

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	

Joseph C. Hoffmann

City of Novi, Michigan

**Comprehensive Annual Financial Report
for the Fiscal Year Ended
June 30, 2007**

City of Novi, Michigan

Contents

Introductory Section

Letter of Transmittal	i-v
GFOA Certificate of Achievement	vi
Organizational Chart	vii
List of Principal Officials	viii
Fund Organization Chart	ix

Financial Section

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12-13
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15
Statement of Revenues, Expenditures, and Changes in Fund Balances	16-17
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Proprietary Funds:	
Statement of Net Assets (Deficit)	19
Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)	20-21
Statement of Cash Flows	22
Fiduciary Funds:	
Statement of Net Assets	23
Statement of Changes in Net Assets	24
Notes to Financial Statements	25-48

City of Novi, Michigan

Contents (Continued)

Required Supplemental Information	49
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) - General Fund	50-53
Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) - Municipal Street Fund	54
Note to Required Supplemental Information	55
Other Supplemental Information	56
Combining Balance Sheet - Nonmajor Governmental Funds	57-61
Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	62-66
Budgetary Comparison Schedule - Nonmajor Governmental Funds	67-77
Statement of Changes in Assets and Liabilities - Agency Fund	78
<u>Statistical Section</u>	79
Net Assets by Component	80
Change in Net Assets - Governmental Activities	81
Change in Net Assets - Business-type Activities	82
Fund Balances - Governmental Funds	83-84
Changes in Fund Balances - Governmental Funds	85-88
Assessed Value and Actual Value of Taxable Property	89-90
Direct and Overlapping Property Tax Rates	91-93
Principal Taxpayers	94
Property Tax Levies and Collections	95
Ratios of Outstanding Debt by Type	96-97
Ratios of General Bonded Debt Outstanding	98
Direct and Overlapping Governmental Activities Debt	99

City of Novi, Michigan

Contents (Continued)

Required Supplemental Information (Continued)

Legal Debt Margin Information	100-101
Pledged-revenue Coverage	102
Demographic and Economic Statistics	103
Principal Employers	104
Full-time Equivalent City Government Employees by Function/Program	105-106
Operating Indicators by Function/Program	107-110
Capital Asset Statistics by Function/Program	111-112



October 29, 2007

CITY COUNCIL

Mayor
David B. Landry

Mayor Pro Tem
Kim Capello

Bob Gatt

Terry K. Margolis

Andrew Mutch

Toni Nagy

Lynne Paul

City Manager
Clay J. Pearson

City Clerk
Maryanne Cornelius

Honorable Mayor David Landry
Members of the City Council
Citizens of the City of Novi, Michigan

We are pleased to submit the Comprehensive Annual Financial Report of the City of Novi for the fiscal year ended June 30, 2007. This report is prepared for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties. The financial statements contain all disclosures necessary to enable the reader to gain an understanding of the City's financial activities. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the financial information is accurate in all material respects and is presented in a manner designed to present fairly the financial position of the City.

The Comprehensive Annual Financial Report is presented in three sections:

Introductory Section - The introductory section includes this letter of transmittal, the City's organizational chart, a list of principal officials, a fund organizational chart, and a reproduction of the City's Certificate of Achievement for Excellence in Financial Reporting for the fiscal year ended June 30, 2006 from the Government Finance Officers Association of the United States and Canada.

Financial Section - The financial section includes the independent auditor's report on the basic financial statements, management's discussion and analysis, basic financial statements, and combining and individual fund statements and schedules for the City's nonmajor and fiduciary funds.

Statistical Section - The statistical section includes selected financial and demographic data depicting the City's historical trends and other significant information.

45175 W. Ten Mile
Novi, MI 48375
(248) 347-0460
(248) 347-0577 Fax
www.cityofnovi.org



The City of Novi has implemented the governmental financial reporting model as required by Governmental Accounting Standards Board (GASB) Statement No. 34. In accordance with the new standards, generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

All local units of government within the State of Michigan must comply with the Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, which requires an annual audit of the financial records and transactions of the City by independent certified public accountants. The primary purpose of the auditing requirements of this act is to maintain the confidence of all interested parties in the integrity of the recordkeeping and financial reporting of local units of government.

Profile of the Government

The City of Novi, incorporated in 1969, is strategically located in the southwestern portion of vibrant Oakland County. Located just 30 miles northwest of downtown Detroit, the City serves over 52,000 residents and encompasses an area of approximately 32 square miles. Novi is considered a choice community in which to live and work. A dynamic, growing community, Novi offers an abundance of rolling, wooded acreage, which provides a unique natural backdrop for residential, commercial, and industrial land development. Novi is well connected to highway, rail, and air transportation routes offering outstanding accessibility.

The City of Novi operates under the Council-Manager form of government. Policy-making and legislative authority are vested in the City Council, which is presided over by the mayor, who is elected for a two-year term. The six other council members are elected for four-year overlapping terms. The city manager is appointed by City Council. This official heads the administrative branch of city government and directs all city operations, projects, and programs.

The City provides a full range of municipal services including police and fire protection; public works, parks, recreational, and forestry activities; library services; building inspection; code enforcement; and planning and development. In addition to general government activities, the activities of the Economic Development Corporation are reported as a separate component unit of the City. Component units are legally separate entities for which the primary government is financially accountable.

The City of Novi prepares budgets in accordance with the Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended. Under the direction of the city manager, the finance director prepares an initial projection of revenue for the next fiscal year. Spending priorities are then established based upon the City's financial policies and mandated requirements. Activities of the General Fund and Special Revenue Funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot exceed the appropriated amount) is established by function and category. It takes a five-vote majority to amend the budget.

Factors Affecting Financial Condition

Local Economy - Michigan's economy relies heavily on the performance of the auto industry. According to the Economic and Revenue Forecasting Division of the Michigan Department of Treasury, domestic auto sales have fallen 5.2 percent while import sales have climbed 7.4 percent over the last year. This decrease in Big Three market share has impacted Michigan's economy. Despite these economic challenges, Novi has continued to thrive and remains strong as a result of sustained residential and commercial development experienced over the past 10 years. The diverse tax mix of residential, manufacturing, office, service, and technology and retail-recreational centers reduces Novi's impact of adverse economic cycles and provides a stable environment for new investment.

Long-term Financial Planning - The dependency on sales tax collections in Michigan as the sole source for the state revenue-sharing pool injects a degree of instability within this revenue source during periods of economic downturn. On average, state revenue sharing for cities ranges from a low of 5.7 percent of General Fund revenues to a high of 45.2 percent with an average of 19 percent. For the fiscal year ended June 30, 2007, Novi's reliance on revenue-sharing payments represents 13 percent of total General Fund revenues or \$3,613,152. Novi's total revenue-sharing payments decreased by \$115,330, or 3 percent from the prior fiscal year. There are two ways that local units share in a portion of sales tax revenue. A constitutional portion is distributed to cities, villages, and townships based on a community's population. A second portion of sales tax, the statutory portion, is earmarked in state law to provide revenue-sharing payments that are subject to annual appropriation. It is this portion that is determined by the governor and state legislature and can be changed at their discretion. Novi's reliance on this statutory portion of revenue sharing is approximately 12 percent of its total annual distribution. The majority of Novi's state revenue payments is constitutional and cannot be eliminated without a vote of the people.

Cash Management Policies and Practices - The City complies with Public Act 20 of 1943 and Public Act 367 (as amended) of the State of Michigan in its cash management activities. Idle cash in all funds is invested in certificates of deposit, governmental obligations, bankers' acceptances, bank pooled accounts, and commercial paper. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In the state of Michigan, municipalities are not required to insure all bank deposits; however, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. The City has an investment policy in accordance with the above statements.

Risk Management - Effective July 1, 2003, the City terminated its participation in the Michigan Municipal League general liability and property insurance program and is now insured through the Municipal Insurance Alliance. The City of Novi still continues to participate in the Michigan Municipal League Workers' Compensation Fund, which is a group self-insured program that provides workers' disability compensation benefits to injured employees of fund members. The fund is comprised of public employers of the State of Michigan, which are authorized and approved under Section 611(2) of the Workers' Disability Compensation Act, PA 317 of 1969, as amended, to enter into agreements to pool their liabilities under the Act for the purpose of qualifying as self-insurers. Additional information on the City of Novi's risk management activity can be found in Note 8 of the notes to the financial statements.

Pension and Other Postemployment Benefits - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The City's annual required contribution is calculated as a percentage of payroll each year by an independent actuary engaged by MERS. As a matter of policy, the City of Novi fully funds each year's annual required contribution to the pension plan. All administrative and teamster employees hired after May 1, 2006 and December 1, 2006, respectively, are no longer eligible for participation in Novi's defined benefit pension plan. The City will instead contribute 8 percent of an employee's eligible compensation into a defined contribution plan.

The City of Novi also provides retiree healthcare benefits to qualifying full-time employees upon retirement, in accordance with labor contracts. Currently, 53 retirees are eligible. Expenditures for retiree healthcare benefits are recognized as the insurance premiums become due for individuals retired before June 30, 1994. For individuals retiring after June 30, 1994, payments for premiums are recorded in the Retiree Health Care Benefits Expendable Trust Fund. Employer contributions are made annually to this fund and charged as expenditures to individual departmental budgets based on a percentage of wages.

All administrative employees hired after May 1, 2006 and teamster employees hired after December 1, 2006 will be enrolled into a Retiree Health Care Savings Account with a City contribution of \$50 per pay.

Honorable Mayor David Landry
Members of the City Council
Citizens of the City of Novi, Michigan

Awards - The Government Finance Officers Association (GFOA) awarded a Certificate of Excellence in Financial Reporting to the City of Novi for its comprehensive annual financial report for the fiscal year ended June 30, 2006. This was the ninth year that the City of Novi has received this prestigious award.

Acknowledgements - The preparation of this Comprehensive Annual Financial Report was made possible by the efficient and dedicated service of many individuals. We wish to express our sincere appreciation to each of them. Special thanks to the accounting firm of Plante & Moran, LLP who made substantial contributions by way of interpretation of recent guidelines and document review. Appreciation is also expressed to the Mayor and City Council members and Clay Pearson, City Manager, for their leadership and support in matters pertaining to the financial affairs of the City.

Respectfully submitted,



Marina Neumaier
Assistant Finance Director



Kathy A. Smith-Roy
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Novi
Michigan

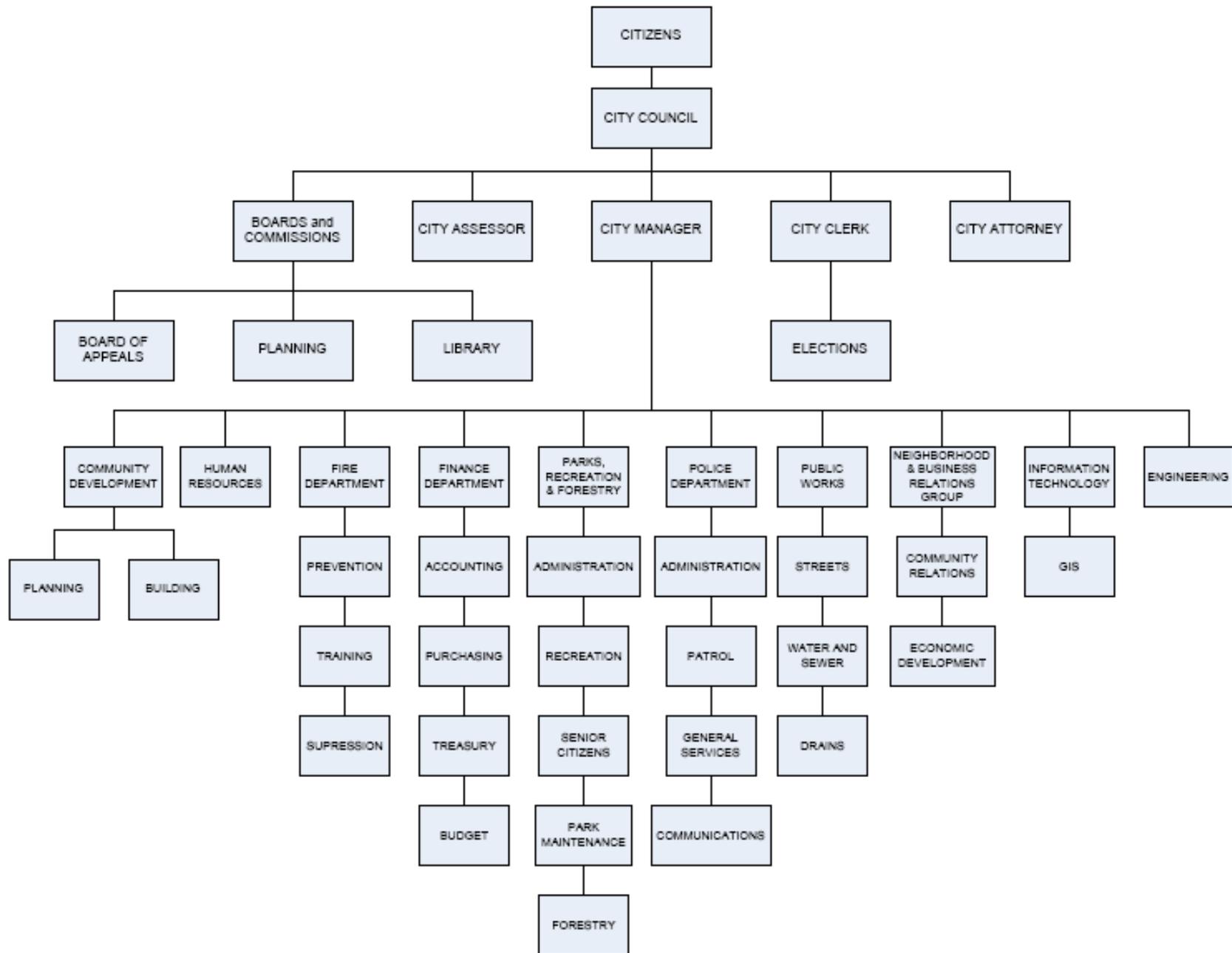
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

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 Novi, Michigan

List of Principal Officials June 30, 2007

<u>Title</u>	<u>Name</u>
City Manager	Clay J. Pearson
Assistant City Manager	Pamela W. Antil
Assessor	David G. Lemmon
City Clerk	Maryanne Cornelius
Deputy City Clerk	Debra A. Blashfield
Director of Human Resources	Tia M. Gronlund-Fox
Community Relations Manager	Sheryl L. Walsh
Director of Public Works	William A. McCusker
Roads and Drains Manager	Timothy Wright
Water and Sewer Manager	Timothy J. Sikma
City Engineer	Robert F. Hayes
Chief Information Officer	Robert L. Petty
GIS Manager	Christopher Blough
Community Development Director	Steve Rumple
Parks/Forestry Operations Manager	Steve C. Printz
Fire Chief	Frank Smith
Deputy Fire Chief	Jeffery R. Johnson
Parks, Recreation, and Forestry Director	Randall A. Auler
Superintendent of Recreation Services	Nancy Cowan
Superintendent of Parks	Matthew Wiktorowski
Senior Services Manager	Rachel A. Zagaroli
Police Chief	David E. Molloy
Deputy Police Chief	Thomas C. Lindberg
Interim Library Director	Mary Ellen Mulcrone
Neighborhood and Small Business Manager	Cynthia M. Uglow
Community Development Deputy Director	Barbara E. McBeth
Purchasing Official	Carol Kalinovic
Assistant Finance Director	Marina Neumaier
Assistant City Treasurer	Beverly A. Valente
Finance Director/Treasurer	Kathy A. Smith-Roy
Analyst Planner	Pat Cauchi
Economic Development Manager	Ara Topouzian

City of Novi, Michigan

Fund Organization Chart

Governmental Funds

<u>Fund Name</u>	<u>Special Revenue Funds</u>
General	Major Street
	Local Street
	Municipal Street
	Police and Fire
	Parks, Recreation, and Forestry
	Tree Fund
	Drain Revenue
	Drain Perpetual Maintenance
	Special Assessment Revolving
	Judgment Trust
	Contributions and Donations
	Federal Forfeiture Fund
	Library
	Walker Building

Debt Service Funds

Special Assessments
 2000 Voted Street
 2000 Limited Tax Debt Fund
 2002 Michigan Transportation Fund Refunding Debt
 1999 Police Debt Fund
 2003 Refunding Debt Fund
 2002 Street and Refunding Debt
 1993 Refunding Debt Fund

Proprietary Fund - Enterprise Funds

Ice Arena
 Water and Sewer
 Senior Housing

Capital Projects

2000 Voted Street Construction
 1999 Police Building Construction

Fiduciary Funds

Pension and Other Employee Benefit Trust Fund

Retiree Health Care Benefits

Agency

Agency

Component Unit

Economic Development Corporation



Plante & Moran, PLLC

Suite 1A

111 E. Court St.

Flint, MI 48502

Tel: 810.767.5350

Fax: 810.767.8150

plantemoran.com

Independent Auditor's Report

To the City Council
City of Novi, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Novi 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 Novi's 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 *Governement 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Novi 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 (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. 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 City Council
City of Novi, Michigan

The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not required parts of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Novi's basic financial statements. The required supplemental information and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory section and statistical tables, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part 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 them.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2007 on our consideration of the City of Novi's 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 read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

October 29, 2007

City of Novi, Michigan

Management's Discussion and Analysis

The City of Novi's (the "City") discussion and analysis is a narrative overview of the City's financial activities for the fiscal year ended June 30, 2007. The information presented here should be read in conjunction with our letter of transmittal, and the financial statements and notes to the financial statements that follow.

Financial Highlights

- Total assets related to the City's governmental activities exceeded liabilities at June 30, 2007 by \$133,790,627.
- Investment in capital assets (net of depreciation and related debt) accounts for over half of this amount, with a value of \$75,202,275.
- Of the remaining net assets, \$9,883,457 may be used to meet the government's ongoing obligations to citizens and creditors, without legal restriction.
- Net assets related to the City's governmental activities increased by \$11,418,525, or 9.3 percent during fiscal year 2006-2007. As of June 30, 2007, the City of Novi's governmental funds reported combined ending fund balances of \$50,327,342. Fund balance of the General Fund totaled \$11,614,777 at June 30, 2007, of which \$1,037,182 was reserved for construction code fees and \$2,998,733 was designated for future expenditures, leaving \$7,578,862 unreserved and undesignated. Unreserved fund balance represents the amount of financial resources available for future spending or appropriation.
- Total direct debt at June 30, 2007 was \$76,651,308.

Overview of the Financial Statements

This discussion and analysis provides an introduction and overview to Novi's basic financial statements. This information will assist users in interpreting the basic statements. We will also provide other financial discussion and analysis of certain plans, projects, and trends necessary for understanding the full context of the financial condition of the City.

Basic Financial Statements - The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and, (3) notes to the financial statements. The financial section of this report also contains required supplemental information, in addition to the basic financial statements.

Government-wide Financial Statements - Government-wide financial statements provide readers with a broad overview of the City of Novi's finances in a manner similar to a private-sector business, distinguishing functions of Novi that are principally supported by taxes and intergovernmental revenues (referred to as "governmental activities") from functions that are intended to recover all or a significant portion of their costs through user fees and charges (referred to as "business-type activities").

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

The statement of net assets presents information on all of Novi's assets and liabilities, with the difference between the two reported as net assets. This statement serves a purpose similar to that of the balance sheet of a private-sector business and presents a longer-term view of the City's finances. Over time, increases or decreases in net assets can serve as one indicator of the financial position of the City. Other indicators include the condition of the City's infrastructure systems (roads, drainage systems, bridges, etc.), changes in property tax base, and general economic conditions within the City.

The statement of activities presents information showing how the City's net assets changed during the year. This statement separates program revenue (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). This shows the extent each program relies on taxes for funding. All changes in net assets are reported using the accrual basis of accounting, which requires that revenues are reported when they are earned and expenses are reported when incurred. Items such as deferred special assessments and earned but unused employee leave time will be included in the statement of activities as revenue and expense, even though the cash flows associated with these items will be recognized in future fiscal periods.

In accordance with GASB 14, *The Financial Reporting Entity*, the City has identified certain entities as component units in the government-wide financial statements. By virtue of its authority to exercise influence over their operations, the City has included the financial statements of the Economic Development Corporation, which is a discretely presented component unit within the government-wide financial statements. In addition, the Building Authority is included as a blended component unit.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Novi, like other state and local governments, establishes funds for compliance with finance-related legal requirements. All of the funds of the City of Novi fall into three categories: governmental funds, proprietary funds, and fiduciary funds. Governmental funds account for most, if not all, of a government's tax-supported functions. Proprietary funds account for a government's business-type activities where all or part of the costs of activities are supported by fees and charges that are paid by those who benefit from the activities. Fiduciary funds account for resources that are held by the government as a trustee or agent for parties outside of the government. The resources of fiduciary funds cannot be used to support the government's own programs.

Governmental Funds - The City of Novi maintains 25 individual governmental funds. The governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances present separate columns of financial data for the General Fund and the Municipal Street Fund. These funds are considered major funds as of June 30, 2007. The remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements located in the other supplemental information section of this report.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements in comparison to near-term resources available.

Because the measurement focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. The government-wide statements give readers a better understanding of the long-term impact of the government's near-term financing decisions. The governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to the governmental activities column in the government-wide statements, facilitating this comparison.

The City of Novi adopts an annual appropriated budget for its General Fund and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund and Municipal Street Fund within the required supplemental information. Budgetary comparisons for other nonmajor governmental funds are presented within the other supplemental section of the report.

Proprietary Funds - Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, ice arena, and senior housing activities. Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. In comparing the propriety fund statement of net assets to the business-type column on the government-wide statement of net assets, the total net assets agree, and therefore need no reconciliation

The proprietary fund financial statements provide separate information for the Water and Sewer Fund, Ice Arena Fund, and the Senior Housing Fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Novi's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided, and are an integral part of the government-wide and fund financial statements.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Other Information - In addition to the basic financial statements and accompanying notes, this report also contains certain required supplementary information concerning budgetary comparisons of the General and Municipal Street Funds. The combining statements in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

Statement of Net Assets - As noted earlier, changes in net assets may serve as a useful indicator of a government's financial position. The City of Novi's assets exceeded total liabilities by \$302,420,766 at the close of June 30, 2007. The following table shows, in a condensed format, the net assets as of June 30, 2007 and 2006.

Table I

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets	\$ 60,472,057	\$ 55,284,920	\$ 43,252,288	\$ 41,167,754	\$ 103,724,345	\$ 96,452,674
Noncurrent assets:						
Restricted assets	7,698,052	6,761,488	9,239,969	8,933,967	16,938,021	15,695,455
Capital assets	<u>125,712,483</u>	<u>126,130,522</u>	<u>144,652,910</u>	<u>145,235,159</u>	<u>270,365,393</u>	<u>271,365,681</u>
Total assets	193,882,592	188,176,930	197,145,167	195,336,880	391,027,759	383,513,810
Current liabilities	13,028,653	11,355,025	6,918,720	7,934,935	19,947,373	19,289,960
Long-term liabilities	<u>47,063,312</u>	<u>54,449,803</u>	<u>21,596,308</u>	<u>23,329,633</u>	<u>68,659,620</u>	<u>77,779,436</u>
Total liabilities	<u>60,091,965</u>	<u>65,804,828</u>	<u>28,515,028</u>	<u>31,264,568</u>	<u>88,606,993</u>	<u>97,069,396</u>
Net assets:						
Invested in capital assets -						
Net of related debt	75,202,275	71,209,178	121,256,602	120,125,526	196,458,877	191,334,704
Restricted	48,704,895	41,981,032	9,539,969	9,233,967	58,244,864	51,214,999
Unrestricted	<u>9,883,457</u>	<u>9,181,892</u>	<u>37,833,568</u>	<u>34,712,819</u>	<u>47,717,025</u>	<u>43,894,711</u>
Total net assets	<u>\$ 133,790,627</u>	<u>\$ 122,372,102</u>	<u>\$ 168,630,139</u>	<u>\$ 164,072,312</u>	<u>\$ 302,420,766</u>	<u>\$ 286,444,414</u>

Over 64 percent of the City's net assets reflect its investment in capital, less any related debt used to acquire those assets that are still outstanding. The City's capital assets are used to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent resources that are subject to external restrictions on how they may be used. Unrestricted net assets related to governmental activities of \$9,883,457 represent the amount that may be used to meet the City's ongoing obligations.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

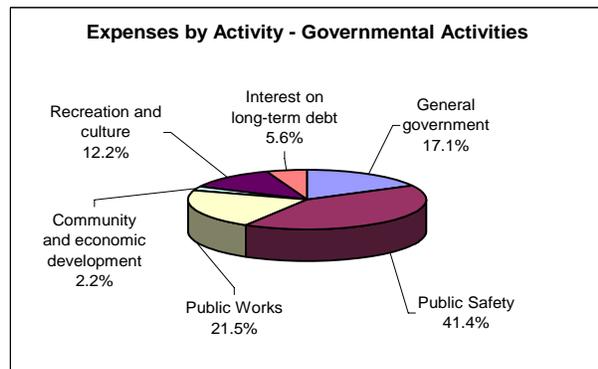
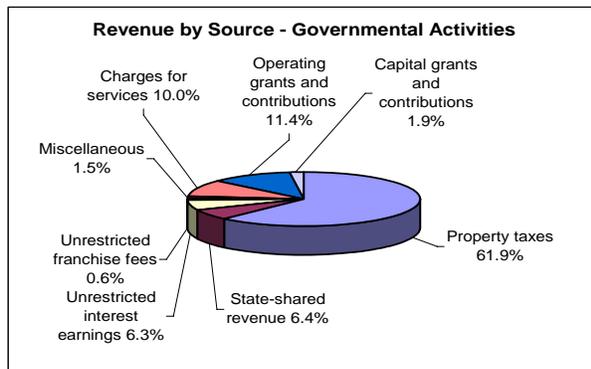
Changes in Net Assets - The City's total net assets increased by \$15,976,352 during fiscal year 2006-2007. Governmental activities increased net assets by \$11,418,525, which represents 71 percent of the total growth in net assets for the City of Novi. The General Fund's unrestricted portion of net assets increased by \$701,565. Actual General Fund revenues performed better than projected by \$1,785,231. The City of Novi also received an additional \$2,658,373 in drug forfeiture funds as a result of a cooperative effort between the Novi Police Department and the Drug Enforcement Administration. Business-type activities increased net assets by \$4,557,827, which represents 29 percent of the total growth in net assets for the City of Novi. The Water and Sewer Fund accounts for the majority of this increase and is attributable to water and sewer lines contributed by developers and system-connection related fees. Key elements of this increase are shown in the following table.

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 5,661,201	\$ 5,169,973	\$ 17,892,043	\$ 18,112,684	\$ 23,553,244	\$ 23,282,657
Operating grants and contributions	6,462,178	6,989,196	-	-	6,462,178	6,989,196
Capital grants and contributions	1,051,753	2,287,153	4,429,990	11,439,392	5,481,743	13,726,545
General revenue:						
Property taxes	34,954,183	32,741,087	-	-	34,954,183	32,741,087
State-shared revenue	3,613,152	3,728,482	-	-	3,613,152	3,728,482
Unrestricted investment earnings	3,556,170	2,706,553	2,374,026	2,098,954	5,930,196	4,805,507
Franchise fees	335,863	301,318	-	-	335,863	301,318
Other	855,834	966,400	-	12,476	855,834	978,876
Total revenue	56,490,334	54,890,162	24,696,059	31,663,506	81,186,393	86,553,668
Expenses						
General government	7,596,971	6,984,091	-	-	7,596,971	6,984,091
Public safety	18,364,779	17,394,448	-	-	18,364,779	17,394,448
Public works	9,550,895	9,247,149	-	-	9,550,895	9,247,149
Community and economic development	976,357	629,371	-	-	976,357	629,371
Recreation and culture	5,427,777	5,893,891	-	-	5,427,777	5,893,891
Interest on long term debt	2,461,030	2,691,960	-	-	2,461,030	2,691,960
Water and sewer	-	-	17,283,267	17,669,658	17,283,267	17,669,658
Ice arena	-	-	1,719,682	1,736,197	1,719,682	1,736,197
Senior housing	-	-	1,829,283	1,662,803	1,829,283	1,662,803
Total expenses	44,377,809	42,840,910	20,832,232	21,068,658	65,210,041	63,909,568
Change in Net Assets						
Before Transfers	12,112,525	12,049,252	3,863,827	10,594,848	15,976,352	22,644,100
Transfers	(694,000)	-	694,000	-	-	-
Change in Net Assets	11,418,525	12,049,252	4,557,827	10,594,848	15,976,352	22,644,100
Net Assets - Beginning of year	122,372,102	110,322,850	164,072,312	153,477,464	286,444,414	263,800,314
Net Assets - End of year	\$ 133,790,627	\$ 122,372,102	\$ 168,630,139	\$ 164,072,312	\$ 302,420,766	\$ 286,444,414

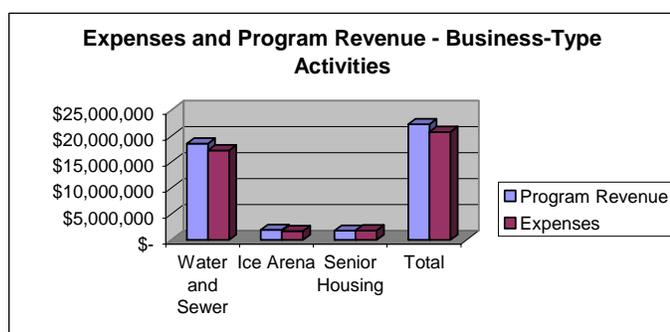
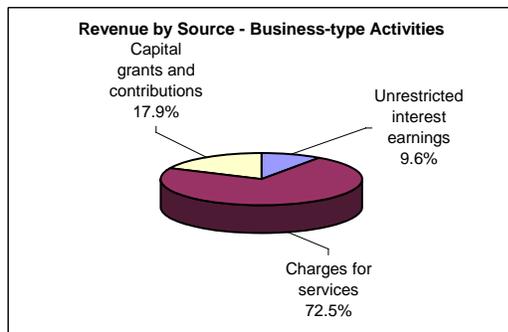
City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities - Program revenues, which include user fees and charges and restricted operating and capital grants and contributions, represent 23 percent of total governmental revenue sources. Program revenues reduce the net cost of the governmental functions to be financed from the City's general revenues, which are comprised primarily of property taxes and state revenue sharing.



Business-type Activities - Business-type activities increased the City of Novi's net assets by \$4,557,827. The Water and Sewer Fund accounts for the majority of this increase and includes capital contributions of \$4,305,751, which represents water and sewer lines contributed by developers and system-connection related fees (capital contributions are not included within the revenue total as presented in the "expenses and program revenue - business-type activities" graph below).



Financial Analysis of the City's Funds

Governmental Funds - The City has 25 governmental funds, categorized into four fund types. Each fund type has a unique purpose. Two funds are classified as major funds for the purpose of this report, based on criteria set forth by the Governmental Accounting Standards Board. Those funds are the General Fund and the Municipal Street Fund.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

As of June 30, 2007, the governmental funds of the City of Novi reported a combined fund balance of \$50,327,342, an increase of \$7,057,796 in comparison with the prior year. Total income from investments increased by \$775,574 and generated total earnings of \$4,511,149 in fiscal year 2006-2007. The City of Novi also received an additional \$2,658,373 during the year in federal drug forfeiture funds.

Proprietary Funds - The City of Novi's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of the Water and Sewer Fund were \$36,573,978 as of June 30, 2007. The Ice Arena's accumulated deficit was eliminated as a result of a transfer from the General Fund in the amount of \$694,000.

General Fund Budgetary Highlights

The City's budget results for the fiscal year ended June 30, 2006 were even better than anticipated. Due to the favorable results, the City specifically dedicated an additional payment of \$1,000,000 to the Retiree Health Care Benefits fiduciary fund for the fiscal year ended June 30, 2007. For the fiscal year ended June 30, 2007, the City had no significant budget overruns.

Capital Asset and Debt Administration

Capital Assets - The City of Novi's investment in capital assets, including construction in progress, for its governmental and business-type activities as of June 30, 2007, amounts to \$270,365,393 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure, and construction in progress.

	Governmental Activities		Business-type Activities		Total Activities	
	2007	2006	2007	2006	2007	2006
Land	\$ 24,266,876	\$ 23,805,373	\$ 2,034,701	\$ 2,034,701	\$ 26,301,577	\$ 25,840,074
Buildings and improvements	15,175,375	14,893,856	18,211,103	18,790,430	33,386,478	33,684,286
Machinery and equipment and library books	5,107,035	4,307,667	553,830	560,162	5,660,865	4,867,829
Infrastructure	81,163,197	83,123,626	117,762,447	112,349,038	198,925,644	195,472,664
Construction in progress	-	-	6,090,829	11,500,828	6,090,829	11,500,828
Total	<u>\$ 125,712,483</u>	<u>\$ 126,130,522</u>	<u>\$ 144,652,910</u>	<u>\$ 145,235,159</u>	<u>\$ 270,365,393</u>	<u>\$ 271,365,681</u>

Additional information on the City of Novi's capital assets can be found in Note 5 of this report.

City of Novi, Michigan

Management's Discussion and Analysis (Continued)

Long-term Debt - The following table is a comparison of the summary information for the fiscal years ended June 30, 2007 and 2006:

	Governmental Activities		Business-type Activities		Total Activities	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 38,950,000	\$ 43,750,000	\$ -	\$ -	\$ 38,950,000	\$ 43,750,000
Michigan transportation fund bonds	1,215,000	1,480,000	-	-	1,215,000	1,480,000
Special assessment debt with government commitment	13,090,000	14,215,000	1,905,000	2,080,000	14,995,000	16,295,000
County contractual obligations	-	-	925,000	1,775,000	925,000	1,775,000
Building authority bonds	-	-	20,566,308	21,254,633	20,566,308	21,254,633
Total	\$ 53,255,000	\$ 59,445,000	\$ 23,396,308	\$ 25,109,633	\$ 76,651,308	\$ 84,554,633

Additional information on the City's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

The budget plan, as approved in the fiscal year 2007-2008 budget, continues to maintain a minimum of 14 percent of current year's expenditures be set aside for unforeseen emergencies, with 16.9 percent as planned. The estimated revenue by the building department for new construction remains strong, which correlates to the continued increase in property tax revenue as a result of the increase in taxable values. The General Fund property tax revenue is estimated at \$16,778,000 for 2007-2008.

The 2007 approved tax millage rate continues to remain at 10.5416 mills. This rate is less than the average millage rate (10.6) for the last seven years and among the lowest municipal millages in Oakland County. Unreserved fund balance in the General Fund is \$10,577,595; of this amount, \$2,998,733 has been designated for subsequent year's expenditures, which includes non-recurring expenditures (i.e., additional contributions to the Retiree Health Care Fund, technology updates, and investment in capital.)

Requests for Information

This financial report is designed to provide a general overview of the City of Novi's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Finance Department, City of Novi, 45175 W. Ten Mile Road, Novi, MI 48375. You may also visit our website at www.cityofnovi.org or contact the finance department directly at 248-347-0465.

City of Novi, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Unit - Economic Development Corporation
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 2)	\$ 43,430,278	\$ 37,668,903	\$ 81,099,181	\$ 30,859
Accounts receivable:				
Other governmental units	1,701,589	29,400	1,730,989	-
Water and sewer billings	-	3,393,580	3,393,580	-
Taxes	242,235	-	242,235	-
Special assessments	14,940,235	-	14,940,235	-
Other	157,720	2,065,909	2,223,629	35,000
Prepaid and other assets	-	14,696	14,696	-
Inventory	-	79,800	79,800	-
Restricted assets (Note 4)	7,698,052	9,239,969	16,938,021	-
Capital assets - Net (Note 5):				
Depreciable	101,445,607	136,527,380	237,972,987	-
Nondepreciable	24,266,876	8,125,530	32,392,406	-
Total assets	193,882,592	197,145,167	391,027,759	65,859
Liabilities				
Accounts payable	1,736,742	2,697,599	4,434,341	-
Accrued and other liabilities	1,561,612	416,295	1,977,907	-
Due to other governmental units	-	1,766,120	1,766,120	-
Unearned revenue (Note 6)	206,984	1,501	208,485	-
Receipts refundable	-	157,819	157,819	-
Noncurrent liabilities:				
Bonds payable (Note 7):				
Due within one year	7,025,000	1,800,000	8,825,000	-
Due in more than one year	46,230,000	21,596,308	67,826,308	-
Employee compensated absences (Note 1):				
Due within one year	1,591,100	79,386	1,670,486	-
Due in more than one year	833,312	-	833,312	-
Claims and judgments due within one year (Note 8)	907,215	-	907,215	-
Total liabilities	60,091,965	28,515,028	88,606,993	-
Net Assets				
Invested in capital assets - Net of related debt	75,202,275	121,256,602	196,458,877	-
Restricted:				
Streets and highways	4,395,303	-	4,395,303	-
Drains	9,833,258	-	9,833,258	-
Debt service	1,449,850	-	1,449,850	-
Special assessments	20,334,864	9,239,969	29,574,833	-
Police and fire	1,866,591	-	1,866,591	-
Federal forfeitures	4,573,069	-	4,573,069	-
Parks, recreation and senior services	2,511,264	300,000	2,811,264	-
Library	1,291,388	-	1,291,388	-
Donations	1,412,126	-	1,412,126	-
Construction code fees (Note 9)	1,037,182	-	1,037,182	-
Unrestricted	9,883,457	37,833,568	47,717,025	65,859
Total net assets	\$ 133,790,627	\$ 168,630,139	\$ 302,420,766	\$ 65,859

City of Novi, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 7,596,971	\$ 77,500	\$ -	\$ -
Public safety	18,364,779	3,893,549	2,741,705	-
Public works	9,550,895	265,249	2,916,848	905,980
Community and economic development	976,357	352,695	-	-
Recreation and culture	5,427,777	1,072,208	803,625	145,773
Interest on long-term debt	2,461,030	-	-	-
Total governmental activities	44,377,809	5,661,201	6,462,178	1,051,753
Business-type activities:				
Water and sewer	17,283,267	14,156,642	-	4,429,990
Ice arena	1,719,682	1,953,805	-	-
Senior housing	1,829,283	1,781,596	-	-
Total business-type activities	20,832,232	17,892,043	-	4,429,990
Total primary government	<u>\$ 65,210,041</u>	<u>\$ 23,553,244</u>	<u>\$ 6,462,178</u>	<u>\$ 5,481,743</u>
Component unit - Economic Development Corporation	<u>\$ 1,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue (unrestricted)				
Unrestricted interest earnings				
Cable television franchise fees (unrestricted)				
Miscellaneous				
Total general revenue				
Change in Net Assets Before Transfers				
Transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit - Economic Development Corporation
\$ (7,519,471)	\$ -	\$ (7,519,471)	\$ -
(11,729,525)	-	(11,729,525)	-
(5,462,818)	-	(5,462,818)	-
(623,662)	-	(623,662)	-
(3,406,171)	-	(3,406,171)	-
(2,461,030)	-	(2,461,030)	-
(31,202,677)	-	(31,202,677)	-
-	1,303,365	1,303,365	-
-	234,123	234,123	-
-	(47,687)	(47,687)	-
-	1,489,801	1,489,801	-
(31,202,677)	1,489,801	(29,712,876)	-
-	-	-	(1,532)
34,954,183	-	34,954,183	-
3,613,152	-	3,613,152	-
3,556,170	2,374,026	5,930,196	1,659
335,863	-	335,863	-
855,834	-	855,834	-
43,315,202	2,374,026	45,689,228	1,659
12,112,525	3,863,827	15,976,352	127
(694,000)	694,000	-	-
11,418,525	4,557,827	15,976,352	127
122,372,102	164,072,312	286,444,414	65,732
\$ 133,790,627	\$ 168,630,139	\$ 302,420,766	\$ 65,859

City of Novi, Michigan

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Municipal Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments (Note 2)	\$ 11,741,022	\$ 1,054,247	\$ 30,635,009	\$ 43,430,278
Accounts receivable:				
Other governmental units	1,181,623	4,180	515,786	1,701,589
Taxes	48,169	33,694	160,372	242,235
Special assessments	-	13,651,071	432,461	14,083,532
Other	100,866	-	56,854	157,720
Restricted assets (Note 4)	-	3,444,206	4,253,846	7,698,052
Total assets	<u>\$ 13,071,680</u>	<u>\$ 18,187,398</u>	<u>\$ 36,054,328</u>	<u>\$ 67,313,406</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 500,893	\$ 69,959	\$ 1,165,890	\$ 1,736,742
Accrued and other liabilities	955,972	-	91	956,063
Deferred revenue (Note 6)	38	13,651,071	642,150	14,293,259
Total liabilities	1,456,903	13,721,030	1,808,131	16,986,064
Fund Balances				
Reserved for:				
Construction code fees (Note 9)	1,037,182	-	-	1,037,182
Restricted assets	-	3,444,206	4,216,508	7,660,714
Unreserved, reported in:				
General Fund - Designated (Note 10)	2,998,733	-	-	2,998,733
General Fund - Undesignated	7,578,862	-	-	7,578,862
Special Revenue Funds - Designated (Note 10)	-	-	5,261,427	5,261,427
Special Revenue Funds - Undesignated	-	1,022,162	20,573,620	21,595,782
Debt Service Funds - Undesignated	-	-	1,449,850	1,449,850
Capital Projects Funds - Undesignated	-	-	2,744,792	2,744,792
Total fund balances	11,614,777	4,466,368	34,246,197	50,327,342
Total liabilities and fund balances	<u>\$ 13,071,680</u>	<u>\$ 18,187,398</u>	<u>\$ 36,054,328</u>	<u>\$ 67,313,406</u>

City of Novi, Michigan

Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets June 30, 2007

Total Fund Balances for Governmental Funds \$ 50,327,342

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds	125,712,483
Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures (including \$856,703 of accrued interest on special assessments)	14,942,978
Bonds, obligations, and agreements are not due and payable in the current period and are not reported in the funds	(53,255,000)
Compensated absences are not due and payable in the current period and are not reported in the funds	(2,424,412)
Estimated general liability claims are not due and payable in the current period and are not reported in the funds	(907,215)
Interest related to long-term debt is not due and payable in the current period and is not reported in the funds	<u>(605,549)</u>

Net Assets of Governmental Activities **\$ 133,790,627**

City of Novi, Michigan

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

	General Fund	Municipal Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Taxes	\$ 15,815,543	\$ 2,579,444	\$ 16,559,196	\$ 34,954,183
Licenses, permits, and charges for services	4,464,140	-	-	4,464,140
Federal grants	54,065	-	140,123	194,188
State sources	3,642,419	-	2,997,689	6,640,108
Special assessments collected	-	1,264,594	205,333	1,469,927
Fines and forfeitures	457,716	-	2,765,401	3,223,117
Interest income	1,659,682	1,115,851	1,735,616	4,511,149
Recreational programs	-	-	864,760	864,760
Gifts and donations	-	-	5,650	5,650
Other revenue	732,866	90,663	866,644	1,690,173
Total revenue	26,826,431	5,050,552	26,140,412	58,017,395
Expenditures				
Current services:				
City Council	4,833	-	-	4,833
City manager	410,554	-	-	410,554
Finance	893,732	-	-	893,732
Information technology	473,271	-	-	473,271
Assessing	695,564	-	-	695,564
City attorney	386,133	-	-	386,133
City clerk	527,221	-	-	527,221
Treasury	286,102	-	-	286,102
Buildings and grounds	1,026,280	-	-	1,026,280
Community relations	334,545	-	-	334,545
General administration	2,562,798	-	5,375	2,568,173
Police department	10,683,107	-	-	10,683,107
Fire department	5,046,849	-	-	5,046,849
Building department	2,132,757	-	-	2,132,757
Neighborhood services	493,726	-	-	493,726
Department of Public Works	723,282	-	-	723,282
Engineering	367,279	-	-	367,279
Planning Commission	3,755	-	-	3,755
Planning	673,842	-	-	673,842
Construction	-	748,718	2,976,491	3,725,209
Street maintenance	-	325,008	2,258,420	2,583,428
Drain maintenance	-	-	589,733	589,733
Recreational programs	-	-	1,878,091	1,878,091
Forestry and park maintenance	-	-	1,164,713	1,164,713
Library programs	-	-	2,361,812	2,361,812
Other	297,021	-	275,404	572,425
Capital outlay	-	-	949,021	949,021
Debt service	-	1,780,581	6,929,581	8,710,162
Total expenditures	28,022,651	2,854,307	19,388,641	50,265,599
Excess of Revenue Over (Under) Expenditures	(1,196,220)	2,196,245	6,751,771	7,751,796

City of Novi, Michigan

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

	General Fund	Municipal Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Transfers in (Note 3)	\$ 4,972,000	\$ -	\$ 3,768,129	\$ 8,740,129
Transfers out (Note 3)	<u>(2,674,373)</u>	<u>(1,130,000)</u>	<u>(5,629,756)</u>	<u>(9,434,129)</u>
Total other financing sources (uses)	<u>2,297,627</u>	<u>(1,130,000)</u>	<u>(1,861,627)</u>	<u>(694,000)</u>
Net Change in Fund Balances	1,101,407	1,066,245	4,890,144	7,057,796
Fund Balances - Beginning of year	<u>10,513,370</u>	<u>3,400,123</u>	<u>29,356,053</u>	<u>43,269,546</u>
Fund Balances - End of year	<u>\$ 11,614,777</u>	<u>\$ 4,466,368</u>	<u>\$ 34,246,197</u>	<u>\$ 50,327,342</u>

City of Novi, 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	\$ 7,057,796
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 allocated over their estimated useful lives as depreciation	(418,041)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(1,527,061)
Repayment of bond principal is recorded as an expenditure in the governmental funds, but not in the statement of activities (where these transactions are recorded as a reduction of a liability)	6,190,000
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	83,704
Increase in estimated general liability is recorded when paid in the governmental funds	(27,006)
Interest accrued on long-term debt is an expenditure in the statement of activities, but not in the governmental funds	<u>59,133</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 11,418,525</u></u>

City of Novi, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2007

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Assets				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 35,782,816	\$ 621,372	\$ 1,264,715	\$ 37,668,903
Accounts receivable:				
Water and sewer billing	3,393,580	-	-	3,393,580
Other	1,953,380	25,720	86,809	2,065,909
Due from other governmental units	29,400			29,400
Prepaid expense	-	474	14,222	14,696
Inventory	76,068	3,732	-	79,800
Total current assets	<u>41,235,244</u>	<u>651,298</u>	<u>1,365,746</u>	<u>43,252,288</u>
Noncurrent assets:				
Restricted assets (Note 4)	9,239,969	-	-	9,239,969
Capital assets (Note 5)	<u>124,210,920</u>	<u>7,231,424</u>	<u>13,210,566</u>	<u>144,652,910</u>
Total noncurrent assets	<u>133,450,889</u>	<u>7,231,424</u>	<u>13,210,566</u>	<u>153,892,879</u>
Total assets	<u>174,686,133</u>	<u>7,882,722</u>	<u>14,576,312</u>	<u>197,145,167</u>
Liabilities				
Current liabilities:				
Accounts payable	2,631,466	50,157	15,976	2,697,599
Accrued and other liabilities	105,861	80,663	309,157	495,681
Due to other governmental units	1,766,120	-	-	1,766,120
Deferred revenue	-	-	1,501	1,501
Receipts refundable	157,819	-	-	157,819
Current portion of long-term liabilities (Note 7)	<u>1,015,000</u>	<u>310,000</u>	<u>475,000</u>	<u>1,800,000</u>
Total current liabilities	<u>5,676,266</u>	<u>440,820</u>	<u>801,634</u>	<u>6,918,720</u>
Noncurrent liabilities - Long-term debt - Net of deferred amount on refunding				
	<u>1,815,000</u>	<u>6,498,451</u>	<u>13,282,857</u>	<u>21,596,308</u>
Total liabilities	<u>7,491,266</u>	<u>6,939,271</u>	<u>14,084,491</u>	<u>28,515,028</u>
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	121,380,920	422,973	(547,291)	121,256,602
Restricted for:				
Special assessments	9,239,969	-	-	9,239,969
Replacement reserve	-	-	300,000	300,000
Unrestricted	<u>36,573,978</u>	<u>520,478</u>	<u>739,112</u>	<u>37,833,568</u>
Total net assets (deficit)	<u>\$ 167,194,867</u>	<u>\$ 943,451</u>	<u>\$ 491,821</u>	<u>\$ 168,630,139</u>

City of Novi, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2007

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Operating Revenue				
Water sales	\$ 7,345,581	\$ -	\$ -	\$ 7,345,581
Sewer service charges	6,085,799	-	-	6,085,799
Concession sales	-	123,352	-	123,352
Rentals and other charges for services	-	1,724,132	1,754,145	3,478,277
Penalties	120,680	-	-	120,680
Inspection fees	17,370	-	-	17,370
Installation charges	239,675	-	-	239,675
Miscellaneous revenue	347,537	106,321	27,451	481,309
	<u>14,156,642</u>	<u>1,953,805</u>	<u>1,781,596</u>	<u>17,892,043</u>
Operating Expenses				
Cost of water	6,096,030	-	-	6,096,030
Cost of sewage disposal	4,848,744	-	-	4,848,744
Cost of goods sold	-	62,203	-	62,203
Salaries and fringe benefits	1,122,844	-	-	1,122,844
Contractual services	47,106	500,173	219,041	766,320
Management contract	-	96,729	47,424	144,153
Municipal service charges	359,000	-	-	359,000
Depreciation	3,249,117	260,881	359,318	3,869,316
Repairs and maintenance	176,585	93,439	269,393	539,417
Utilities	14,534	236,956	112,284	363,774
Insurance	19,567	15,247	45,278	80,092
Office supplies	21,934	9,965	15,463	47,362
Advertising	-	9,814	2,851	12,665
Professional services	316,383	2,338	2,100	320,821
Operating supplies	42,562	24,101	14,008	80,671
Installation expenses	736,420	-	-	736,420
Vehicle expenses	53,531	-	-	53,531
Education and training	8,235	2,009	2,222	12,466
Recreational programs	-	67,781	-	67,781
Miscellaneous expenses	30,052	11,113	2,378	43,543
	<u>17,142,644</u>	<u>1,392,749</u>	<u>1,091,760</u>	<u>19,627,153</u>
Operating Income (Loss)	(2,986,002)	561,056	689,836	(1,735,110)

City of Novi, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) (Continued) Year Ended June 30, 2007

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Nonoperating Income (Expense)				
Interest earned	\$ 2,396,055	\$ 29,928	\$ 72,282	\$ 2,498,265
Interest expense	(140,623)	(326,933)	(737,523)	(1,205,079)
Total nonoperating income (expense)	<u>2,255,432</u>	<u>(297,005)</u>	<u>(665,241)</u>	<u>1,293,186</u>
Income (Loss) - Before capital contributions	(730,570)	264,051	24,595	(441,924)
Capital Contributions				
Donated water and sewer lines	1,452,958	-	-	1,452,958
Customer assessments - Tap fees	<u>2,852,793</u>	<u>-</u>	<u>-</u>	<u>2,852,793</u>
Total capital contributions	4,305,751	-	-	4,305,751
Other Financing Sources - Transfers in (Note 3)	<u>-</u>	<u>694,000</u>	<u>-</u>	<u>694,000</u>
Change in Net Assets	3,575,181	958,051	24,595	4,557,827
Net Assets (Deficit) - Beginning of year	<u>163,619,686</u>	<u>(14,600)</u>	<u>467,226</u>	<u>164,072,312</u>
Net Assets - End of year	<u>\$ 167,194,867</u>	<u>\$ 943,451</u>	<u>\$ 491,821</u>	<u>\$ 168,630,139</u>

City of Novi, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Water and Sewer Fund	Ice Arena Fund	Senior Housing Fund	Total Enterprise Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 12,850,569	\$ 1,833,947	\$ 1,734,168	\$ 16,418,684
Payments to suppliers	(13,622,730)	(1,145,560)	(761,041)	(15,529,331)
Payments to employees	(1,122,844)	-	-	(1,122,844)
Payments from other governmental units	62,440	-	-	62,440
Payments to other governmental units	56,117	-	-	56,117
Internal activity - Payments to other funds	-	(289,349)	-	(289,349)
Other receipts	347,537	106,321	27,451	481,309
Net cash provided by (used in) operating activities	(1,428,911)	505,359	1,000,578	77,026
Cash Flows from Capital and Related Financing Activities				
Collection of customer assessments (principal and interest)	3,168,407	-	-	3,168,407
Purchase of capital assets	(1,783,334)	(50,775)	-	(1,834,109)
Principal and interest paid on capital debt	(1,165,670)	(611,017)	(1,150,247)	(2,926,934)
Net cash provided by (used in) capital and related financing activities	219,403	(661,792)	(1,150,247)	(1,592,636)
Cash Flows from Noncapital Financing Activities -				
Receipt of interfund transfers	-	694,000	-	694,000
Cash Flows from Investing Activities - Interest received on investments	2,396,055	29,928	72,282	2,498,265
Net Increase (Decrease) in Cash and Cash Equivalents	1,186,547	567,495	(77,387)	1,676,655
Cash and Cash Equivalents - Beginning of year	40,619,777	53,877	1,342,102	42,015,756
Cash and Cash Equivalents - End of year	<u>\$ 41,806,324</u>	<u>\$ 621,372</u>	<u>\$ 1,264,715</u>	<u>\$ 43,692,411</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 35,782,816	\$ 621,372	\$ 1,264,715	\$ 37,668,903
Restricted investments (Note 4)	6,023,508	-	-	6,023,508
Total cash and cash equivalents	<u>\$ 41,806,324</u>	<u>\$ 621,372</u>	<u>\$ 1,264,715</u>	<u>\$ 43,692,411</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (2,986,002)	\$ 561,056	\$ 689,836	\$ (1,735,110)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	3,249,117	260,881	359,318	3,869,316
Changes in assets and liabilities:				
Receivables	(782,079)	(10,097)	(21,244)	(813,420)
Inventory	13,825	-	-	13,825
Other assets	-	798	(3,790)	(2,992)
Accounts payable	(865,872)	(13,717)	(23,523)	(903,112)
Accrued and other liabilities	(176,457)	(4,213)	(19)	(180,689)
Due to other governmental units	56,117	-	-	56,117
Due from other governmental units	62,440	-	-	62,440
Internal activity - Payments to other funds	-	(289,349)	-	(289,349)
Net cash provided by (used in) operating activities	<u>\$ (1,428,911)</u>	<u>\$ 505,359</u>	<u>\$ 1,000,578</u>	<u>\$ 77,026</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2007, developers constructed water and sewer lines with an estimated value of \$1,452,958 and donated them to the City.

City of Novi, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2007

	Pension and Other Employee Benefits - Retiree Health Care Benefits	Agency
Assets		
Cash and cash equivalents (Note 2)	\$ 518,022	\$ 7,042,645
U.S. government securities	1,490,605	3,117,000
Bank investment pools	2,421,215	3,078,429
Mutual funds	3,421,986	-
Corporate bonds	166,199	
Accounts receivable	-	16,632
Total assets	8,018,027	<u>\$ 13,254,706</u>
Liabilities		
Due to builders and developers	-	\$ 13,234,071
Due to school and other governmental units	25,611	20,635
Total liabilities	25,611	<u>\$ 13,254,706</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 7,992,416</u>	

City of Novi, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2007

	Pension and Other Employee Benefits - Retiree Health Care Benefits
Additions	
Investment income - Net increase in fair value of investments	\$ 908,280
Contributions - Employer	<u>2,364,828</u>
Total additions	3,273,108
Deductions - Insurance expenses	<u>280,899</u>
Change in Net Assets	2,992,209
Net Assets - Beginning of year	<u>5,000,207</u>
Net Assets - End of year	<u><u>\$ 7,992,416</u></u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Novi (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 used by the City of Novi:

Reporting Entity

The City is governed by an elected seven-member City Council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Novi and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit - The Economic Development Corporation of the City of Novi was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body is selected by the City Council. The City also has the ability to impose its will on the Corporation. The Corporation is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. A separate financial report for the Economic Development Corporation may be obtained from the finance department located at the City of Novi Civic Center, 45175 W. Ten Mile Road, Novi, MI 48375.

Blended Component Unit - The City of Novi Building Authority is governed by a council that is appointed by the mayor. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole purpose is to finance the City's ice arena and senior housing project.

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 unit. 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 the legally separate component unit for which the primary government is financially accountable.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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. This also includes unrestricted franchise fees that result from cable television fees, not a program of the City.

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 major individual enterprise funds 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 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.

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 City 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, expenditures relating to debt service compensated absences, and claims and judgments are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

Property taxes, franchise taxes, licenses, state-shared revenue (which is unrestricted), and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue 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 available only when cash is received by the City.

The City reports the following major governmental funds:

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

Municipal Street Fund - The Municipal Street Fund is used to enhance the Major and Local Street Funds. This fund receives its revenue pursuant to a special millage as designated by Charter for street and highway improvement purposes.

The City reports the following major proprietary funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Ice Arena Fund - The Ice Arena Fund accounts for the City's two-sheet arena.

Senior Housing Fund - The Senior Housing Fund accounts for the 175-unit senior housing project, financed using the Building Authority approach.

Additionally, the City reports the following fiduciary fund types:

Retiree Health Care Benefits Fund - The Retiree Health Care Benefits Fund accounts for medical benefits provided to retirees.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or funds. It primarily holds deposits from builders and developers and tax remittances due to schools and other governmental units.

Note I - Summary of Significant Accounting Policies (Continued)

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 City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services, such as water and sewer distribution and collection, recreational services, and senior housing in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include amounts in demand deposits, time deposits, U.S. governmental securities, interlocal agreements, bank investment pools, and mutual funds. Investments are reported at fair value, based on quoted market prices.

Cash Equivalents - For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and personal property tax receivables are shown as net of allowance for uncollectible amounts, if applicable.

Property Tax Revenue - Properties are assessed as of December 31; the related property taxes are billed and become a lien on July 1 of the following year. These taxes are due without penalty during the period from July 1 through August 31 with the final collection date of February 28 before they are added to the county tax rolls. The County Tax Revolving Fund reimburses the City for the real property portion of these taxes and assumes collection responsibilities.

The 2006 taxable valuation of the City totaled approximately \$3.36 billion and is used for the July 1, 2006 tax bills; this resulted in property tax revenue as follows:

Purpose	Mills Levied	Approximate Revenue
City operating millage	4.8051	\$ 15,816,000
Police and fire supplemental millage	1.4282	4,725,000
Parks and recreation operations	0.3857	1,289,000
Library operations	0.7719	2,588,000
Drain maintenance operations	0.5105	1,704,000
Street maintenance operations	0.7719	2,579,000
Debt levies for streets, fire station, and refunding debt	1.8683	6,254,000

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds 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 in both government-wide and fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The City has specific assets held at Wayne County and Oakland County for various water and sewer system-related contracts classified as restricted assets on the balance sheet because the City has turned over control of these assets to the counties based on specific contracts with them. The City has also classified as restricted assets those amounts due from special assessment contracts with property owners for water and sewer system and road construction and related debt payments due to the restricted nature of these funds once they are received.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, 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 City as assets with an initial individual cost of more than \$5,000 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.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

Roads, sidewalks, bridges and non-motorized improvements	25 to 30 years
Drains	25 years
Water and sewer distribution systems	50 years
Buildings and building improvements	35 to 50 years
Machinery and equipment	4 to 10 years
Library books	10 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. This liability has typically been charged to operations in the General, Parks, Recreation and Forestry, and Library Funds in prior years.

Note I - Summary of Significant Accounting Policies (Continued)

The City's liability for compensated absences at June 30, 2007 consisted of the following:

	Governmental Activities	Business-type Activities	Total
Due within one year	\$ 1,591,100	\$ 79,386	\$ 1,670,486
Due in more than one year	<u>833,312</u>	<u>-</u>	<u>833,312</u>
Total compensated absences	<u>\$ 2,424,412</u>	<u>\$ 79,386</u>	<u>\$ 2,503,798</u>

Changes in the liability for compensated absences are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities	\$ 2,508,116	\$ 1,513,071	\$ (1,596,775)	\$ 2,424,412
Business-type activities	<u>68,058</u>	<u>51,391</u>	<u>(40,063)</u>	<u>79,386</u>
Total compensated absences	<u>\$ 2,576,174</u>	<u>\$ 1,564,462</u>	<u>\$ (1,636,838)</u>	<u>\$ 2,503,798</u>

Claims and Judgments - The liability for claims and judgments has typically been charged to operations in the Judgment Trust and General Funds in prior years.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types 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 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 City 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.

The Retiree Health Care Benefits Fund is also authorized by Michigan Public Act 149 of 1999, 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 approved 17 banks for the deposit of its funds according to its investment policy. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, and all other instruments allowed by the State as listed above. The City's deposits and investment policies are in accordance with statutory authority.

Note 2 - Deposits and Investments (Continued)

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 of deposits. At year end, the City had \$56,495,723 of bank deposits (certificates of deposit, checking, savings, and money market accounts) that were 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.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk of investments. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Government-wide - U.S. government and agency securities	\$ 3,999,375	Counterparty
Retiree Health Care Benefits Fund - U.S. government and agency securities	\$ 864,858	Counterparty

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
Government-wide:		
Commercial paper	\$ 4,965,777	3 months
U.S. government and agency securities:		
T-Notes	1,977,958	3 months
Federal Home Loan Mortgage Corporation	5,000,000	3 years
Fannie Mae	7,000,000	3.25 years
Federal Home Loan Banks	12,991,297	3.25 years
Freddie Mac	2,000,000	3.5 years
Retiree Health Care Benefits Fund:		
U.S. government and agency securities:		
T-Notes	669,088	5.5 years
Federal Home Loan Mortgage Corporation	175,963	8.25 years
Fannie Mae	645,554	7 years
Corporate bonds	166,199	3 years

Note 2 - Deposits and Investments (Continued)

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
Government-wide:			
U.S. government agency securities	\$ 26,991,297	AAA	S&P
Bank investment pool:			
Ambassador	4,505,464		Not rated
MBIA	5,368,793	AAA-VI	Fitch
Federated	3,697,947	AAA	S&P
Bank investment pools	2,812,427		Not rated
Commercial paper	4,965,777	AI + PI	S&P
Retiree Health Care Benefits Fund:			
U.S. government agency securities	127,717	AAA	S&P
U.S. government agency securities	693,799		Not rated
Bank investment pools	2,421,215		Not rated
Corporate bonds	40,936	AAA	S&P
Corporate bonds	26,177	AA-	S&P
Corporate bonds	99,086		Not rated

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has more than 5 percent of its investments in the following:

Government-wide:	
U. S. government agencies:	
Federal Home Loan Banks	25.82%
Fannie Mae	13.91%
Federal Home Loan Mortgage Corporation	9.94%
Retiree Health Care Benefits Fund - Fannie Mae	8.61%

Note 3 - Interfund Receivables, Payables, and Transfers

The following is a summary of the interfund transfers:

Transfer of property taxes collected by the Police and Fire Fund to the General Fund, where police and fire salaries are reported	\$ 4,972,000
Transfers of resources related to street expenditures (certain funds account for resources that are intended to be spent in other funds):	
Transfer from Major Street Fund to Local Street Fund	543,371
Transfer from Major Street Fund to 2002 Michigan Transportation Refunding Debt Fund	113,385
Transfer from Municipal Street Fund to Major Street Fund	380,000
Transfer from Municipal Street Fund to Local Street Fund	750,000
Transfer of unrestricted General Fund resources to fund the Parks and Recreation programs, including capital improvements	1,489,198
Transfer of unrestricted General Fund resources to the Judgment Trust Fund:	250,000
Transfer from General Fund to fund debt service of the 2000 Limited Tax Debt Fund	241,175
Transfer of contributions recorded in the Contributions and Donations Fund to fund the parks and recreation programs	1,000
Transfer from General Fund to Ice Arena Fund	<u>694,000</u>
Total interfund transfers	<u>\$ 9,434,129</u>

Note 4 - Restricted Assets and Reserves

Governmental Activities

Following is the detail of the governmental activities restricted assets at June 30, 2007:

Special Revenue Funds:

Cash and investments restricted for special assessments	\$ 6,248,588
Cash and investments restricted for contributions and donations	<u>1,449,464</u>
Total Special Revenue Funds	<u>\$ 7,698,052</u>

Business-type Activities

Specific assets of the business-type activities have been restricted by City ordinances, contracts with Oakland County, and special assessment contracts with property owners for water and sewer system construction and related debt payments.

Following is the detail of the business-type activities restricted assets at June 30, 2007:

Water and Sewer Fund - Cash and investments restricted for special assessments	\$ 6,023,508
Special assessments receivable	3,142,857
Net assets held by county:	
North Huron Valley/Rouge Valley	60,535
Huron-Rouge S.D.S., Walled Lake Arm Waste Water Treatment Plant	<u>13,069</u>
Net assets restricted in Water and Sewer Fund	<u>\$ 9,239,969</u>

Note 5 - Capital Assets

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

Governmental Activities	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets not being depreciated -				
Land	\$ 23,805,373	\$ 461,503	\$ -	\$ 24,266,876
Capital assets being depreciated:				
Roads	104,653,616	2,858,155	-	107,511,771
Non-motorized pathway improvements	3,314,880	153,589	-	3,468,469
Bridges	1,907,661	1,253	-	1,908,914
Drains	20,920,581	216,195	-	21,136,776
Buildings and improvements	24,181,448	908,776	-	25,090,224
Machinery and equipment	9,844,353	1,587,364	319,321	11,112,396
Library books	4,084,620	477,870	360,570	4,201,920
Subtotal	168,907,159	6,203,202	679,891	174,430,470
Accumulated depreciation:				
Roads	35,972,967	4,152,147	-	40,125,114
Non-motorized pathway improvements	1,158,434	115,647	-	1,274,081
Bridges	338,500	76,357	-	414,857
Drains	10,203,211	845,470	-	11,048,681
Buildings and improvements	9,287,592	627,257	-	9,914,849
Machinery and equipment	7,361,905	1,035,557	319,321	8,078,141
Library books	2,259,401	230,309	360,570	2,129,140
Subtotal	66,582,010	7,082,744	679,891	72,984,863
Net capital assets being depreciated	102,325,149	(879,542)	-	101,445,607
Net capital assets	<u>\$ 126,130,522</u>	<u>\$ (418,039)</u>	<u>\$ -</u>	<u>\$ 125,712,483</u>

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance	Increases	Decreases	Balance
	July 1, 2006			June 30, 2007
Capital assets not being depreciated:				
Land	\$ 2,034,701	\$ -	\$ -	\$ 2,034,701
Construction in progress	<u>11,500,828</u>	<u>1,723,379</u>	<u>7,133,378</u>	<u>6,090,829</u>
Subtotal	13,535,529	1,723,379	7,133,378	8,125,530
Capital assets being depreciated:				
Water and sewer distribution systems	149,972,959	8,584,987	-	158,557,946
Buildings and building improvements	23,103,125	18,359	18,361	23,103,123
Machinery and equipment	<u>1,767,166</u>	<u>93,720</u>	<u>-</u>	<u>1,860,886</u>
Subtotal	174,843,250	8,697,066	18,361	183,521,955
Accumulated depreciation:				
Water and sewer distribution systems	37,623,921	3,171,578	-	40,795,499
Buildings and building improvements	4,312,695	579,325	-	4,892,020
Machinery and equipment	<u>1,207,004</u>	<u>118,413</u>	<u>18,361</u>	<u>1,307,056</u>
Subtotal	<u>43,143,620</u>	<u>3,869,316</u>	<u>18,361</u>	<u>46,994,575</u>
Net capital assets being depreciated	<u>131,699,630</u>	<u>4,827,750</u>	<u>-</u>	<u>136,527,380</u>
Net capital assets	<u>\$ 145,235,159</u>	<u>\$ 6,551,129</u>	<u>\$ 7,133,378</u>	<u>\$ 144,652,910</u>

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

Governmental activities:	
General government	\$ 214,312
Public safety	895,825
Public works	5,466,658
Recreation and culture	<u>505,949</u>
Total governmental activities	<u>\$ 7,082,744</u>
Business-type activities:	
Water and sewer	\$ 3,249,117
Ice arena	260,881
Senior housing	<u>359,318</u>
Total business-type activities	<u>\$ 3,869,316</u>

City of Novi, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Construction Commitments - The City of Novi has active construction projects as of June 30, 2007. At year end, the City's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Street construction	\$ -	\$ 2,535,431
Sewer projects	505,312	1,492,768
Water mains	647,216	44,866
Detention basins	1,811,572	85,286
Lake dredging	865,687	229,357
Park improvements	83,853	27,154
	<u>\$ 3,913,640</u>	<u>\$ 4,414,862</u>
Total		

Note 6 - Receivables

Governmental funds report deferred revenue in connection with receivables for revenue that is 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:

	Unavailable	Unearned
Special assessments	\$ 14,086,275	\$ -
Recreation fees and other	-	206,984
	<u>\$ 14,086,275</u>	<u>\$ 206,984</u>
Total		

Note 7 - 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 and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:							
General Obligation Bonds:							
1993 Unlimited Tax Refunding Bonds:							
Amount of issue - \$10,230,000							
Maturing through 2009	5.10% - 5.25%	\$740,000 - \$1,350,000	\$ 4,520,000	\$ -	\$ (1,110,000)	\$ 3,410,000	\$ 1,320,000
1999 Unlimited Tax Police Station Bonds:							
Amount of issue - \$3,500,000							
Maturing through 2018	4.20% - 5.10%	\$150,000 - \$300,000	2,800,000	-	(150,000)	2,650,000	150,000
2001 Tax Road Bonds:							
Amount of issue - \$10,000,000							
Maturing through 2015	3.90% - 4.50%	\$600,000 - \$1,100,000	8,425,000	-	(550,000)	7,875,000	600,000
2002 Limited Tax Bonds:							
Amount of issue - \$2,000,000							
Maturing through 2012	\$4.00% - 5.00%	\$200,000 - \$275,000	1,525,000	-	(175,000)	1,350,000	200,000
2002 Street and Refunding Bonds:							
Amount of issue - \$24,720,000							
Maturing through 2017	3.00% - 5.25%	\$595,000 - \$3,740,000	20,605,000	-	(2,150,000)	18,455,000	2,275,000
2003 Unlimited Tax Refunding Bonds:							
Amount of issue - \$6,565,000							
Maturing through 2011	2.25% - 3.50%	\$740,000 - \$1,000,000	5,875,000	-	(665,000)	5,210,000	750,000
2002 Michigan Transportation Fund Refunding Bonds:							
Amount of issue - \$2,280,000							
Maturing through 2009	3.00% - 3.50%	\$295,000 - \$315,000	1,480,000	-	(265,000)	1,215,000	305,000

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities (Continued)							
Special Assessment Bonds:							
1995 Special Assessment Bonds:							
Amount of issue - \$1,700,000							
Maturing through 2009							
	6.00% -	\$100,000 -					
	6.75%	\$125,000	\$ 465,000	\$ -	\$ (125,000)	\$ 340,000	\$ 125,000
2000 Special Assessment Limited Tax Bonds:							
Amount of issue - \$18,435,000							
Maturing through 2015							
	4.75%	\$1,300,000 -					
		\$1,500,000	13,750,000	-	(1,000,000)	12,750,000	1,300,000
Total governmental activities long-term liabilities			\$ 59,445,000	\$ -	\$ (6,190,000)	\$ 53,255,000	\$ 7,025,000
Business-type Activities							
County Drain Contract Obligations:							
Oakland County Contract:							
Amount of issue - \$8,200,000							
Maturing through 2008							
	5.00%	\$750,000	\$ 750,000	\$ -	\$ -	\$ 750,000	\$ 750,000
Oakland County Contract:							
Amount of issue - \$8,030,000							
Maturing through 2009							
	5.10% -	\$85,000 -					
	5.20%	\$90,000	1,025,000	-	(850,000)	175,000	90,000
Special Assessment Bonds:							
2003 Special Assessment Limited Tax Bonds							
Amount of Issue - \$2,330,000							
Maturing through 2017							
	2.00% -	\$150,000 -					
	4.00%	\$200,000	2,080,000	-	(175,000)	1,905,000	175,000
Building Authority Bonds:							
2004 Ice Arena Recreation Facility Refunding Bonds:							
Amount of issue - \$7,630,000							
Maturing through 2024							
	3.00% -	\$310,000 -					
	4.65%	\$560,000	7,570,000	-	(310,000)	7,260,000	310,000
Less deferred amount on refunding			(478,110)	-	26,562	(451,548)	
1999 Senior Complex Recreation Facility Bond:							
Amount of issue - \$15,300,000							
Maturing through 2016							
	5.10% -	\$400,000 -					
	7.50%	\$625,000	5,150,000	-	(400,000)	4,750,000	400,000
2005 Senior Complex Recreation Facility Refunding Bonds:							
Amount of Issue - \$9,920,000							
Maturing through 2025							
	3.25% -	\$20,000 -					
	5.00%	\$1,100,000	9,815,000	-	(45,000)	9,770,000	75,000
Less deferred amount on refunding			(802,257)	-	40,113	(762,144)	-
Total business-type activities long-term liabilities			\$ 25,109,633	\$ -	\$ (1,713,325)	\$ 23,396,308	\$ 1,800,000

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above (governmental) bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 7,025,000	\$ 2,261,863	\$ 9,286,863	\$ 1,800,000	\$ 1,069,519	\$ 2,869,519
2009	7,250,000	1,963,190	9,213,190	1,110,000	978,835	2,088,835
2010	7,500,000	1,628,614	9,128,614	1,100,000	927,690	2,027,690
2011	7,620,000	1,285,350	8,905,350	1,100,000	883,040	1,983,040
2012	6,545,000	963,419	7,508,419	1,125,000	835,665	1,960,665
2013-2017	15,985,000	1,884,057	17,869,057	6,440,000	3,360,149	9,800,149
2018-2022	1,330,000	49,688	1,379,688	6,805,000	1,892,313	8,697,313
2023-2026	-	-	-	5,130,000	438,025	5,568,025
Deferred amount on refundings	-	-	-	(1,213,692)	-	(1,213,692)
Total	<u>\$ 53,255,000</u>	<u>\$ 10,036,181</u>	<u>\$ 63,291,181</u>	<u>\$ 23,396,308</u>	<u>\$ 10,385,236</u>	<u>\$ 33,781,544</u>

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 employee medical benefit claims and is covered by the Municipal Insurance Alliance for property and casualty claims, and for vehicle and contractor equipment physical damage. The City participates in the Michigan Municipal League (MML) risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City was a member of the Michigan Municipal Risk Management Authority, which is a self-insurance program for general and auto liability, auto physical damage, and property loss claims through June 30, 1994. From July 1, 1994 through June 30, 2003, the City participated in the Michigan Municipal League (MML) risk pool for claims relating to property loss, torts, errors and omissions, and workers' compensation. Since July 1, 2003, the City has participated in the Municipal Insurance Alliance Program. The Alliance provides property and liability insurance through a single A-rated insurance company.

Note 8 - Risk Management (Continued)

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. This includes estimated liabilities of the Michigan Municipal Risk Management Authority program through June 30, 1994, estimated liabilities of the Michigan Municipal League program from July 1, 1994 through June 30, 2003, and estimated deductible payments related to the Municipal Insurance Alliance for claims subsequent to July 1, 2003.

Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2007</u>	<u>2006</u>
Estimated liability - Beginning of year	\$ 880,209	\$ 240,173
Estimated claims incurred, including changes in estimates	248,779	731,748
Claim payments	<u>(221,773)</u>	<u>(91,712)</u>
Estimated liability - End of year	<u>\$ 907,215</u>	<u>\$ 880,209</u>

Note 9 - 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 surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2006	\$ 454,025
Current year building permit revenue	3,033,816
Related expenses:	
Direct costs	\$ 2,198,234
Estimated indirect costs	<u>252,425</u>
Total construction code expenses	<u>2,450,659</u>
Cumulative surplus at June 30, 2007	<u>\$ 1,037,182</u>

Note 10 - Designated Fund Balances

The fund balances of the following funds have been designated for the following purposes:

	General Fund	Other Nonmajor Governmental Funds
Subsequent years' budgeted expenditures	\$ 2,998,733	\$ 5,161,427
Building reserve	-	100,000
Total designated fund balances	<u>\$ 2,998,733</u>	<u>\$ 5,261,427</u>

Note 11 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system 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 system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The authority to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and requires contributions of 2.43 percent to 6.44 percent from 100 percent of the covered or eligible employees.

Note 11 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$2,418,627 for the plan 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, 2005, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected wage inflation assumption of 4.5 percent, and (c) an increase based on an age-related scale to reflect merit, longevity, and promotional pay increases. Both (a) and (b) include an inflation component of 4.5 percent. 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 over 30 years. The amortization period is open.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2005	2006	2007
Annual pension cost (APC)	\$ 1,769,342	\$ 1,938,734	\$ 2,418,627
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None
	2004	2005	2006
Actuarial value of assets	\$ 32,513,951	\$ 35,577,406	\$ 38,802,064
Actuarial accrued liability (AAL) (entry age normal cost method)	\$ 47,410,735	\$ 51,073,379	\$ 55,052,959
Unfunded AAL (UAAL)	\$ 14,896,784	\$ 15,495,973	\$ 16,250,895
Funded ratio	69%	70%	70%
Covered payroll	\$ 15,561,451	\$ 15,723,059	\$ 15,488,975
UAAL as a percentage of covered payroll	96%	99%	105%

Note 12 - Defined Contribution Plan Description

Effective May 1, 2006 and December 1, 2006, all new administrative and teamster employees, respectively, will participate in the MERS Defined Contribution (DC) program. Administrative employees hired prior to May 1, 2006 had the irrevocable option to transfer from the Defined Benefit Program to the Defined Contribution Program on December 1, 2006. Teamster employees hired prior to December 1, 2006 had an irrevocable option to transfer from the Defined Benefit Program to the Defined Contribution Program on June 1, 2007. The City of Novi contributes 8 percent of eligible earnings and each member contributes 3 percent to an individual account established for each participant. All contributions are remitted to a third-party plan administrator. The DC plan maintains a schedule of vesting, with the participants becoming fully vested upon completion of seven years of continuous service. The contribution requirements of plan members are established and may be amended by the City Council in accordance with City policies, union contracts, and MERS plan provisions. There were 19 members participating in the DC plan as of June 30, 2007.

Note 13 - Joint Venture

The City participates in the Southwest Oakland Cable Commission with the cities of Farmington and Farmington Hills. The City appoints two members to the governing board of the Cable Commission, which then approves the annual budget. The Cable Commission receives 5 percent of the total cable television charges from the cable television company as franchise fees and a 1 percent PEG fee. The Cable Commission retains 3 percent of these fees and submits the additional 3 percent to the City. Financial information of the joint venture as of June 30, 2007 can be obtained from the administrative offices at 24021 Research Drive in Farmington Hills, Michigan.

In addition, the City is a member of the Resource Recovery and Recycling Authority of Southwest Oakland County. The Authority is incorporated by the Cities of Farmington, Farmington Hills, Novi, South Lyon, Southfield, Walled Lake, Wixom, and the Charter Township of South Lyon. The City appoints one member to the joint venture's governing board, which then approves the annual budget. The joint venture receives its operating revenue from member contributions and miscellaneous income. The financial information of the joint venture as of June 30, 2007 can be obtained from the Authority's administrative offices at 20000 West 8 Mile Road in Southfield, Michigan.

For both joint ventures, the City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

Note 14 - Retiree Health Care Benefits Expendable Trust

The City provides healthcare benefits to most full-time employees upon retirement, in accordance with labor contracts. Currently, 53 retirees are eligible and 43 are receiving benefits. The City includes pre-Medicare retirees and their dependents in its insured healthcare plan, with contributions required by the participant for 20 percent of annual premiums. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for retiree healthcare benefits are recognized as the insurance premiums become due. For individuals retired before June 30, 1994, premiums are paid by the General Fund. During the year, this amounted to approximately \$57,000. For individuals retiring after June 30, 1994, payments for premiums are recorded in the Retiree Health Care Benefits Pension and Other Employee Benefit Trust Fund. During the year, this amounted to approximately \$281,000.

All administrative employees hired after May 1, 2006 and teamster employees hired after December 1, 2006 will be enrolled into an individual Retiree Health Care Savings Account with a City contribution of \$50 per pay. All contributions are remitted to a third-party plan administrator.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides 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 healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year beginning July 1, 2008.

Required Supplemental Information

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes				
Current property taxes	\$ 15,745,000	\$ 15,745,000	\$ 15,534,193	\$ (210,807)
Trailer fees	10,000	10,000	8,565	(1,435)
Penalty and interest	150,000	150,000	272,785	122,785
Total taxes	15,905,000	15,905,000	15,815,543	(89,457)
Licenses, Permits, and Charges for Services	3,579,800	3,730,500	4,464,140	733,640
Intergovernmental Revenue				
State-shared revenue	3,648,390	3,565,050	3,613,152	48,102
Federal grants	21,400	51,400	54,065	2,665
Police training grant	12,500	12,500	29,267	16,767
Total intergovernmental revenue	3,682,290	3,628,950	3,696,484	67,534
Fines and Forfeitures	414,000	414,000	457,716	43,716
Interest Income	720,000	720,000	1,659,682	939,682
Other Revenue	265,000	642,750	732,866	90,116
Transfers In	5,331,000	4,972,000	4,972,000	-
Total revenue	29,897,090	30,013,200	31,798,431	1,785,231
Expenditures				
City Council				
Personal services	5,600	5,600	4,740	860
Other services and charges	1,100	1,100	93	1,007
Total City Council	6,700	6,700	4,833	1,867
City Manager				
Personal services	433,372	430,557	400,834	29,723
Supplies	700	700	717	(17)
Other services and charges	5,325	10,740	9,003	1,737
Total city manager	439,397	441,997	410,554	31,443

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2007

<u>Expenditures</u> (Continued)	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Finance				
Personal services	\$ 707,913	\$ 735,948	\$ 706,264	\$ 29,684
Other services and charges	68,440	68,440	56,742	11,698
Capital outlay	-	383,400	130,726	252,674
Total finance	776,353	1,187,788	893,732	294,056
Information Technology				
Personal services	329,714	347,724	340,909	6,815
Supplies	42,050	42,050	37,155	4,895
Other services and charges	98,950	106,650	95,207	11,443
Total information technology	470,714	496,424	473,271	23,153
Assessing				
Personal services	565,564	641,519	546,385	95,134
Supplies	1,950	1,950	1,399	551
Other services and charges	133,445	171,545	147,780	23,765
Total assessing	700,959	815,014	695,564	119,450
City Attorney	405,500	418,500	386,133	32,367
City Clerk				
Personal services	503,707	534,997	486,368	48,629
Supplies	20,500	20,500	19,312	1,188
Other services and charges	22,460	24,860	21,541	3,319
Total city clerk	546,667	580,357	527,221	53,136
Treasury				
Personal services	218,691	229,491	227,437	2,054
Supplies	19,545	19,545	18,977	568
Other services and charges	40,183	44,683	39,688	4,995
Total treasury	278,419	293,719	286,102	7,617
Building and Grounds				
Personal services	227,475	249,675	246,497	3,178
Supplies	27,395	30,395	26,107	4,288
Other services and charges	596,130	578,130	461,774	116,356
Capital outlay	609,003	625,153	291,902	333,251
Total building and grounds	1,460,003	1,483,353	1,026,280	457,073

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2007

<u>Expenditures</u> (Continued)	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Community Relations				
Personal services	\$ 151,100	\$ 176,285	\$ 174,045	\$ 2,240
Supplies	6,850	6,850	6,031	819
Other services and charges	150,640	178,840	141,567	37,273
Capital outlay	9,000	14,500	12,902	1,598
Total community relations	317,590	376,475	334,545	41,930
General Administration				
Personal services	687,609	1,773,439	1,735,447	37,992
Supplies	88,650	96,150	84,353	11,797
Other services and charges	752,510	827,910	742,998	84,912
Capital outlay	-	5,000	-	5,000
Total general administration	1,528,769	2,702,499	2,562,798	139,701
Police Department				
Personal services	9,908,148	9,956,768	9,533,442	423,326
Supplies	194,220	201,430	199,586	1,844
Other services and charges	934,350	975,950	898,274	77,676
Capital outlay	-	49,100	51,805	(2,705)
Total police department	11,036,718	11,183,248	10,683,107	500,141
Fire Department				
Personal services	3,984,910	3,983,480	3,951,503	31,977
Supplies	115,400	153,400	111,927	41,473
Other services and charges	300,445	358,345	338,228	20,117
Capital outlay	723,500	741,500	645,191	96,309
Total fire department	5,124,255	5,236,725	5,046,849	189,876
Building Department				
Personal services	1,596,948	1,824,338	1,794,385	29,953
Supplies	29,382	32,132	38,223	(6,091)
Other services and charges	106,545	156,545	129,344	27,201
Capital outlay	107,000	184,500	170,805	13,695
Total building department	1,839,875	2,197,515	2,132,757	64,758
Neighborhood Services				
Personal services	424,280	454,285	442,304	11,981
Supplies	4,900	4,900	4,858	42
Other services and charges	24,700	30,900	28,454	2,446
Capital outlay	21,000	21,000	18,110	2,890
Total neighborhood services	474,880	511,085	493,726	17,359

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) General Fund (Continued) Year Ended June 30, 2007

Expenditures (Continued)	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Department of Public Works				
Personal services	\$ 2,003,755	\$ 2,119,486	\$ 2,034,507	\$ 84,979
Supplies	127,600	124,600	104,263	20,337
Other services and charges	611,015	646,915	551,145	95,770
Capital outlay	425,350	472,450	214,195	258,255
Allocated to other operations	<u>(2,017,500)</u>	<u>(2,017,500)</u>	<u>(2,180,828)</u>	<u>163,328</u>
Total department of public works	1,150,220	1,345,951	723,282	622,669
Engineering				
Personal services	486,525	536,805	509,792	27,013
Supplies	12,060	14,060	10,765	3,295
Other services and charges	14,020	18,220	19,867	(1,647)
Capital outlay	21,000	26,000	22,632	3,368
Allocated to other operations	<u>(150,000)</u>	<u>(150,000)</u>	<u>(195,777)</u>	<u>45,777</u>
Total engineering	383,605	445,085	367,279	77,806
Planning Commission				
Supplies	400	400	242	158
Other services and charges	<u>23,100</u>	<u>39,100</u>	<u>3,513</u>	<u>35,587</u>
Total planning commission	23,500	39,500	3,755	35,745
Planning				
Personal services	589,881	610,021	589,330	20,691
Supplies	11,500	11,500	6,563	4,937
Other services and charges	<u>108,515</u>	<u>113,815</u>	<u>77,949</u>	<u>35,866</u>
Total planning	709,896	735,336	673,842	61,494
Contingencies	1,286,100	-	297,021	(297,021)
Transfers Out	<u>3,771,456</u>	<u>2,674,898</u>	<u>2,674,373</u>	<u>525</u>
Total expenditures	<u>32,731,576</u>	<u>33,172,169</u>	<u>30,697,024</u>	<u>2,475,145</u>
Net Change in Fund Balance	(2,834,486)	(3,158,969)	1,101,407	4,260,376
Fund Balance - Beginning of year	<u>10,513,370</u>	<u>10,513,370</u>	<u>10,513,370</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 7,678,884</u>	<u>\$ 7,354,401</u>	<u>\$ 11,614,777</u>	<u>\$ 4,260,376</u>

City of Novi, Michigan

Required Supplemental Information Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) Municipal Street Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 2,532,000	\$ 2,532,000	\$ 2,579,444	\$ 47,444
Special assessments	1,200,517	1,200,517	1,264,594	64,077
Interest income	958,032	958,032	1,115,851	157,819
Other	<u>86,278</u>	<u>86,278</u>	<u>90,663</u>	<u>4,385</u>
Total revenue	4,776,827	4,776,827	5,050,552	273,725
Expenditures				
Construction	1,021,600	1,061,600	570,538	491,062
Routine maintenance	359,900	359,900	222,225	137,675
Winter maintenance - County roads	97,900	97,900	102,783	(4,883)
Administration	1,800	1,800	10,319	(8,519)
Street lighting	8,310	8,310	14,272	(5,962)
Bikes, trails, and sidewalks	385,000	558,000	153,589	404,411
Debt service	1,805,555	1,805,555	1,780,581	24,974
Transfers out	<u>1,130,000</u>	<u>1,130,000</u>	<u>1,130,000</u>	<u>-</u>
Total expenditures	<u>4,810,065</u>	<u>5,023,065</u>	<u>3,984,307</u>	<u>1,038,758</u>
Net Change in Fund Balance	(33,238)	(246,238)	1,066,245	1,312,483
Fund Balance - Beginning of year	<u>3,400,123</u>	<u>3,400,123</u>	<u>3,400,123</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 3,366,885</u>	<u>\$ 3,153,885</u>	<u>\$ 4,466,368</u>	<u>\$ 1,312,483</u>

Note - Basis of Budgeting

The City adopts a formal budget for the General Fund and all Special Revenue Funds. All department heads submit spending requests to the city manager so that a budget may be prepared. Before the third Monday in April, the proposed budget is submitted to the City Council for review. Public hearings are held, and a final budget is adopted no later than the third Monday in May. Adoption of the budget requires approval of five votes of the seven-member City Council. The City Council must approve any budget amendments.

During the current year, the budget was amended in a legally permissible manner. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General and Municipal Street Funds is presented as required supplemental information. A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the nonmajor funds is presented as other supplemental information.

The budget is adopted by category within activity (i.e., personal services, supplies, other services and charges, and capital outlay within each department). Although spending estimates are produced for each line item, budgetary control is exercised at this category level. Expenditures at this level must be approved by the City Council. Expenditures at this level in excess of budget appropriation are a violation of Michigan law. Encumbrances represent commitments related to unperformed contracts (or purchase orders) for goods or services. Encumbrances are not included as expenditures or liabilities; the amount of encumbrances outstanding at June 30, 2007 is not significant.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that transfers have been included in the "revenue" and "expenditure" categories, rather than as "other financing sources (uses)."

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City incurred expenditures that were in excess of the amounts budgeted. The unfavorable variances were caused by unanticipated expenditures that became necessary during the year. There are no significant budget overruns.

Other Supplemental Information

City of Novi, Michigan

	Special Revenue Funds				
	Major Street	Local Street	Police and Fire	Tree Fund	Parks, Recreation, and Forestry
Assets					
Cash and investments	\$ 2,379,322	\$ 1,002,251	\$ 1,804,480	\$ 1,335,069	\$ 1,478,550
Accounts receivable:					
Other governmental units	355,859	123,678	-	-	36,249
Taxes	-	-	14,352	-	16,775
Special assessments	428,000	-	-	-	-
Other	-	-	-	-	2,094
Restricted assets	<u>1,271,589</u>	<u>294,915</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 4,434,770</u>	<u>\$ 1,420,844</u>	<u>\$ 1,818,832</u>	<u>\$ 1,335,069</u>	<u>\$ 1,533,668</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 395,019	\$ 92,950	\$ -	\$ -	\$ 150,438
Accrued and other liabilities	-	-	-	-	91
Deferred revenue	<u>428,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>206,944</u>
Total liabilities	823,019	92,950	-	-	357,473
Fund Balances					
Reserved - Restricted assets	1,271,589	294,915	-	-	-
Unreserved:					
Designated	760,785	634,482	160,000	166,250	49,287
Undesignated	<u>1,579,377</u>	<u>398,497</u>	<u>1,658,832</u>	<u>1,168,819</u>	<u>1,126,908</u>
Total fund balances	<u>3,611,751</u>	<u>1,327,894</u>	<u>1,818,832</u>	<u>1,335,069</u>	<u>1,176,195</u>
Total liabilities and fund balances	<u>\$ 4,434,770</u>	<u>\$ 1,420,844</u>	<u>\$ 1,818,832</u>	<u>\$ 1,335,069</u>	<u>\$ 1,533,668</u>

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

Special Revenue Funds

Drain Revenue	Drain Perpetual Maintenance	Special Assessment Revolving	Judgment Trust	Contributions and Donations	Federal Forfeiture Fund	Library	Walker Building Fund
\$ 4,670,131	\$ 5,433,666	\$ 2,216,523	\$ 225,715	\$ -	\$ 4,585,619	\$ 1,393,147	\$ -
-	-	-	-	-	-	-	-
22,201	-	-	-	-	-	33,568	-
4,461	-	-	-	-	-	-	-
-	-	-	463	-	-	-	-
<u>1,237,878</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,222</u>	<u>-</u>	<u>-</u>	<u>1,296,242</u>
<u>\$ 5,934,671</u>	<u>\$ 5,433,666</u>	<u>\$ 2,216,523</u>	<u>\$ 226,178</u>	<u>\$ 153,222</u>	<u>\$ 4,585,619</u>	<u>\$ 1,426,715</u>	<u>\$ 1,296,242</u>
\$ 289,995	\$ -	\$ -	\$ 8,606	\$ 27,338	\$ 12,550	\$ 135,327	\$ 10,000
-	-	-	-	-	-	-	-
<u>7,206</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
297,201	-	-	8,606	27,338	12,550	135,327	10,000
1,237,878	-	-	-	125,884	-	-	1,286,242
-	-	-	-	-	3,368,623	122,000	-
<u>4,399,592</u>	<u>5,433,666</u>	<u>2,216,523</u>	<u>217,572</u>	<u>-</u>	<u>1,204,446</u>	<u>1,169,388</u>	<u>-</u>
<u>5,637,470</u>	<u>5,433,666</u>	<u>2,216,523</u>	<u>217,572</u>	<u>125,884</u>	<u>4,573,069</u>	<u>1,291,388</u>	<u>1,286,242</u>
<u>\$ 5,934,671</u>	<u>\$ 5,433,666</u>	<u>\$ 2,216,523</u>	<u>\$ 226,178</u>	<u>\$ 153,222</u>	<u>\$ 4,585,619</u>	<u>\$ 1,426,715</u>	<u>\$ 1,296,242</u>

(Continued on next page)

City of Novi, Michigan

	Debt Service Funds			
	Special Assessments	2000 Voted Street	2000 Limited Tax Debt Fund	2002 Michigan Transportation Fund Refunding Debt
Assets				
Cash and investments	\$ 658,970	\$ 73,302	\$ -	\$ -
Accounts receivable:				
Other governmental units	-	-	-	-
Taxes	-	13,003	-	-
Special assessments	-	-	-	-
Other	-	-	-	-
Restricted assets	-	-	-	-
Total assets	\$ 658,970	\$ 86,305	\$ -	\$ -
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	-	-	-	-
Fund Balances				
Reserved - Restricted assets	-	-	-	-
Unreserved:				
Designated	-	-	-	-
Undesignated	658,970	86,305	-	-
Total fund balances	658,970	86,305	-	-
Total liabilities and fund balances	\$ 658,970	\$ 86,305	\$ -	\$ -

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds (Continued)
June 30, 2007**

Debt Service Funds			
1999 Police Debt Fund	2003 Refunding Debt Fund	2002 Street and Refunding Debt	1993 Refunding Debt Fund
\$ 133,493	\$ 123,655	\$ 225,838	\$ 106,819
-	-	-	-
-	4,183	36,981	19,309
-	-	-	-
-	-	54,297	-
-	-	-	-
<u>\$ 133,493</u>	<u>\$ 127,838</u>	<u>\$ 317,116</u>	<u>\$ 126,128</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
133,493	127,838	317,116	126,128
<u>133,493</u>	<u>127,838</u>	<u>317,116</u>	<u>126,128</u>
<u>\$ 133,493</u>	<u>\$ 127,838</u>	<u>\$ 317,116</u>	<u>\$ 126,128</u>

(Continued on next page)

City of Novi, Michigan

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

	Capital Projects Funds		
	2000 Voted Street Construction	1999 Police Building Construction	Total Nonmajor Governmental Funds
Assets			
Cash and investments	\$ 1,564,290	\$ 1,224,169	\$ 30,635,009
Accounts receivable:			
Other governmental units	-	-	515,786
Taxes	-	-	160,372
Special assessments	-	-	432,461
Other	-	-	56,854
Restricted assets	-	-	4,253,846
Total assets	\$ 1,564,290	\$ 1,224,169	\$ 36,054,328
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 43,667	\$ -	\$ 1,165,890
Accrued and other liabilities	-	-	91
Deferred revenue	-	-	642,150
Total liabilities	43,667	-	1,808,131
Fund Balances			
Reserved - Restricted assets	-	-	4,216,508
Unreserved:			
Designated	-	-	5,261,427
Undesignated	1,520,623	1,224,169	24,768,262
Total fund balances	1,520,623	1,224,169	34,246,197
Total liabilities and fund balances	\$ 1,564,290	\$ 1,224,169	\$ 36,054,328

City of Novi, Michigan

	Special Revenue Funds				
	Major Street	Local Street	Police and Fire	Tree Fund	Parks, Recreation, and Forestry
Revenue					
Property taxes	\$ -	\$ -	\$ 4,724,849	\$ -	\$ 1,288,891
Federal grants	-	-	-	40,000	100,123
State sources	2,167,383	749,465	-	-	44,713
Special assessments	205,333	-	-	-	-
Fines and forfeitures	-	-	-	-	-
Interest income	208,426	51,407	134,725	46,984	55,017
Recreational programs	-	-	-	-	864,760
Donations	-	-	-	-	-
Other revenue	-	-	-	803,625	8,676
Total revenue	2,581,142	800,872	4,859,574	890,609	2,362,180
Expenditures					
Administration	500	500	-	-	-
Construction	551,066	239,212	-	-	-
Street maintenance	1,390,464	867,956	-	-	-
Drain maintenance	-	-	-	-	-
Recreational programs	-	-	-	-	1,878,091
Forestry and park maintenance	-	-	-	237,597	927,116
Library programs	-	-	-	-	-
Other	-	-	-	-	-
Capital outlay	-	-	-	-	511,430
Debt service	194,956	-	-	-	-
Total expenditures	2,136,986	1,107,668	-	237,597	3,316,637
Excess of Revenue Over (Under) Expenditures	444,156	(306,796)	4,859,574	653,012	(954,457)
Other Financing Sources (Uses)					
Transfers in	380,000	1,293,371	-	-	1,490,198
Transfers out	(656,756)	-	(4,972,000)	-	-
Total other financing sources (uses)	(276,756)	1,293,371	(4,972,000)	-	1,490,198
Net Change in Fund Balances	167,400	986,575	(112,426)	653,012	535,741
Fund Balances - Beginning of year	3,444,351	341,319	1,931,258	682,057	640,454
Fund Balances - End of year	\$ 3,611,751	\$ 1,327,894	\$ 1,818,832	\$ 1,335,069	\$ 1,176,195

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

Special Revenue Funds

Drain Revenue	Drain Perpetual Maintenance	Special Assessment Revolving	Judgment Trust	Contributions and Donations	Federal Forfeiture Fund	Library	Walker Building Fund
\$ 1,703,588	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,588,199	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	36,128	-
-	-	-	-	-	-	-	-
-	-	-	-	-	2,658,373	107,028	-
285,355	190,006	127,281	13,116	6,722	203,380	92,365	53,489
-	-	-	-	-	-	-	-
-	-	-	-	3,351	-	-	2,299
<u>18,282</u>	<u>8,135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,926</u>	<u>-</u>
2,007,225	198,141	127,281	13,116	10,073	2,861,753	2,851,646	55,788
3,875	-	500	-	-	-	-	-
225,189	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
589,733	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,361,812	-
-	-	-	181,231	3,343	48,467	-	42,363
-	-	-	-	-	398,987	38,604	-
-	-	-	-	-	-	-	-
<u>818,797</u>	<u>-</u>	<u>500</u>	<u>181,231</u>	<u>3,343</u>	<u>447,454</u>	<u>2,400,416</u>	<u>42,363</u>
1,188,428	198,141	126,781	(168,115)	6,730	2,414,299	451,230	13,425
-	-	-	250,000	-	-	-	-
-	-	-	-	(1,000)	-	-	-
-	-	-	250,000	(1,000)	-	-	-
1,188,428	198,141	126,781	81,885	5,730	2,414,299	451,230	13,425
4,449,042	5,235,525	2,089,742	135,687	120,154	2,158,770	840,158	1,272,817
<u>\$ 5,637,470</u>	<u>\$ 5,433,666</u>	<u>\$ 2,216,523</u>	<u>\$ 217,572</u>	<u>\$ 125,884</u>	<u>\$ 4,573,069</u>	<u>\$ 1,291,388</u>	<u>\$ 1,286,242</u>

(Continued on next page)

City of Novi, Michigan

	Debt Service Funds			
	Special Assessments	2000 Voted Street	2000 Limited Tax Debt Fund	2002 Michigan Transportation Fund Refunding Debt
Revenue				
Property taxes	\$ -	\$ 917,938	\$ -	\$ -
Federal grants	-	-	-	-
State sources	-	-	-	-
Special assessments	-	-	-	-
Fines and forfeitures	-	-	-	-
Interest income	29,642	7,775	-	-
Recreational programs	-	-	-	-
Donations	-	-	-	-
Other revenue	-	-	-	-
Total revenue	29,642	925,713	-	-
Expenditures				
Administration	-	-	-	-
Construction	-	-	-	-
Street maintenance	-	-	-	-
Drain maintenance	-	-	-	-
Recreational programs	-	-	-	-
Forestry and park maintenance	-	-	-	-
Library programs	-	-	-	-
Other	-	-	-	-
Capital outlay	-	-	-	-
Debt service	-	898,662	241,175	113,385
Total expenditures	-	898,662	241,175	113,385
Excess of Revenue Over (Under) Expenditures	29,642	27,051	(241,175)	(113,385)
Other Financing Sources (Uses)				
Transfers in	-	-	241,175	113,385
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	241,175	113,385
Net Change in Fund Balances	29,642	27,051	-	-
Fund Balances - Beginning of year	629,328	59,254	-	-
Fund Balances - End of year	\$ 658,970	\$ 86,305	\$ -	\$ -

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds (Continued)
Year Ended June 30, 2007

Debt Service Funds			
1999 Police Debt Fund	2003 Refunding Debt Fund	2002 Street and Refunding Debt	1993 Refunding Debt Fund
\$ -	\$ 841,085	\$ 3,153,903	\$ 1,340,743
-	-	-	-
-	-	-	-
-	-	-	-
11,111	7,521	21,840	7,294
-	-	-	-
-	-	-	-
-	-	-	-
<u>11,111</u>	<u>848,606</u>	<u>3,175,743</u>	<u>1,348,037</u>
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>279,410</u>	<u>824,726</u>	<u>3,062,322</u>	<u>1,314,945</u>
<u>279,410</u>	<u>824,726</u>	<u>3,062,322</u>	<u>1,314,945</u>
(268,299)	23,880	113,421	33,092
-	-	-	-
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(268,299)	23,880	113,421	33,092
<u>401,792</u>	<u>103,958</u>	<u>203,695</u>	<u>93,036</u>
<u>\$ 133,493</u>	<u>\$ 127,838</u>	<u>\$ 317,116</u>	<u>\$ 126,128</u>

City of Novi, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued) Year Ended June 30, 2007

	Capital Projects Funds		
	2000 Voted Street Construction	1999 Police Building Construction	Total Nonmajor Governmental Funds
Revenue			
Property taxes	\$ -	\$ -	\$ 16,559,196
Federal grants	-	-	140,123
State sources	-	-	2,997,689
Special assessments	-	-	205,333
Fines and forfeitures	-	-	2,765,401
Interest income	118,577	63,583	1,735,616
Recreation programs	-	-	864,760
Donations	-	-	5,650
Other revenue	-	-	866,644
Total revenue	118,577	63,583	26,140,412
Expenditures			
Administration	-	-	5,375
Construction	1,961,024	-	2,976,491
Street maintenance	-	-	2,258,420
Drain maintenance	-	-	589,733
Recreational programs	-	-	1,878,091
Forestry and park maintenance	-	-	1,164,713
Library programs	-	-	2,361,812
Other	-	-	275,404
Capital outlay	-	-	949,021
Debt service	-	-	6,929,581
Total expenditures	1,961,024	-	19,388,641
Excess of Revenue Over (Under)			
Expenditures	(1,842,447)	63,583	6,751,771
Other Financing Sources (Uses)			
Transfers in	-	-	3,768,129
Transfers out	-	-	(5,629,756)
Total other financing sources (uses)	-	-	(1,861,627)
Net Change in Fund Balances	(1,842,447)	63,583	4,890,144
Fund Balances - Beginning of year	3,363,070	1,160,586	29,356,053
Fund Balances - End of year	\$ 1,520,623	\$ 1,224,169	\$ 34,246,197

City of Novi, Michigan

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

Special Revenue - Major Street

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
State sources	\$ 2,205,544	\$ 2,169,644	\$ 2,167,383	\$ (2,261)
Special assessments	126,000	126,000	205,333	79,333
Interest income	83,800	119,700	208,426	88,726
Transfers in	380,000	380,000	380,000	-
Total revenue	2,795,344	2,795,344	2,961,142	165,798
Expenditures				
Administration	-	-	500	(500)
Construction	2,039,300	2,048,300	551,066	1,497,234
Routine maintenance	757,533	757,533	903,088	(145,555)
Traffic services	280,984	280,984	239,061	41,923
Winter maintenance	286,000	286,000	248,315	37,685
Debt service	194,960	194,960	194,956	4
Transfers out	664,732	664,732	656,756	7,976
Total expenditures	4,223,509	4,232,509	2,793,742	1,438,767
Net Change in Fund Balance	(1,428,165)	(1,437,165)	167,400	1,604,565
Fund Balance - Beginning of year	3,444,351	3,444,351	3,444,351	-
Fund Balance - End of year	\$ 2,016,186	\$ 2,007,186	\$ 3,611,751	\$ 1,604,565

City of Novi, Michigan

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

Special Revenue - Local Street

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
State sources	\$ 782,072	\$ 765,072	\$ 749,465	\$ (15,607)
Interest income	5,100	22,100	51,407	29,307
Transfers in	1,301,386	1,301,386	1,293,371	(8,015)
Total revenue	2,088,558	2,088,558	2,094,243	5,685
Expenditures				
Administration	-	-	500	(500)
Construction	600,500	600,500	239,212	361,288
Routine maintenance	796,800	796,800	514,893	281,907
Traffic services	176,700	176,700	141,882	34,818
Winter maintenance	300,300	300,300	211,181	89,119
Total expenditures	1,874,300	1,874,300	1,107,668	766,632
Net Change in Fund Balance	214,258	214,258	986,575	772,317
Fund Balance - Beginning of year	341,319	341,319	341,319	-
Fund Balance - End of year	<u>\$ 555,577</u>	<u>\$ 555,577</u>	<u>\$ 1,327,894</u>	<u>\$ 772,317</u>

City of Novi, Michigan

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

Special Revenue - Police and Fire

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Taxes	\$ 4,677,000	\$ 4,677,000	\$ 4,724,849	\$ 47,849
Interest income	86,000	86,000	134,725	48,725
Total revenue	4,763,000	4,763,000	4,859,574	96,574
Expenditures - Transfers out	4,972,000	4,972,000	4,972,000	-
Net Change in Fund Balance	(209,000)	(209,000)	(112,426)	96,574
Fund Balance - Beginning of year	1,931,258	1,931,258	1,931,258	-
Fund Balance - End of year	<u>\$ 1,722,258</u>	<u>\$ 1,722,258</u>	<u>\$ 1,818,832</u>	<u>\$ 96,574</u>

City of Novi, Michigan

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

Special Revenue - Parks, Recreation, and Forestry

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Taxes	\$ 1,268,500	\$ 1,268,500	\$ 1,288,891	\$ 20,391
Federal grants	125,000	125,000	100,123	(24,877)
Program revenue	833,800	818,990	817,109	(1,881)
Senior program revenue	111,699	83,863	47,651	(36,212)
State sources	-	-	44,713	44,713
Interest income	27,950	27,950	55,017	27,067
Other	13,000	5,000	8,676	3,676
Transfers in	1,560,756	1,489,198	1,490,198	1,000
Total revenue	3,940,705	3,818,501	3,852,378	33,877
Expenditures				
Administration				
Personal services	396,054	418,614	406,543	12,071
Supplies	42,165	45,165	48,358	(3,193)
Other services and charges	219,245	217,565	184,209	33,356
Capital outlay	614,000	689,400	360,573	328,827
Total administration	1,271,464	1,370,744	999,683	371,061
Recreation				
Personal services	300,543	311,023	269,582	41,441
Other services and charges	856,578	641,935	629,066	12,869
Capital outlay	40,000	40,000	40,964	(964)
Total recreation	1,197,121	992,958	939,612	53,346
Senior Citizens				
Personal services	143,296	149,901	145,968	3,933
Supplies	3,300	3,300	2,488	812
Other services and charges	227,111	249,275	191,877	57,398
Capital outlay	16,000	16,000	18,382	(2,382)
Total senior citizens	389,707	418,476	358,715	59,761
Forestry and Park Maintenance				
Personal services	731,201	764,131	750,572	13,559
Supplies	27,250	27,250	21,002	6,248
Other services and charges	165,835	175,835	155,542	20,293
Capital outlay	104,500	94,500	91,511	2,989
Total forestry and park maintenance	1,028,786	1,061,716	1,018,627	43,089
Total expenditures	3,887,078	3,843,894	3,316,637	527,257
Net Change in Fund Balance	53,627	(25,393)	535,741	561,134
Fund Balance - Beginning of year	640,454	640,454	640,454	-
Fund Balance - End of year	\$ 694,081	\$ 615,061	\$ 1,176,195	\$ 561,134

City of Novi, Michigan

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

Special Revenue - Tree Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Federal grants	\$ -	\$ -	\$ 40,000	\$ 40,000
Tree fund	100,000	481,000	762,825	281,825
Tree fund maintenance	15,000	15,000	40,800	25,800
Interest income	16,500	16,500	46,984	30,484
Total revenue	131,500	512,500	890,609	378,109
Expenditures - Forestry and park maintenance				
	-	444,000	237,597	(206,403)
Net Change in Fund Balance	131,500	68,500	653,012	584,512
Fund Balance - Beginning of year	682,057	682,057	682,057	-
Fund Balance - End of year	\$ 813,557	\$ 750,557	\$ 1,335,069	\$ 584,512

City of Novi, Michigan

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

Special Revenue - Drain Revenue

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Taxes	\$ 1,676,000	\$ 1,676,000	\$ 1,703,588	\$ 27,588
Federal grants	-	20,000	-	(20,000)
Special assessments	2,402	2,402	-	(2,402)
Interest income	125,807	125,807	285,355	159,548
Other	-	-	18,282	18,282
Total revenue	1,804,209	1,824,209	2,007,225	183,016
Expenditures				
Administration	-	7,290	3,875	3,415
Construction	257,390	661,365	225,189	436,176
Maintenance	702,000	640,000	589,733	50,267
Total expenditures	959,390	1,308,655	818,797	489,858
Net Change in Fund Balance	844,819	515,554	1,188,428	672,874
Fund Balance - Beginning of year	4,449,042	4,449,042	4,449,042	-
Fund Balance - End of year	<u>\$ 5,293,861</u>	<u>\$ 4,964,596</u>	<u>\$ 5,637,470</u>	<u>\$ 672,874</u>

Special Revenue - Drain Perpetual Maintenance

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Interest income	\$ 191,000	\$ 191,000	\$ 190,006	\$ (994)
Other	-	-	8,135	8,135
Total revenue	191,000	191,000	198,141	7,141
Fund Balance - Beginning of year	5,235,525	5,235,525	5,235,525	-
Fund Balance - End of year	<u>\$ 5,426,525</u>	<u>\$ 5,426,525</u>	<u>\$ 5,433,666</u>	<u>\$ 7,141</u>

City of Novi, Michigan

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

Special Revenue - Contributions and Donations

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Interest income	\$ 500	\$ 500	\$ 6,722	\$ 6,222
Donations	-	-	3,351	3,351
Total revenue	500	500	10,073	9,573
Expenditures				
Other	-	-	3,343	(3,343)
Transfers out	-	-	1,000	(1,000)
Total expenditures	-	-	4,343	(4,343)
Net Change in Fund Balance	500	500	5,730	5,230
Fund Balance - Beginning of year	120,154	120,154	120,154	-
Fund Balance - End of year	<u>\$ 120,654</u>	<u>\$ 120,654</u>	<u>\$ 125,884</u>	<u>\$ 5,230</u>

City of Novi, Michigan

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

Special Revenue – Federal Forfeiture

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Fines and forfeitures	\$ -	\$ -	\$ 2,658,373	\$ 2,658,373
Interest income	23,000	23,000	203,380	180,380
Total revenue	23,000	23,000	2,861,753	2,838,753
Expenditures				
Personal services	-	78,225	48,467	(29,758)
Capital outlay	-	1,461,759	398,987	(1,062,772)
Total expenditures	-	1,539,984	447,454	(1,092,530)
Net Change in Fund Balance	23,000	(1,516,984)	2,414,299	3,931,283
Fund Balance - Beginning of year	2,158,770	2,158,770	2,158,770	-
Fund Balance - End of year	<u>\$ 2,181,770</u>	<u>\$ 641,786</u>	<u>\$ 4,573,069</u>	<u>\$ 3,931,283</u>

City of Novi, Michigan

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

Special Revenue - Library

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Taxes	\$ 2,533,611	\$ 2,533,611	\$ 2,588,199	\$ 54,588
State sources	31,200	31,200	36,128	4,928
Fines and forfeitures	99,000	99,000	107,028	8,028
Interest income	26,000	26,000	92,365	66,365
Other	32,900	32,900	27,926	(4,974)
Total revenue	2,722,711	2,722,711	2,851,646	128,935
Expenditures				
Personal services	1,729,209	1,729,209	1,596,245	132,964
Supplies	486,850	486,850	458,935	27,915
Other services and charges	337,750	387,750	306,632	81,118
Capital outlay	115,000	65,000	38,604	26,396
Total expenditures	2,668,809	2,668,809	2,400,416	268,393
Net Change in Fund Balance	53,902	53,902	451,230	397,328
Fund Balance - Beginning of year	840,158	840,158	840,158	-
Fund Balance - End of year	<u>\$ 894,060</u>	<u>\$ 894,060</u>	<u>\$ 1,291,388</u>	<u>\$ 397,328</u>

City of Novi, Michigan

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

Special Revenue - Walker Building

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenue				
Interest income	\$ 29,800	\$ 37,700	\$ 53,489	\$ 15,789
Donations	-	2,050	2,299	249
Total revenue	29,800	39,750	55,788	16,038
Expenditures - Other	-	32,500	42,363	(9,863)
Net Change in Fund Balance	29,800	7,250	13,425	6,175
Fund Balance - Beginning of year	1,272,817	1,272,817	1,272,817	-
Fund Balance - End of year	<u>\$ 1,003,418</u>	<u>\$ 1,280,067</u>	<u>\$ 1,286,242</u>	<u>\$ 6,175</u>

City of Novi, Michigan

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

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
<u>Agency Fund</u>				
Assets - Cash and cash equivalents	<u>\$ 12,917,805</u>	<u>\$ 163,042,827</u>	<u>\$ (162,705,926)</u>	<u>\$ 13,254,706</u>
Liabilities				
Due to builders and developers	12,839,756	11,445,020	(11,050,705)	13,234,071
Due to schools and other governmental units	<u>78,049</u>	<u>160,766,479</u>	<u>(160,823,893)</u>	<u>20,635</u>
Total liabilities	<u>\$ 12,917,805</u>	<u>\$ 172,211,499</u>	<u>\$ (171,874,598)</u>	<u>\$ 13,254,706</u>

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 supplementary information says about the City's overall financial health.

The statistical section is organized into the following main categories:

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.

Revenue Capacity - These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity - These schedules contain 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.

Demographics 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.

Operating Information - These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources Unless other 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 Novi, Michigan

Net Assets by Component Last Four Fiscal Years

	June 30			
	2004	2005	2006	2007
Governmental Activities				
Invested in capital assets - Net of related debt	\$ 62,117,983	\$ 62,204,015	\$ 71,209,178	\$ 75,202,275
Restricted	35,410,689	41,242,642	41,981,032	48,704,895
Unrestricted	<u>4,332,865</u>	<u>6,876,193</u>	<u>9,181,892</u>	<u>9,883,457</u>
Total net assets	<u>\$ 101,861,537</u>	<u>\$ 110,322,850</u>	<u>\$ 122,372,102</u>	<u>\$ 133,790,627</u>
Business-type Activities				
Invested in capital assets - Net of related debt	\$ 95,306,559	\$ 101,580,364	\$ 120,125,526	\$ 121,256,602
Restricted	10,905,222	10,763,974	9,233,967	9,539,969
Unrestricted	<u>39,579,233</u>	<u>41,133,126</u>	<u>34,712,819</u>	<u>37,833,568</u>
Total net assets	<u>\$ 145,791,014</u>	<u>\$ 153,477,464</u>	<u>\$ 164,072,312</u>	<u>\$ 168,630,139</u>
Primary Government in Total				
Invested in capital assets - Net of related debt	\$ 157,424,542	\$ 163,784,379	\$ 191,334,704	\$ 196,458,877
Restricted	46,315,911	52,006,616	51,214,999	58,244,864
Unrestricted	<u>43,912,098</u>	<u>48,009,319</u>	<u>43,894,711</u>	<u>47,717,025</u>
Total net assets	<u>\$ 247,652,551</u>	<u>\$ 263,800,314</u>	<u>\$ 286,444,414</u>	<u>\$ 302,420,766</u>

City of Novi, Michigan

Changes in Net Assets Governmental Activities Last Four Fiscal Years

	Year Ended June 30			
	2004	2005	2006	2007
Expenses				
General government	\$ 6,231,101	\$ 5,842,870	\$ 6,984,091	\$ 7,596,971
Public safety	15,291,311	16,168,230	17,394,448	18,364,779
Public works	8,429,310	9,168,248	9,247,149	9,718,720
Community and economic development	713,015	663,232	629,371	976,357
Recreation and culture	4,800,821	5,020,595	5,893,891	5,427,777
Interest on long-term debt	3,788,247	2,926,353	2,691,960	2,293,205
Total expenses	39,253,805	39,789,528	42,840,910	44,377,809
Program Revenue				
Charges for services:				
Public safety	2,357,562	2,849,549	3,197,692	3,893,549
Recreation and culture	1,033,070	1,174,776	1,157,091	1,072,208
Other activities	806,897	997,257	815,190	695,444
Total charges for services	4,197,529	5,021,582	5,169,973	5,661,201
Operating grants and contributions	3,484,063	4,406,610	6,989,196	6,462,178
Capital grants and contributions	2,223,129	2,171,125	2,287,153	1,051,753
Total program revenue	9,904,721	11,599,317	14,446,322	13,175,132
Net Expense	(29,349,084)	(28,190,211)	(28,394,588)	(31,202,677)
General Revenue				
Property taxes	28,321,001	30,565,158	32,741,087	34,954,183
State-shared revenue	3,812,543	3,756,453	3,728,482	3,613,152
Unrestricted interest earnings	949,504	1,357,939	2,706,553	3,556,170
Unrestricted cable television franchise fees	266,880	280,416	301,318	335,863
Miscellaneous	821,331	691,558	966,400	855,834
Total general revenue	34,171,259	36,651,524	40,443,840	43,315,202
Change in Net Assets Before Transfers	4,822,175	8,461,313	12,049,252	12,112,525
Transfers	-	-	-	(694,000)
Change in Net Assets	<u>\$ 4,822,175</u>	<u>\$ 8,461,313</u>	<u>\$ 12,049,252</u>	<u>\$ 11,418,525</u>

City of Novi, Michigan

Changes in Net Assets Business-type Activities Last Four Fiscal Years

	Year Ended June 30			
	2004	2005	2006	2007
Expenses				
Water and sewer	\$ 15,150,583	\$ 16,771,488	\$ 17,669,658	\$ 17,283,267
Ice arena	1,798,053	1,734,652	1,736,197	1,719,682
Senior housing	1,763,643	1,798,915	1,662,803	1,829,283
Total expenses	18,712,279	20,305,055	21,068,658	20,832,232
Program Revenue				
Charges for services:				
Water and sewer	11,910,235	12,382,451	14,413,573	14,156,642
Ice arena	1,829,384	1,736,504	1,948,994	1,953,805
Senior housing	1,664,145	1,717,479	1,750,117	1,781,596
Total charges for services	15,403,764	15,836,434	18,112,684	17,892,043
Capital grants and contributions	14,915,510	10,305,554	11,439,392	4,429,990
Total program revenue	30,319,274	26,141,988	29,552,076	22,322,033
Net Revenue	11,606,995	5,836,933	8,483,418	1,489,801
General Revenue				
Unrestricted interest earnings	1,349,270	1,849,517	2,098,954	2,374,026
Miscellaneous	-	-	12,476	-
Total general revenue	1,349,270	1,849,517	2,111,430	2,374,026
Transfers in	-	-	-	694,000
Change in Net Assets	\$ 12,956,265	\$ 7,686,450	\$ 10,594,848	\$ 4,557,827

City of Novi, Michigan

	June 30				
	1998	1999	2000	2001	2002
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ 66,386	\$ 48,879
Unreserved	<u>3,748,548</u>	<u>4,167,348</u>	<u>2,581,745</u>	<u>4,337,737</u>	<u>4,651,976</u>
Total General Fund	<u>\$ 3,748,548</u>	<u>\$ 4,167,348</u>	<u>\$ 2,581,745</u>	<u>\$ 4,404,123</u>	<u>\$ 4,700,855</u>
All Other Governmental Funds					
Reserved	\$ 90,736	\$ 95,494	\$ 100,819	\$ 13,785,461	\$ 109,290
Unreserved, reported in:					
Special Revenue Funds	10,632,292	10,644,597	12,448,172	14,544,390	23,992,512
Capital Project Funds	16,825,988	11,440,150	9,479,225	17,065,462	13,363,003
Debt Service Funds	<u>1,419,719</u>	<u>838,918</u>	<u>686,543</u>	<u>754,779</u>	<u>823,211</u>
Total all other governmental funds	<u>\$ 28,968,735</u>	<u>\$ 23,019,159</u>	<u>\$ 22,714,759</u>	<u>\$ 46,150,092</u>	<u>\$ 38,288,016</u>

**Fund Balances
Governmental Funds
Last Ten Fiscal Years**

June 30				
2003	2004	2005	2006	2007
\$ 4,910	\$ -	\$ 64,742	\$ 454,025	\$ 1,037,182
<u>5,288,136</u>	<u>5,133,307</u>	<u>7,139,595</u>	<u>10,059,345</u>	<u>10,577,595</u>
<u>\$ 5,293,046</u>	<u>\$ 5,133,307</u>	<u>\$ 7,204,337</u>	<u>\$ 10,513,370</u>	<u>\$ 11,614,777</u>
\$ 1,572,501	\$ 6,311,395	\$ 6,032,947	\$ 6,731,963	\$ 7,660,714
20,300,100	17,299,383	19,653,909	20,009,494	26,857,209
17,322,795	7,645,115	4,456,497	4,523,656	2,744,792
<u>958,761</u>	<u>1,372,204</u>	<u>1,022,959</u>	<u>1,491,063</u>	<u>1,449,850</u>
<u>\$ 40,154,157</u>	<u>\$ 32,628,097</u>	<u>\$ 31,166,312</u>	<u>\$ 32,756,176</u>	<u>\$ 38,712,565</u>

City of Novi, Michigan

	Year Ended June 30				
	1998	1999	2000	2001	2002
Revenue					
Taxes	\$ 18,165,370	\$ 19,539,386	\$ 20,500,721	\$ 22,119,501	\$ 24,295,219
Licenses, permits, and charges for services	2,007,549	1,938,503	2,249,562	2,472,503	2,394,190
Federal grants	715,828	697,584	486,638	536,154	820,901
State sources	6,102,520	5,717,719	6,128,094	6,622,204	7,104,544
Special assessments	1,078,981	653,367	341,631	668,661	1,109,137
Fines and forfeitures	328,868	295,938	355,851	350,737	359,760
Interest income	2,596,091	2,857,640	2,381,875	3,866,470	3,005,912
Recreational programs	691,244	683,289	696,555	676,415	758,648
Donations	-	-	-	-	-
Other revenue	991,318	793,229	2,307,357	714,708	1,840,213
Total revenue	32,677,769	33,176,655	35,448,284	38,027,353	41,688,524
Expenditures					
Current services:					
City Council	30,908	30,693	17,811	16,178	8,011
City manager	316,436	336,707	380,103	431,169	493,779
Finance	435,239	453,326	464,113	474,103	499,907
Information technology	263,308	307,761	325,567	237,050	325,008
Assessing	601,355	554,040	598,428	545,524	569,351
City attorney	448,183	314,395	459,933	386,080	960,517
City clerk	406,066	413,884	407,660	426,546	426,755
Treasury	262,530	286,698	294,420	283,244	243,738
Buildings and grounds	403,321	661,807	529,547	605,675	626,629
Community relations	129,516	185,713	158,916	190,932	158,654
General administration	1,114,714	1,222,977	1,396,418	1,393,840	1,367,451
Police department	6,669,565	6,845,406	6,941,713	7,861,860	7,846,717
Coalition that Cares	-	268,831	275,541	252,266	194,693
Fire department	2,159,916	2,148,895	2,427,116	2,680,184	3,190,241
Building department	1,012,589	1,145,205	1,040,641	1,081,448	1,346,052
Neighborhood services	263,636	280,972	289,049	254,655	294,141
Department of Public Works	495,637	571,215	488,605	701,037	948,541
Municipal garage	301,546	289,940	65,840	(119,584)	-
Engineering	-	-	-	-	-
Planning Commission	55,070	66,468	47,174	33,600	9,291
Planning	436,083	536,267	526,423	484,733	707,290
Construction	6,858,833	11,827,502	6,926,399	11,462,547	14,042,915
Street maintenance	1,392,594	1,572,159	1,645,265	2,141,759	2,228,811
Drain maintenance	-	-	-	-	-
Recreational programs	1,244,270	1,288,445	1,349,702	1,413,103	1,457,300
Forestry and park maintenance	489,095	523,455	530,604	599,921	664,061
Library programs	1,485,746	1,589,180	1,696,761	1,774,198	1,879,807
Special assessments refund	-	184,505	171,208	-	-
Other	-	-	-	-	206,545

**Changes in Fund Balances
Governmental Funds
Last Ten Fiscal Years**

Year Ended June 30				
2003	2004	2005	2006	2007
\$ 26,579,364	\$ 28,321,001	\$ 30,565,342	\$ 32,741,087	\$ 34,954,183
2,710,259	3,067,750	3,722,805	3,835,567	4,464,140
554,498	300,066	691,007	437,956	194,188
7,012,000	6,859,367	6,820,821	7,075,986	6,640,108
1,096,950	1,137,287	1,358,180	1,271,778	1,469,927
384,847	469,068	1,841,171	3,070,343	3,223,117
2,503,750	2,109,486	2,451,375	3,735,575	4,529,431
897,234	771,552	847,606	918,047	864,760
1,470	1,008,007	13,782	340,147	5,650
2,435,998	1,023,024	1,015,413	2,526,651	1,671,891
44,176,370	45,066,608	49,327,502	55,953,137	58,017,395
4,659	4,517	5,142	6,714	4,833
507,418	538,867	588,392	405,829	410,554
522,386	638,614	683,494	721,668	893,732
345,997	347,143	335,892	453,963	473,271
546,446	610,956	628,395	660,643	695,564
428,163	548,850	460,265	393,687	386,133
472,592	446,794	545,666	485,907	527,221
251,015	272,318	274,503	260,768	286,102
657,638	822,787	699,789	648,426	1,026,280
260,243	254,535	280,850	293,175	334,545
1,404,932	1,498,761	1,342,756	1,708,636	2,568,173
8,400,100	9,020,762	9,706,073	10,248,128	10,683,107
-	-	-	-	-
3,269,965	3,452,750	3,740,265	4,707,555	5,046,849
1,447,435	1,536,733	1,769,951	1,746,988	2,132,757
311,996	411,568	425,959	449,562	493,726
736,403	1,031,675	665,697	961,073	737,554
-	-	-	-	-
214,061	202,373	374,411	277,607	367,279
4,093	26,712	55,580	1,034	3,755
736,773	675,693	607,832	621,035	673,842
11,354,818	13,859,945	8,266,582	7,254,583	3,933,162
2,716,638	2,182,470	2,724,585	2,691,092	2,361,203
-	407,066	429,265	490,658	589,733
1,671,287	1,697,907	1,802,210	1,912,578	1,878,091
720,223	898,072	1,009,631	1,485,440	1,164,713
2,063,764	2,167,782	2,222,296	2,313,923	2,386,812
-	-	-	-	-
2,930,374	330,636	177,186	356,326	547,425

City of Novi, Michigan

	Year Ended June 30				
	1998	1999	2000	2001	2002
Expenditures (Continued)					
Current services (Continued):					
Capital outlay	\$ 910,534	\$ 310,166	\$ 1,797,589	\$ 804,599	\$ 1,407,294
Debt service principal	3,437,667	4,766,534	3,446,305	3,868,592	3,488,000
Debt service interest	2,611,499	2,774,993	2,639,436	3,117,574	3,662,369
Total expenditures	<u>34,235,856</u>	<u>41,758,139</u>	<u>37,338,287</u>	<u>43,402,833</u>	<u>49,253,868</u>
Excess of Revenue Over (Under)					
Expenditures	(1,558,087)	(8,581,484)	(1,890,003)	(5,375,480)	(7,565,344)
Other Financing Sources (Uses)					
Issuance of debt	8,100,000	205,000	-	28,435,000	-
Payment to escrow agent	-	-	-	-	-
Transfers in	3,977,168	4,091,785	6,755,661	5,804,407	5,287,337
Transfers out	(4,040,268)	(4,091,785)	(6,755,661)	(5,804,407)	(5,287,337)
Total other financing sources (uses)	8,036,900	205,000	-	28,435,000	-
Transfers in Residual Equity	-	-	-	2,198,191	-
Net Change in Fund Balances	6,478,813	(8,376,484)	(1,890,003)	25,257,711	(7,565,344)
Fund Balances - Beginning of year	<u>26,238,470</u>	<u>32,717,283</u>	<u>27,186,507</u>	<u>25,296,504</u>	<u>50,554,215</u>
Fund Balances - End of year	<u>\$ 32,717,283</u>	<u>\$ 24,340,799</u>	<u>\$ 25,296,504</u>	<u>\$ 50,554,215</u>	<u>\$ 42,988,871</u>
Debt Service as a Percentage of Noncapital Expenditures	18.2%	18.2%	17.1%	16.4%	14.9%

Changes in Fund Balances (Continued)
Governmental Funds
Last Ten Fiscal Years

Year Ended June 30				
2003	2004	2005	2006	2007
\$ 696,526	\$ 548,054	\$ 238,090	\$ 688,050	\$ 949,021
4,114,000	4,836,319	5,667,000	6,059,000	6,190,000
<u>3,233,210</u>	<u>3,562,704</u>	<u>2,990,500</u>	<u>2,750,192</u>	<u>2,520,162</u>
<u>50,023,155</u>	<u>52,833,363</u>	<u>48,718,257</u>	<u>51,054,240</u>	<u>50,265,599</u>
(5,846,785)	(7,766,755)	609,245	4,898,897	7,751,796
30,655,000	6,565,000	-	-	-
(22,777,930)	(6,484,044)	-	-	-
9,132,839	6,249,401	8,235,372	10,257,998	8,740,129
<u>(8,892,195)</u>	<u>(6,249,401)</u>	<u>(8,235,372)</u>	<u>(10,257,998)</u>	<u>(9,434,129)</u>
8,117,714	80,956	-	-	(694,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2,270,929	(7,685,799)	609,245	4,898,897	7,057,796
<u>43,176,274</u>	<u>45,447,203</u>	<u>37,761,404</u>	<u>38,370,649</u>	<u>43,269,546</u>
<u>\$ 45,447,203</u>	<u>\$ 37,761,404</u>	<u>\$ 38,370,649</u>	<u>\$ 43,269,546</u>	<u>\$ 50,327,342</u>
14.9%	16.1%	17.9%	17.5%	17.7%

City of Novi, Michigan

Year Ended June 30	Taxable Value by Property Type			
	Real Property			
	Residential	Commercial	Industrial	Developmental
1998	\$ 973,602	\$ 372,640	\$ 134,268	\$ 28,032
1999	1,078,998	400,526	138,608	27,700
2000	1,163,360	441,560	148,925	19,813
2001	1,251,256	480,266	159,582	33,876
2002	1,366,840	540,246	172,722	25,789
2003	1,498,310	611,164	188,025	24,604
2004	1,605,730	639,737	205,969	21,819
2005	1,746,995	703,099	225,091	19,225
2006	1,932,745	738,891	232,970	-
2007	2,144,509	785,263	239,100	-

- (1) In accordance with the 1970 State of Michigan Constitution, the assessed value is 50 percent of appraised or estimated actual value.

**Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years**
(dollars in thousands)

Personal Property	Total Value	Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a Percent of Actual (1)
\$ 137,200	\$ 1,645,742	10.9282	\$ 3,291,485	50
151,348	1,797,181	10.7576	3,594,361	50
166,509	1,940,167	10.5477	3,880,333	50
170,023	2,095,003	10.5416	4,190,006	50
174,798	2,280,396	10.5416	4,560,792	50
188,178	2,510,282	10.5416	5,020,563	50
205,961	2,679,216	10.5416	5,358,432	50
206,140	2,900,549	10.5416	5,801,097	50
194,212	3,098,818	10.5416	6,197,636	50
195,190	3,364,062	10.5416	6,728,124	50

City of Novi, Michigan

City of Novi

Fiscal Year	General	Municipal Street	Police and Fire	Parks and Recreation	Drain Revenue	Library	Debt Service	Total
1998	4.1215	0.6945	1.5084	0.4077	0.6945	0.8153	2.6863	10.9282
1999	4.1215	0.6945	1.5032	0.4063	0.6945	0.8125	2.5251	10.7576
2000	4.1215	0.6815	1.4780	0.3995	0.6005	0.7989	2.4678	10.5477
2001	4.1215	0.6815	1.4567	0.3937	0.6005	0.7874	2.5003	10.5416
2002	4.4485	0.6815	1.4443	0.3902	0.6005	0.7806	2.1960	10.5416
2003	4.4551	0.7791	1.4416	0.3894	0.6005	0.7791	2.0968	10.5416
2004	4.4985	0.7776	1.4388	0.3886	0.6005	0.7776	2.0600	10.5416
2005	4.6422	0.7719	1.4282	0.3857	0.5105	0.7719	2.0312	10.5416
2006	4.6802	0.7719	1.4282	0.3857	0.5105	0.7719	1.9932	10.5416
2007	4.8051	0.7719	1.4282	0.3857	0.5105	0.7719	1.8683	10.5416

**Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(in thousands of dollars)**

Overlapping Government							
Novi Schools		South Lyon Schools		Walled Lake Schools		Northville Schools	
Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead	Homestead	Non-homestead
11.1783	23.7000	11.7283	24.2500	8.4399	23.1000	6.5050	24.5050
11.1213	23.8950	8.1500	26.0024	8.1074	22.8000	6.0000	24.0000
10.6785	23.6208	8.0000	25.8524	7.8520	22.8000	5.5000	23.5000
10.3582	23.2663	8.0000	25.8524	8.0982	23.1000	5.0000	23.0000
12.1574	25.6000	8.0000	26.0000	7.9538	23.1000	5.0500	23.0500
11.6782	25.3453	8.0000	26.0000	7.4728	22.9884	4.7800	22.7800
11.3460	25.3049	8.0000	26.0000	7.5248	23.1000	4.7500	22.7500
12.0413	26.2032	8.5000	26.5000	7.0548	22.7900	5.2200	23.2200
11.7194	26.1532	8.5000	26.5000	6.8975	22.7900	4.9500	22.9500
10.6182	25.6732	8.5000	26.5000	6.7841	22.7900	4.4000	22.4000

City of Novi, Michigan

Direct and Overlapping Property Tax Rates Last Ten Fiscal Years (Continued) (in thousands of dollars)

Overlapping Government						
Fiscal Year Ended June 30	Oakland County	Oakland Community College	Schoolcraft Community College	Oakland Intermediate Schools	Wayne Intermediate Schools	State Education
1998	4.8180	1.6522	1.8521	2.1294	1.9971	6.0000
1999	4.6564	1.6456	1.8521	2.1208	1.9971	6.0000
2000	4.6522	1.6295	1.8440	2.0998	1.9974	6.0000
2001	4.6478	1.6109	1.8311	2.0752	1.9789	6.0000
2002	4.6438	1.5952	1.8195	3.4526	1.9753	6.0000
2003	4.6523	1.6090	1.8043	3.4224	3.4643	6.0000
2004	4.6497	1.5983	1.8024	3.3991	3.4643	5.0000 (1)
2005	4.6476	1.5889	1.7967	3.3789	3.4643	6.0000
2006	4.6461	1.5844	1.7967	3.3690	3.4643	6.0000
2007	4.6461	1.5844	1.7967	3.3690	3.4643	6.0000

- (1) The State of Michigan passed legislation on April 30, 2002 to require the levying of the State Education Tax (SET) on subsequent summer tax bills only. A one-time reduction from 6 mills to 5 mills was offered during the 2003 tax year to assist taxpayers with the transition to the new collection cycle.

City of Novi, Michigan

Principal Taxpayers Current Year and Nine Years Ago

Taxpayer	2006 Taxable Value	Percentage of Total	2006 Rank	1997 Taxable Value	Percentage of Total	1997 Rank
Singh	\$ 68,243,750	1.78	1			
Taubman (Twelve Oaks Mall Ltd. Part.)	53,458,860	1.39	2	\$ 54,473,950	3.31	1
Haggerty Corridor Partners	43,574,930	1.13	3			
Fountain Walk	38,719,700	1.01	4			
Novi Campus LLC	32,074,800	0.83	5			
Occidental Development Ltd.	27,573,050	0.72	6	19,580,500	1.19	2
TBON LLC	24,305,960	0.63	7			
Novi Town Center Investors	20,330,100	0.53	8	15,563,550	0.95	4
DTE Energy	19,988,020	0.52	9			
Providence Hospital	19,786,710	0.52	10			
Aetna 4226 Novi Town Center				15,905,800	0.97	3
Solomon Properties Inc.				14,073,900	0.86	5
Ramco Novi I Co.				12,315,700	0.75	6
Progressive Tool & Industries				11,084,050	0.67	7
Johnson Controls				9,997,350	0.61	8
Saddle Creek Assoc.				9,217,400	0.56	9
Crystal Glen Group Ltd.				9,202,950	0.56	10

City of Novi, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year	Total Tax Levy	Current Collections	Percent of Levy Collected	Delinquent Collections	Total Tax Collections	Percent of Total Collections to Tax Levy
1997	1998	\$ 18,169,203	\$ 17,444,048	96.0	\$ 608,640	\$ 18,052,688	99.4
1998	1999	19,333,400	18,845,437	97.5	433,275	19,278,712	99.7
1999	2000	20,464,295	19,851,494	97.0	519,156	20,370,650	99.5
2000	2001	22,009,796	21,436,690	97.4	458,097	21,894,787	99.5
2001	2002	24,039,024	23,477,124	97.7	427,871	23,904,995	99.4
2002	2003	26,462,386	25,442,497	96.1	867,058	26,309,555	99.4
2003	2004	28,320,219	27,425,798	96.8	816,969	28,242,767	99.7
2004	2005	30,576,422	29,479,285	96.4	1,082,779	30,562,064	100.0
2005	2006	32,666,495	32,035,260	98.1	588,942	32,624,202	99.9
2006	2007	35,515,881	34,550,694	97.3	914,698	35,465,392	99.9

City of Novi, Michigan

	1998	1999	2000	2001
Governmental Activities				
General obligation bonds	\$ 51,564	\$ 52,446	\$ 49,645	\$ 56,463
Installment purchase agreements	-	205	180	154
Special assessment bonds	4,355	2,247	1,668	19,525
Equipment loan	300	200	100	-
Land contract	111	77	-	-
Total	56,330	55,176	51,592	76,142
Business-type Activities				
General obligation bonds	15,675	14,817	29,245	28,535
Special assessment bonds	2,400	973	667	400
Installment loans	-	85	61	35
Revenue bonds	15,625	15,425	15,195	14,965
Total	33,699	31,301	45,169	43,935
Total debt of the government	\$ 90,029	\$ 86,476	\$ 96,761	\$ 120,077
Total taxable value	\$ 1,645,743	\$ 1,797,181	\$ 1,940,167	\$ 2,095,003
Ratio of total debt to taxable value	5.47%	4.81%	4.99%	5.73%
Total population *	46,205	48,052	48,572	48,784
Total debt per capita	\$ 1,948	\$ 1,800	\$ 1,992	\$ 2,461

* Population estimate information obtained from the Southeast Michigan Council of Governments.
www.semco.org

**Ratios of Outstanding Debt by Type
Last Ten Fiscal Years**

(dollars in thousands, except per capita)

2002	2003	2004	2005	2006	2007
\$ 53,861	\$ 57,884	\$ 54,640	\$ 50,130	\$ 45,230	\$ 40,165
126	97	66	34	-	-
18,650	17,590	16,465	15,340	14,215	13,090
-	-	-	-	-	-
-	-	-	-	-	-
<u>72,637</u>	<u>75,571</u>	<u>71,171</u>	<u>65,504</u>	<u>59,445</u>	<u>53,255</u>
27,735	26,675	25,525	24,393	23,030	21,491
200	-	2,330	2,255	2,080	1,905
7	-	-	-	-	-
<u>14,535</u>	<u>14,105</u>	<u>13,680</u>	<u>13,155</u>	<u>-</u>	<u>-</u>
<u>42,477</u>	<u>40,780</u>	<u>41,535</u>	<u>39,803</u>	<u>25,110</u>	<u>23,396</u>
<u>\$ 115,114</u>	<u>\$ 116,351</u>	<u>\$ 112,706</u>	<u>\$ 105,307</u>	<u>\$ 84,555</u>	<u>\$ 76,651</u>
\$ 2,280,396	\$ 2,510,282	\$ 2,679,216	\$ 2,900,549	\$ 3,098,818	\$ 3,364,062
5.05%	4.63%	4.21%	3.63%	2.73%	2.28%
49,359	50,223	51,518	52,921	53,941	54,609
\$ 2,332	\$ 2,317	\$ 2,188	\$ 1,990	\$ 1,568	\$ 1,404

City of Novi, Michigan

Ratios of General Bonded Debt Outstanding Last Ten Fiscal Years (dollars in thousands, except per capita)

Fiscal Year	Tax-limited	Tax Supported Bonds (UTGO)	Michigan Transportation Fund (MTF)	Other General Obligation Debt	Total	Taxable Value	Debt as a Percentage of Taxable Value	Population*	Debt per Capita
	General Obligation Bonds (LTGO)								
1998	\$ -	\$ 48,489	\$ 3,075	411	\$ 51,975	\$ 1,645,743	3.16	46,205	\$ 1,125
1999	-	49,571	2,875	482	52,928	1,797,181	2.95	48,052	1,101
2000	-	46,920	2,725	280	49,925	1,940,167	2.57	48,572	1,028
2001	-	53,888	2,575	154	56,617	2,095,003	2.70	48,784	1,161
2002	-	51,436	2,425	126	53,987	2,280,396	2.37	49,359	1,094
2003	2,000	53,604	2,280	97	57,981	2,510,282	2.31	50,223	1,154
2004	1,850	50,775	2,015	66	54,706	2,679,216	2.04	51,518	1,062
2005	1,700	46,685	1,745	34	50,164	2,900,549	1.73	52,921	948
2006	1,525	42,225	1,480	-	45,230	3,098,818	1.46	53,941	839
2007	1,350	37,600	1,215	-	40,165	3,364,062	1.19	54,609	736

* Population estimate information obtained from the Southeast Michigan Council of Governments. www.semco.org

City of Novi, Michigan

Direct and Overlapping Governmental Activities Debt

June 30, 2007

(dollars in thousands)

Governmental Unit	Debt Outstanding	Estimated Percent Applicable	Estimated Share of Overlapping Debt
Novi School District	\$ 116,790	99.89	\$ 116,662
Northville School District	96,260	18.06	17,385
Walled Lake School District	190,145	11.34	21,562
South Lyon School District	211,795	1.42	3,007
Oakland County	106,287	5.41	5,750
Oakland Intermediate School District	55,185	4.65	2,566
Oakland Community College	8,995	4.45	400
			<u>167,333</u>
Total overlapping debt			167,333
Direct City debt			<u>38,950</u>
Total direct and overlapping debt			<u><u>\$ 206,283</u></u>

City of Novi, Michigan

	1998	1999	2000	2001
Calculation of Debt Limit				
State equalized valuation	\$ 1,712,728	\$ 1,922,625	\$ 2,274,362	\$ 2,440,876
Assessed value equivalent of Act 198 exemptions	<u>1,898</u>	<u>1,898</u>	<u>1,825</u>	<u>-</u>
Debt Limit (10% of SEV)	171,463	192,452	227,619	244,088
Calculation of Debt Subject to Limit				
Total debt	90,307	86,476	96,761	120,077
Less:	-	-	-	-
Special assessment bonds	7,630	4,193	2,335	19,925
Michigan Transportation Fund bonds	3,270	2,977	2,725	2,575
Revenue bonds	<u>15,625</u>	<u>15,425</u>	<u>15,195</u>	<u>14,965</u>
Net Debt Subject to Limit	<u>63,782</u>	<u>63,881</u>	<u>76,506</u>	<u>82,612</u>
Legal Debt Margin	<u><u>\$ 107,681</u></u>	<u><u>\$ 128,571</u></u>	<u><u>\$ 151,113</u></u>	<u><u>\$ 161,476</u></u>
Net Debt Subject to Limit as Percent of Debt Limit	37.20%	33.19%	33.61%	33.85%

Legal Debt Margin Information
Last Ten Fiscal Years
(dollars in thousands)

2002	2003	2004	2005	2006	2007
\$ 2,677,663	\$ 2,971,901	\$ 3,196,089	\$ 3,407,207	\$ 3,580,551	\$ 3,848,565
-	-	-	-	10,111	10,111
267,766	297,190	319,609	340,721	359,066	385,868
115,114	116,351	112,706	106,654	84,554	76,651
-	-	-	-	-	-
18,850	17,590	18,795	17,595	16,295	14,995
2,425	2,280	2,015	1,745	1,480	1,215
14,535	14,105	13,680	13,155	-	-
79,304	82,376	78,216	74,159	66,779	60,441
<u>\$ 188,462</u>	<u>\$ 214,814</u>	<u>\$ 241,393</u>	<u>\$ 266,562</u>	<u>\$ 292,287</u>	<u>\$ 325,427</u>
29.62%	27.72%	24.47%	21.77%	18.60%	15.66%

City of Novi, Michigan

Pledged-revenue Coverage Last Ten Fiscal Years (dollars in thousands)

Fiscal Year	Water and Sewer Revenue Bonds						Special Assessment Bonds				
	Gross Revenue	Applicable Expenses	Net Revenues	Debt Service			Special Assessment Collections	Debt Service			
				Principal	Interest	Coverage		Principal	Interest	Coverage	
2002	\$ 10,731	\$ 8,457	\$ 2,274	\$ 430	\$ 720	1.98	\$ 2,449	\$ 1,075	\$ 1,010	1.17	
2003	12,583	10,684	1,899	430	690	1.70	2,606	1,260	932	1.19	
2004	13,337	11,582	1,755	425	678	1.59	2,670	1,125	853	1.35	
2005	14,416	12,885	1,531	525	652	1.30	2,715	1,200	866	1.31	
2006	-	-	-	-	-	-	2,679	1,300	775	1.29	
2007	-	-	-	-	-	-	2,759	1,300	715	1.37	

City of Novi, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year	Population	Personal Income (in thousands)	Per Capita Personal Income	Unemployment Rate
1998	46,205	*	*	2.0
1999	48,052	*	*	1.9
2000	48,572	\$ 1,748,203	\$ 35,992	1.8
2001	48,784	*	*	1.6
2002	49,359	*	*	2.9
2003	50,223	*	*	3.5
2004	51,518	*	*	4.2
2005	52,921	*	*	3.9
2006	53,941	*	*	3.5
2007	54,609	*	*	4.3

* Not available

Sources: Southeast Michigan Council of Governments
Michigan Department of Labor and Economic Growth
U.S. Bureau of the Census and Labor Statistics

City of Novi, Michigan

Principal Employers June 30, 2007

Employer	2006 Employees	Percentage of Total
1 Magna	650	2.50
2 Macy's	539	2.08
3 St. John Health (Providence Park Hospital)	500	1.93
4 Tower Automotive	340	1.31
5 Cooper-Standard Automotive	250	0.96
6 CVS Michigan, LLC	250	0.96
7 Michigan Cat	250	0.96
8 Voestalpine Polynorm, Inc.	250	0.96
9 International Transmission Company (ITC)	230	0.89
10 Incat Systems	223	0.86

Sources: City of Novi Business Registration Database

City of Novi, Michigan

Function/Program	1998	1999	2000	2001
City manager	3	3	3	3
Finance	6	6	6	6
Information technology	2	2	3	3
Assessing	8	8	8	8
City clerk	6	6	6	6
Treasury	4	4	4	4
Buildings and grounds	1	1	2	2
Community relations	1	1	1	1
General administration	5	5	7	8
Police department	82	86	87	88
Fire department	21	21	25	25
Building department	16	16	16	16
Neighborhood services	5	5	5	5
Department of Public Works	23	25	26	26
Engineering	-	-	-	-
Planning	7	8	8	8
Parks, Recreation, and Forestry	15	15	15	15
Water and Sewer	11	12	12	12
Library	15	15	15	18
Total	<u>231</u>	<u>239</u>	<u>249</u>	<u>254</u>

**Full-time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years**

2002	2003	2004	2005	2006	2007
4	4	4	4	3	3
6	6	7	7	8	8
3	3	3	3	4	4
7	7	7	7	7	7
6	6	6	6	6	6
4	6	6	6	7	7
2	2	2	2	2	2
1	2	2	2	2	3
7	7	7	6	6	7
90	89	94	97	99	99
27	28	29	31	31	31
17	17	17	17	16	16
4	4	5	5	5	5
30	26	25	25	23	23
-	4	4	5	5	5
9	8	8	8	8	8
17	17	18	18	18	18
11	10	10	10	11	11
19	19	21	20	20	20
264	265	275	279	281	283

City of Novi, Michigan

Function/Program	1998	1999	2000	2001	2002
Election data:					
Registered voters	30,597	31,076	31,474	31,972	30,534
Voters at polls	3,578	2,194	2,184	17,246	6,601
Absentee ballots	1,160	1,013	1,388	4,399	1,368
Percent voting	15.60%	10.31%	11.35%	67.70%	26.10%
Police:					
Part A crimes	3,372	1,884	2,742	2,768	2,682
Part B crimes	2,001	2,198	2,255	1,569	1,496
Injury accidents	349	339	340	278	325
Property damage	2,227	2,150	2,334	2,229	2,200
Moving traffic violations	6,743	7,228	6,795	7,035	7,280
Parking violations	547	700	757	721	706
Adult arrests	2,087	1,933	1,797	1,447	1,328
Juvenile arrests	239	179	335	187	210
OUIL arrests	408	459	448	302	259
False alarms	1,344	2,104	2,637	2,673	2,310
Fire:					
Fire incidents	157	276	276	130	135
Service incidents	954	729	729	949	1,062
Fire inspections conducted	2,385	2,477	2,477	2,263	2,691
Medical emergencies	1,518	1,672	1,672	1,968	2,052
Paid-on-call staff	68	68	68	56	56
Parks and recreation:					
Youth classes/clinics	630	516	525	743	832
Adult classes/clinics	1,542	1,744	1,724	300	312
Youth leagues	4,220	4,220	4,235	4,500	4,672
Adult leagues	2,913	2,667	2,850	2,915	2,775
Summer day camp	250	400	328	360	440
Lakeshore Park vehicle entry	5,583	5,240	3,458	3,523	4,140
Lakeshore Park attendance	11,000	10,525	6,945	7,078	9,050
Lakeshore Park picnic shelter rental	110	97	108	107	86
Senior citizens served	98,000	92,504	91,637	96,000	90,500
Special event attendance	5,193	5,720	5,900	7,600	8,500
Civic Center rentals	840	1,583	1,261	2,532	2,596
Civic Center attendance	134,098	131,056	119,922	90,167	99,880
Novi Theaters - Cast	600	640	650	723	785
Novi Theaters - Audience	5,000	7,100	7,237	9,672	10,110
Library:					
Items circulated	366,432	333,691	333,691	335,185	352,814
Book collections	92,285	96,454	96,454	108,124	109,710
Audio/Video/CD collections	7,214	7,708	7,708	8,783	9,394
Periodical subscriptions	272	269	269	269	398
Requests of Information	54,542	55,646	55,646	73,376	79,071
Youth Summer Reading	1,267	1,325	1,325	1,249	1,354
Program participants	-	33,167	33,167	19,165	21,822
Visitors	-	-	-	-	-
Interlibrary loans	-	-	-	-	-

Operating Indicators by Function/Program Last Ten Fiscal Years

2003	2004	2005	2006	2007
30,428	30,572	32,131	32,301	33,253
13,814	3,962	25,432	4,495	20,612
2,742	1,343	5,783	2,256	4,500
54.41%	17.35%	79.15%	20.90%	62.00%
2,509	2,530	2,426	2,312	2,077
1,681	1,766	1,216	1,246	1,388
281	266	277	248	203
2,146	2,221	2,004	1,986	1,853
6,161	10,353	10,451	12,219	11,486
542	620	448	437	427
1,541	1,709	1,630	1,780	2,001
227	261	208	211	237
306	451	460	380	398
2,554	2,527	2,470	2,677	2,664
154	137	305	309	287
1,215	1,343	1,124	1,013	1,207
3,054	2,849	2,280	2,291	2,301
2,083	2,187	2,430	2,424	2,458
60	55	48	54	59
250	1,000	240	248	780
300	400	100	106	493
3,732	4,900	2,891	3,002	3,091
2,640	2,010	2,138	2,146	1,980
420	416	425	431	367
3,850	3,410	3,456	3,502	7,910
8,740	10,230	10,368	12,224	17,120
79	117	82	85	104
90,700	90,680	63,676	64,189	106,522
8,813	10,966	9,250	10,009	9,981
2,807	3,765	1,799	2,700	2,746
89,070	99,312	57,352	86,860	96,503
821	817	367	372	284
8,005	10,380	6,341	6,640	4,929
400,441	411,599	464,991	508,405	544,874
107,236	113,384	119,273	123,897	126,259
10,042	11,075	11,552	12,581	13,805
189	195	189	153	170
88,873	86,403	115,623	136,448	158,265
1,547	1,577	1,687	1,698	1,171
23,342	28,824	26,940	26,160	26,720
-	-	-	285,777	265,795
-	-	-	46,057	55,102

City of Novi, Michigan

Function/Program	1998	1999	2000	2001	2002
Water and Sewer:					
Customers:					
Residential	10,657	11,191	10,233	11,780	10,040
Commercial	785	823	767	879	949
Water (in thousand gallons):					
Purchased from Detroit	1,735,157	2,108,027	2,070,099	1,980,099	1,984,209
Sold to residents	1,559,259	1,908,144	1,893,003	1,771,266	1,633,165
Rates:					
Minimum 7,000 gallons	\$ 21.25	\$ 21.25	\$ 21.25	\$ 21.75	\$ 27.00
Additional usage per 1,000 gallons	\$ 1.86	\$ 1.86	\$ 1.86	\$ 1.90	\$ 2.48
Sewer (per thousand gallons of water usage)	\$ 1.38	\$ 1.44	\$ 1.44	\$ 1.44	\$ 1.75

Operating Indicators by Function/Program (Continued)
Last Ten Fiscal Years

2003	2004	2005	2006	2007
12,504	10,684	11,107	12,306	12,708
1,020	1,014	1,024	1,108	1,399
2,204,351	2,213,689	2,267,616	2,431,591	2,424,237
2,099,575	2,032,995	2,117,038	2,256,309	2,355,938
\$ 27.00	\$ 28.00	\$ 29.00	\$ 31.00	\$ 31.00
\$ 2.48	\$ 2.55	\$ 2.78	\$ 2.94	\$ 2.94
\$ 1.75	\$ 1.93	\$ 2.05	\$ 2.21	\$ 2.21

City of Novi, Michigan

Function/Program	1998	1999	2000	2001
Police - Stations	1	1	1	1
Fire - Stations	4	4	4	4
Public works:				
Miles of City streets:				
Major	31	31	31	31
Local	108	126	126	126
Estimated sidewalks in miles	19	37	37	37
Bridges	3	4	4	4
Street lights	400	400	400	400
Parks and recreation:				
Acres	844	844	844	844
Locations	10	10	10	10
Library - Branches	1	1	1	1
Water and sewer:				
Miles of water mains	157	172	172	175
Miles of sanitary sewers	178	195	195	200
Fire hydrants			2,700	3,000

**Capital Asset Statistics by Function/Program
Last Ten Fiscal Years**

2002	2003	2004	2005	2006	2007
1	1	1	1	1	1
4	4	4	4	4	4
31	32	39	39	39	39
135	159	107	116	116	123
39	41	39	69	170	248
4	4	4	4	4	4
400	400	401	401	401	402
844	844	844	894	894	894
10	9	10	7	7	7
1	1	1	1	1	1
180	180	180	280	288	288
203	215	227	230	230	230
3,080		3,077	3,139	3,763	4,010

October 29, 2007

To the Honorable Mayor and
Members of the City Council
City of Novi
45175 West Ten Mile Road
Novi, MI 48050

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Novi for the year ended June 30, 2007. As a result of our audit and in addition to our financial report, we have the following comments for the City Council's review.

Audit Standards Changes - This Year and Next

The American Institute of Certified Public Accountants Audit Standards Board recently issued several new Statements on Auditing Standards that significantly affect the audit process. The first two changes impacted the current audit of the year ended June 30, 2007; the other changes will have a much more significant impact and will be applicable next year.

The current year's audit changes impacted audit documentation procedures and communications of internal control deficiencies to the City Council. Under these new rules, if our firm had become aware of any internal control deficiencies that could result in more than a remote likelihood of an error in the financial statements (unless clearly inconsequential), we would have communicated those to you in writing. The purpose of this new rule is to make you aware of potential issues before they arise to the level of material weaknesses. During the current year, we became aware of no material weaknesses to report to you.

For next year's audit, eight new auditing standards have been issued that require significant changes in how audits are performed. Similar to the Sarbanes-Oxley rules that impacted publicly held corporations, these rules are intended to help audited entities strengthen their internal controls. We have recently put on a seminar explaining these new rules, which was attended by your staff. In brief, these new rules require all auditors to:

- Obtain a deeper understanding of the design and operation of internal control
- Assess the effectiveness of internal control

- Obtain corroborating evidence that the understanding is correct and the assessment is appropriate (i.e., inspection of documents, observation of procedures, or inquiry)
- Consider “what could go wrong” in the financial statement process (evaluate the risks of financial statement errors)
- Link the results to specific further audit procedures
- Communicate a summary of the results of the auditor’s work to those charged with governance (the City Council)

As you can see, auditors will spend significantly more time working with all aspects of your internal control (accounting processes, information technology, general and application controls, and traditional internal control procedures). The intent of these new rules is to help audited organizations deal with their internal control. The thought process is that internal control is critically important to any organization, and it would be better served if the annual audit focused significant work on its effectiveness. These new rules are not limited to the public sector - they will apply to any organization that obtains an audit (nonprofit organization, private company, etc.).

These new rules will impact audited organizations in two ways: your finance staff will incur more time and effort in preparation for the audit; and the audit process will require additional time. Plante & Moran has spent the last six months creating the new audit forms and documents that will be needed to meet these new rules. The internal control and accounting process documentation documents (which will be required for the June 30, 2008 audit) have already been shared with your finance staff.

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. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State’s upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of “to-be-determined” cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State’s fiscal year 2006/2007 budget has been completely balanced as well. The outcome of the following matters will also impact revenue sharing:

- **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 potential impact is that as counties come back into the revenue sharing formula, if the total statutory revenue-sharing pot does not grow accordingly, this will reduce the amount available for cities.
- **Statutory Revenue-sharing Formula Expires in 2007** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.
- **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 tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure, which begins January 1, 2008, 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. Further changes to Michigan’s tax structure were made on October 1, as described above, to partially close the structural budget deficit that exists.

As introduced, the governor’s budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have not been announced yet, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels.

The current statutory formula expired in September 2007, but has been temporarily extended. It is unclear what the outcome will be regarding the short-term and 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.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City of Novi has approximately \$388,000 at risk in its General Fund budget based on projected 2007/2008 funding levels. In light of the current environment, the City of Novi reacted in a conservative manner when setting its 2007/2008 budget. The City has programmed the statutory revenue-sharing dollars within the General Fund to provide additional funding to the Retiree Health Care Benefits Fund. This additional funding is above the normal contribution level and would result in a neutral impact to the 2007/2008 General Fund budget if the State eliminated the statutory portion of revenue sharing.

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 as detailed in the Michigan business tax section below. Even with this most recent relief provided in June 2007 through the Michigan business tax, further reductions to personal property tax remain part of the State's tax structure discussions. 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.

New Michigan Business Tax

As previously indicated, the new Michigan Business Tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT. While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax.

More personal property tax relief is also part of the new MBT. Business personal property classified as “industrial” or “commercial” will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. “Industrial” personal property will receive exemptions from the six SET mills and the 18 schools’ operating mills (for a total 24 mill exemption). “Commercial” personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees; impact on school dollars available for capture for certain tax increment financing authorities; property classifications) that are the most directly impacted by the new MBT. We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

Property Tax Legislation

A series of House bills was 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 time frame 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 yet been voted on in the House.

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) 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 bill’s franchise fee.
- Audits of the video service providers’ calculation of gross revenue are limited to once every two years.

The City received its first payment under the new Act beginning approximately May 2007. Under the old Act, the City of Novi received approximately \$336,000 for the year ended June 30, 2007. The City has reviewed this expected payment in comparison to the payments previously received and currently anticipates the revenue to be fairly consistent to the current fiscal year level.

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.

Recent Revisions to State Transportation Funding Program

Current legislation modified Act 51 to allow local governments to transfer monies from their Major Street Fund to their Local Street Fund at a level of 50 percent of annual major street funding received. In addition, greater than 50 percent can be transferred. However, the amended law requires that certain conditions be met to allow for a transfer in excess of 50 percent, including the adoption of an asset management process for the Major and Local Street Funds systems as well as a detailed resolution passed by the City. It is important to note that Major Street Fund monies transferred for use on local streets cannot be used for construction but may be used for preservation. These provisions sunset on December 31, 2008. Without an extension of this provision, a transfer from the Major Street Fund to the Local Street Fund can only be done to the extent that local revenues exist in the Major Street Fund. Current legislation also includes a pilot program that would allow for the combination of the Major Street Fund and the Local Street Fund if certain conditions are met.

Postemployment Benefits

The City has been proactive in beginning to fund its future expected post-employment benefits. The City has been contributing to the fund and the City is in the process of getting an actuarial valuation on the accrued liability. As of June 30, 2009, the Governmental Accounting Standards Board Statement No. 45 will require this accrued liability to be disclosed on the government-wide financial statement, and the actuarially determined recommended annual contribution will be disclosed within the footnotes of the financial statements.

Once the benefits are measured, the City, along with other local governments, will face the tough choice of advance funding these benefits, remain on a pay-as-you-go plan, or a combination thereof. To provide local governments with additional funding options, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan legislature and vetoed by the governor. It was expected that the legislation was going to be reconsidered in 2007.

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year ended June 30, 2007 and is good for one year thereafter.

To the Honorable Mayor and
Members of the City Council
City of Novi

8

October 29, 2007

We would like to thank the City for the continued opportunity to serve as your auditors and for the assistance and cooperation that we received from Kathy Smith-Roy, Marina Neumaier, the accounting staff, and the rest of the City personnel during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Joseph C. Heffernan". The signature is written in a cursive style with a large, prominent initial "J".

Joseph C. Heffernan

A handwritten signature in black ink that reads "Kathryn J. Kercorian". The signature is written in a cursive style with a large, prominent initial "K".

Kathryn J. Kercorian