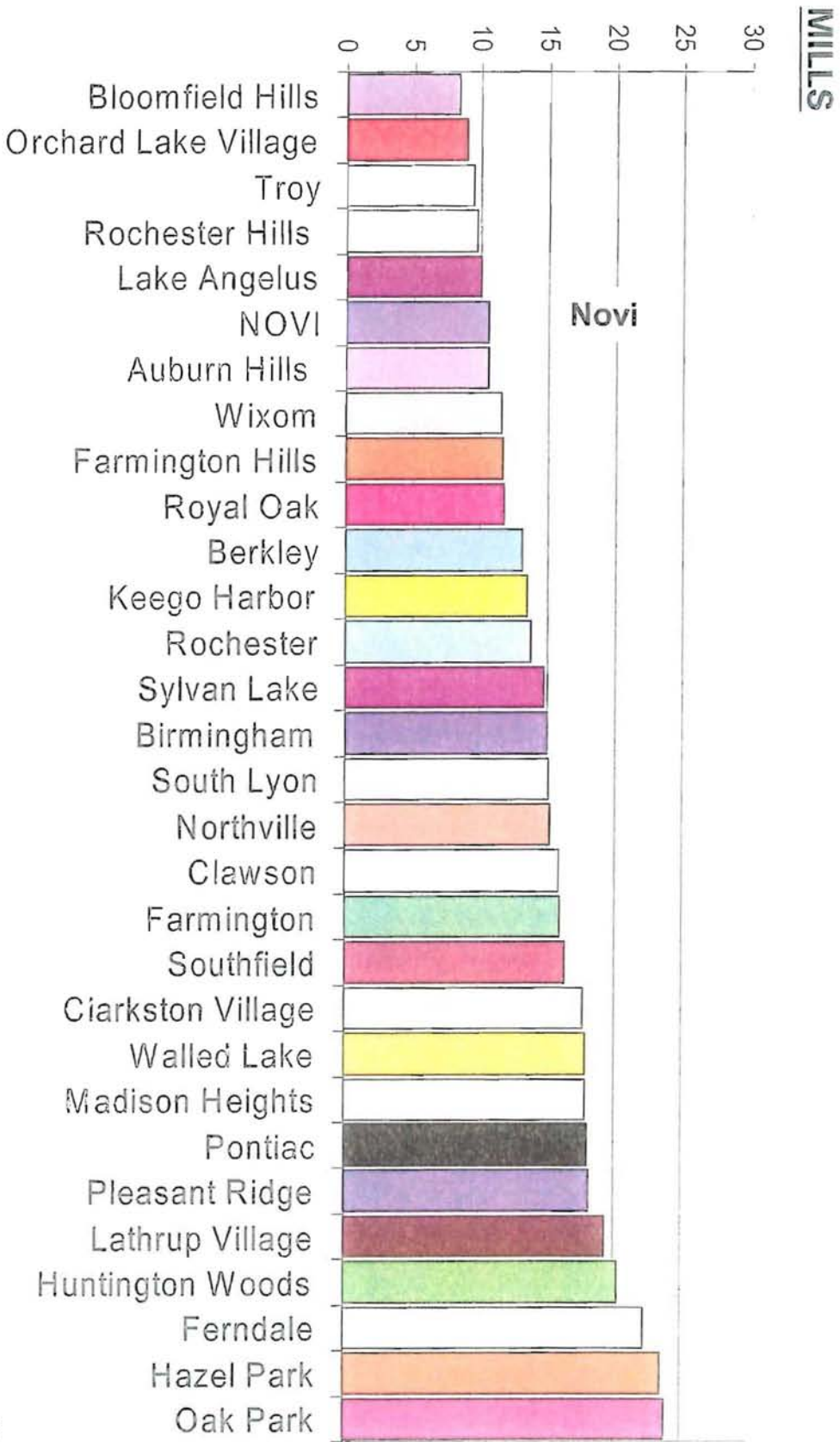


***Excludes depreciation**

The balance of "net assets" should not be taken as a reflection of the Water and Sewer Fund's liquidity. Instead, liquidity is better judged on the basis of the difference between current assets and current liabilities – "working capital". For the year ended June 30, 2007 working capital in the Water & Sewer Fund increased by approximately \$2.3 million from the prior fiscal year.

City of Novi

2006 Municipal Tax Rates Comparison



Thank You!

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