

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Madison Heights, Michigan

Comprehensive Annual Financial Report

June 30, 2007

City of Madison Heights, Michigan

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September 12, 2007

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Introduction

We are submitting herewith the Comprehensive Annual Financial Report of the City of Madison Heights for the fiscal year ended June 30, 2007. It is the responsibility of the City management to present fairly, with full disclosure and in conformity with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City's funds, as well as those of the City's discretely presented component units. The Comprehensive Annual Financial Report contains necessary disclosures useful in providing an understanding of the combined and individual fund statements.

Plante & Moran, PLLC has issued an unqualified "clean" opinion on the City of Madison Heights, Michigan's financial statements for the year ended June 30, 2007. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

City Profile and Economic Conditions

Regional Setting

The City of Madison Heights is located near the southeast corner of Oakland County, adjacent to the western boundary of Macomb County and approximately two miles north of the city of Detroit. Freeway access to the southeast Michigan region is provided by Interstate-75 (I-75) and Interstate-696 (I-696). In addition, regional access is available using the bus system of the Suburban Mobility Authority for Regional Rapid Transit (SMART) system.

Local Economy

Incorporated in 1955, Madison Heights has grown and prospered significantly over the past 52 years. The City of Madison Heights continues to welcome residents, businesses, and visitors alike to a vibrant and diverse community. The City is ideally located in southeastern Michigan, within Oakland County's "Automation Alley". Madison Heights provides a full range of services to residents, visitors, and the business community and is conveniently located for employers and employees alike at the intersection of I-75 and I-696. Oakland County continues to rank high in per capita income, employment opportunities, and overall quality of life.

The City of Madison Heights exemplifies the very best in Oakland County through its excellent City services, road maintenance and snow removal, and variety of opportunities for residents and the business community. It is a fiscally sound and stable community with many advantages because of its favorable tax base, housing mix, business climate, and convenient access to other business and residential areas in southeastern Michigan.

There are more than 1,300 commercial and industrial businesses and service enterprises within the City's 7.25 square miles. The City is proud to have a majority of small businesses, as well as more than 100 major companies within its borders, such as Best Buy, St. John Oakland Hospital, Valenite Corporation, ADT, Costco, CVS Pharmacy, Henkel Technologies, Home Depot, Kmart, Meijer, Microcenter, Ogura Corporation, Sam's Club, Target, and United Parcel Service. It is a "City of Progress" with 31 shopping centers, 10 hotels, more than 860,000 square feet of office space, and five industrial parks that include almost 10.6 million square feet.

The City of Madison Heights is committed to working with present and future residents and businesses to continue our excellent tradition as The City of Progress!

Oakland County Economic Forecast

Nationally known economists from the University of Michigan Institute of Labor and Industrial Relations recently presented the results of the 2007-2009 Economic Outlook for Oakland County at the 22nd Annual Outlook Luncheon.

The health of Oakland County's economy was evaluated both in terms of the next few years and over the longer term. At this time last year, it was projected that the economy in 2006 would remain weak but stable. However, the local economy turned down sharply in 2006 with an estimated private-sector job loss of 18,200 workers. In numbers, this is the largest loss of jobs in a single year since the Bureau of Labor Statistics began keeping track of county employment in 1979. This is a direct result of more severe impact of automotive restructuring than was anticipated. Every major industry grouping in the county, save one, lost jobs last year. The stalwart is private education and health services (90 percent of which is health care), which has grown every year through the extended downturn.

While economists are convinced that in the long run Oakland County's economic prosperity will be restored, in the near term the county still has some pain to work through. Following the loss of 18,200 jobs in 2006, Oakland County faces another year of decline in 2007, but with the losses slowing to 4,400 jobs. In 2008, the local job market nudges into positive territory again, but barely, with the addition of only 200 net new jobs for the year. As the recovery picks up a little momentum, the county adds 2,500 jobs in 2009. The gains remain modest, though, leaving the local labor market lighter by 1,700 jobs, on average, in 2009 compared with 2006. From a glass-half-full perspective, this outlook is an encouraging step up from the loss of 27,300 jobs over the past three years.

Government employment is forecast to remain virtually flat over the next three years with a gain of 100 jobs in 2007, a loss of 200 jobs in 2008 due to retrenchment in local school districts, and a recovery of 100 jobs in 2009. Job gains in this area could be higher than anticipated in 2009 if Oakland University succeeds in establishing a medical school. Construction and the non-farm natural resource industries are projected to lose an additional 1,800 jobs in 2007, following the loss of 2,600 jobs in 2006. An additional 1,100 jobs are lost through 2009, with 800 of them occurring in 2008. Manufacturing is forecast to lose 3,500 jobs in 2007 and a total of 8,400 jobs between 2006 and 2009. While severe, the rate of job loss is considerably less than the hit taken in 2006, when the industry lost 6,900 in a single year. The job losses in manufacturing are concentrated in motor vehicle manufacturing, which sheds 2,000 jobs in each of 2007 and 2008 and 1,700 in 2009 as auto restructuring continues to run its course. If this forecast is accurate, by 2009 the local motor vehicle manufacturing industry would employ exactly half the workforce it did in 2003.

The majority of new jobs created in Oakland County will come from the education and health services industry, which is forecast to add 2,100 jobs in each of 2007 and 2008, and 2,200 in 2009. Other industries that are forecast to do very well over the next three years are computer system design and programming services (adding 1,700 jobs); legal services (200); specialized design services (700); management consulting services (400); and scientific research and development services (900). The job gains in these non-automotive professional services more than offset the job losses in the auto-related professional services, so that the aggregate industry category is forecast to add jobs in 2008 and 2009.

Economists are still confident of Oakland County's strong economic fundamentals. Oakland County has few peers among counties of similar size in combining affluence, educational standing, and affordable living. Economic development programs such as Automation Alley, the launch of Wireless Oakland, and their Emerging Sectors initiative prepare a path to success that includes technology, research, health care, and ventures friendly to a senior-citizen populace that will mushroom in the coming decades.

Local Economic Base

Madison Heights is a full-service modern community. It is fiscally sound, stable, and has many advantages accruing to it because of its favorable tax base, housing mix, and business climate. City officials proudly point to the fact that almost 90 percent of the buildings are single-family homes or condominiums, while over 62.5 percent of the City's tax base (real and personal property) is high-yield light industrial and commercial facilities.

The diversity of the City's economic base is reflected in its building stock:

Single-family homes*	9,740	Homes
Condominiums - 9 complexes*	331	Units
Sr. Citizen Towers - 5 buildings	709	Units
Rental apartments - 29 complexes	2,457	Units
Mobile home parks - 3 locations	501	Sites
Shopping centers (1.4 million sq. ft.)	31	Centers
Hotel/Motels - 10 properties	1,028	Rooms
Offices (868,626 sq. ft.)	97	Buildings
Commercial (gas stations/retail/restaurants, etc.)	529	Buildings
Light industrial (10.5 million sq. ft.)	505	Buildings
	15,928	
Total units/buildings	15,928	

* Single-family homes range in value from \$55,200 to in excess of \$242,000; condominiums range from \$55,000 to \$170,000.

Tax Base Composition

The principal source of revenues to fund the City's operations is the property tax (66.6 percent of total 2006-2007 General Fund revenues). The property tax revenues are a result of applying the millage rate set by City Council within the restrictions of state law to the taxable value of real and personal property located within the City. The tables below illustrate the diversity of the City's tax base, including the DDA district, which was the basis for property tax revenue for the fiscal year 2006-2007 budget.

By Class	Taxable Value	Percent
Real property	\$ 1,024,003,600	87.5
Personal property	145,832,530	12.5
Total	\$ 1,169,836,130	100.0

By Use		
Residential	\$ 528,108,810	45.1
Commercial	254,545,610	21.8
Industrial	241,349,180	20.6
Personal property	145,832,530	12.5
Total	\$ 1,169,836,130	100.0

Total taxable value for all property within Madison Heights has grown 55.4 percent over the last 14 years through June 30, 2007 or over 3.9 percent per year on average. Historically, the fastest rate of value growth of over 10 percent per year occurred in the late 1980s. From 1992 to 1993, the City experienced its only decline (0.5 percent) in values. For the latest 12-month period, City taxable values have shown an average rate of growth of approximately 3.3 percent overall. Real property taxable values increased by approximately 3.8 percent, while personal property taxable values continue to decrease by an additional 0.5 percent.

Major Business

Another way to judge the strength of a city's local economy is to measure its reliance on a type of business or a single business. While some cities rely heavily on a major automotive manufacturing plant, Madison Heights' business base is made up of a large number of smaller businesses. Having smaller employers reduces the impact of any one business deciding to relocate or going out of business.

The tables below show the City's major taxpayers as of December 31, 2006, the valuation date related to the property tax revenue of the City for the year ended June 30, 2007.

Taxpayer	Type of Business	Total Taxable Value (\$ Millions)
Gordon Begin Co.	Apartments	\$ 20.1
Madison Place/S&M Hgts	Shopping center landlord	17.2
BT-OH, LLC (United Parcel Service)	Parcel delivery	10.3
Detroit Edison Company	Electrical utility	10.0
Meijer, Inc.	Retail sales	9.8
Surface Technologies/Henkel Corp	Chemical preparation	9.5
First Industrial Ltd Partnership	Industrial landlord	9.2
First Industrial Acquisitions, Inc.	Industrial landlord	9.2
Liberty Property Ltd Partnership	Industrial landlord	9.0
Sam's Real Estate/Sam's Club	Warehouse retail	7.4
Great Lakes Property Group Trust	Shopping center landlord	7.2
Ramco Madison Center, LLC	Shopping center landlord	6.9
Commercial Steel Treating	Steel treating	6.3
Costco	Warehouse retail	6.0
Michigan Department of Treasury/CO-OP	Apartments	6.0
Ogura Corporation	Automotive supplier	5.9
Home Depot	Warehouse retail	5.6
Kemp & Sherman Company	Industrial landlord	5.5
Campbell & 14 Center, LLC	Shopping center landlord	5.0
Former Saturn, 12-75 LTD	Automotive supplier	4.9
Total		<u><u>\$ 171.0</u></u>

The top 20 taxpayers made up 14.6 percent of the total taxable valuation citywide. The highest taxpayer (Gordon Begin Co.) amounts to only 1.7 percent of the total value.

Local Employment

Madison Heights has a strong, trained workforce. Several vocational schools in the area encourage young people to seek training in industrial-related careers. Also, within a seven-mile radius, there are some of Michigan's finest colleges and business schools.

The City's major employers include the following:

Name	Type of Business	Employees
St. John Macomb Oakland Hospital	Medical care and surgical hospital	800
United Parcel Services	Trucking and courier services	520
Lamphere Schools	Public school district	380
Meijer	Retail store	380
Henkel Surface Technologies	Chemical preparation	350
Madison Schools	Public school district	340
Alpha Thread Gage	Bolts, nuts, rivets, and washers	300
Costco	Retail store	300
Infusystem	Medical equipment rental	290
Howard Finishing	Automotive metal plating/finishing	260
Home Depot	Hardware/retail store	250
Super Kmart	Retail store	250
Valenite Corporate Headquarters	Automotive - Cutting tools	250
McNaughton - McKay Electric Co.	Electronic apparatus and equipment	235
Target Store	Department store	221
ADT Security Systems	Security systems services	220
DMC - Michigan Orthopedic Specialty Hospital	Medical care and surgical hospital	200
Hollywood Market	Grocery store	200
Moosejaw Mountaineering	HQ - CallCenter/Warehouse	200
Sam's Club	Retail store	200
Triangle Electric	Electrical contractors	200
D-M-E Company	Special dies, tools, jigs, and fixtures	160
Kasper Machine	Machine tool company	160
H & L Tool Company	Automotive tools and parts manufacturer	150
Ingersoll-Rand Zimmerman	Machine tool company	150
Weldmation, Inc.	Welding apparatus	150
Metzeler Automotive Profile Systems	Sealing systems/rubber products	140
Best Buy	Electronic equipment and supplies	125
Cintas Corporation	Uniform/Linen supplier	120
Detroit Door & Hardware	Door/Frame manufacturer	120
Kar Nut Products	Snack food packeting/distributor	120
Valley Automotive	Motor vehicle parts/accessories	120
Value Center Marketplace	Grocery store	120

Name	Type of Business	Employees
EGT Group	Printing company	104
Gonzalez Design Group	Automotive engineering and design	100
Hanson's Windows & Siding	Windows/siding company	100
Sika Industries	Adhesives/sealants manufacturer	96

Economic Development Initiatives

Historically, the City has made use of economic development revenue bond financing, tax abatements, infrastructure improvements, tax increment financing, site assemblage, blight removal, landscape maintenance, and sign grants as local economic development initiatives.

The City's industrial building vacancy rate stands at about 11.4 percent and its commercial/office vacancy rate is 8.14 percent as of June 2007. Relative to other communities in metropolitan Detroit, the vacancy rate is very good, but our City is working to make it even better.

During fiscal year 2006-2007, the Economic Development Division completed its third year of addressing the needs of the business community. This division, new in January 2003, fulfilled a City Council goal to establish a comprehensive economic development program for the City. The Economic Development Coordinator serves within the Community Development Department, and supports the Downtown Development Authority, Brownfield Redevelopment Authority, Planning Commission, and City Council regarding economic development projects. The main priorities of this division include business retention, expansion and attraction, improving the economic base of the community, creating employment opportunities, and reducing commercial and industrial property vacancies. In addition, the Economic Development Division works closely with the Chamber of Commerce, Oakland County, the Michigan Economic Development Corporation (MEDC), other State departments and organizations, local real estate agencies, development firms, and community organizations to develop and strengthen cooperative relationships, business retention and attraction efforts, ombudsman services, and development opportunities throughout the City of Madison Heights.

Major selling points for the available industrial and commercial buildings in Madison Heights include the opportunities in size (500 to 101,000 square feet), low city and county taxation, and close proximity to major airports and freeway access.

To assist in the promotion of this business sector, five major industrial park areas were established including:

- **Stephenson Industrial Research Corridor**, Stephenson Highway from 12 Mile to 14 Mile Roads
- **Madison Industrial Research District** in the Dequindre and 14 Mile area, extending south to Whitcomb and west to John R
- **Public Service Center Industrial District** on Girard and Ajax Drive, off John R between 12 Mile and 13 Mile Roads

- **Ten Mile and John R Industrial District** running along 10 Mile from Dequindre to John R, and along John R from 10 Mile to Lincoln
- **Interchange 696 Industrial District**, bounded by Dequindre, Commerce, Progress (Interstate-696 service drive), and Lincoln

The following is a profile of these industrial parks:

	Average Building Size (Square Feet)	Industrial Space Square Feet (Millions)	2006 Taxable Value (\$ Millions)
	Bldgs.		
Stephenson Industrial Research Corridor	84	33,053	\$ 60.9
Madison Industrial Research District	209	23,712	115.6
Public Service Center Industrial District	34	11,403	8.5
10 Mile and John R Industrial District	80	4,746	8.2
Interchange 696 Industrial District	55	25,111	31.1
Other industrial	43	122,011	17.1
Totals and averages	505	220,036	\$ 241.4

In an effort to promote economic development in our area, Oakland County launched in 1997 “Automation Alley,” with Madison Heights becoming an active member of this effort. The term “Automation Alley” has been used informally in Oakland County for some time.

“Automation” became a catchword to identify the high-tech companies gravitating to Oakland County. Since they were all located close to one of two linked interstate freeways, I-75 and I-696, the term “alley” was used to describe this high-speed, high-tech corridor. Automation Alley reflects both the technological orientation and geographic location of about 1,800 businesses in Oakland County, Michigan, and Madison Heights is at the intersection of the I-75 and I-696 Corridors.

Automation Alley is made up of the world’s most dynamic and advanced technology-focused companies. Industries range from telecommunications, computer software/hardware, and information systems to consumer products, industrial processes, automotive research and development, diversified manufacturing, and health care.

Oakland County has become an internationally recognized economic powerhouse. The Automation Alley Consortium was established to develop programs and initiatives to assist members in their efforts to attract world-class, high-technology workers and businesses.

Automation Alley's 630 progressive businesses do not restrict recruitment efforts to the local area. They compete directly on a national level with other national powerhouses such as California's Silicon Valley and Boston's Route 128 for the world's best employment prospects. By implementing a dynamic marketing strategy through Automation Alley, Oakland County has enhanced its ability to compete in the global marketplace.

Major Achievements

Recent years have not been without challenges, which will remain in the foreseeable future. Despite serious financial constraints, there were significant achievements in FY 2006-07, with more anticipated in the years ahead.

Public Safety

In 2007, the Police Department continued to strengthen the experience of our most valuable asset, the men and women of the Department. Personnel rotations in various duty assignments will improve the skills and knowledge of our future supervisors and leaders. The Department completed a conversion to the Oakland County Court Law Enforcement Management Information System (CLEMIS) supported Records Management System (RMS) for Field Based Incident reporting. This RMS will improve information sharing with other agencies, expedite crime reporting to the State Police, and create a digital copy of all incident reports. The Department also upgraded the physical security of the police building through a federally funded homeland security grant.

For 2008, the Department will continue our progress with new technologies by coordinating with CLEMIS on the new 800-Megahertz radio system, a countywide video arraignment system, and a new digital traffic violation system. These systems will improve efficiencies and enhance the Department's ability to make a difference in fighting crime and protecting our community.

Throughout 2007, the Fire Department continued its efforts to provide the highest level of service. The Fire Department took delivery of a new fire engine purchased with funds from the vehicle millage. Three twelve-lead monitor/defibrillators were added to the Advanced Life Support program so that our paramedics would be able to provide better patient assessment for those who may be having heart problems. Members of the Fire Department have continued to work cooperatively with the Police Department, the Department of Public Services, and the City Administration, as well as representatives from the local hospitals and schools to maintain the highest level of domestic preparedness.

In 2008, the Fire Department will be taking delivery of a new rescue ambulance that will also be purchased with funds from the vehicle millage. The Fire Department will continue to provide CPR and first aid classes in addition to blood pressure screenings. Also look for the Fire Department Open House in early October.

Services

This past year saw completion of numerous public projects and private developments and more are planned for 2008. Road maintenance continues to be a high priority item. The 2007 schedule included the Parker District road reconstruction on Bellaire, Parker, Hampden, and Dartmouth, and road construction on Middlesex from Nanton to Alden. The northbound lanes of Stephenson Highway from 13 Mile to 14 Mile Roads were resurfaced, and Phase VI of the Stephenson Highway turnarounds were completed. Over 100,000 lineal feet of water main was replaced on Dartmouth, Bellaire, Parker, and Hampden in conjunction with the road project.

A total of 72 water main breaks were repaired, the majority of which occurred due to the severe cold this winter. Snow removal techniques were improved by outfitting two salt trucks with de-icing spray tanks. These tanks support the application of less corrosive ice melt materials to reduce salt usage and its corrosive effects.

In 2007, the City completed Year 5 of the Annual Sidewalk Repair program, which included the area between 12 Mile, 11 Mile, John R and I-75. Work was initiated on a sewer-boring project, which will enable the City to decommission the aging Wolverine Pump Station. A more efficient Streets and Facilities Division was created by merging the Streets and Parks Divisions. Savings were realized with the reduction of a supervisor. In addition, employees are being cross-trained in all related disciplines to hone and develop their skills.

In 2008, the City will undertake a number of road projects including Stephenson Highway resurfacing both the northbound lanes from 12 Mile to 13 Mile and the southbound lanes from 14 Mile to Girard, and Dei Street reconstruction and sewer separation from Lincoln to Rowland. Additional road projects will see the reconstruction of Spoon Street from Huntington north to Campbell, Parkdale Street reconstruction from Campbell to Mark, Millard Street from Campbell to Edgeworth, and portions of Edgeworth south of Millard. Sectional concrete street repair will be done in locations throughout the City.

Development

In 2007, the City was pleased to see the completion of numerous private developments, including Harvard Village (41 single-family homes planned), Valenite Expansion, Grainger Industrial Supply, Lowe's, Hollywood Market, 21st Century Newspapers, Antonis Kitchen, Starbucks, Animal Welfare Society of Southeast Michigan, Taco Bell, and Madison Commons. For 2008, the City is looking forward to the construction of the Patina Park Place Mixed Use and the Madison Town Center.

Parks and Libraries

Over the past year, the City completed the removal of another 250 diseased and dying trees infected with the Emerald Ash borer for our parks and public right-of-ways. The Civic Center park shelter building was remodeled and transformed into a much-needed space for classes and civic meetings and the Department of Public Services' staff planned and oversaw the remodeling of the Senior Center restrooms.

The inaugural Spring Clean Up Day held on May 5th at the Department of Public Services yielded 45 tons of household debris and 50 tons of concrete from 296 residents in a four-hour period. Another successful Pre-Fourth of July Festival-in-the-Park was held, with one of the largest crowds ever.

This past June, the City completed some much-needed improvements at the public library, including an addition of 1,160 square feet housing a new copy center area, entrance, and handicap accessible restrooms. Numerous improvements included upgraded windows and new blinds; realignment of the north entranceway door; vestibule and outside walkway; abatement of asbestos resulted in new floor tile and carpet; new furniture for the adult and youth reference desks and public computer areas; and an upgraded electrical system with separation from City Hall. Additional features included the addition of three study rooms for private tutoring; new shelving for the audio visual collection; new fascia on the south side of the building; interior paint; a new roof; the installation of a fire suppression sprinkler system; a new self-checkout unit; and a new book security system.

This project was very much a team effort, from assistance in planning and implementing the move and remodeling by the Department of Public Services' staff to the housing of library staff in City Hall and the Fire Department, as well as three neighboring southeast Oakland County libraries hosting our patrons during construction to the housing of the collection and building contents at City Hall and the Police Departments, to the offering of programs at City Hall and the Fire Department in an effort to complete the needed improvements in a timely matter.

Departmental Services and Accomplishments

Under the present City Charter adopted in 1955, Madison Heights is governed by the Council Manager form of government. Madison Heights provides a full range of services to its residents through its District Court, city clerk, city assessor, human resources, finance, custodial and building maintenance, police, fire, streets, solid waste, senior citizens, recreation, nature center, parks, library, community development, housing commission (community improvement), general administration, information technology, water and sewer, and motor pool departments, divisions, and offices.

District Court

The 43rd District Court, Madison Heights Division, was established by the State of Michigan to render judicial decisions for the citizens of the City. The State is divided into judicial districts, each of which is an administrative unit subject to the control of the Supreme Court of the State of Michigan.

Jurisdiction of the District Court includes all felonies, misdemeanors, civil infractions, and civil and small claim cases. The District Court Judge, who is an employee of the State of Michigan and elected by local voters, supervises the District Court employees.

City Clerk's Office

The City Clerk's Office is responsible for the official records of the City. The department's employees are represented at all City Council, Zoning Board of Appeals, Civil Service Commission, Brownfield Redevelopment Authority, Downtown Development Authority, City School Liaison Committee, Charter Amendment Committee, and Elected Officials Compensation Committee meetings. Staff word processes the agendas for the meetings and prepares notices and publications. Meeting actions are recorded in the form of minutes, indices, adjustment of directories, and updates to the Code of Ordinances. Staff also prepares ceremonial certificates, commendations, and testimonials.

This office is also responsible for issuance of animal licenses and the coordination of temporary, seasonal, and regular retail business licenses, right-of-way, and door-to-door solicitation permits. Madison Heights residents' vital statistics, such as birth and death certificates, are kept on file for use by individuals and the State of Michigan. The City Clerk's office also maintains a medical loan closet to provide use of wheelchairs, crutches, canes, and walkers for residents.

The City Clerk administers the Election Division. This division is responsible for voter registration and providing lists of registered voters upon request. Other duties include conducting federal, state, county, and city and school elections in accordance with federal and state election laws, while striving to protect the rights of the voters.

City Assessor's Office

The City Assessor's Office is responsible for the appraisal of all real estate and personal property for property tax purposes. There are approximately 11,400 real property descriptions and 1,800 personal property accounts contained in the City's mass appraisal files. The Assessing Department operates under the provisions of the General Property Tax Act of 1893, as amended, and applicable local Charter Provisions. In addition, the department maintains and monitors the "principal residence" status of all property throughout the City as well as tracking property transfers.

The department is responsible for development of Special Assessment District rolls used to fund many infrastructure improvements. The Assessing Department also defends all assessments before the Michigan Tax Tribunal and supports some economic development programs.

Human Resources Department

The Human Resources Department is responsible for the following functions: coordination of employee recruitment and selection, training, counseling, medical evaluation, discipline, transfer, grievance administration, staffing analysis and planning, labor relations, labor contract negotiations, health and safety, return-to-work program, compensation administration, position control, pay and classification review, wellness, and other matters. In addition, the department researches and formulates policy as directed by the City Manager or initiated by the department.

Finance Department

The Finance Department prepares and maintains the City's financial statements in compliance with the requirements of the Governmental Accounting Standards Board. The Finance Department is responsible for all accounting, pension administration, and treasury functions. In addition, the department also assists in budget development, implementation, maintenance, and control.

Department of Public Services - Custodial and Building Maintenance

The Custodial and Building Maintenance Division is responsible for maintaining City buildings, which include preventative maintenance, repairs, and janitorial services. Custodial services are provided through outside contractors at the library, District Court, Police Station, Senior Citizen Center, Nature Center, City Hall, and the Department of Public Services buildings.

Police Department

The Police Department strives to preserve and protect life and property in Madison Heights, through its five operating bureaus. The majority of the department's staffing, equipment, and financial resources are allocated to the Road Patrol Bureau. The Bureau's role is to establish a communication network through community policing, suppress crime, maintain order, and respond to emergencies and calls for assistance.

The Investigative Bureau includes trained professional investigators who are responsible for researching, solving, and successful prosecution of crimes.

The Crime Prevention Bureau works with businesses and homeowners to increase their awareness of the importance of security.

The Accident Investigation Team's officers, through training in traffic and motor carrier enforcement, work to reduce traffic accidents by determining causes and making recommendations for changes in traffic regulations and enforcing overweight and safe vehicle statutes to protect the City's roadways.

The Police Department also maintains an educational program in many of these areas through contacts with various citizens' groups and speaking engagements.

Finally, the Auxiliary Services Unit is responsible for helping citizens who wish to become more involved in and aware of methods of crime prevention in their community. Auxiliary Services consists primarily of volunteers supervised by a police sergeant. Volunteer groups include Police Reserves, Crisis Response Team, Citizens Observation and Surveillance Team, and the Police Explorers, who are young people who receive training for law enforcement careers.

Fire Department

The Fire Department is responsible for the protection of life and property from the ravages of fire. The Fire Department responds to residential, commercial, and industrial fires with specialized equipment designed to meet the needs of the particular fire. In addition, the department is able to respond to hazardous materials incidents, confined space rescue, and trench rescue.

The Fire Department provides advance life support emergency medical services in cases of sudden illness or injury. Licensed paramedics, working under the direction of a base hospital physician, provide quality pre-hospital emergency care with transportation to six area hospitals.

The Fire Prevention Division is involved in the enforcement of State laws and City ordinances that relate to fire protection and prevention. In addition, the department inspects commercial and industrial buildings, and multiple-unit dwellings for fire code violations. The Division also conducts fire investigations and aids in the fire prevention effort through the development and presentation of public fire education programs.

Department of Public Services - Streets Division

The Department of Public Services - Streets Division is responsible for maintaining the 106 miles of streets within the City. The Streets Division is responsible for handling all street cleaning, snow and ice removal, tree trimming, street signs, and open drain repair. The Streets Division is upgrading street signs with a high density facing for a safer, more visible sign. The Streets Division will be performing both targeted and generalized concrete repair as part of the Neighborhood Road Improvement Program that was initiated in 1997.

Department of Public Services - Solid Waste Division

The Solid Waste Division is responsible for the collection of refuse and recyclables, brush chipping, street sweeping, leaf pickup, litter disposal, park cleanup, and catch basin cleanout. The City's newsletter and website inform citizens of refuse and recycling rules and schedules. The City has established a mandatory recycling program. Recycled materials include metals, telephone books, magazines, paper, plastics, glass, tin, Christmas trees, batteries, grass clippings, and leaves. Educational seminars for recycling and composting are conducted for schools and businesses.

Department of Public Services - Senior Citizens Division

The Senior Citizens Division is responsible for hosting a wide range of programs for the City's senior citizens. The Senior Center provides a place for seniors to enjoy their leisure time participating in educational and recreational programs. Transportation is provided through the center for recreation, personal business appointments, and other activities. A daily lunch program, a home chore program (grass mowing and snow shoveling for financially needy seniors), and human services information and referral are also available.

Department of Public Services - Recreation Division

The Recreation Division is responsible for conducting the City's leisure and recreational programs. The Recreation Division provides instructional programs in such areas as dance, tennis, swimming, and art. The "Festivals in the Park" series continues with great success. Team sports such as basketball, softball, and volleyball are also offered. The Recreation Division staff processes all registration, preparation, and distribution of flyers, evaluation and selection of programs and instructional personnel, and coordination of volunteer coaches.

Department of Public Services - Nature Center

The Nature Center at Suarez Woods opened in October 1996 and operates with one full-time, one part-time naturalist, and many volunteers. The Center is open six days a week (approximately 40 hours) and offers a variety of seasonal displays, programs, walking tours, and a small gift store. The Nature Center's goal is to provide visitors a better appreciation of nature. In doing so, interactive displays are changed seasonally. Live animals, taxidermy mounts, artwork, and special events are all a part of the experience. In addition to the building, the 36 acres of natural preservation located in the middle of a developed community provide a refreshing retreat from our busy workday surroundings.

Department of Public Services - Parks Division

The Parks Division is responsible for the maintenance of all City parks. In addition, the Parks Division performs landscaping duties, as well as sidewalk and parking lot maintenance for all City buildings. The Parks Division is also responsible for mowing, responding to tree service calls, removal of unsafe or dead trees, and oversight of the mowing contractor. All athletic field sites are prepared for use and maintained by the Parks Division.

Library Department

The Library Department is a multifaceted service agency involved in meeting the community's needs for information in a variety of formats. Demand for educational, recreational, and cultural materials is met with a constantly updated collection of books, periodicals, pamphlets, videos, compact discs, and books on tape.

The Library Department's ability to provide information is further enhanced by its membership in The Library Network (TLN). This membership allows for the electronic inter-loan of items from other TLN members. These items are then delivered to Madison Heights for patron pickup.

A myriad of additional services is offered by the Library, such as free home delivery of library materials to the physically challenged, temporarily homebound, and senior citizens. In an effort to better serve the City's significant and varied immigrant population, the Library offers English as a Second Language (ESL) collection consisting of books, audio cassettes, and videos designed to teach English. Personal computers, with Internet access, are available for use by patrons. A liaison is maintained with the City's schools and classroom visits are arranged. Art exhibits are scheduled regularly and speakers, films, book reviews, and children's programming are offered year round.

Community Development Department

The Community Development Department consists of seven separate functions: Economic Development; Geographic Information Systems (GIS); Code Enforcement; Building; Planning and Zoning; Engineering; and Housing and Grant Administration; all personnel deal with developing and enhancing the quality of life in Madison Heights.

The Building Division performs inspections of new buildings, inspections of commercial buildings for business licenses, and inspections for landlord licenses. The Planning and Zoning Division provides recommendations on all matters coming before the Planning Commission, Zoning Board of Appeals, and the Downtown Development Authority. Staff also reviews proposed development to ensure compliance with the City's Zoning Ordinances and Master Plan. The Engineering Division administers, designs, and inspects City utility and road projects. It also provides engineering inspection for all private development. The GIS Division provides comprehensive mapping services to all City departments and the general public. Code Enforcement conducts inspections to determine compliance with various City codes.

The Economic Development Division provides business retention, expansion and attraction resources, as well as direct support to the Downtown Development Authority and the Brownfield Redevelopment Authority.

Community Development Department - Community Improvement Division

The Community Improvement Division is a federally funded division of the Community Development Department. The Community Improvement Division is charged with the administration of the City's Community Development Block Grant and Housing Commission Funds. Block grant funds are used for such things as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, neighborhood road improvements, and other similar projects that benefit low- and moderate-income residents. In addition, these funds provide assistance to low-income families in securing low interest and/or deferred home improvement loans. The City's Housing Commission funds are used to subsidize the rent for over 250 low-income tenants.

General Administration Department

The General Administration Department is responsible for conducting many of the City's centralized administrative functions. Examples of key roles include: purchasing; telephone administration; Internet website support; City calendar and annual report; coordinating citizens' requests for services; cable television production and regulation; and special projects as assigned.

Information Technology Office

The Information Technology Office is responsible for supporting the City's Wide Area Network (WAN) and computer-related functions. Examples of key services provided include installation and support of microcomputers, technical support liaison for all hardware and software, water and tax bill production, and assistance in setting the technological direction for the City.

Department of Public Services - Water and Sewer Division

The Water and Sewer Division is responsible for providing water distribution and sewage collection to the City's citizens and businesses. The process begins with the purchase of water from the Detroit Water and Sewerage Department. The Water and Sewer Division handles the installation, repair, and reading of all water meters. The Water and Sewer Division does all repair work on water and sewer mains, gate wells, maintenance and catch basin structures; all cleaning of sewer mains, catch basins, gate wells and culverts; and all other related services. The Water and Sewer Division handles all repair work, including pavement and landscape repairs arising from water main breaks and/or sewer trench settlement. The process ends with the City paying the Oakland County Drain Commission for the treatment of sewage that enters its facilities.

Department of Public Services - Motor Pool Division

The Motor Pool Division is responsible for maintaining all City vehicles and related equipment. The Motor Pool Division keeps individual records on each vehicle and piece of equipment to help determine whether the cost of repair is justified as the need arises. The equipment is also inspected for safety problems, thereby protecting the employees and the general public. The Motor Pool Division is also responsible for keeping adequate vehicle and equipment parts in stock and updated. The Motor Pool Division also orders gasoline and diesel fuel, and oversees the work done on all emergency backup generators.

Financial Information

Internal Control

The accounting principles and procedures currently in use by the City have been designed to enhance and coordinate internal accounting controls as well as to encourage adherence to prescribed managerial policies. The manner in which these controls are implemented reflects procedures designed to help ensure the safeguarding of assets and the reliability of accounting data to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that errors will be detected and prevented, if and when they occur. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

Single Audit

As a recipient of federal and state financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

Budgeting Controls

The annual budget provides a basis of control over financial operations. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the approved budget. Activities of the General Fund, Special Revenue Funds, Capital Projects Fund, and the Debt Service Fund are included in the annual appropriated budget. The level of budgetary control adopted by the City (that is, the level at which expenditures cannot legally exceed the appropriated amount) is based on total expenditures by fund, except for the General Fund, for which it adopts budgeted expenditures by general government, public safety, community development and services, and culture and recreation, which is in accordance with the State's legal requirements. These controls have assisted in the sound financial planning of the past by improving budgetary standards such as long-range programs for cyclical road, vehicle, and equipment replacement. The overall budget strategy is to address the current program obligations as efficiently as possible while also meeting the challenges of future needs for infrastructure improvements.

Other Information

Independent Audit

The State statutes and City Charter require an annual audit of all accounts of the City by certified public accountants selected by the City Council. This requirement has been fulfilled and the report of Plante & Moran, PLLC, certified public accountants, is included herein. The auditor's report on the general purpose financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are reported under separate cover.

Certification

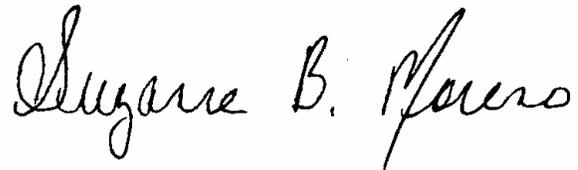
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Madison Heights for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Madison Heights has received a Certificate of Achievement annually since the fiscal year ended June 30, 1992. City management believes our current report continues to conform to the Certificate of Achievement Program requirements and is submitting it to GFOA to determine its eligibility for a certificate.

Acknowledgments

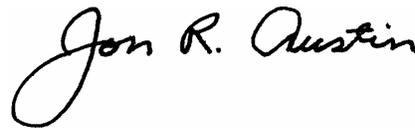
The timely preparation of this report could not have been accomplished without the efficient and dedicated services of the staff of the Finance Department and the City Manager's Office. We express our appreciation to all members of the departments who assisted and contributed to its preparation. We also thank the City Council for its interest and support in conducting the financial operations of the City in a responsible and progressive manner.



Suzanne B. Moreno
Finance Director/Treasurer



Melissa R. Marsh
Director of Administrative Services



Jon R. Austin
City Manager

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Madison Heights
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

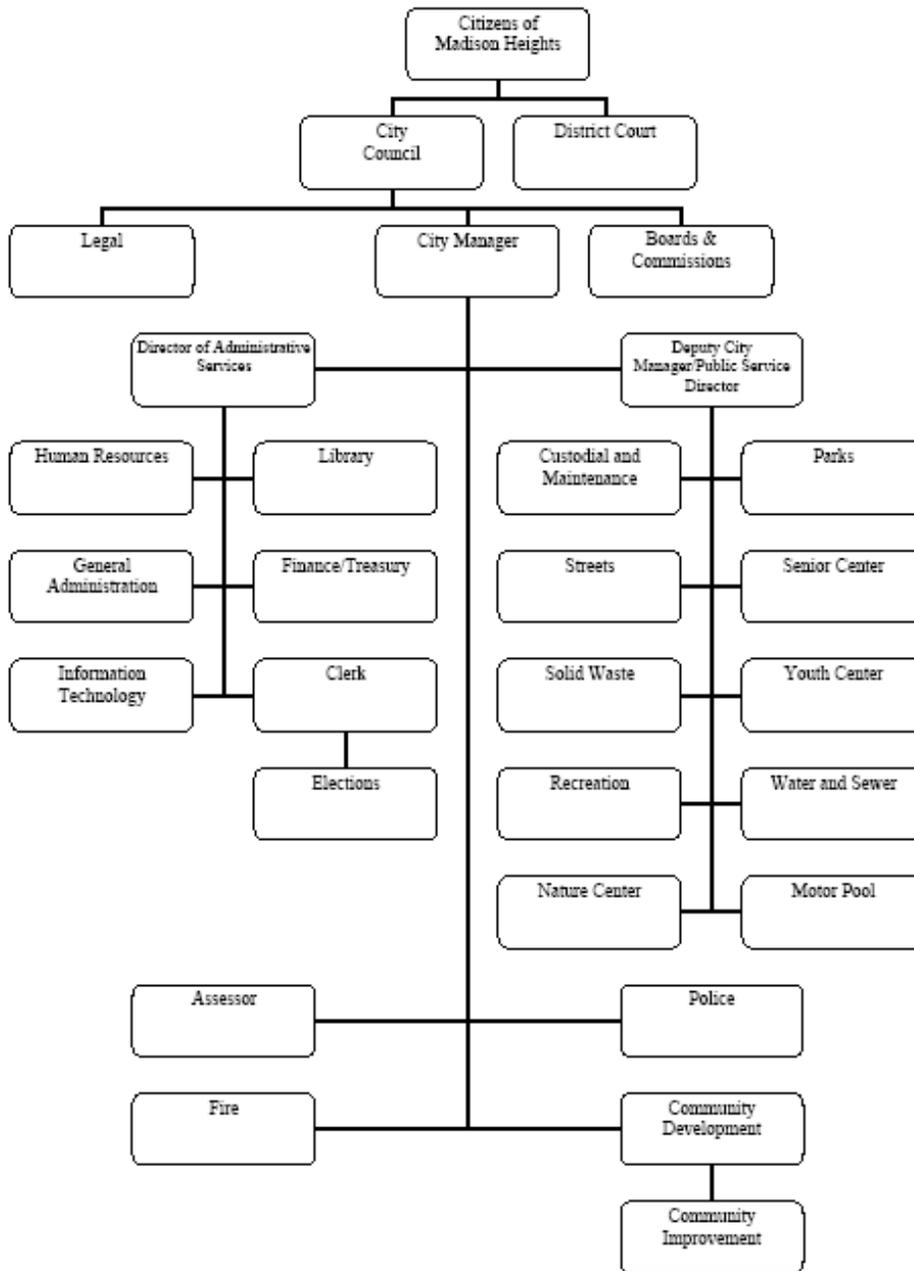
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

City of Madison Heights Organizational Chart



City of Madison Heights, Michigan

List of Principal Officials June 30, 2007

<u>Title</u>	<u>Name</u>
Mayor	Edward C. Swanson
Mayor Pro Tem	Toni F. Shad
Council Member	Richard L. Clark
Council Member	Robert J. Corbett
Council Member	Gary R. McGillivray
Council Member	Marilyn R. Russell
Council Member	Margene A. Scott
City Manager	Jon R. Austin
Deputy City Manager	Benjamin I. Myers
Director of Administrative Services	Melissa R. Marsh
Departmental Administrators:	
City Assessor	Dwayne G. McLachlan
City Clerk	Carole A. Corbett
Community Development	James T. Schafer
Finance Director/Treasurer	Suzanne B. Moreno
Fire	Richard E. Donahue
Library	Roslyn F. Yerman
Police	Kevin M. Sagan



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan (the "City") as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Madison Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, retirement system schedules of funding progress and employer contributions, and the major fund budgetary comparison schedules as identified in the table of contents are not required parts of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison Heights' basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2007 on our consideration of the City of Madison Heights' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 18, 2007

City of Madison Heights, Michigan

Management's Discussion and Analysis

This discussion and analysis provides a narrative overview of the financial activities of the City of Madison Heights (the "City") for fiscal year ended June 30, 2007 (fiscal year 2007). This analysis provides an introduction and overview to readers to assist in interpreting and analyzing the City's basic financial statements and financial activities based upon currently known facts, decisions, and conditions. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2007:

- The City's General Fund has decreased fund balance at June 30, 2007 by \$177,264 as a result of increased investment in capital improvement. As outlined in the notes to the financial statements, the General Fund's fund balance is designated to meet current and long-term liabilities of the City such as retiree health care and vested employee benefits.
- The City's Local Street Fund has increased fund balance at June 30, 2007. This increase in reserve is necessary to meet the City's long-term capital improvement plan.
- The City's total net assets were \$55.8 million for governmental activities at June 30, 2007. This reflects an increase in governmental activities' net assets of \$2.5 million or 4.7 percent from fiscal year 2006. Of this amount, \$3.8 million is considered unrestricted, which means the City may use or designate this amount to meet ongoing and future obligations.
- The total net assets for the business-type activities are \$20.0 million as of June 30, 2007. This is an increase of approximately \$1.0 million or 5.1 percent over June 30, 2006. Of this amount, \$2.7 million is unrestricted and will be used to meet future obligations of the business-type activity.
- During the fiscal year, the City's governmental activities received \$33.7 million in program and general revenues, which represents an increase of \$1.8 million from 2006.
- Total governmental activity program expenses for the year were \$31.2 million or an increase of \$2.3 million or 7.9 percent. This increase resulted from the implementation of prefunding for future retiree health care benefits, increased capital asset purchases and infrastructure improvements, solid waste charges, and general wage increases.
- The City has one business-type activity, the Water and Sewer Fund. Revenues are generated through charges to customers for commercial and residential water and sewer usage. Total revenues received were \$8.7 million, resulting in an increase in net assets of \$963,000 for fiscal year 2007.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City of Madison Heights on a government-wide basis. They are designed to present a longer-term view of the City's finances. The fund-based financial statements follow the above-mentioned statements and illustrate how the services provided by the City were financed in the short term, as well as what remains for future spending. The fund-based financial statements also report the City's operations in more detail than the government-wide financial statements.

The City of Madison Heights as a Whole

The net assets of the City represent the difference between the City's total assets and total liabilities. Changes in the net assets can be a useful tool for governments to measure their performance over time. At the end of fiscal year 2007, the City's total net assets increased 4.8 percent from a year ago, increasing from \$72.3 million to \$75.8 million. At June 30, 2007, these net assets are categorized as those which are invested in capital assets net of related debt (75.3 percent or \$57.0 million), restricted by external requirements (16.0 percent or \$12.2 million), and those which are unrestricted (8.7 percent or \$6.6 million).

The City's net assets of \$57 million that are invested in capital assets net of related debt reflects its investment in capital assets such as land and buildings, less any related debt used to acquire those assets that is still outstanding. Since the City uses these assets to provide services to the citizens, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other revenue sources, since the capital assets themselves cannot be liquidated to satisfy these liabilities.

The City's restricted assets of approximately \$12.2 million are subject to bond covenant restrictions or other legal or regulatory requirements. The remaining portion of the City's net assets of approximately \$6.6 million is unrestricted, but designated to meet ongoing obligations.

A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$2.5 million in net assets during fiscal year 2007. This increase was substantially due to the City's investment in infrastructure improvement projects and capital purchases. Within the General Fund, the undertaking of the Library and Senior Center improvement projects along with the purchase of a new Fire Department rescue pumper contributed to the change in net assets. With continued control of expenses, disciplined budgeting practices, and growth in property tax values within the City, the General Fund was able to minimize the use of fund balance.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Relative to changes in fund balance for governmental activities, the General Fund had a decrease of approximately \$177,000. This can be attributed to the implementation of pre-funding for future retiree healthcare benefits for the general employees and Police and Fire employees, general wage increases, and an increase in capital purchases and improvements. The Major Streets Fund had a decrease in fund balance of approximately \$350,000. This relates to an increase in construction projects and a general wage increase for department employees. The Local Streets Fund reflects an increase of approximately \$301,000 in fund balance that is due to projects that were anticipated to be completed in 2007 but have been carried forward to 2008. The City's Revolving Fund, which is specific to capital improvement projects, experienced a reduction in fund balance of approximately \$166,000. This was a result of an increase in costs for year four of the sidewalk program.

The following table shows a comparison of net assets (in thousands of dollars) as of June 30, 2007 and June 30, 2006:

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006
Assets						
Current assets	\$ 18,145	\$ 17,736	\$ 3,873	\$ 4,429	\$ 22,018	\$ 22,165
Noncurrent assets:						
Capital assets	46,219	42,845	26,988	26,108	73,207	68,953
Other	<u>1,851</u>	<u>2,480</u>	<u>1,254</u>	<u>716</u>	<u>3,105</u>	<u>3,196</u>
Total assets	66,215	63,061	32,115	31,253	98,330	94,314
Liabilities						
Current liabilities	3,286	2,303	1,739	1,484	5,025	3,787
Long-term liabilities	<u>7,135</u>	<u>7,465</u>	<u>10,413</u>	<u>10,769</u>	<u>17,548</u>	<u>18,234</u>
Total liabilities	<u>10,421</u>	<u>9,768</u>	<u>12,152</u>	<u>12,253</u>	<u>22,573</u>	<u>22,021</u>
Net Assets						
Invested in capital assets - Net of related debt	40,995	37,425	16,015	14,825	57,010	52,250
Restricted	10,959	9,718	1,203	664	12,162	10,382
Unrestricted	<u>3,840</u>	<u>6,150</u>	<u>2,745</u>	<u>3,511</u>	<u>6,585</u>	<u>9,661</u>
Total net assets	<u>\$ 55,794</u>	<u>\$ 53,293</u>	<u>\$ 19,963</u>	<u>\$ 19,000</u>	<u>\$ 75,757</u>	<u>\$ 72,293</u>

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

As shown in the following table (in thousands of dollars), the City's revenues for its government activities increased by approximately \$1.9 million or 5.9 percent from the prior fiscal year. This increase is a reflection of an increase in property tax revenues and investment earnings. The City's tax base remains strong and vibrant due to the stability of major employers and taxpayers. Program expenses increased 7.9 percent from the previous fiscal year. This increase resulted from increases in infrastructure improvements, capital outlay purchases, general wage increases, and the implementation of pre-funding for future retiree healthcare benefits.

	Governmental Activities		Business-type Activities		Total	
	Fiscal Year		Fiscal Year		Fiscal Year	
	2006-2007	2005-2006	2006-2007	2005-2006	2006-2007	2005-2006
Revenue						
Program revenue:						
Charges for services	\$ 3,448	\$ 3,478	\$ 8,519	\$ 8,508	\$ 11,967	\$ 11,986
Operating grants	2,280	1,995	-	-	2,280	1,995
Capital grants and contributions	506	1,064	5	96	511	1,160
General revenues:						
Property taxes	21,787	20,541	-	-	21,787	20,541
State-shared revenues	3,841	3,317	-	-	3,841	3,317
Unrestricted investment earnings	1,276	897	154	134	1,430	1,031
Franchise fees	335	315	-	-	335	315
Other	274	274	31	13	305	287
Total revenue	33,748	31,881	8,709	8,751	42,457	40,632
Program Expenses						
General government	5,370	5,393	-	-	5,370	5,393
Public safety	16,294	14,425	-	-	16,294	14,425
Public works	3,652	3,261	-	-	3,652	3,261
Solid waste	2,587	2,375	-	-	2,587	2,375
Community development	1,159	1,092	-	-	1,159	1,092
Recreation	2,001	2,217	-	-	2,001	2,217
Interest on long-term debt	184	188	-	-	184	188
Water and sewer	-	-	7,746	7,414	7,746	7,414
Total program expenses	31,247	28,951	7,746	7,414	38,993	36,365
Increase in Net Assets	\$ 2,501	\$ 2,930	\$ 963	\$ 1,337	\$ 3,464	\$ 4,267

During the year, the City continued to meet the actuarial required contributions for the defined benefit pension systems. This is important for the City because future taxpayers should not be required to fund pension benefit payments that were earned now.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities are recorded in the Water and Sewer Fund. The City provides water, which is purchased from the City of Detroit Water System, to all of its residents and businesses. The water rate charged by the Detroit Water and Sewerage Department for water for fiscal year 2006-2007 increased by approximately 9 percent. The City provides sewage treatment to all residential and businesses using the Southeast Oakland County Sewage Disposal System. There was a rate increase for sewage treatment of 3.35 percent. Combined with all charges, the average water and sewer bill for a City resident increased by 9.7 percent in fiscal year 2006-07. The Water and Sewer Fund had a \$962,745 increase in its net assets; this is due to revenues being collected in FY 2006-07 for major capital outlay projects to be completed in FY 2007-08. Revenues from user charges remained flat due to a change in residential and commercial consumption patterns, and net operating expenses increased by \$362,741.

General Fund Budgetary Highlights

During the fiscal year, the City administration and City Council monitor and amend the original budget adopted by the City due to changes in the projected revenues and unanticipated events that occur throughout the year. Significant amongst the events of 2007 was the accounting shift in recording revenue sharing from the State of Michigan. Under generally accepted accounting principles, revenue received within 60 days of year end is recorded in the prior fiscal year. During FY 2006-2007, the City elected to begin receiving State of Michigan deposits and/or payments through an electronic transaction, thereby receiving the funds much faster than a paper check. In prior years the City would have received this revenue-sharing payment subsequent to the 60-day period and therefore recorded in the next fiscal year. On August 31, 2007, the City received a payment in the amount of \$555,222. Had this payment not been recorded in the current year, the use of fund balance in the General Fund at June 30, 2007 would have been \$732,486.

The State, on an overall basis, continued to implement decreases in revenue sharing of 1.1 percent from the 2006 funding levels. There was a moderate increase in property tax revenues of 5.6 percent that is related to increases in real property values and millage rate adjustments. There was an increase in investment income as interest rates increased from less than 3.5 percent to over 5.0 percent. To combat the negative pressure on revenue and with the uncertainty of state funding levels, the City continues with a hiring freeze analysis and other measures that were initiated by the administration several years ago that continue to this day. Department heads were asked to cut expenses and to continue to explore innovative ways to add efficiencies to their operations.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets, net of related debt, for its governmental and business-type activities as of June 30, 2007 amounts to \$57,009,519, net of accumulated depreciation. This is a net increase (additions less debt retirement and depreciation) of \$4,759,250 or 9.1 percent for last fiscal year. The following summarizes the City's capital assets, net of depreciation, as of June 30, 2007 and June 30, 2006:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 2,190,058	\$ 2,189,153	\$ 164,413	\$ 164,413	\$ 2,354,471	\$ 2,353,566
Infrastructure	26,810,032	23,625,883	11,550,930	11,457,973	38,360,962	35,083,856
Buildings and improvements	12,453,402	12,187,602	3,748,639	2,829,420	16,202,041	15,017,022
Land improvements	1,211,732	1,241,954	-	-	1,211,732	1,241,954
Construction in progress	-	-	11,135,810	11,176,152	11,135,810	11,176,152
Other assets	1,121,550	1,036,719	388,311	479,858	1,509,861	1,516,577
Vehicles	2,432,869	2,563,694	-	-	2,432,869	2,563,694
Total	<u>\$ 46,219,643</u>	<u>\$ 42,845,005</u>	<u>\$ 26,988,103</u>	<u>\$ 26,107,816</u>	<u>\$ 73,207,746</u>	<u>\$ 68,952,821</u>

Major capital asset additions during the fiscal year included:

- The purchase of a pumper truck for the Fire Department and eight police vehicles
- The City's Library renovation project which included ADA-accessible restroom addition, a realignment of the north entry door, vestibule and outside walkway, replacement doors and windows, asbestos abatement, reference and public computer furnishings, three individual study rooms, electrical system separation, signage, self-checkout and a new security system
- Renovations to the restrooms located at the Senior Center
- Year four of the sidewalk program, which included an area bounded by Twelve Mile Road, Dequindre Road, Eleven Mile Road and John R and at several individual parcels within the City
- Several road construction projects including sectional repair on John R from Lincoln to Eleven Mile. Road reconstruction projects completed during the fiscal year include Stephenson Highway Turnarounds Phase VI and VII, Concord from Fourteen Mile to Barrington, Battelle, Alger, and Guthrie. The City also began several new reconstruction projects such as the Parker District including Bellaire, Parker, Hampden and Dartmouth.

Note 4 of the financial statements contain additional information regarding capital assets including the depreciation expense charged during the year.

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt

At June 30, 2007, the City had \$16,198,227 in outstanding debt. Of this amount, \$5,225,000 related to General Obligation Bonds for the Fire Station construction while the remaining \$10,973,227 related to the City's portion of the George W. Kuhn (GWK) Drain bonds.

The City's bonded debt position as June 30, 2007 and June 30, 2006 is summarized below and is more fully explained in Note 6 - Long-term Debt:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation	\$ 5,225,000	\$ 5,420,000	\$ 10,973,227	\$ 11,282,552	\$ 16,198,227	\$ 16,702,552

The decrease in the City's debt in fiscal year 2007 is due primarily to making scheduled principal payments for the applicable debt.

The City's latest government bond rating occurred in June 2003 when Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (S&P) assigned their municipal bond ratings of "Aaa" and "AAA", respectively, to the issue of 2003 Fire Station Bonds. These ratings were given with the understanding that upon delivery of the bonds, a policy insuring the payment when due of the principal and interest on the bonds will be issued by MBIA Insurance Corporation and paid for by the City. Moody's and S&P have also assigned their outstanding underlying ratings of "A1" and "AA-", respectively, to the bonds.

Water and sewer debt is related to the GWK Drain. These bonds are issued through the Oakland County Drain Commissioner's Office and applied on a percentage basis to each participating community. The City of Madison Heights is responsible for approximately 10.5 percent of each issue.

Economic Factors and Next Year's Budgets and Rates

The condition of the State and local economies were key factors considered in the preparation of the City's fiscal year 2007-2008 budget. Below is a synopsis of significant issues that were weighed in the budget process:

- Increases in healthcare cost
- Funding for the liability related to future retiree healthcare expenditures
- Slow recovery of Michigan business and high unemployment
- State of Michigan policy decision to shift funding away from municipalities

City of Madison Heights, Michigan

Management's Discussion and Analysis (Continued)

Request for Information

This financial report is designed to give our citizens, taxpayers, customers, and investors with a general overview of the City's finances. Questions concerning any information in this report may be sent to the Finance Director/Treasurer, City of Madison Heights, 300 West Thirteen Mile Road, Madison Heights, MI 48071 or submitted through the City's website at www.madison-heights.org

City of Madison Heights, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 16,633,171	\$ 1,947,744	\$ 18,580,915	\$ 933,756
Special assessments receivable - Current	90,000	-	90,000	-
Accounts receivable (Note 3)	343,515	1,925,052	2,268,567	-
Due from other governmental units (Note 3)	889,077	-	889,077	-
Prepaid items and deposits	189,067	-	189,067	-
Noncurrent assets:				
Special assessments receivable - Long term	1,790,930	-	1,790,930	-
Inventories	-	51,279	51,279	-
Restricted assets (Note 7)	59,899	1,203,368	1,263,267	-
Capital assets (Note 4):				
Depreciable	44,029,585	15,687,880	59,717,465	107,390
Nondepreciable	2,190,058	11,300,223	13,490,281	-
Total assets	66,215,302	32,115,546	98,330,848	1,041,146
Liabilities				
Accounts payable	1,236,709	756,053	1,992,762	8,005
Accrued and other liabilities	422,106	282,318	704,424	1,553
Due to other governmental units	1,495	-	1,495	-
Due to police and fire retirement system	639,425	-	639,425	-
Deposits	-	140,586	140,586	76,105
Noncurrent liabilities (Note 6):				
Compensated absences and other claims:				
Due within one year	776,591	-	776,591	-
Due in more than one year	2,120,257	-	2,120,257	-
Long-term debt:				
Due within one year	210,000	560,340	770,340	-
Due in more than one year	5,015,000	10,412,887	15,427,887	-
Total liabilities	10,421,583	12,152,184	22,573,767	85,663
Net Assets				
Invested in capital assets - Net of related debt	40,994,643	16,014,876	57,009,519	107,390
Restricted:				
Major and Local Streets Funds - Construction and operations	7,933,435	-	7,933,435	-
Revolving Fund - Capital projects	2,709,426	-	2,709,426	-
Forfeiture Fund - Drug enforcement	223,465	-	223,465	-
Capital Projects Fund - Fire Station Fund	59,899	-	59,899	-
Debt administration	32,711	-	32,711	-
Water and Sewer Fund - Construction	-	1,203,368	1,203,368	-
Housing Commission Fund	-	-	-	530,350
Unrestricted	3,840,140	2,745,118	6,585,258	317,743
Total net assets	<u>\$ 55,793,719</u>	<u>\$ 19,963,362</u>	<u>\$ 75,757,081</u>	<u>\$ 955,483</u>

City of Madison Heights, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,369,560	\$ 1,899,639	\$ -	\$ -
Public safety	16,293,874	493,324	14,177	86,692
Public works	3,652,104	29,560	2,026,679	419,346
Solid waste and recycling	2,587,356	12,141	-	-
Community and economic development	1,158,801	734,570	135,622	-
Recreation and culture	2,001,112	279,082	103,933	-
Interest on long-term debt	184,219	-	-	-
Total governmental activities	31,247,026	3,448,316	2,280,411	506,038
Business-type activities - Water and sewer	7,746,611	8,519,213	-	5,136
Total primary government	<u>\$ 38,993,637</u>	<u>\$ 11,967,529</u>	<u>\$ 2,280,411</u>	<u>\$ 511,174</u>
Component units:				
Housing Commission	\$ 1,613,836	\$ -	\$ 1,829,082	\$ -
Downtown Development Authority	111,569	-	-	-
Total component units	<u>\$ 1,725,405</u>	<u>\$ -</u>	<u>\$ 1,829,082</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise taxes				
Gain on sale of capital assets				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - July 1, 2006 (as restated)				
Net Assets - June 30, 2007				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (3,469,921)	\$ -	\$ (3,469,921)	\$ -
(15,699,681)	-	(15,699,681)	-
(1,176,519)	-	(1,176,519)	-
(2,575,215)	-	(2,575,215)	-
(288,609)	-	(288,609)	-
(1,618,097)	-	(1,618,097)	-
(184,219)	-	(184,219)	-
(25,012,261)	-	(25,012,261)	-
-	777,738	777,738	-
(25,012,261)	777,738	(24,234,523)	-
-	-	-	215,246
-	-	-	(111,569)
-	-	-	103,677
21,787,120	-	21,787,120	199,178
3,841,111	-	3,841,111	-
1,275,936	154,449	1,430,385	17,738
334,737	-	334,737	-
2,183	-	2,183	-
272,195	30,558	302,753	33,008
27,513,282	185,007	27,698,289	249,924
2,501,021	962,745	3,463,766	353,601
53,292,698	19,000,617	72,293,315	601,882
\$ 55,793,719	\$ 19,963,362	\$ 75,757,081	\$ 955,483

City of Madison Heights, Michigan

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund
Assets				
Cash and investments (Note 2)	\$ 7,417,274	\$ 722,149	\$ 6,833,207	\$ 1,404,165
Due from other governmental units (Note 3)	555,222	210,075	78,407	-
Accounts receivable (Note 3)	329,784	-	309	13,422
Special assessments receivable	-	-	-	1,880,930
Advance to other fund (Note 5)	-	-	566,447	-
Restricted assets (Note 7)	-	-	-	-
Prepaid items and deposits	189,067	-	-	-
Total assets	\$ 8,491,347	\$ 932,224	\$ 7,478,370	\$ 3,298,517
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 711,270	\$ 53,343	\$ 413,503	\$ 14,602
Accrued and other liabilities	371,979	4,382	5,931	8,042
Due to other governmental units	1,495	-	-	-
Advance from other fund (Note 5)	-	-	-	566,447
Due to police and fire retirement system	639,425	-	-	-
Deferred revenue (Note 3)	261,354	-	-	1,790,930
Total liabilities	1,985,523	57,725	419,434	2,380,021
Fund Balances				
Reserved for:				
Advance to other fund	-	-	566,447	-
Debt administration - Reported in nonmajor Debt Service Fund	-	-	-	-
Construction and other:				
Construction	-	-	6,546,220	-
Capital projects	-	-	-	918,496
Prepaid items and deposits	189,067	-	-	-
Unreserved - Reported in (Note 13):				
General Fund	6,316,757	-	-	-
Special Revenue Funds	-	874,499	(53,731)	-
Total fund balances	6,505,824	874,499	7,058,936	918,496
Total liabilities and fund balances	\$ 8,491,347	\$ 932,224	\$ 7,478,370	\$ 3,298,517

**Governmental Funds
Balance Sheet
June 30, 2007**

Nonmajor Governmental Funds	Total Governmental Funds
\$ 256,376	\$ 16,633,171
45,373	889,077
-	343,515
-	1,880,930
-	566,447
59,899	59,899
-	189,067
<u>\$ 361,648</u>	<u>\$ 20,562,106</u>
\$ 43,991	\$ 1,236,709
1,582	391,916
-	1,495
-	566,447
-	639,425
-	2,052,284
45,573	4,888,276
-	566,447
32,911	32,911
-	6,546,220
59,899	978,395
-	189,067
-	6,316,757
<u>223,265</u>	<u>1,044,033</u>
<u>316,075</u>	<u>15,673,830</u>
<u>\$ 361,648</u>	<u>\$ 20,562,106</u>

City of Madison Heights, Michigan

Governmental Funds Reconciliation of Fund Balances to the Statement of Net Assets Year Ended June 30, 2007

Total Fund Balances for Governmental Funds \$ 15,673,830

Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds 46,219,643

A portion of the special assessment receivable is expected to be collected over several years and was not available to pay for current year expenditures 1,790,930

Historically, personal property taxes, net of uncollectibles, are not recorded as revenue in the modified-accrual statements until they become available to pay for current year expenditures 261,354

Compensated absences are included as a liability in governmental activities (2,557,926)

Long-term liabilities and contingencies that are not due and payable in the current period are not reported in the funds (5,563,922)

Accrued interest is not reported in the funds (30,190)

Net Assets of Governmental Activities \$ 55,793,719

City of Madison Heights, Michigan

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund
Revenues				
Intergovernmental	\$ 3,958,266	\$ 1,519,492	\$ 479,614	\$ -
Federal sources	30,457	-	-	-
Property taxes	21,666,823	-	-	-
Other	<u>6,857,358</u>	<u>88,633</u>	<u>336,612</u>	<u>1,019,828</u>
Total revenues	32,512,904	1,608,125	816,226	1,019,828
Expenditures				
Current:				
General government	6,879,297	-	-	-
Public safety	16,172,827	-	-	-
Community development and improvement	4,449,543	636,619	592,811	-
Cultural and recreation	2,847,339	-	-	-
Capital outlay	-	1,614,052	2,554,317	499,121
Debt administration	-	-	-	-
Total expenditures	<u>30,349,006</u>	<u>2,250,671</u>	<u>3,147,128</u>	<u>499,121</u>
Excess of Revenues Over (Under) Expenditures	2,163,898	(642,546)	(2,330,902)	520,707
Other Financing Sources (Uses)				
Transfers in	-	293,000	2,632,051	-
Transfers out	<u>(2,341,162)</u>	<u>-</u>	<u>-</u>	<u>(687,090)</u>
Total other financing sources (uses)	<u>(2,341,162)</u>	<u>293,000</u>	<u>2,632,051</u>	<u>(687,090)</u>
Change in Fund Balances	(177,264)	(349,546)	301,149	(166,383)
Fund Balances - July 1, 2006	<u>6,683,088</u>	<u>1,224,045</u>	<u>6,757,787</u>	<u>1,084,879</u>
Fund Balances - June 30, 2007	<u><u>\$ 6,505,824</u></u>	<u><u>\$ 874,499</u></u>	<u><u>\$ 7,058,936</u></u>	<u><u>\$ 918,496</u></u>

**Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended June 30, 2007**

Nonmajor Governmental Funds	Total Governmental Funds
\$ 11,917	\$ 5,969,289
135,449	165,906
-	21,666,823
<u>106,446</u>	<u>8,408,877</u>
253,812	36,210,895
-	6,879,297
-	16,172,827
135,622	5,814,595
-	2,847,339
174,321	4,841,811
<u>381,810</u>	<u>381,810</u>
<u>691,753</u>	<u>36,937,679</u>
(437,941)	(726,784)
103,201	3,028,252
<u>-</u>	<u>(3,028,252)</u>
<u>103,201</u>	<u>-</u>
(334,740)	(726,784)
<u>650,815</u>	<u>16,400,614</u>
<u>\$ 316,075</u>	<u>\$ 15,673,830</u>

City of Madison Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ (726,784)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are capitalized and expense is recorded over their estimated useful lives through depreciation	6,503,937
Statement of activities records depreciation on capital assets	(2,670,366)
The reduction in the carrying value of assets sold or disposed of is accounted for in the statement of activities, but not in the governmental funds	(458,933)
Special assessment revenues are recorded in the statement of activities when the assessed project is substantially complete; revenues are not reported in the funds until receivables are collected or collectible within 60 days of year end	(442,065)
Debt payments on governmental obligation bonds are recorded in the statement of activities, but not in the governmental funds	195,000
Changes in interest payable are accrued and expensed on the statement of activities, but not in the governmental funds	616
Net changes in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when the obligations are earned in the statement of activities	<u>99,616</u>

Change in Net Assets of Governmental Activities \$ 2,501,021

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Net Assets June 30, 2007

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 1,947,744
Accounts receivable	1,925,052
Inventories	<u>51,279</u>

Total current assets 3,924,075

Noncurrent assets:

Restricted assets (Note 7)	1,203,368
Capital assets (Note 4)	<u>26,988,103</u>

Total noncurrent assets 28,191,471

Total assets 32,115,546

Liabilities

Current liabilities:

Accounts payable	756,053
Accrued liabilities	282,318
Cash bonds and deposits	140,586
Long-term debt - Due within one year (Note 6)	<u>560,340</u>

Total current liabilities 1,739,297

Noncurrent liability - Long-term debt - Net of
amount due within one year (Note 6)

10,412,887

Total liabilities 12,152,184

Net Assets

Invested in capital assets - Net of related debt	16,014,876
Restricted - Construction	1,203,368
Unrestricted	<u>2,745,118</u>

Total net assets \$ 19,963,362

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Revenues, Expenses, and Changes in Net Assets Year Ended June 30, 2007

Operating Revenues

Sale of water	\$ 3,811,749
Sewage disposal	4,677,914
Other charges for services	<u>29,550</u>
Total operating revenues	8,519,213

Operating Expenses

Cost of water	1,807,173
Cost of sewage disposal	2,788,683
Water system maintenance	766,067
Water tapping and installation	18,049
Sewer system maintenance	454,499
General services building	227,947
General administration	1,121,114
Depreciation	<u>518,522</u>
Total operating expenses	<u>7,702,054</u>

Operating Income

817,159

Nonoperating Revenue (Expenses)

Interest and other income	185,007
Interest expense - Net of capitalized interest	<u>(44,557)</u>

Income - Before capital contributions

957,609

Capital Contributions

5,136

Change in Net Assets

962,745

Net Assets - July 1, 2006

19,000,617

Net Assets - June 30, 2007

\$ 19,963,362

City of Madison Heights, Michigan

Proprietary Fund - Enterprise - Water and Sewer Fund Statement of Cash Flows Year Ended June 30, 2007

Cash Flows from Operating Activities

Receipts from customers	\$ 8,515,946
Payments to employees	(635,436)
Payments to suppliers	<u>(6,338,638)</u>
Net cash provided by operating activities	1,541,872

Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt and related deposits with paying agent - Net of capitalized interest	(566,489)
Purchase of capital assets - Including capitalized interest	<u>(1,642,919)</u>
Net cash used in capital and related financing activities	(2,209,408)

Cash Flows from Investing Activities - Interest received on investments

107,814

Net Decrease in Cash and Cash Equivalents

(559,722)

Cash and Cash Equivalents - July 1, 2006

2,507,466

Cash and Cash Equivalents - June 30, 2007

\$ 1,947,744

Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 817,159
Adjustments to reconcile operating income to net cash from operating activities:	
Depreciation	518,522
Changes in assets and liabilities:	
Customer receivables	(3,267)
Accounts payable	146,295
Accrued liabilities	51,039
Cash bonds and deposits	<u>12,124</u>
Net cash provided by operating activities	<u><u>\$ 1,541,872</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2007, the Water and Sewer Fund received debt draw-downs totaling \$140,101. The Water and Sewer Fund also refunded two bonds, resulting in a net increase in long-term debt of \$70,506, recorded \$95,851 in capital contributions, and spent \$11,661 for construction related to the new George W. Kuhn Drain wastewater facilities, received interest and other miscellaneous income for the project totaling \$77,193, and received reimbursements totaling \$260,907 for expenses previously incurred on the project. This activity, administered by Oakland County, Michigan, is recorded in the restricted assets held at the County.

City of Madison Heights, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Trust Funds			Agency Funds
	Police and Fire Retirement	Police and Fire Other Post- employment Benefits	Total Trust Funds	
Assets				
Cash and cash equivalents	\$ 1,681,365	\$ 185,501	\$ 1,866,866	\$ 421,258
Investments:				
Corporate bonds and notes	2,806,565	-	2,806,565	-
U.S. government securities	3,807,767	-	3,807,767	-
Federal agency obligations	2,112,231	-	2,112,231	-
Common stocks	8,490,373	-	8,490,373	-
Interest in pooled investments	27,152,014	-	27,152,014	-
Small cap mutual funds	10,434,354	1,327,153	11,761,507	-
Accrued interest receivable and other	192,439	2,328	194,767	-
Due from City General Fund	639,425	-	639,425	-
	57,316,533	1,514,982	58,831,515	\$ 421,258
Liabilities				
Accounts payable	-	-	-	\$ 37,341
Prepaid taxes	-	-	-	35,115
Cash bonds and deposits	-	-	-	348,802
	-	-	-	\$ 421,258
Net Assets - Reserved for				
Police and fire retirement	57,316,533	-	57,316,533	
Police and fire other postemployment benefits	-	1,514,982	1,514,982	
	\$ 57,316,533	\$ 1,514,982	\$ 58,831,515	

City of Madison Heights, Michigan

Trust Fund Statement of Changes in Net Assets Year Ended June 30, 2007

	Police and Fire Retirement System Trust Fund	Police and Fire Other Postemployment Benefits Trust Fund	Total
Additions			
Investment income:			
Interest and dividends	\$ 1,314,014	\$ 5,749	\$ 1,319,763
Net appreciation of investment value	5,937,503	61,137	5,998,640
Less investment expenses	<u>(201,459)</u>	<u>-</u>	<u>(201,459)</u>
Net investment income	7,050,058	66,886	7,116,944
Contributions:			
Employer:			
Pension benefits	1,794,617	-	1,794,617
Postemployment benefits	1,087,905	1,448,096	2,536,001
Administrative expenses	<u>447,033</u>	<u>-</u>	<u>447,033</u>
Total employer contributions	3,329,555	1,448,096	4,777,651
Employees	<u>516,786</u>	<u>-</u>	<u>516,786</u>
Total contributions	<u>3,846,341</u>	<u>1,448,096</u>	<u>5,294,437</u>
Total additions	10,896,399	1,514,982	12,411,381
Deductions			
Benefit payments:			
Annuity withdrawals	66,447	-	66,447
Pension	3,012,015	-	3,012,015
Postretirement medical benefits	<u>1,087,905</u>	<u>-</u>	<u>1,087,905</u>
Total benefit payments	4,166,367	-	4,166,367
Administrative expenses	<u>245,574</u>	<u>-</u>	<u>245,574</u>
Total deductions	<u>4,411,941</u>	<u>-</u>	<u>4,411,941</u>
Net Increase	6,484,458	1,514,982	7,999,440
Net Assets - Reserved			
July 1, 2006	<u>50,832,075</u>	<u>-</u>	<u>50,832,075</u>
June 30, 2007	<u>\$ 57,316,533</u>	<u>\$ 1,514,982</u>	<u>\$ 58,831,515</u>

City of Madison Heights, Michigan

Component Units Statement of Net Assets June 30, 2007

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
Assets				
Cash and investments (Note 2)	\$ 613,736	\$ 2,650	\$ 317,370	\$ 933,756
Capital assets (Note 4)	<u>-</u>	<u>-</u>	<u>107,390</u>	<u>107,390</u>
Total assets	613,736	2,650	424,760	1,041,146
Liabilities				
Accounts payable	5,728	-	2,277	8,005
Accrued liabilities	1,553	-	-	1,553
Deposits	<u>76,105</u>	<u>-</u>	<u>-</u>	<u>76,105</u>
Total liabilities	<u>83,386</u>	<u>-</u>	<u>2,277</u>	<u>85,663</u>
Net Assets				
Invested in capital assets	-	-	107,390	107,390
Restricted	530,350	-	-	530,350
Unrestricted	<u>-</u>	<u>2,650</u>	<u>315,093</u>	<u>317,743</u>
Total net assets	<u>\$ 530,350</u>	<u>\$ 2,650</u>	<u>\$ 422,483</u>	<u>\$ 955,483</u>

City of Madison Heights, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Housing Commission	\$ 1,613,836	\$ -	\$ 1,829,082	\$ -
Economic Development Corporation	-	-	-	-
Downtown Development Authority	<u>111,569</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 1,725,405</u>	<u>\$ -</u>	<u>\$ 1,829,082</u>	<u>\$ -</u>

General revenues:

Property taxes

Unrestricted investment earnings

Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - July 1, 2006 (as restated)

Net Assets - June 30, 2007

**Component Units
Statement of Activities
Year Ended June 30, 2007**

Net (Expense) Revenues and Changes in Net Assets			
Housing Commission	Economic Development Corporation	Downtown Development Authority	Total
\$ 215,246	\$ -	\$ -	\$ 215,246
-	-	-	-
-	-	(111,569)	(111,569)
215,246	-	(111,569)	103,677
-	-	199,178	199,178
-	135	17,603	17,738
33,008	-	-	33,008
33,008	135	216,781	249,924
248,254	135	105,212	353,601
282,096	2,515	317,271	601,882
<u>\$ 530,350</u>	<u>\$ 2,650</u>	<u>\$ 422,483</u>	<u>\$ 955,483</u>

City of Madison Heights, Michigan

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Madison Heights, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

The Madison Heights Municipal Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as a blended component unit because its primary purpose is to finance and construct the City's public buildings. The Authority was inactive during the current fiscal year.

Discretely Presented Component Units

Housing Commission

The Housing Commission provides low-income families with the opportunity to receive federally subsidized rent payments. The funds are obtained through the U.S. Department of Housing and Urban Development. The Housing Commission serves over 250 families. The Housing Commission's governing body consists of five individuals selected by the City Council. In addition, the Housing Commission's budget is subject to approval by the City Council. There are no separately issued financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Economic Development Corporation

The Economic Development Corporation (the "Corporation") is organized pursuant to Public Act 338 of 1974, as amended. The primary purpose of the Corporation is to encourage and assist commercial and industrial enterprises to locate and expand facilities and services to the City and its residents. This purpose is accomplished by the issuance of limited general obligation revenue bonds by the Corporation. The bonds are payable solely from the net revenue derived from the respective projects and are not an obligation of the Corporation. The Corporation's governing body consists of five individuals selected by the City Council. In addition, the Corporation's budget is subject to approval by the City Council. There are no separately issued financial statements.

Downtown Development Authority

The Downtown Development Authority (the "DDA") was established to correct and prevent stagnation and deterioration within the south end commercial business district. The DDA has established boundaries that include property abutting John R Road from Gardenia to Ten Mile Road and Eleven Mile Road from Interstate 75 to Lorenz. The properties are primarily zoned and used for commercial and industrial purposes. The DDA's goal is to eliminate blighting influences and undertake projects that will encourage new businesses to locate and existing businesses to remain in the area. The DDA is developing programs to solicit commitment and investment from business owners to make improvements on private property that will serve the public purpose of enhancing the district. Revenue is provided through the capture of incremental taxes on properties within the district. The DDA's governing body, which consists of the mayor and 12 individuals, is selected by the City Council. In addition, the DDA's budget is subject to approval by the City Council. There are no separately issued financial statements.

Brownfield Redevelopment Authority

The Brownfield Redevelopment Authority (the "Authority") was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Madison Heights. The Authority's governing body, which consists of 13 individuals, is comprised of the Downtown Development Authority's board members. Currently, the Authority is in the preliminary stages of development and activities are non-financial in nature. Additionally, the Authority's budget, once adopted, will be subject to approval by the City Council. There are no separately issued financial statements.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major Enterprise Fund are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund - The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the major street portion of the City's street network. Financing is provided by the City's share of state gas and weight taxes, grants, interest on investments, and maintenance reimbursements from Oakland and Macomb Counties.

Local Streets Fund - The Local Streets Fund's purpose is to account for expenditures associated with the construction and maintenance needs of the local street portion of the City's street network. Financing is provided by the City's share of gas and weight taxes, transfers from other funds (including transfer from the City's General Fund of the proceeds of a special 2 mill property tax levy, prior to reduction under Headlee, for neighborhood road improvements), and interest income.

Revolving Fund - The Revolving Fund's purpose is to record revenues and related project expenditures for special assessment districts that are not funded by bond issues.

City of Madison Heights, Michigan

**Notes to Financial Statements
June 30, 2007**

Note I - Summary of Significant Accounting Policies (Continued)

The City also reports its major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City financed primarily by user charges. All activities necessary to provide such services are accounted for in this fund including, but not limited to, administration, operations, maintenance, billing, and collection.

Additionally, the City reports the following nonmajor governmental and Agency Funds:

Community Improvement Fund Program - The Community Improvement Fund Program (C.I.P.) is a federally funded division of the Community Development Department. It is charged with the administration of the City's Block Grant program. Block Grant funds are used for such projects as the Home Chore Program, code enforcement, minor home repair, barrier-free improvements, and other similar projects that benefit low- and moderate-income residents. In addition, C.I.P. provides assistance to low-income families in securing low interest and/or deferred home improvement loans.

Forfeiture Fund - The Forfeiture Fund is used to account for revenues generated by drug forfeitures and expenditures related to the enforcement of drug laws per Public Act 251 of 1982.

Fire Station Capital Projects Fund - The purpose of this fund is to account for the proceeds of bond issuance and expenditures associated with the construction of the new fire department headquarters.

Fire Station Debt Service Fund - The Fire Station Debt Service Fund accounts for the principal and interest payments on the bonds for the new fire station headquarters. Revenues to this fund are generated by an ad valorem property tax.

Police and Fire Retirement Fund - The Police and Fire Retirement Fund is used to account for the accumulation of resources to be used for retirement annuity payments. The fund accounts for trustee and investment expenses, administrative costs, auditing and actuarial fees related to the system, and retiree health benefits. Resources are provided by contributions from employees at rates fixed by contract and contributions from the City at amounts determined by an annual actuarial valuation.

Note I - Summary of Significant Accounting Policies (Continued)

Police and Fire Other Post Employment Benefits (OPEB) Fund - The Police and Fire OPEB Fund was established pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for future payments of retiree healthcare benefits.

Tax Collection Fund - The Tax Collection Fund is used to account for the collection and distribution of property taxes collected by the City on behalf of others.

Escrow Fund - The Escrow Fund is used to record deposits by outside individuals or organizations. The City acts as a trustee for these funds. A performance bond is an example of this kind of deposit.

Proprietary Funds - Proprietary funds, such as the Water and Sewer Fund, distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary fund relate to charges to customers for water sales and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenues. The portion intended to recover the cost of the infrastructure is recognized as capital contributed to the fund.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies (Continued)

When an expense has been incurred for purposes for which both restricted and unrestricted assets are available, the City's policy is to first apply restricted resources.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income related to monies provided by the various funds (except the Police and Fire Retirement System) and the component units of the City are allocated to each fund and component unit using a weighted average of the invested principal balances.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." All trade and property tax receivables are shown net of an allowance for uncollectible amounts.

Property Tax Revenue - Property taxes are levied on July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The 2006 taxable valuation of the City totaled \$1,170 million and was used for the July 1, 2006 tax bills; this resulted in property tax revenue as follows:

<u>Purpose</u>	<u>Mills Levied</u>	<u>Approximate Revenue</u>
City charter operating millage	8.816	\$ 10,310,000
Solid waste	2.067	2,397,000
Police and Fire Act 345	4.055	4,702,000
Neighborhood roads	1.930	2,238,000
Major vehicles	0.231	268,000
Advanced life support systems	0.240	278,000
Senior citizens	0.474	550,000
Fire station bond	0.089	103,000

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of the business-type fund are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items or deposits in both government-wide and fund financial statements.

Restricted Assets - The assets of the Capital Projects Fund have been restricted for construction by the bond ordinance and fund balance has been reserved for future construction costs.

Assets of the Water and Sewer Fund held at the County represent unspent bond and loan proceeds held by the County for future construction. Net assets of the Water and Sewer Fund have been restricted for the \$1,203,368 held by the County for future construction.

Capital Assets - Capital assets, which include property, plant, equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, utility system water and sewer lines, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles were assigned a salvage value of 10 percent of historical cost and are depreciated using the straight-line method over the following useful lives:

Building and land improvements	50 years
Machinery and equipment	5-10 years
Furniture and fixtures	5-10 years
Office equipment	5-10 years
Vehicles	5 years

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Infrastructure assets are depreciated using the straight-line method over the following useful lives:

Streets and bridges	15-50 years
Sidewalks	15 years
Utility system	20-50 years

Compensated Absences (Vacation and Sick Leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned and sick pay is accrued when vested (or likely to vest). All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The majority of this liability will be paid by the General Fund.

Long-term Obligations - In the government-wide financial statements and the proprietary fund type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are generally deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable recorded bond premium or discount. Bond issuance costs are generally reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are generally reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Pension trust and other post employment benefit funds are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in the items listed above under State statutory authority. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$6,165,321 of bank deposits (certificates of deposit, checking, and savings accounts). Of that amount, \$378,053 was covered by federal depository insurance and \$5,787,268 was uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Corporate bonds and notes	\$ 1,813,677	6.149 years
Corporate asset-backed securities	992,888	9.224 years
U.S. government securities	8,971,798	1.652 years
U.S. federal agency obligations	6,376,985	7.191 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds and notes	\$ 327,446	A1	Moody's
Corporate bonds and notes	515,624	A2	Moody's
Corporate bonds and notes	73,338	A3	Moody's
Corporate bonds and notes	73,865	AA1	Moody's
Corporate bonds and notes	272,817	AA2	Moody's
Corporate bonds and notes	397,911	AA3	Moody's
Corporate bonds and notes	152,675	AAA	Moody's
Corporate asset-backed securities	992,888	AAA	Moody's
U.S. federal agency obligations	6,376,985	AAA	Moody's
Interlocal agreement fund	1,093,916	Not rated	
Reserve funds market	52,211	Not rated	
Bank investment fund - MIF	2,428,000	Not rated	
Mutual funds	13,263,182	Not rated	

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 3 - Receivables

Receivables as of year end for the City's individual major governmental funds and the nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts (of which there were none) for the year ended June 30, 2007, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	Revolving Fund	Nonmajor Funds	Total
Receivables:						
Intergovernmental	\$ 555,222	\$ 210,075	\$ 78,407	\$ -	\$ 45,373	\$ 889,077
Accounts	<u>329,784</u>	<u>-</u>	<u>309</u>	<u>13,422</u>	<u>-</u>	<u>343,515</u>
Net receivables	<u>\$ 885,006</u>	<u>\$ 210,075</u>	<u>\$ 78,716</u>	<u>\$ 13,422</u>	<u>\$ 45,373</u>	<u>\$ 1,232,592</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Personal property taxes	\$ 261,354
Special assessments	<u>1,790,930</u>
Total	<u>\$ 2,052,284</u>

Receivables in the Water and Sewer Fund as of June 30, 2007 were \$1,925,052. There was no allowance for uncollectible accounts as of June 30, 2007.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated -				
Land	\$ 2,189,153	\$ 905	\$ -	\$ 2,190,058
Capital assets being depreciated:				
Infrastructure:				
Streets and bridges	33,493,889	4,168,369	-	37,662,258
Sidewalks	2,297,344	495,274	-	2,792,618
Buildings and improvements	16,555,510	929,399	534,064	16,950,845
Land improvements	1,676,609	-	-	1,676,609
Machinery and equipment	1,318,462	90,263	9,359	1,399,366
Furniture and fixtures	383,688	2,262	-	385,950
Vehicles	6,402,838	660,480	332,947	6,730,371
Office equipment	<u>2,727,310</u>	<u>156,985</u>	<u>18,594</u>	<u>2,865,701</u>
Subtotal	64,855,650	6,503,032	894,964	70,463,718
Accumulated depreciation:				
Infrastructure:				
Streets and bridges	10,968,177	1,338,444	-	12,306,621
Sidewalks	1,197,173	141,050	-	1,338,223
Buildings and improvements	4,367,908	276,694	147,159	4,497,443
Land improvements	434,655	30,222	-	464,877
Vehicles	3,839,144	722,072	263,714	4,297,502
Other assets	<u>3,392,741</u>	<u>161,884</u>	<u>25,158</u>	<u>3,529,467</u>
Subtotal	<u>24,199,798</u>	<u>2,670,366</u>	<u>436,031</u>	<u>26,434,133</u>
Net capital assets being depreciated	<u>40,655,852</u>	<u>3,832,666</u>	<u>458,933</u>	<u>44,029,585</u>
Net capital assets	<u>\$ 42,845,005</u>	<u>\$ 3,833,571</u>	<u>\$ 458,933</u>	<u>\$ 46,219,643</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets (Continued)

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Business-type activities (Water and Sewer Fund):				
Capital assets not being depreciated:				
Land	\$ 164,413	\$ -	\$ -	\$ 164,413
Construction in progress	11,176,152	220,565	260,907	11,135,810
Subtotal	11,340,565	220,565	260,907	11,300,223
Capital assets being depreciated:				
Utility systems	17,978,561	442,931	-	18,421,492
Kuhn drain - Segment I	2,724,208	-	-	2,724,208
Buildings and improvements	3,031,902	978,319	-	4,010,221
Machinery and equipment	2,364,686	17,901	-	2,382,587
Subtotal	26,099,357	1,439,151	-	27,538,508
Accumulated depreciation:				
Utility systems	9,120,806	287,746	-	9,408,552
Kuhn drain - Segment I	123,990	62,228	-	186,218
Buildings and improvements	202,482	59,100	-	261,582
Machinery and equipment	1,884,828	109,448	-	1,994,276
Subtotal	11,332,106	518,522	-	11,850,628
Net capital assets being depreciated	14,767,251	920,629	-	15,687,880
Net capital assets	<u>\$ 26,107,816</u>	<u>\$ 1,141,194</u>	<u>\$ 260,907</u>	<u>\$ 26,988,103</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 205,065
Public safety	509,846
Public works	1,709,311
Community development	11,243
Recreation	124,845
Refuse	110,056
Total governmental activities	<u>\$ 2,670,366</u>
Business-type activities - Water and sewer	<u>\$ 518,522</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 4 - Capital Assets (Continued)

Component Units

Capital assets in the Downtown Development Authority, a component unit fund, consisted of land improvements with a net book value of \$107,390, which considers accumulated depreciation of \$14,969 as of June 30, 2007. There are no current year additions, and depreciation expense for the current year was \$2,250.

Note 5 - Interfund Receivables, Payables, and Transfers

At June 30, 2007, the City had an interfund payable in the amount of \$639,425 payable from the General Fund to the Police and Fire Retirement Fund representing City contributions to the System. At June 30, 2007, the City had an interfund advance in the amount of \$566,447 from the Local Streets Fund to the Revolving Fund which represents an advance of Local Street monies to finance a local road related special assessment project.

Interfund transfers reported in the fund statements are as follows:

	Transfers Out		Total
	General Fund	Revolving Fund	
Transfers in:			
Local Streets Fund	\$ 2,237,961	\$ 394,090	\$ 2,632,051
Major Streets Fund	-	293,000	293,000
Other governmental fund -			
Fire Station Debt Service Fund	103,201	-	103,201
Total	<u>\$ 2,341,162</u>	<u>\$ 687,090</u>	<u>\$ 3,028,252</u>

The transfer from the General Fund to the Local Streets Fund represents the transfer of property taxes collected for a special street millage. The transfer from the General Fund to the Fire Station Debt Service Fund represents the transfer of property taxes collected to pay the debt service requirement on the Fire Station Bond. The transfers from the Revolving Fund to the Major Streets Fund and the Local Streets Fund are to reimburse the Major Streets Fund and Local Streets Fund for construction expenses related to special assessment districts.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity is summarized as follows:

	Interest Rate	Maturing Through	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Governmental activities:							
General obligations:							
Vested employee benefits	-	-	\$ 2,333,329	\$ 278,052	\$ 53,455	\$ 2,557,926	\$ 693,257
Reserve for general liability insurance claims	-	-	663,135	-	324,213	338,922	83,334
General obligation bonds:							
Amount of issue - \$5,925,000							
For financing the construction of a new fire station	2%-3.875%	2021	5,420,000	-	195,000	5,225,000	210,000
Total governmental activities			<u>\$ 8,416,464</u>	<u>\$ 278,052</u>	<u>\$ 572,668</u>	<u>\$ 8,121,848</u>	<u>\$ 986,591</u>
Business-type activities:							
General obligations (related to the George W. Kuhn Drain project discussed below):							
Series 2000A - Amount of issue - \$1,881,478	2.5%	2022	\$ 1,575,790	\$ -	\$ 81,552	\$ 1,494,238	\$ 83,130
Series 2000B - Amount of issue - \$691,348	4.75%-5.375%	2022	601,904	-	546,659	55,245	26,307
Series 2000C - Amount of issue - \$8,649,747	2.5%	2024	7,963,660	-	355,671	7,607,989	364,615
Series 2000D - Amount of issue - \$333,573 - Net of \$144,162 not drawn down as of June 30, 2006	2.5%	2024	176,257	-	14,206	162,051	14,732
Series 2000E - Amount of issue - \$1,038,601	4.1%-5.25%	2024	964,941	-	757,115	207,826	39,461
Series 2005 - Amount of issue - \$170,469 - Net of \$28,368 not drawn down as of June 30, 2007	1.63%	2026	-	142,101	7,366	134,735	7,366
Series 2007 - Amount of issue - \$1,311,143	4.25%-4.375%	2024	-	1,311,143	-	1,311,143	24,729
Total business-type activities			<u>\$ 11,282,552</u>	<u>\$ 1,453,244</u>	<u>\$ 1,762,569</u>	<u>\$ 10,973,227</u>	<u>\$ 560,340</u>

Governmental Activities

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick, vacation, and longevity pay policies, net of the portion that is estimated will be paid currently. Under the City's policies, employees earn sick, vacation, and longevity time based on time of service with the City.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt (Continued)

The reserve for general liability insurance claims is discussed in Note 8.

Business-type Activities

The seven general obligations recorded in the Enterprise Fund represent the City's obligations to service a portion, approximating 10.5 percent, of three bond issues and four State Revolving Fund loans related to the sewer construction project discussed in Note 11.

The obligations were issued by the George W. Kuhn Drainage District on behalf of 14 participating communities, the County of Oakland, and the State of Michigan. The City has pledged its full faith and credit related to the repayment of these obligations and has recorded the liabilities in the Enterprise (Water and Sewer) Fund since it is anticipated that the debt service requirements of these obligations will be provided from the revenues of this fund.

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2007 (excluding compensated absences and other claims), including both principal and interest, are as follows:

Years Ending June 30	Governmental-type Activities			Business-type Activities (Water and Sewer Fund)		
	Principal	Interest	Total	Principal*	Interest*	Total
2008	\$ 210,000	\$ 180,448	\$ 390,448	\$ 560,340	\$ 282,268	\$ 842,608
2009	220,000	175,198	395,198	556,131	286,484	842,615
2010	235,000	169,148	404,148	571,389	271,024	842,413
2011	250,000	162,098	412,098	586,120	255,398	841,518
2012	260,000	154,598	414,598	601,378	239,258	840,636
2013-2017	1,535,000	682,928	2,217,928	3,263,649	939,582	4,203,231
2018-2022	2,040,000	338,638	2,378,638	3,619,320	470,901	4,090,221
2023-2026	475,000	19,000	494,000	1,214,900	49,255	1,264,155
Total	<u>\$ 5,225,000</u>	<u>\$ 1,882,056</u>	<u>\$ 7,107,056</u>	<u>\$ 10,973,227</u>	<u>\$ 2,794,170</u>	<u>\$ 13,767,397</u>

* The business-type general obligations related to the State Revolving Fund loans accrue interest only on the portion of the loans drawn down to date. The interest components related to these instruments in the above maturity schedule assume that the \$172,530 undrawn portions of the obligations are drawn on July 1, 2007.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 6 - Long-term Debt (Continued)

Interest

The City's business-type activities had total interest expense for the year ended June 30, 2007 of approximately \$296,000 (of which approximately \$251,000, net of off-setting interest income, was capitalized in the Water and Sewer Fund.) The City's governmental-type activities had total interest expense of approximately \$185,000 for the same period.

No Commitment Debt

Excluded from the governmental activities obligations are revenue bonds of the Economic Development Corporation issued to acquire and lease property to third parties. The revenue bonds issued are payable solely from the net revenues derived from the respective leases and are not a general obligation of the City. After these bonds are issued, all financial activity is taken over by the paying agent. The bonds and related lease contracts are not reflected in the City's financial statements. As of June 30, 2007, there were four series of such bonds outstanding. The aggregate original issue amount of these bonds was \$9,590,000. Information regarding the status of each bond issue, including possible default, must be obtained from the paying agent or other knowledgeable source.

Note 7 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Funds - Capital Projects Fund - Fire Station	Enterprise Fund - Water and Sewer Construction	Total
Cash and investments	\$ 59,899	\$ -	\$ 59,899
Assets held at the County	<u>-</u>	<u>1,203,368</u>	<u>1,203,368</u>
Net assets restricted	<u>\$ 59,899</u>	<u>\$ 1,203,368</u>	<u>\$ 1,263,267</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for health, dental, optical, and life insurance claims, participates in the Michigan Municipal League risk pool for workers' compensation claims, and participates in the Michigan Municipal Risk Management Authority risk pool for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Annual premiums paid to the Authority are used to pay claims up to the retention limits. However, the ultimate liability for those claims remains with the City.

The City has elected to participate in the Authority's stop-loss program, which limits the paid losses to \$355,000 in any one year. The City's policy is to record premium payments to the Authority as expenditures of the participating funds.

The City estimates the liability for general liability claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. The portion of this liability that relates to governmental fund activities and is not expected to be liquidated with expendable available financial resources is recorded as a noncurrent liability in the statement of net assets. The remaining balance of the liability is recorded in the applicable fund, net of any funds on deposit that the Authority previously expensed. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Changes in the estimated liability for the past two fiscal years were as follows:

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 8 - Risk Management (Continued)

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 663,135	\$ 477,947
Estimated claims incurred, including reinsurance premiums and changes in estimates	1,088,239	1,592,830
Claim and reinsurance premium payments and reinsurance recoveries	<u>(1,412,452)</u>	<u>(1,407,642)</u>
Estimated liability - End of year	<u>\$ 338,922</u>	<u>\$ 663,135</u>

Additionally, the City is involved in several contingent matters relating to lawsuits and claims. In the opinion of the City, the probability of material exposure, if any, to the City in excess of amounts currently recorded as a result of the resolution of these matters is remote.

Note 9 - Defined Benefit Pension Plan

Police and Fire Retirement System

Plan Description - The Police and Fire Retirement System is a single-employer defined benefit pension plan that is administrated by the City of Madison Heights Police and Fire Employees' Retirement System; this plan covers all police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 103 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 94 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Defined Benefit Pension Plan (Continued)

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires a contribution from the employees of 6.40 percent of gross wages for firefighters and fire command, 8.0 percent for police command, 6.67 percent for police, and 9.41 percent for department heads. The funding policy provides for periodic employer contributions at actuarially determined rates. In addition, during the year ended June 30, 2007, the City's General Fund contributed, and the police and fire retirement expensed, \$447,033 related to investment and administrative expenses.

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost was \$1,794,617, excluding contributions for postretirement benefits and administrative expenses, investment expenses, and exclusive of employee contributions of \$516,786. The annual required contribution was determined as part of an actuarial valuation at June 30, 2005, using the individual entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return including 5.5 percent per year compounded annually, attributable to inflation, (b) projected salary increases of 5.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. As of June 30, 2006, the actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The underfunded actuarial liability is being amortized over an open 25-year period.

Three-year trend information is as follows:

	Year Ended June 30		
	2005	2006	2007
Annual pension cost (APC)	\$ 1,513,226	\$ 1,656,680	\$ 1,794,617
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Reserves - As of June 30, 2007, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 7,866,717
Reserve for retired benefit payments	31,579,383

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Defined Benefit Pension Plan (Continued)

Supplemental Information

The required supplemental information presented directly following the notes to the financial statements contained in the combining and individual fund section is designed to provide information about the plans' progress in accumulating sufficient assets to pay benefits when due.

Municipal Employees' Retirement System of Michigan

Plan Description - The City of Madison Heights participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers substantially all employees of the City other than police and fire employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established primarily by negotiation with the Teamsters and AFSCME collective bargaining units and requires a contribution from the employees ranging from 0.0 percent to 3.04 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost of \$646,440 for the plan, exclusive of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the attained age actuarial funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, including 4.5 percent per year, compounded annually, for inflation, (b) projected salary increases of 4.5 percent per year, compounded annually, attributable to inflation, (c) additional projected salary increases of 0 percent to 8.40 percent per year, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The amortization period is 30 years.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 9 - Defined Benefit Pension Plan (Continued)

Three-year trend information is as follows:

	Year Ended June 30		
	2005	2006	2007
Annual pension cost (APC)	\$ 454,680	\$ 525,888	\$ 646,440
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

The schedule of funding progress is as follows (in millions):

Municipal Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
12/31/04	\$ 23.90	\$ 27.64	\$ 3.74	\$ 5.69	65.7	86.5
12/31/05	24.49	28.41	3.92	5.21	75.2	86.2
12/31/06	25.39	29.68	4.29	5.19	82.7	85.5

Note 10 - Postemployment Benefits

Retiree Health Care Expenditures

The City provides health care benefits to retirees, with no contribution required by the participant, which is paid monthly in accordance with labor contracts. Currently, 126 retirees are eligible. Benefits of retirees other than police and fire retirees are paid and expensed by the General Fund and totaled \$558,473 for the year ended June 30, 2007. Benefits of police and fire retirees are reported and expensed by the Police and Fire Retirement Fund utilizing funds contributed by the General Fund for this purpose.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 10 - Postemployment Benefits (Continued)

Effective July 1, 1988, the Police and Fire Retirement System assumed the reporting responsibility for the payment of the current cost of postemployment health benefits for retired police and fire employees that were previously recorded as an expense in the General Fund. During the year ended June 30, 2007, the City's General Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling \$1,087,905. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. Accordingly, no portion of fund balance has been reserved and no actuarial computed information has been included in this report to reflect future obligations with respect to health benefits paid to police and fire retirees.

Health Care Savings Plans

In 2006, the City established two separate health care savings plans under the Municipal Employees' Retirement System of Michigan which allow employees to make pretax contributions to be used by them for future health care costs. During the year ended June 30, 2007, the City contributed \$72,210 to these plans.

General Employee Retiree Healthcare Benefits Trust

In 2005, the City established a fund pursuant to Public Act 149 of 1999. The purpose of the fund is to hold and invest monies to be used for future payments of general employee retiree healthcare benefits. The fund assets were placed in the Municipal Employees' Retirement System of Michigan Health Care Savings Plan Trust. Given that this plan is administered by MERS, the City does not report the plan's assets within the basic financial statements. During the year ended June 30, 2007, the City contributed \$795,989 to this fund. As of year end, the total holdings of the trust were \$1,417,067.

Note 10 - Postemployment Benefits (Continued)

Police and Fire Retiree Healthcare Benefits Trust

Plan Description - During the year ended June 30, 2007, the City established the Police and Fire Retiree Healthcare Benefits Trust (the "Trust") pursuant to Public Act 149 of 1999. The Trust provides for future payment of medical benefits for eligible police and fire retirees and their spouses and dependents. At June 30, 2006, the date of the most recent actuarial valuation, membership consisted of 77 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 104 current active employees. The plan does not issue a separate financial report.

Contributions - The City may partially or fully fund the liability of the Trust by periodically making contributions to the Trust. Employer contributions to the Trust are recognized when made. Benefits are recognized when due and payable in accordance with the terms of the Trust. Please refer to Note 1 for further significant accounting policies.

The obligation to provide benefits to police and fire employees was established by negotiation between the City and the police and fire collective bargaining units. Employees are not required to contribute to the Trust. There were no administrative costs incurred by the Trust during the current year. Future administrative costs will be financed by the Trust. Certain administrative costs related to the establishment of the Trust were financed by the General Fund.

Annual Cost - During the year ended June 30, 2007, the City made a discretionary transfer of \$1,448,096 to initially fund the Trust based on an actuarial valuation done as of June 30, 2006.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncements provide guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncements are effective for the City's fiscal years ending June 30, 2008 and June 30, 2009 for Statement No. 43 and Statement No. 45, respectively.

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 11 - Commitments

Infrastructure Construction - The City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) had previously agreed to undertake improvements to the George W. Kuhn Drain to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$128 million, with the City's estimated share approximating \$13 million. The SOCSDS is financing the project by issuing debt, including low-interest (2.5 percent) State Revolving Fund money loans, with each community funding their proportionate share of the debt service payments. Additionally, the SOCSDS communities have obtained approximately \$5.2 million in federal grants for the project.

As of June 30, 2007, the SOCSDS had obtained aggregate financing of approximately \$122,000,000 (of which approximately \$120,340,000 had been received or drawn down) and had incurred approximately \$121,553,000 of costs related to the project. Included in the City's Water and Sewer Fund financial statements at June 30, 2007 was approximately \$13,860,000 of system improvements and construction in progress, \$1,203,368 of assets held at the County, and \$10,937,000 of general obligations payable, representing the major components of the City's interest in the project's activity at that date.

Note 12 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - July 1, 2006		\$ (1,230,359)
Current year building permit revenue		596,743
Current year related expenses:		
Direct costs	\$ 354,220	
Estimated indirect costs	<u>369,407</u>	
Total construction code expenditures		<u>723,627</u>
Cumulative shortfall - June 30, 2007		<u>\$ (1,357,243)</u>

City of Madison Heights, Michigan

Notes to Financial Statements June 30, 2007

Note 13 - Designated Fund Balances

The following is a summary of the unreserved fund balances of the major governmental funds with management's designations:

Designated for	Funds		
	General	Major Streets	Local Streets
Vested employee benefits	\$ 2,557,926	\$ -	\$ -
Subsequent years' expenditures	144,636	208,000	445,000
Retiree health benefits	778,165	-	-
Retained insurance risks	500,000	-	-
Vehicle replacement	1,136,030	-	-
Capital improvements	500,000	-	-
Park improvements	500,000	-	-
Technology improvements	200,000	-	-
Total designated	6,316,757	208,000	445,000
Total undesignated	-	666,499	(498,731)
Total unreserved	\$ 6,316,757	\$ 874,499	\$ (53,731)

Note 14 - Prior Period Adjustment

The beginning of year fund balance/net assets in the Housing Commission Fund was restated to reflect an increase of \$282,096. This increase relates to funds received from the U.S. Department of Housing and Urban Development in the prior year that were recorded as deferred revenue as of June 30, 2006. During 2007, new information became available that indicated the amount deferred should have been recognized as revenue during the year ended June 30, 2006.

Required Supplemental Information

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 3,324,603	\$ 3,367,981	\$ 3,988,723	\$ 620,742
Property taxes	21,989,671	21,989,671	21,666,823	(322,848)
Other	6,075,414	6,304,665	6,857,358	552,693
Total revenues	31,389,688	31,662,317	32,512,904	850,587
Expenditures				
General government	9,237,052	9,411,259	9,220,459	(190,800)
Public safety	15,746,362	16,115,588	16,172,827	57,239
Community development and services	4,415,265	4,493,952	4,449,543	(44,409)
Culture and recreation	2,191,009	3,162,488	2,847,339	(315,149)
Total expenditures	31,589,688	33,183,287	32,690,168	(493,119)
Excess of Expenditures Over Revenues	(200,000)	(1,520,970)	(177,264)	1,343,706
Fund Balance - July 1, 2006	6,683,088	6,683,088	6,683,088	-
Fund Balance - June 30, 2007	\$ 6,483,088	\$ 5,162,118	\$ 6,505,824	\$ 1,343,706

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 1,457,263	\$ 1,457,263	\$ 1,519,492	\$ 62,229
Other	161,500	161,500	88,633	(72,867)
Transfers in	<u>293,000</u>	<u>293,000</u>	<u>293,000</u>	<u>-</u>
Total revenues	1,911,763	1,911,763	1,901,125	(10,638)
Expenditures				
Community development and improvement	730,733	750,733	636,619	(114,114)
Capital outlay	1,499,000	2,206,441	1,614,052	(592,389)
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>2,229,733</u>	<u>2,957,174</u>	<u>2,250,671</u>	<u>(706,503)</u>
Excess of Expenditures Over Revenues	(317,970)	(1,045,411)	(349,546)	695,865
Fund Balance - July 1, 2006	<u>1,224,045</u>	<u>1,224,045</u>	<u>1,224,045</u>	<u>-</u>
Fund Balance - June 30, 2007	<u>\$ 906,075</u>	<u>\$ 178,634</u>	<u>\$ 874,499</u>	<u>\$ 695,865</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Local Streets Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Intergovernmental	\$ 518,310	\$ 518,310	\$ 479,614	\$ (38,696)
Transfers in	2,315,364	2,315,364	2,632,051	316,687
Other	75,000	75,000	336,612	261,612
Total revenues	2,908,674	2,908,674	3,448,277	539,603
Expenditures				
Community development and improvement	619,104	619,104	592,811	(26,293)
Capital outlay	2,090,000	4,200,768	2,554,317	(1,646,451)
Total expenditures	2,709,104	4,819,872	3,147,128	(1,672,744)
Excess of Revenues Over (Under) Expenditures	199,570	(1,911,198)	301,149	2,212,347
Fund Balance - July 1, 2006	6,757,787	6,757,787	6,757,787	-
Fund Balance - June 30, 2007	<u>\$ 6,957,357</u>	<u>\$ 4,846,589</u>	<u>\$ 7,058,936</u>	<u>\$ 2,212,347</u>

City of Madison Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Revolving Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues - Other	\$ 316,262	\$ 454,108	\$ 1,019,828	\$ 565,720
Expenditures				
Capital outlay	356,220	494,066	499,121	5,055
Transfer out	<u>367,068</u>	<u>367,068</u>	<u>687,090</u>	<u>320,022</u>
Total expenditures	<u>723,288</u>	<u>861,134</u>	<u>1,186,211</u>	<u>325,077</u>
Excess of Expenditures Over Revenues	(407,026)	(407,026)	(166,383)	240,643
Fund Balance - July 1, 2006	<u>1,084,879</u>	<u>1,084,879</u>	<u>1,084,879</u>	<u>-</u>
Fund Balance - June 30, 2007	<u>\$ 677,853</u>	<u>\$ 677,853</u>	<u>\$ 918,496</u>	<u>\$ 240,643</u>

City of Madison Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2007

The schedule of funding progress is as follows (in millions):

Police and Fire Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Valuation Payroll	UAAL as a Percentage of Valuation Payroll	Funded Ratio (Percent) (a/b)
6/30/01	\$ 49.00	\$ 48.14	\$ (0.86)	\$ 5.80	(14.8)	101.8
6/30/02	49.20	50.63	1.43	6.44	22.2	97.2
6/30/03	48.92	51.67	2.75	6.31	43.5	94.7
6/30/04	48.98	56.13	7.15	6.99	102.3	87.3
6/30/05	49.89	57.73	7.84	7.16	109.5	86.4
6/30/06	51.53	59.88	8.35	7.06	118.3	86.1

City of Madison Heights, Michigan

Required Supplemental Information Pension System Schedule of Employer's Contributions June 30, 2007

The schedule of employer contributions is as follows:

Police and Fire Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution for Police and Fire*	Percentage Contributed
06/30/02	06/30/01	\$ 845,881	100.0
06/30/03	06/30/02	951,923	100.0
06/30/04	06/30/03	1,221,459	100.0
06/30/05	06/30/04	1,513,226	100.0
06/30/06	06/30/05	1,656,680	100.0
06/30/07	06/30/06	1,794,617	100.0

* Excludes contributions made for retiree health care and other expenses

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2006, the latest actuarial valuation date, is as follows:

Police and Fire Retirement System

Actuarial cost method	Individual entry age actuarial cost method
Amortization method	Level percent of payroll
Remaining amortization period	25 years open
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7%
Projected salary increases**	5.5%-8.5%
**Includes inflation at cost of living adjustments	5.5%
Postretirement benefit increases	None

City of Madison Heights, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Stewardship, Compliance, and Accountability

The City is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- a. Budgets must be adopted for the General Fund and Special Revenue Funds.
- b. Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- c. The budgets must be amended when necessary.
- d. Public hearings must be held before budget adoptions.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget before being incurred.

The City adopts its budget based on total expenditures by fund, except for the General Fund for which it adopts budgeted expenditures by general government, public safety, community development and services, and culture and recreation, which is in accordance with the State's legal requirements. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The level of detail presented in the required supplemental information for the General Fund and in the other supplemental information budgetary comparison schedules for the nonmajor governmental funds is on this budget basis. The level of detail presented in the required supplemental information for the major governmental funds is in greater detail than the adopted budgets. Copies of the budget for all budgeted funds are available at the office of the city clerk.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the third Monday in April, the city manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to the third Monday in May, the budget is legally enacted through passage of an ordinance.
4. The city manager is authorized to transfer budgeted amounts between line items within an activity category; however, any revisions that alter the total expenditures of any budgeted activity must be approved by the City Council.

City of Madison Heights, Michigan

Note to Required Supplemental Information June 30, 2007

Note - Stewardship, Compliance, and Accountability (Continued)

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end. Encumbrances are not included as expenditures and the amount of encumbrances outstanding at June 30, 2007 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, and operating transfers have been included in the "revenues" and "expenditures" categories rather than as "extraordinary item" and "other financing sources (uses)."

During the current year, the City incurred general government expenditures within the major funds that were in excess of the amounts budgeted as follows:

	Final Budget	Actual
General Fund - Public safety	\$ 16,115,588	\$ 16,172,827
Revolving Fund - Transfers out	367,068	687,090

The variance in the General Fund was due to unanticipated wage overruns in the police and fire departments. This also caused an increase in fringe benefits, such as FICA, workers' compensation insurance, and pension contributions.

The variance in the Revolving Fund was due to a transfer from the Revolving Fund to the Local Roads Fund that was inadvertently left out of the amended budget.

All other budget comparison schedules are contained in the other supplemental information section.

The City has an unreserved deficit of \$53,731 in the Local Streets Fund due to the requirement to reserve fund balance for both advances to other funds as well as tax levies not yet expended on the related road projects. The deficit will be alleviated as the advance is paid back to the fund.

Other Supplemental Information

City of Madison Heights, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2007

	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Fund	Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds	
Assets	Community Improvement	Forfeiture	Fire Station	Fire Station	
Cash and investments	\$ -	\$ 223,465	\$ -	\$ 32,911	\$ 256,376
Due from other governmental units	45,373	-	-	-	45,373
Restricted assets	-	-	59,899	-	59,899
Total assets	<u>\$ 45,373</u>	<u>\$ 223,465</u>	<u>\$ 59,899</u>	<u>\$ 32,911</u>	<u>\$ 361,648</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 43,791	\$ -	\$ -	\$ 200	\$ 43,991
Accrued and other liabilities	1,582	-	-	-	1,582
Total liabilities	45,373	-	-	200	45,573
Fund Balances					
Reserved for:					
Debt administration	-	-	-	32,711	32,711
Capital projects	-	-	59,899	-	59,899
Unreserved - Undesignated	-	223,465	-	-	223,465
Total fund balances	-	223,465	59,899	32,711	316,075
Total liabilities and fund balances	<u>\$ 45,373</u>	<u>\$ 223,465</u>	<u>\$ 59,899</u>	<u>\$ 32,911</u>	<u>\$ 361,648</u>

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2007

	Nonmajor Special Revenue Funds		Capital Projects Fund	Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
	Community Improvement	Forfeiture	Fire Station	Fire Station	
Revenues					
Intergovernmental	\$ -	\$ 11,917	\$ -	\$ -	\$ 11,917
Federal sources	135,449	-	-	-	135,449
Other	173	88,546	3,299	14,428	106,446
Total revenues	135,622	100,463	3,299	14,428	253,812
Expenditures					
Current - Community development and improvement	135,622	-	-	-	135,622
Capital outlay	-	156,342	17,979	-	174,321
Debt administration	-	-	-	381,810	381,810
Total expenditures	135,622	156,342	17,979	381,810	691,753
Excess of Expenditures Over Revenues	-	(55,879)	(14,680)	(367,382)	(437,941)
Other Financing Sources - Transfers in	-	-	-	103,201	103,201
Net Change in Fund Balances	-	(55,879)	(14,680)	(264,181)	(334,740)
Fund Balances - July 1, 2006	-	279,344	74,579	296,892	650,815
Fund Balances - June 30, 2007	\$ -	\$ 223,465	\$ 59,899	\$ 32,711	\$ 316,075

City of Madison Heights, Michigan

Other Supplemental Information Combining Balance Sheet Agency Funds June 30, 2007

	Tax Collection		
	<u>Fund</u>	<u>Escrow Fund</u>	<u>Total</u>
Assets - Cash and cash equivalents	<u>\$ 35,115</u>	<u>\$ 386,143</u>	<u>\$ 421,258</u>
Liabilities			
Accounts payable	\$ -	\$ 37,341	\$ 37,341
Accrued and other liabilities	35,115	-	35,115
Cash bonds and deposits	<u>-</u>	<u>348,802</u>	<u>348,802</u>
Total liabilities	<u>\$ 35,115</u>	<u>\$ 386,143</u>	<u>\$ 421,258</u>

City of Madison Heights, Michigan

Other Supplemental Information Combining Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>Tax Collection Fund</u>				
Assets - Cash and investments and other	\$ 239,497	\$ 61,094,836	\$ 61,299,218	\$ 35,115
Liabilities				
Accounts payable	\$ -	\$ 5,221,147	\$ 5,221,147	\$ -
Accrued and other liabilities	239,497	81,855,324	82,059,706	35,115
Total liabilities	\$ 239,497	\$ 87,076,471	\$ 87,280,853	\$ 35,115
<u>Escrow Fund</u>				
Assets - Cash and investments	\$ 450,408	\$ 2,991,164	\$ 3,055,429	\$ 386,143
Liabilities				
Accounts payable	\$ 43,041	\$ 1,601,538	\$ 1,607,238	\$ 37,341
Cash bonds and deposits	407,367	3,329,423	3,387,988	348,802
Total liabilities	\$ 450,408	\$ 4,930,961	\$ 4,995,226	\$ 386,143
<u>Totals - All Agency Funds</u>				
Assets - Cash and investments and other	\$ 689,905	\$ 64,086,000	\$ 64,354,647	\$ 421,258
Liabilities				
Accounts payable	\$ 43,041	\$ 6,822,685	\$ 6,828,385	\$ 37,341
Accrued and other liabilities	239,497	81,855,324	82,059,706	35,115
Cash bonds and deposits	407,367	3,329,423	3,387,988	348,802
Total liabilities	\$ 689,905	\$ 92,007,432	\$ 92,276,079	\$ 421,258

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds Year Ended June 30, 2007

Special Revenue - Community Improvement

	Original/Final Budget	Actual	Variance with Final Budget
Revenues	\$ 136,637	\$ 135,622	\$ (1,015)
Expenditures	<u>136,637</u>	<u>135,622</u>	<u>(1,015)</u>
Excess of Revenues Over Expenditures	-	-	-
Fund Balance - July 1, 2006	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance - June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Nonmajor Special Revenue Funds (Continued) Year Ended June 30, 2007

Special Revenue - Forfeiture

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues - Other	\$ 49,900	\$ 69,663	\$ 100,463	\$ 30,800
Expenditures	<u>89,600</u>	<u>162,363</u>	<u>156,342</u>	<u>(6,021)</u>
Excess of Expenditures Over Revenues	(39,700)	(92,700)	(55,879)	36,821
Fund Balance - July 1, 2006	<u>279,344</u>	<u>279,344</u>	<u>279,344</u>	<u>-</u>
Fund Balance - June 30, 2007	<u>\$ 239,644</u>	<u>\$ 186,644</u>	<u>\$ 223,465</u>	<u>\$ 36,821</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Capital Projects - Fire Station Fund Year Ended June 30, 2007

	Original/Final Budget	Actual	Variance with Final Budget
Revenues - Other	\$ -	\$ 3,299	\$ 3,299
Expenditures	17,979	17,979	-
Excess of Expenditures Over Revenues	(17,979)	(14,680)	3,299
Fund Balance - July 1, 2006	74,579	74,579	-
Fund Balance - June 30, 2007	<u>\$ 56,600</u>	<u>\$ 59,899</u>	<u>\$ 3,299</u>

City of Madison Heights, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Debt Service - Fire Station Fund Year Ended June 30, 2007

	Original/Final Budget	Actual	Variance with Final Budget
Revenues			
Other	\$ -	\$ 14,428	\$ 14,428
Operating transfers in	<u>102,890</u>	<u>103,201</u>	<u>311</u>
Total revenues	102,890	117,629	14,739
Expenditures	<u>381,636</u>	<u>381,810</u>	<u>174</u>
Excess of Expenditures Over Revenues	(278,746)	(264,181)	14,565
Fund Balance - July 1, 2006	<u>296,892</u>	<u>296,892</u>	<u>-</u>
Fund Balance - June 30, 2007	<u><u>\$ 18,146</u></u>	<u><u>\$ 32,711</u></u>	<u><u>\$ 14,565</u></u>

City of Madison Heights, Michigan

Other Supplemental Information Schedule of Changes in Reserves Police and Fire Retirement System Year Ended June 30, 2007

	Employees' Contributions	Employer's Contributions	Retirees' Pension Benefit Payments
Additions			
Investment income:			
Interest and dividends	\$ -	\$ 1,314,014	\$ -
Appreciation of investment value	-	5,937,503	-
Less trustee fees and other investment-related expenses	-	(201,459)	-
Net investment income	-	7,050,058	-
Employee contributions	516,786	-	-
City contributions:			
Pension benefits	-	1,794,617	-
Postretirement benefits	-	1,087,905	-
Investment and administrative expenses	-	447,033	-
Total contributions	516,786	3,329,555	-
Total additions	516,786	10,379,613	-
Deductions			
Pension payments	-	-	(3,012,015)
Postretirement benefits	-	(1,087,905)	-
Annuity withdrawals	(66,447)	-	-
General administrative expenses	-	(245,574)	-
Total deductions	(66,447)	(1,333,479)	(3,012,015)
Transfers			
Investment income allocation	721,306	(4,450,792)	3,729,486
New retiree allocation	-	446,427	(446,427)
Total transfers	721,306	(4,004,365)	3,283,059
Net Increase	1,171,645	5,041,769	271,044
Net Assets Held in Trust for Pension Benefits			
July 1, 2006	6,695,072	12,828,664	31,308,339
June 30, 2007	<u>\$ 7,866,717</u>	<u>\$ 17,870,433</u>	<u>\$ 31,579,383</u>

City of Madison Heights, Michigan

Other Supplemental Information Balance Sheet/Statement of Net Assets Component Units June 30, 2007

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total Modified Accrual	Full Accrual Adjustments	Total Full Accrual
Assets						
Cash and investments	\$ 613,736	\$ 2,650	\$ 317,370	\$ 933,756	\$ -	\$ 933,756
Capital assets - Depreciable	-	-	-	-	107,390	107,390
Total assets	613,736	2,650	317,370	933,756	107,390	1,041,146
Liabilities						
Accounts payable	5,728	-	2,277	8,005	-	8,005
Accrued liabilities	1,553	-	-	1,553	-	1,553
Deposits	76,105	-	-	76,105	-	76,105
Total liabilities	83,386	-	2,277	85,663	-	85,663
Fund Balance						
Reserved	530,350	-	-	530,350	-	1,060,700
Unreserved	-	2,650	315,093	317,743	(317,743)	-
Total fund balance	530,350	2,650	315,093	848,093		
Total liabilities and fund balances	\$ 613,736	\$ 2,650	\$ 317,370	\$ 933,756		
Net Assets						
Invested in capital assets					107,390	107,390
Restricted					-	530,350
Unrestricted					317,743	317,743
Total net assets					\$ 425,133	\$ 955,483

City of Madison Heights, Michigan

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance/ Statement of Activities Component Units Year Ended June 30, 2007

	Housing Commission	Economic Development Corporation	Downtown Development Authority	Total Modified Accrual	Full Accrual Adjustments	Total Full Accrual
Revenues						
Property taxes	\$ -	\$ -	\$ 199,178	\$ 199,178	\$ -	\$ 199,178
Operating grant and contributions	1,829,082	-	-	1,829,082	-	1,829,082
Investment earnings and other revenue	<u>33,008</u>	<u>135</u>	<u>17,603</u>	<u>50,746</u>	<u>-</u>	<u>50,746</u>
Total revenues	1,862,090	135	216,781	2,079,006	-	2,079,006
Expenditures - Community development and improvement	1,613,836	-	63,603	1,677,439	2,250	1,679,689
Other Financing Uses - Transfers out	<u>-</u>	<u>-</u>	<u>45,716</u>	<u>45,716</u>	<u>-</u>	<u>45,716</u>
Change in Fund Balances/Net Assets	248,254	135	107,462	355,851	(2,250)	353,601
Fund Balances/Net Assets - July 1, 2006	<u>282,096</u>	<u>2,515</u>	<u>207,631</u>	<u>492,242</u>	<u>109,640</u>	<u>601,882</u>
Fund Balances/Net Assets - June 30, 2007	<u>\$ 530,350</u>	<u>\$ 2,650</u>	<u>\$ 315,093</u>	<u>\$ 848,093</u>	<u>\$ 107,390</u>	<u>\$ 955,483</u>

Statistical Section

City of Madison Heights, Michigan

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplemental information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Sources - Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

City of Madison Heights, Michigan

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Madison Heights, Michigan

Net Assets by Component Last Three Fiscal Years (Unaudited)

	As of June 30		
	2005	2006	2007
Governmental Activities			
Invested in capital assets - Net of related debt	\$ 36,089,083	\$ 37,425,005	\$ 40,994,643
Restricted	8,297,815	9,717,526	10,958,936
Unrestricted	5,975,263	6,150,167	3,840,140
Total net assets	50,362,161	53,292,698	55,793,719
Business-type Activities			
Invested in capital assets - Net of related debt	12,284,504	14,825,264	16,014,876
Restricted	1,779,083	664,322	1,203,368
Unrestricted	3,600,617	3,511,031	2,745,118
Total net assets	17,664,204	19,000,617	19,963,362
Primary Government in Total			
Invested in capital assets - Net of related debt	48,373,587	52,250,269	57,009,519
Restricted	10,076,898	10,381,848	12,162,304
Unrestricted	9,575,880	9,661,198	6,585,258
Total net assets	<u>\$ 68,026,365</u>	<u>\$ 72,293,315</u>	<u>\$ 75,757,081</u>

Source: City's annual financial statements

City of Madison Heights, Michigan

Changes in Governmental Net Assets Last Three Fiscal Years (Unaudited)

	Fiscal Year Ended June 30		
	2005	2006	2007
Expenses			
General government	\$ 4,760,472	\$ 5,392,675	\$ 5,369,560
Public safety	13,746,803	14,425,318	16,293,874
Public works	3,493,132	3,260,925	3,652,104
Solid waste and recycling	2,125,721	2,374,586	2,587,356
Community and economic development	1,149,729	1,091,907	1,158,801
Recreation and culture	2,213,159	2,216,892	2,001,112
Interest on long-term debt	177,826	187,919	184,219
Total governmental activities	27,666,842	28,950,222	31,247,026
Program Revenues			
Charges for services:			
General government	1,900,886	1,959,911	1,899,639
Public safety	418,128	448,184	493,324
Public works	17,365	27,243	29,560
Solid waste and recycling	14,239	12,662	12,141
Community and economic development	690,482	733,247	734,570
Recreation and culture	279,345	296,684	279,082
Operating grants and contributions	2,208,049	1,995,036	2,280,411
Capital grants and contributions	1,091,013	1,064,280	506,038
Total program revenue	6,619,507	6,537,247	6,234,765
Net Expense	(21,047,335)	(22,412,975)	(25,012,261)
General Revenues			
Property taxes	19,528,806	20,540,742	21,787,120
State-shared revenues	3,360,542	3,316,919	3,841,111
Unrestricted investment earnings	427,797	896,508	1,275,936
Franchise fees	313,482	315,024	334,737
Gain on sale of capital assets	-	14,281	2,183
Settlement	500,000	-	-
Miscellaneous	221,312	260,038	272,195
Extraordinary item	40,375	-	-
Total general revenues and extraordinary item	24,392,314	25,343,512	27,513,282
Change in Net Assets	\$ 3,344,979	\$ 2,930,537	\$ 2,501,021

Source: City's annual financial statements

City of Madison Heights, Michigan

Changes in Business-type Net Assets Last Three Fiscal Years (Unaudited)

	Fiscal Year Ended June 30		
	2005	2006	2007
Operating Revenue			
Sale of water	\$ 3,645,392	\$ 3,765,447	\$ 3,811,749
Sewage disposal charges	4,649,690	4,713,249	4,677,914
Other charges for services	29,550	29,550	29,550
Total operating revenue	8,324,632	8,508,246	8,519,213
Operating Expenses			
Cost of water purchased	1,852,549	1,666,101	1,807,173
Cost of sewage disposal	3,328,295	2,766,814	2,788,683
Other operation and maintenance costs	1,333,605	1,255,695	1,466,562
General administration	1,089,761	1,166,288	1,121,114
Depreciation	510,236	484,415	518,522
Total operating expenses	8,114,446	7,339,313	7,702,054
Operating Income	210,186	1,168,933	817,159
Nonoperating Revenue (Expenses)			
Investment income	105,740	146,647	185,007
Loss on sale of fixed assets	(1,627)	-	-
Interest expense - Net of capitalized interest	(53,875)	(75,018)	(44,557)
Income - Before contributions and other items	260,424	1,240,562	957,609
Capital Contributions	5,433	95,851	5,136
Extraordinary Item - Loss on insurance settlement	(168,788)	-	-
Change in Net Assets	\$ 97,069	\$ 1,336,413	\$ 962,745

Source: City's annual financial statements

City of Madison Heights, Michigan

Fund Balances, Governmental Funds Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund:										
Reserved	\$ 272	\$ 484	\$ 127	\$ -	\$ -	\$ 512	\$ 274	\$ 273	\$ 244	\$ 189
Unreserved	3,535	4,032	4,816	5,742	5,818	5,343	4,177	5,419	6,439	6,317
Total General Fund	3,807	4,516	4,943	5,742	5,818	5,855	4,451	5,692	6,683	6,506
All other governmental funds:										
Reserved	61	779	750	985	2,052	8,206	1,109	4,848	7,842	8,124
Unreserved, reported in:										
Special Revenue Funds	2,603	3,311	3,692	4,259	3,593	3,258	7,273	4,232	1,876	1,044
Debt Service Funds	849	734	678	102	159	-	-	-	-	-
Total all other governmental funds	3,513	4,824	5,120	5,346	5,804	11,464	8,382	9,080	9,718	9,168
Total	\$ 7,320	\$ 9,340	\$ 10,063	\$ 11,087	\$ 11,622	\$ 17,319	\$ 12,832	\$ 14,772	\$ 16,401	\$ 15,674

Source: City's annual financial statements

City of Madison Heights, Michigan

	1998	1999	2000	2001	2002
Revenue					
Intergovernmental	\$ 6,257	\$ 6,395	\$ 6,801	\$ 6,462	\$ 6,524
Federal sources	-	-	-	-	-
Property taxes	14,740	15,457	15,943	16,239	16,755
Other	4,422	5,057	5,958	6,330	5,959
Total revenue	25,419	26,909	28,702	29,031	29,238
Expenditures					
Current:					
General government	4,060	4,382	5,378	5,493	5,608
Public safety	9,582	10,231	11,195	11,237	12,110
Community development and improvement	4,557	4,851	4,437	5,343	5,912
Culture and recreation	1,532	1,589	2,478	2,516	2,656
Capital outlay	4,568	3,112	3,629	3,220	2,393
Debt administration	865	724	747	210	46
Total expenditures	25,164	24,889	27,864	28,019	28,725
Excess of Revenue Over (Under) Expenditures	255	2,020	838	1,012	513
Other Financing Sources (Uses)					
Debt issuance	-	-	-	-	-
Transfers in	2,546	2,211	2,871	2,299	2,408
Transfers out	(2,546)	(2,211)	(2,986)	(2,286)	(2,386)
Total other financing sources (uses)	-	-	(115)	13	22
Special Item	-	-	-	-	-
Extraordinary Item	-	-	-	-	-
Net Change in Fund Balances	255	2,020	723	1,025	535
Fund Balances - Beginning of year	7,065	7,320	9,340	10,063	11,088
Fund Balances - End of year	\$ 7,320	\$ 9,340	\$ 10,063	\$ 11,088	\$ 11,623
Percent of debt administration expenditures to total noncapital expenditures	4.20%	3.32%	3.08%	0.85%	0.17%

(1) Includes all governmental fund types under modified accrual accounting

Source: City's annual financial statements

Changes in Fund Balances, Governmental Funds (I)
Last Ten Fiscal Years
(Unaudited)

(amounts expressed in thousands)

2003	2004	2005	2006	2007
\$ 5,766	\$ 5,557	\$ 5,560	\$ 5,247	\$ 5,969
308	131	207	139	166
17,291	18,636	19,529	20,510	21,667
<u>4,894</u>	<u>5,696</u>	<u>6,368</u>	<u>7,676</u>	<u>8,409</u>
28,259	30,020	31,664	33,573	36,211
5,416	5,512	5,971	6,521	6,879
12,520	13,422	13,417	14,005	16,173
5,254	7,227	5,283	5,493	5,815
2,314	2,427	2,141	2,026	2,847
3,533	6,616	2,986	3,523	4,842
<u>11</u>	<u>325</u>	<u>359</u>	<u>375</u>	<u>382</u>
<u>29,048</u>	<u>35,529</u>	<u>30,157</u>	<u>31,944</u>	<u>36,938</u>
(789)	(5,509)	1,507	1,629	(727)
5,925	-	-	-	-
2,232	3,450	3,562	2,779	3,028
<u>(2,356)</u>	<u>(3,450)</u>	<u>(3,562)</u>	<u>(2,779)</u>	<u>(3,028)</u>
5,801	-	-	-	-
684	-	-	-	-
<u>-</u>	<u>1,023</u>	<u>433</u>	<u>-</u>	<u>-</u>
5,696	(4,486)	1,940	1,629	(727)
<u>11,623</u>	<u>17,319</u>	<u>12,833</u>	<u>14,773</u>	<u>16,401</u>
<u>\$ 17,319</u>	<u>\$ 12,833</u>	<u>\$ 14,773</u>	<u>\$ 16,402</u>	<u>\$ 15,674</u>
0.04%	1.12%	1.32%	1.32%	1.19%

City of Madison Heights, Michigan

Revenue Capacity

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Madison Heights, Michigan

Taxable Value by Property Type:

Tax Year	Real Property				Agricultural and Other	Personal Property	Total Value
	Residential	Commercial	Industrial				
1998	\$ 353,260,220	\$ 172,832,980	\$ 176,631,980		N/C	\$ 185,609,760	\$ 888,334,940
1999	367,769,760	179,994,580	190,253,620		N/C	191,107,820	929,125,780
2000	384,691,320	187,955,660	201,086,000		N/C	175,823,370	949,556,350
2001	408,089,730	198,609,330	214,376,240		N/C	180,513,970	1,001,589,270
2002	432,006,300	218,581,240	218,395,450		N/C	179,337,420	1,048,320,410
2003	453,088,940	234,183,720	224,205,770		N/C	168,465,610	1,079,944,040
2004	477,364,980	238,986,220	230,920,530		N/C	166,469,160	1,113,740,890
2005	502,075,810	249,605,170	234,086,420		N/C	146,603,390	1,132,370,790
2006	528,063,370	255,112,140	241,338,790		N/C	143,881,280	1,168,395,580
2007	551,520,220	270,698,160	241,094,550		N/C	143,905,590	1,207,218,520

Note: Under Michigan law, the revenue base is taxable value.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year

Note: The schedule represents final assessed taxable value after Board of Review and Michigan Tax Tribunal adjustments. Amounts exclude captured TIFA and DDA valuation increments, where applicable.

Source: City Assessor's department records

**Assessed Value and Actual Value of Taxable Property
(Unaudited)**

Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a Percent of Actual
17.14	\$ 1,975,616,260	44.96
17.04	2,170,326,040	42.81
16.79	2,280,945,040	41.63
16.63	2,430,386,460	41.21
16.22	2,580,886,700	40.62
15.89	2,672,064,560	40.42
17.31	2,743,381,200	40.60
17.35	2,764,198,820	40.97
17.30	2,791,412,780	41.86
17.90	2,417,463,340	49.94

City of Madison Heights, Michigan

Tax Year	Millage Rates - Direct City Taxes				Overlapping Taxes			
	General Operating	Debt	Special Purpose	Total Direct Taxes	County	Community College	Intermediate School District	(1) School - Homestead
1998	9.15	0.86	7.13	17.14	4.83	1.65	2.12	10.48
1999	9.14	0.80	7.09	17.04	4.80	1.63	2.10	16.67
2000	9.03	0.73	7.02	16.79	5.23	1.61	2.08	17.38
2001	8.96	0.23	7.44	16.63	3.61	1.60	3.45	17.20
2002	8.89	0.05	7.28	16.22	4.98	1.61	3.42	17.21
2003	8.80	-	7.09	15.89	5.28	1.60	3.40	16.98
2004	8.82	0.41	8.08	17.31	5.24	1.60	3.40	15.80
2005	8.82	0.41	8.13	17.35	5.24	1.59	3.38	16.60
2006	8.82	0.41	8.07	17.30	5.25	1.58	3.37	16.00
2007	8.82	0.09	9.00	17.90	5.24	1.58	3.37	16.23

Note - All rates are expressed in dollars per \$1,000 of taxable value

(1) Amounts represent a simple average of the three school districts within the City: Lamphere, Madison, and Royal Oak

Source: City's finance department's records

**Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Unaudited)**

(1) School - Non- homestead	Total Tax Rate	
	Homestead	Non- homestead
21.41	25.18	39.16
27.77	42.24	45.44
28.51	43.09	46.46
28.87	42.49	46.49
28.58	43.44	47.48
28.50	43.15	47.58
27.44	42.75	46.50
28.33	43.81	47.36
27.94	30.06	46.96
28.40	44.33	47.41

City of Madison Heights, Michigan

Principal Property Taxpayers (Unaudited) (amounts expressed in thousands)

Taxpayer	Total 2006-2007 Taxable Value	Percentage of Current City Total Taxable Valuation	Total 1997 Taxable Value	Percentage of 1997 City Total Taxable Valuation	1997 Rank
1 Gordon Begin/CT Apartments/President Madison	\$ 20,111	11.76%	\$ 17,727	2.00%	1
2 Madison Place, LLC/S&M Heights/ K410, LLC/Oakland Commerce Commons	17,159	10.03%	N/A	N/A	N/A
3 BT-OH, LLC/UPS	10,344	6.05%	N/A	N/A	N/A
4 Detroit Edison	9,960	5.82%	12,023	1.35%	4
5 Meijer, Inc.	9,790	5.72%	N/A	N/A	N/A
6 Surface Technologies/Henkel Corp	9,498	5.55%	N/A	N/A	N/A
7 First Industrial Ltd Partnership	9,226	5.39%	N/A	N/A	N/A
8 First Industrial Acquisitions, Inc	9,199	5.38%	N/A	N/A	N/A
9 Liberty Property Ltd Partnership	9,050	5.29%	N/A	N/A	N/A

Note 1: The schedule represents the final assessed taxable values after Board of Review and Michigan Tax Tribunal adjustments (valuations as of December 31, 2004).

Note 2: The City obtained the nine years prior taxable value data from the CAFR for that year. Taxable value data for any taxpayers who were not among the top ten during that year is not available.

Source: City Assessor's department records

City of Madison Heights, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years (Unaudited) (amounts expressed in thousands)

Tax Year	Fiscal Year Ended June 30	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1997	1998	\$ 14,178	\$ 13,973	98.55	\$ 60	\$ 14,033	98.98
1998	1999	16,405	16,284	99.26	95	16,379	98.84
1999	2000	16,984	16,921	99.63	63	16,984	100.00
2000	2001	17,237	16,972	98.46	102	17,074	99.05
2001	2002	17,016	16,671	97.97	119	16,790	98.67
2002	2003	17,480	17,167	98.21	195	17,362	99.32
2003	2004	18,837	18,560	98.53	199	18,759	99.59
2004	2005	19,851	19,533	98.40	129	19,662	99.05
2005	2006	20,347	17,828	87.62	209	18,037	88.65
2006	2007	21,814	21,661	99.30	(17)	21,643	99.22

Source: City Assessor's department records

City of Madison Heights, Michigan

Debt Capacity

These schedules contain trend information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.

City of Madison Heights, Michigan

	1998	1999	2000	2001
Governmental Activities				
General obligation bonds (amounts expressed in thousands)	\$ 1,150	\$ 675	\$ 150	\$ -
Special assessment bonds (amounts expressed in thousands)	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	1,175	675	150	-
Business-type Activities				
General obligation bonds (amounts expressed in thousands)	-	-	-	1,982
Revenue bonds (amounts expressed in thousands)	<u>1,145</u>	<u>1,010</u>	<u>870</u>	<u>720</u>
Total	<u>\$ 1,145</u>	<u>\$ 1,010</u>	<u>\$ 870</u>	<u>\$ 2,702</u>
Total debt of the government	\$ 2,320	\$ 1,685	\$ 1,020	\$ 2,702
Total taxable valuation (1) (amounts expressed in thousands)	\$ 888,335	\$ 929,126	\$ 949,556	\$ 1,001,589
Ratio of total debt to total taxable valuation	0.0026	0.0018	0.0011	0.0027
Total population (amounts expressed in thousands)	32	32	32	31
Total debt per capita	\$ 73	\$ 53	\$ 32	\$ 87

(1) Amount excludes captured DDA valuation increments

Source: City's annual financial statements

**Ratios of Outstanding Debt
Last Ten Fiscal Years
(Unaudited)**

2002	2003	2004	2005	2006	2007
\$ -	\$ 5,925	\$ 5,770	\$ 5,605	\$ 5,420	\$ 5,225
-	-	-	-	-	-
-	5,925	5,770	5,605	5,420	5,225
5,035	8,283	12,111	11,443	11,283	10,973
555	380	195	-	-	-
\$ 5,590	\$ 8,663	\$ 12,306	\$ 11,443	\$ 11,283	\$ 10,973
\$ 5,590	\$ 14,588	\$ 18,076	\$ 17,048	\$ 16,703	\$ 16,198
\$ 1,048,320	\$ 1,079,944	\$ 1,113,741	\$ 1,132,371	\$ 1,168,396	\$ 1,207,219
0.0053	0.0135	0.0162	0.0151	0.0143	0.0134
31	31	31	31	31	31
\$ 180	\$ 471	\$ 583	\$ 550	\$ 539	\$ 523

City of Madison Heights, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years (Unaudited)

(amounts expressed in thousands)

Fiscal Year	(2) Other General Obligation Debt	(1) Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt per Capita (not in thousands)
1998	\$ 1,150	\$ 888,335	0.13	32	\$ 35.94
1999	675	929,126	0.07	32	21.09
2000	150	949,556	0.02	32	4.69
2001	-	1,001,589	-	31	-
2002	-	1,048,320	-	31	-
2003	5,925	1,079,944	0.55	31	191.13
2004	5,770	1,113,741	0.52	31	186.13
2005	5,605	1,132,371	0.49	31	180.81
2006	5,420	1,168,396	0.46	31	174.84
2007	5,225	1,207,219	0.43	31	168.55

(1) Amount excludes captured DDA valuation increments

(2) Amount does not include water and sewer general obligations

Source: Various taxing authorities

City of Madison Heights, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2007 (Unaudited)

Governmental Unit	Debt Outstanding	Estimated Percent Applicable (2)	Estimated Share of Overlapping Debt
Madison School District	\$ 14,865,000	100.00	\$ 14,865,000
Lamphere School District	22,640,000	87.19	19,739,816
Royal Oak School District	86,189,000	0.52	448,183
Oakland Community College	8,995,000	1.89	170,006
Oakland County	106,286,871	1.88	1,998,193
Oakland Intermediate School District	55,185,000	1.89	<u>1,042,997</u>
Total overlapping debt			38,264,194
Direct City debt (1)	5,225,000	100.00	<u>5,225,000</u>
Total direct and overlapping debt			<u>\$ 43,489,194</u>

(1) Amount does not include water and sewer general obligations

(2) Percent obtained from Municipal Advisory Council of Michigan

Source: Various taxing authorities

City of Madison Heights, Michigan

	1998	1999	2000	2001	2002
Calculation of Debt Limit					
State equalized valuation (1)	\$ 837,829	\$ 870,576	\$ 909,585	\$ 949,556	\$ 1,003,382
10% of taxable value	<u>83,783</u>	<u>87,057</u>	<u>90,959</u>	<u>94,956</u>	<u>100,338</u>
Calculation of Debt Subject to Limit					
Total debt	2,320	1,685	1,020	2,702	5,590
Less debt not subject to limit:					
General obligation	1,145	1,010	870	2,702	5,590
Special revenue bonds	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net debt subject to limit (3)	<u>1,150</u>	<u>675</u>	<u>150</u>	<u>-</u>	<u>-</u>
Legal debt margin (2)	<u>\$ 82,633</u>	<u>\$ 86,382</u>	<u>\$ 90,809</u>	<u>\$ 94,956</u>	<u>\$ 100,338</u>
Net debt subject to limit as % of debt limit	1.39%	0.78%	0.17%	0.00%	0.00%

(1) Amount excludes captured DDA valuation increments

(2) Debt limit set forth in Section 4A, Act 279 of 1909 (Home Rule City Act)

(3) Amount does not include water and sewer general obligations

Source: Various taxing authorities

**Legal Debt Margin
Last Ten Fiscal Years
(Unaudited)**
(amounts expressed in thousands)

2003	2004	2005	2006	2007
\$ 1,049,983	\$ 1,078,210	\$ 1,113,790	\$ 1,132,140	\$ 1,169,836
<u>104,998</u>	<u>107,821</u>	<u>111,379</u>	<u>113,214</u>	<u>116,984</u>
14,588	18,076	17,048	16,703	16,198
8,663	12,306	11,443	11,283	10,973
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>5,925</u>	<u>5,770</u>	<u>5,605</u>	<u>5,420</u>	<u>5,225</u>
<u>\$ 99,073</u>	<u>\$ 102,051</u>	<u>\$ 105,774</u>	<u>\$ 107,794</u>	<u>\$ 111,759</u>
5.98%	5.65%	5.30%	5.03%	4.68%

City of Madison Heights, Michigan

**Pledged-revenue Coverage
Last Ten Fiscal Years
(Unaudited)**
(amounts expressed in thousands)

Water and Sewer Revenue Bonds						
Fiscal Year	Gross Revenues	Applicable Expenses	Net Revenues	Debt Service		Debt Service as a Percentage of Net Revenue
				Principal	Interest	
1998	\$ 6,886,170	\$ 6,068,450	\$ 817,720	\$ 125,000	\$ 27,250	3.33
1999	7,745,851	6,714,378	1,031,473	135,000	50,500	4.90
2000	7,386,575	6,950,162	436,413	140,000	43,500	9.97
2001	7,314,516	6,580,778	733,738	150,000	36,000	4.91
2002	7,477,595	7,332,983	144,612	165,000	27,750	19.19
2003	8,110,724	7,896,888	213,836	175,000	19,000	8.89
2004	7,928,883	8,233,157	(304,274)	185,000	9,750	(3.20)
2005	8,324,632	8,114,446	210,186	195,000	-	-
2006	8,508,246	6,854,898	1,653,348	-	-	-
2007	8,519,213	7,702,054	817,159	-	-	-

Source: City's annual financial statements

City of Madison Heights, Michigan

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Madison Heights, Michigan

Demographic and Economic Statistics Ten-year Summary (Unaudited)

Fiscal Year	Federal Census Population	(1) Personal Income	(1) Per Capita Personal Income	(2) Unemployment Rate (Percent)
1998	32,196	\$ 456,925,632	\$ 14,192	3.5
1999	32,196	456,925,632	14,192	2.7
2000	32,196	456,925,632	14,192	2.9
2001	31,101	666,463,329	21,429	4.5
2002	31,101	666,463,329	21,429	6.0
2003	31,101	666,463,329	21,429	6.5
2004	31,101	666,463,329	21,429	6.5
2005	31,101	666,463,329	21,429	6.4
2006	31,101	666,463,329	21,429	5.2
2007	31,101	666,463,329	21,429	6.3

(1) Federal register

(2) Michigan Employment Security Commission

City of Madison Heights, Michigan

Principal Employers (Unaudited)

Taxpayer	2007 Employees	1998 Employees	1998 Rank
1 St. John Oakland Hospital	800	1029	1
2 United Parcel Service	700	578	3
3 Henkel Surface Technologies	500	400	6
4 Lamphere School District	380	375	7
5 Meijer	380	N/A	N/A
6 Madison School District	340	335	9
7 ADT Security Systems	327	N/A	N/A
8 Alpha Thread Gage	300	300	10
9 Costco	300	175	20
10 Gonzalez Design Group	300	200	18

Source: City's finance department records

City of Madison Heights, Michigan

Function/Program	1998	1999	2000	2001	2002	2003	2004
General government:							
Court	12	11	10	10	9	9	9
Manager	2	2	2	2	2	2	2
Assessor	4	4	4	4	4	4	4
Clerk	4	4	4	4	4	4	3
Human resources	2	2	2	2	2	2	2
General administration	3	2	2	2	2	2	1
Finance	7	11	11	11	11	11	10
Information technology	0	2	2	2	2	2	2
Community and Economic Dev.	8	9	10	10	11	11	10
Library	4	4	4	4	4	4	4
Public safety:							
Police	76	76	77	77	77	77	75
Fire and EMS	40	40	40	40	40	40	39
Department of Public Services:							
Custodial and maintenance	5	4	4	1	1	1	1
Streets	18	18	18	18	18	18	16
Solid waste	0	0	0	0	0	0	0
Recreation	2	2	2	2	2	2	1
Youth center	0	0	0	0	0	0	0
Nature center	0	0	0	1	1	1	1
Parks	5	5	5	6	6	6	6
Senior citizen	3	3	3	3	3	3	3
Subtotal	33	32	32	31	31	31	28
Total	195	199	200	199	199	199	189
Major Street Fund	1	1	1	1	1	1	1
Community Improvement Fund	4	4	4	4	4	4	4
Auto Theft Prevention Grant Fund	1	1	1	1	1	1	0
Crime Supression Grant Fund	1	1	0	0	0	0	0

Source: City's finance department records

**Full-time Equivalent Government Employees
Ten-year Summary
(Unaudited)**

2005 2006 2007

9	9	9
2	2	2
4	4	4
3	3	3
2	2	2
1	1	1
10	9	9
2	2	2
10	9	9
4	4	4
73	73	73
38	36	36
1	1	1
16	14	14
0	0	-
1	1	1
0	0	-
1	1	1
5	5	5
<u>2</u>	<u>2</u>	<u>2</u>
<u>26</u>	<u>24</u>	<u>24</u>
184	178	178
1	1	1
4	3	3
0	0	-
0	0	-

City of Madison Heights, Michigan

Function/Program	1998	1999	2000	2001	2002	2003	2004
Water and Sewer Fund:							
Water Division	6	6	6	6	6	6	6
Sewer Division	6	6	6	6	6	6	6
Information technology	2	-	-	-	-	-	-
Water and sewer administration	<u>5</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total	19	13	13	13	13	13	13
Motor Pool Fund	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>4</u>
Total all funds	<u>226</u>	<u>224</u>	<u>224</u>	<u>223</u>	<u>223</u>	<u>223</u>	<u>211</u>

Full-time Equivalent Government Employees (Continued)
Ten-year Summary
(Unaudited)

<u>2005</u>	<u>2006</u>	<u>2007</u>
6	6	6
6	5	5
-	-	-
<u>1</u>	<u>1</u>	<u>1</u>
13	12	12
<u>4</u>	<u>4</u>	<u>4</u>
<u>206</u>	<u>198</u>	<u>198</u>

City of Madison Heights, Michigan

Function/Program	1997	1998	1999	2000	2001
Election data:					
Registered voters	4,000	2,344	1,698	1,062	2,078
Voters (at the polls or absentee)	744	1,022	391	510	509
Percent voting	18.6	43.6	23	48	24.5
District Court - Number of court cases					
	18,370	18,327	17,763	18,890	17,513
Police:					
Physical arrests	N/A	N/A	N/A	N/A	N/A
Traffic violations	10,182	10,268	10,268	9,660	11,559
Investigations	3,740	3,535	2,203	3,856	3,604
Fire:					
Fire runs	622	637	669	639	680
Emergency medical runs	2,366	2,338	2,286	2,419	2,484
Inspections	530	586	326	502	315
Parks and recreation - Recreation program attendance					
	1,787	1,810	2,005	933	963
Library:					
Circulation (books borrowed)	129,245	152,416	120,790	101,303	95,195
Collection volume	75	75	75	75	75
Water:					
Number of customers billed	53,703	53,734	53,946	54,000	54,117
Total consumption	N/A	N/A	N/A	N/A	N/A
Average consumption per user	N/A	N/A	N/A	N/A	N/A

Source: City's finance department records

**Operating Indicators
Last Ten Fiscal Years
(Unaudited)**

2002	2003	2004	2005	2006	2007
2,000	1,006	1,618	2,192	2,328	2,095
340	241	680	701	1,886	1,068
17	24	42	32	81	51
13,333	15,552	13,966	14,210	15,234	15,524
N/A	1,265	1,473	1,265	1,755	1,548
10,209	10,209	9,194	9,850	9,332	9,983
3,065	3,065	2,985	2,822	2,770	1,710
692	655	593	663	607	618
2,503	2,284	2,506	2,609	2,631	2,518
867	733	738	691	794	350
1,005	703	780	480	435	47
93,223	100,854	99,164	97,708	96,460	50,673
75	75	75	75	75	75
54,000	54,000	54,100	54,100	54,140	55,185
1,914,974	1,998,163	1,968,115	1,836,424	1,857,194	1,695,269
35.5	37.0	36.4	33.9	34.3	30.7

City of Madison Heights, Michigan

Function/Program	1998	1999	2000	2001
Police:				
Stations	1	1	1	1
Patrol units	13	13	13	13
Fire:				
Stations	2	2	2	2
Fire response vehicles	4	4	4	4
Emergency response vehicles	4	4	4	4
Public works:				
Streets (miles):	106	106	106	106
Major streets	21.50	21.50	21.50	21.50
Local streets	73.86	73.92	73.92	73.92
Sidewalks	199	199	199	199
Streetlights	1,830	1,830	1,830	1,830
Traffic signals	N/A	N/A	N/A	N/A
Refuse collection trucks	3	3	3	3
Parks and recreation:				
Acreage	131.43	131.43	131.43	131.43
Developed parks/playgrounds	14	14	14	14
Developed fields (soccer, baseball, etc.)	10	10	10	10
Libraries:				
Branches	2	2	2	2
Book collections	75	75	75	75
Water:				
Mains (miles)	131	131	131	131
Fire hydrants	1,115	1,115	1,115	1,115
Sewer:				
Miles of sanitary sewers	111	111	111	111
Miles of storm sewers	52	52	52	52

Source: City's finance department records

**Capital Asset Statistics
Last Ten Fiscal Years
(Unaudited)**

2002	2003	2004	2005	2006	2007
1	1	1	1	1	1
12	12	12	12	12	12
2	2	2	2	2	2
4	4	4	4	4	4
4	4	4	4	4	4
106	106	106	106	106	106
21.50	22.85	21.50	21.50	21.50	21.50
73.92	73.92	73.34	73.34	73.34	73.34
199	199	199	199	199	199
1,830	1,830	1,830	1,830	1,830	1,830
N/A	N/A	N/A	N/A	N/A	N/A
3	3	1	-	-	-
131.43	131.43	131.43	131.43	131.43	131.43
14	14	14	14	14	14
10	10	10	10	10	10
2	2	2	1	1	1
75	75	75	75	75	75
131	131	131	131	131	131
1,115	1,115	1,115	1,115	1,115	1,115
111	111	111	111	111	111
52	52	52	52	52	52

City of Madison Heights, Michigan

**Federal Awards
Supplemental Information
June 30, 2007**

City of Madison Heights, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City of Madison Heights, Michigan's basic financial statements, and have issued our report thereon dated October 18, 2007. Those basic financial statements are the responsibility of the management of the City of Madison Heights, Michigan. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madison Heights, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 18, 2007

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison Heights, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City of Madison Heights, Michigan's basic financial statements, and have issued our report thereon dated October 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Madison Heights, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Madison Heights, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Madison Heights, Michigan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-2 through 2007-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We believe the deficiency described in the schedule of findings and questioned costs as item 2007-1 constitutes a material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Madison Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Madison Heights, Michigan's responses to the significant deficiencies and material weakness identified in our audit and described in the accompanying schedule of findings and questioned costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 18, 2007



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**Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133**

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Compliance

We have audited the compliance of the City of Madison Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to its major federal program for the year ended June 30, 2007. The major federal program of the City of Madison Heights, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City of Madison Heights, Michigan's management. Our responsibility is to express an opinion on the City of Madison Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Madison Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Madison Heights, Michigan's compliance with those requirements.

In our opinion, the City of Madison Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights, Michigan

Internal Control Over Compliance

The management of the City of Madison Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Madison Heights, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement for a major program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement for a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement for a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance and its operation that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 18, 2007

City of Madison Heights, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development: Section 8 Voucher	14.871	N/A	\$ 1,815,398	\$ 1,613,836
Community Development Block Grant - Passed through Oakland County, Michigan:	14.218	Unit 21		
2006			142,344	77,109
2007			136,637	<u>58,695</u>
Total Community Development Block Grant				<u>135,804</u>
Total U.S. Department of Housing and Urban Development				1,749,640
Bureau of Justice Assistance - Federal Equitable Sharing Program	16.unknown	N/A	30,662	30,662
U.S. Department of Homeland Security - Passed through the State of Michigan:				
State Homeland Security Grant Program	97.004	N/A	32,450	769
Federal Emergency Management Agency - Assistance to Firefighters Grant	97.044	N/A	29,688	<u>29,688</u>
Total U.S. Department of Homeland Security				<u>30,457</u>
Total federal awards				<u>\$ 1,810,759</u>

City of Madison Heights, Michigan, Michigan

Note to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Madison Heights, Michigan (the "City") and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

A reconciliation of the City's basic financial statements federal source revenue presentation with the schedule of expenditures of federal awards is as follows:

Federal revenue reported in the governmental funds in the basic financial statements	\$ 177,823
Federal revenue reported in the Housing Commission as operating grants and contributions	1,829,082
Federal revenue reported in the Housing Commission as operating grants and contributions but not yet spent	(248,254)
Federal revenue reported in the Housing Commission as miscellaneous general revenue	33,008
Federal revenue reported in the Drug Forfeiture Fund in the prior year but spent in the current year	18,745
Federal revenue reported in the Community Improvement Fund as miscellaneous general revenue	<u>355</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 1,810,759</u></u>

City of Madison Heights, Michigan, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program(s):

CFDA Number	Name of Federal Program
14.871	Section 8 Voucher

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

City of Madison Heights, Michigan, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
2007-1	<p>Finding Type - Material weakness</p> <p>Definition of Material Weakness - This is a new communication for calendar year 2006 audits. As defined on page 3 of this report, auditors now communicate any internal control deficiency or combination of deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.</p> <p>Criteria - Management's goal is to adequately recognize revenue in accordance with governmental accounting standards. Those standards require recognition in the period earned, only if received soon enough after year end to be available to pay bills of the subsequent period (60 days). Any revenue received subsequent to this should be recognized as revenue in the subsequent period.</p> <p>Condition - The process related to recognizing revenue in the correct period using the 60-day rule had an impact on the City's financial reporting; these revenues were not included in the preliminary accounting records at the initiation of the audit process. After discussion with management during the audit, these transactions are now appropriately recorded.</p> <p>Context - These amounts relate to the General Fund and are material.</p> <p>Effect - Revenue was understated in the preliminary accounting records.</p> <p>Cause - The City does not have adequate procedures in place related to identifying and classifying revenue received within 60 days of year end in the proper period.</p> <p>Recommendation - We recommend that the City adopt a process whereby revenue received within 60 days after year end is reviewed with the intent of properly recognizing the revenue in the correct period based on the nature of the revenue.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Madison Heights, Michigan, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2007-2	<p>Finding Type - Significant deficiency</p> <p>Definition of Significant Deficiency - This is a new communication for calendar year 2006 audits. As defined on page 3 of this report, auditors now communicate any internal control deficiency that represents more than a remote likelihood that a misstatement could occur that is more than inconsequential.</p> <p>Criteria - Management's goal is to adequately record the interfund activity between the Local Streets Fund and the Revolving Fund.</p> <p>Condition - An interfund advance between the Local Roads Fund and the Revolving Fund was not properly reduced related to special assessment principal collections made in the current year. No controls were in place to ensure proper recording of such interfund activity at year end. As a result of the audit entries to properly reflect the balances were made.</p> <p>Context - The adjustment related to the Local Streets Fund and the Revolving Fund and the likelihood that the amount of one month's monies would ever be material is more than remote.</p> <p>Effect - Interfund advances were misstated in the current year.</p> <p>Cause - The City lacks a system to ensure activity related to special assessment collections are properly recorded between the above noted funds.</p> <p>Recommendation - We recommend that the City implement as part of its process, a procedure to ensure that interfund activity such as that identified above it properly recorded.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Madison Heights, Michigan, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2007-3	<p>Finding Type - Significant deficiency</p> <p>Definition of Significant Deficiency - This is a new communication for calendar year 2006 audits. As defined on page 3 of this report, auditors now communicate any internal control deficiency that represents more than a remote likelihood that a misstatement could occur that is more than inconsequential.</p> <p>Criteria - Management's goal is to adequately record accounts payable and retainage payables, expenditures and capital assets at year end.</p> <p>Condition - The City does not have a process in place to identify and record retainage payable and the related expense or capital asset for construction projects in process. Additionally, the City does not have a process in place to record contractor estimates received after year end that partially relate to work performed prior to year end. As a result of the audit entries were made to properly record these items.</p> <p>Context - These amounts relate to the Water and Sewer Fund and the General Fund.</p> <p>Effect - As a result of these transactions not being properly recorded, liabilities and capital assets were understated in the Water and Sewer Fund and liabilities and expenditures were understated in the General Fund.</p> <p>Cause - The City lacks a system to record retainage payable on construction projects. Additionally, the City lacks a system to identify and record contractor estimates that relate to work performed in two different fiscal years.</p> <p>Recommendation - We recommend that the City adopt a process to review all contractor invoices and estimates to identify retainages payable and to determine the proper period activity should be recorded in based on the dates the work was performed.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

City of Madison Heights, Michigan, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Findings
2007-4	<p>Finding Type - Significant deficiency</p> <p>Definition of Significant Deficiency - This is a new communication for calendar year 2006 audits. As defined on page 3 of this report, auditors now communicate any internal control deficiency that represents more than a remote likelihood that a misstatement could occur that is more than inconsequential.</p> <p>Criteria - Management's goal is to adequately record police and fire pension benefit reserves at year end.</p> <p>Condition - The City does not have a process in place to appropriately reflect and track changes to the police and fire pension benefit reserves at year end. As a result of the audit entries were made to properly record these items.</p> <p>Context - These amounts relate to the Police and Fire Retirement Systems Fiduciary Fund.</p> <p>Effect - As a result of these transactions not being properly recorded, reserves for employer contributions were overstated and reserves for retiree annuity were understated.</p> <p>Cause - The City lacks a system to appropriately reflect and track changes to the police and fire pension benefit reserves at year end.</p> <p>Recommendation - We recommend that the City adopt as part of its process, a procedure to ensure that changes in police and fire benefit reserves are properly recorded.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The City concurs with the recommendation and will put a process in place to address the issue.</p>

Section III - Federal Program Audit Findings

None



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October 18, 2007

To the Honorable Mayor and
Members of the City Council
City of Madison Heights
300 West Thirteen Mile Road
Madison Heights, MI 48071

Dear Mayor and Council Members:

We recently completed our audit of the basic financial statements of the City of Madison Heights (the "City") for the year ended June 30, 2007. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Revenue Sharing

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. Despite the budget continuation plan in place at the date of this letter, there still continues to be a shortfall for the fiscal year 2007/2008 budget. The outcome of other matters will also impact revenue sharing and those matters include:

- **Future of County Participation in Statutory Revenue Sharing** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.

October 18, 2007

- **Changes to Michigan's Tax Structure** - The Michigan single business tax has been eliminated effective December 31, 2007 which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Rumors of further changes to Michigan's tax structure continue to circulate around Lansing as the legislature continues its work on the State's fiscal year 2007/2008 final budget.

There still remain considerably more questions than answers regarding long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal year 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

Personal Property Tax

Over the last seven years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30 percent revenue loss to local units of government). Also, the Michigan Supreme Court in *WPW Acquisition Co v. City of Troy* ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

The new Michigan business tax also provides more personal property tax relief to business taxpayers (see details below). Even with this most recent relief provided in June 2007 through the MBT, further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to many local governments. If the State's new business tax structure provides personal property tax relief, the question is will local governments be held harmless by the State and to what extent? The governor's tax plan as introduced proposes to change the property tax system to mitigate the impact of the *WPW* case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

October 18, 2007

New Cable Franchise Legislation

The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) (the "Act") creates the "Uniform Video Services Local Franchise Act," which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date, in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

Local governments received their first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

Property Tax Legislation

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent - until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred to as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the "pop-up" or "uncapped" value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as "additions" to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

Internal Control and Other Matters

Our observations and comments regarding the City's internal controls, including any significant deficiencies and material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. This report is included in the federal awards supplemental information (the single audit report), and we recommend that the matters we have noted there receive your careful consideration.

To the Honorable Mayor and
Members of the City Council
City of Madison Heights

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October 18, 2007

We would like to thank the mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Blake Roe". The signature is written in a cursive style with a large, prominent "B" and "R".

Blake M. Roe

A handwritten signature in black ink that reads "Pamela L. Hill". The signature is written in a cursive style with a large, prominent "P" and "H".

Pamela. L. Hill