

Note 1 - Significant Accounting Policies (Continued)

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2021.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending June 30, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the City's financial statements for the June 30, 2021 fiscal year.

Note 2 - Stewardship, Compliance, and Accountability

Excess of Expenditures Over Appropriations in Budgeted Funds

The City did not have significant expenditure budget variances.

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. 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 or shortfall generated since January 1, 2000 is as follows:

Surplus (shortfall) at July 1, 2017		\$	(1,818,084)
Current year permit revenue			1,829,343
Related expenses:			
Direct costs	\$	2,011,402	
Estimated indirect costs		244,972	2,256,374
			<u>(427,031)</u>
Current year shortfall			<u>(427,031)</u>
Cumulative surplus (shortfall) June 30, 2018		\$	<u><u>(2,245,115)</u></u>

City of Novi, Michigan

Required Supplemental Information

Schedule of Changes in the City's Net Pension Liability and Related Ratios

(Schedule is built prospectively upon implementation of GASB statement No. 68)

	Year Ended June 30, 2018	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Total Pension Liability				
Service cost	\$ 1,255,498	\$ 1,279,328	\$ 1,402,754	\$ 1,495,687
Interest	7,586,392	7,325,066	6,983,009	6,687,807
Changes in benefit terms	-	-	23,615	-
Differences between expected and actual experience	(366,993)	248,579	301,433	-
Changes in assumptions	-	-	3,305,619	-
Benefit payments, including refunds	(5,813,104)	(5,335,884)	(4,731,967)	(4,385,711)
Net Change in Total Pension Liability	2,661,793	3,517,089	7,284,463	3,797,783
Total Pension Liability - Beginning of year	97,108,697	93,591,608	86,307,145	82,509,362
Total Pension Liability - End of year	\$ 99,770,490	\$ 97,108,697	\$ 93,591,608	\$ 86,307,145
Plan Fiduciary Net Position				
Contributions - Employer	\$ 3,725,305	\$ 3,115,902	\$ 3,024,626	\$ 3,648,998
Contributions - Member	558,097	602,714	652,652	712,076
Net investment income (loss)	7,797,188	6,176,312	(898,140)	3,399,244
Administrative expenses	(123,263)	(122,174)	(124,928)	(126,196)
Benefit payments, including refunds	(5,813,104)	(5,335,884)	(4,731,967)	(4,385,711)
Net Change in Plan Fiduciary Net Position	6,144,223	4,436,870	(2,077,757)	3,248,411
Plan Fiduciary Net Position - Beginning of year	59,427,850	54,990,980	57,068,737	53,820,326
Plan Fiduciary Net Position - End of year	\$ 65,572,073	\$ 59,427,850	\$ 54,990,980	\$ 57,068,737
City's Net Pension Liability - Ending	\$ 34,198,417	\$ 37,680,847	\$ 38,600,628	\$ 29,238,408
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	65.72 %	61.20 %	58.76 %	66.12 %
Covered Employee Payroll	\$ 10,616,668	\$ 10,614,530	\$ 11,371,927	\$ 12,101,246
City's Net Pension Liability as a Percentage of Covered Employee Payroll	322.12 %	354.99 %	339.44 %	241.61 %

City of Novi, Michigan

**Required Supplemental Information
Schedule of City Contributions**

**Last Ten Fiscal Years
Year Ended June 30**

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 3,769,303	\$ 3,137,158	\$ 3,054,597	\$ 2,628,762	\$ 2,475,532	\$ 2,144,511	\$ 2,380,929	\$ 2,486,069	\$ 2,188,904	\$ 2,231,166
Contributions in relation to the actuarially determined contribution	4,219,303	3,137,158	3,054,597	2,628,762	2,475,532	2,144,511	2,380,929	2,486,069	2,188,904	2,231,166
Contributions in excess	\$ 450,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 12,710,865	\$ 11,360,375	\$ 12,074,423	\$ 12,710,865	\$ 11,995,155	\$ 12,338,686	\$ 13,511,225	\$ 13,817,418	\$ 15,929,804	\$ 16,092,414
Contributions as a percentage of covered employee payroll	33.19 %	27.61 %	25.30 %	20.68 %	20.64 %	17.38 %	17.62 %	17.99 %	13.74 %	13.86 %

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, which is 18 months prior to the beginning of the fiscal year in which the contributions are required.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percentage of pay, closed
Remaining amortization period	12 - 23 years (depends on division)
Asset valuation method	10-year smoothed market
Inflation	2.5 percent
Salary increase	3.75 - 14.75 percent, including inflation
Investment rate of return	7.75 percent
Retirement age	Experience-based tables of rates that are specific to the type of eligibility condition
Mortality	50 percent male - 50 percent female blend of the RP-2014 Mortality Table
Other information	None

Schedule of Changes in the City's Net OPEB Liability and Related Ratios

Last Ten Fiscal Years (schedule is built prospectively upon implementation of GASB No. 74)

	2018	2017
Total OPEB Liability		
Service cost	\$ 372,847	\$ 440,432
Interest	2,136,783	2,030,554
Differences between expected and actual experience	(4,022,732)	(86,522)
Changes in assumptions	1,819,912	-
Benefit payments, including refunds	(948,145)	(885,353)
Net Change in Total OPEB Liability	(641,335)	1,499,111
Total OPEB Liability - Beginning of year	28,795,628	27,296,517
Total OPEB Liability - End of year	\$ 28,154,293	\$ 28,795,628
Plan Fiduciary Net Position		
Contributions - Employer	\$ 613,678	\$ 617,207
Net investment income	2,845,010	3,399,591
Administrative expenses	(293,400)	(245,933)
Benefit payments, including refunds	(948,145)	(885,353)
Other	244	-
Net Change in Plan Fiduciary Net Position	2,217,387	2,885,512
Plan Fiduciary Net Position - Beginning of year	27,315,165	24,429,653
Plan Fiduciary Net Position - End of year	\$ 29,532,552	\$ 27,315,165
Net OPEB Liability - Ending	\$ (1,378,259)	\$ 1,480,463
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	104.90 %	94.86 %
Covered Employee Payroll	\$ 10,800,824	\$ 10,711,843
Net OPEB Liability as a Percentage of Covered Employee Payroll	(12.76)%	13.82 %

City of Novi, Michigan

Required Supplemental Information Schedule of OPEB Contributions

Last Ten Fiscal Years Year Ended June 30

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially determined contribution	\$ 613,678	\$ 617,207	\$ 871,702	\$ 875,196	\$ 1,393,087	\$ 1,399,119	\$ 1,498,004	\$ 1,500,006	\$ 1,430,047	\$ 1,453,481
Contributions in relation to the actuarially determined contribution	651,312	651,312	904,483	1,005,247	1,525,297	1,635,624	1,596,469	1,586,557	1,553,667	1,616,857
Contribution excess	\$ 37,634	\$ 34,105	\$ 32,781	\$ 130,051	\$ 132,210	\$ 236,505	\$ 98,465	\$ 86,551	\$ 123,620	\$ 163,376
Covered employee payroll	\$ 10,800,824	\$ 10,711,843	\$ 12,101,246	\$ 12,101,246	\$ 11,995,155	\$ 11,995,155	\$ 13,511,225	\$ 13,511,225	\$ 15,929,804	\$ 15,929,804
Contributions as a percentage of covered employee payroll	6.03 %	6.08 %	7.47 %	8.31 %	12.72 %	13.64 %	11.82 %	11.74 %	9.75 %	10.15 %

Notes to Schedule of Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30, which is 12 months prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level dollar, closed
Remaining amortization period	21 years
Asset valuation method	Market value of assets
Inflation	2.75 percent
Healthcare cost trend rates	9.0 percent, gradually decreasing to 4.0 percent in year 10
Salary increase	4.0 percent to 17.0 percent, including inflation
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition
Mortality	The RP-2000 Mortality Table projected 20 years with Scale BB
Other information	There were no benefit changes during the year.

City of Novi, Michigan

Required Supplemental Information
Budgetary Comparison Schedule – General Fund

Year Ended June 30, 2018

Expenditures (Continued)	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Recreation and Culture				
Personnel services	47,376	47,376	47,363	13
Supplies	9,642	9,342	4,670	4,672
Other services and charges	-	300	294	6
Total recreation and culture	57,018	57,018	52,327	4,691
Transfers Out	320,000	19,000	19,000	-
Total expenditures	33,484,730	35,001,435	33,627,514	(1,373,921)
Net Change in Fund Balance	(250,000)	(1,700,134)	(1,086,775)	613,359
Fund Balance - Beginning of year	12,905,841	12,905,841	12,905,841	-
Fund Balance - End of year	\$ 12,655,841	\$ 11,205,707	\$ 11,819,066	\$ 613,359

Governmental Funds
Balance Sheet

June 30, 2018

	General Fund	Major Street Fund	Non-Major Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 3)	\$ 421,239	\$ 243,638	\$ 2,061,954	\$ 2,726,831
Investments (Note 3)	12,189,935	2,208,182	32,118,646	46,516,763
Accounts Receivable:				
Special assessments	-	-	12,294	12,294
Accrued interest	561,719	-	-	561,719
Other	354,970	246,927	128,416	730,313
Due from other governments	839,102	675,999	312,093	1,827,194
Due from other funds (Note 5)	10,761	-	-	10,761
Prepaid expenses and other assets	229,382	-	740	230,122
Total assets	\$ 14,607,108	\$ 3,374,746	\$ 34,634,143	\$ 52,615,997
Liabilities				
Accounts payable	\$ 1,091,791	\$ 1,329,240	\$ 2,605,242	\$ 5,026,273
Due to other funds (Note 5)	-	-	10,761	10,761
Refundable deposits	88,531	-	2,281	90,812
Accrued liabilities and other:				
Accrued salaries and wages	951,955	-	193,723	1,145,678
Payroll taxes and withholdings	249,906	-	30,871	280,777
Accrued other	376,407	-	550,130	926,537
Unearned revenue	7,655	244,897	-	252,552
Total liabilities	2,766,245	1,574,137	3,393,008	7,733,390
Deferred inflows of resources - Unavailable revenue				
Other	21,797	-	11,227	33,024
Special assessments	-	-	12,294	12,294
Grants	-	-	29,591	29,591
Total deferred inflows of resources	21,797	-	53,112	74,909
Total liabilities and deferred inflows of resources	2,788,042	1,574,137	3,446,120	7,808,299
Fund Balances				
Nonspendable - Prepaids	229,382	-	740	230,122
Restricted:				
Roads	-	1,800,609	7,908,780	9,709,389
Public safety	20,418	-	499,295	519,713
Community	2,282	-	-	2,282
Debt service	-	-	252,483	252,483
Infrastructure improvements	-	-	6,095,082	6,095,082
Parks, recreation, and cultural services	-	-	1,056,365	1,056,365
Library	-	-	3,611,238	3,611,238
Storm water systems	-	-	6,959,355	6,959,355
Tree replacement and maintenance	-	-	3,688,820	3,688,820
Street lighting improvements	-	-	51,960	51,960
PEG access support fees	-	-	788,168	788,168
Assigned - Subsequent year's budget	1,033,033	-	-	1,033,033
Unassigned	10,533,951	-	275,737	10,809,688
Total fund balances	11,819,066	1,800,609	31,188,023	44,807,698
Total liabilities, deferred inflows of resources, and fund balances	\$ 14,607,108	\$ 3,374,746	\$ 34,634,143	\$ 52,615,997

City of Novi, Michigan

Other Supplemental Information
Budgetary Comparison Schedule - Nonmajor Governmental Funds
(Continued)

Capital Improvement Program

Year Ended June 30, 2018

	Original Budget (Unaudited)	Amended Budget (Unaudited)	Actual	Variance with Amended Budget (Unaudited)
Revenue				
Property taxes	\$ 3,419,871	\$ 3,400,871	\$ 3,400,855	\$ (16)
Interest income	18,105	18,105	17,507	(598)
Other revenue:				
Transfers from other funds	2,736,000	2,736,000	-	(2,736,000)
Proceeds from long-term debt	12,371,088	-	-	-
Total revenue	18,545,064	6,154,976	3,418,362	(2,736,614)
Expenditures				
Current services:				
General government - Capital improvements	2,096,000	329,949	329,949	-
Public safety - Capital improvements	-	23,311	23,309	2
Public works - Capital improvements	7,200,000	2,894,665	309,204	2,585,461
Recreation and culture - Capital improvements	9,249,064	2,907,051	636,428	2,270,623
Total expenditures	18,545,064	6,154,976	1,298,890	4,856,086
Net Change in Fund Balances	-	-	2,119,472	2,119,472
Fund Balances - Beginning of year	2,493	2,493	2,493	-
Fund Balances - End of year	\$ 2,493	\$ 2,493	\$ 2,121,965	\$ 2,119,472

Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

Transfers between funds were primarily for operating purposes. The transfer between the Major Street Fund and the Local Street Fund (a nonmajor governmental fund) was allowable per Act 51. The transfer between the Municipal Streets Fund (a nonmajor governmental fund) and the Street Improvement Fund (a nonmajor governmental fund) was to fund current and future street improvement projects. The transfer between the Rubbish Collection Fund (a nonmajor governmental fund) and the General Fund was to subsidize unexpected expenditures paid from the Rubbish Collection Fund. The transfer between the Parks, Recreation, and Cultural Services Fund (a nonmajor governmental fund) and the General Fund was a return of excess funds previously transferred from the General Fund.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements 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 debt activity for the year ended June 30, 2018 can be summarized as follows:

Governmental Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds:							
2008 Unlimited Tax Library Bonds:							
Amount of issue: \$16,000,000		\$750,000 -					
Maturing through 2027	3.75% - 5.00%	\$765,000	\$ 3,015,000	\$ -	\$ (750,000)	\$ 2,265,000	\$ 750,000
2016 Unlimited Tax Library Refunding Bonds: Amount of issue: \$8,715,000 Maturing through 2027							
	2.00% - 4.00%	\$170,000 - \$1,390,000	8,550,000	-	(170,000)	8,380,000	215,000
Total principal outstanding			11,565,000	-	(920,000)	10,645,000	965,000
Unamortized bond premiums			1,152,271	-	(128,030)	1,024,241	-
Accumulate compensated absences			1,995,376	1,388,528	(1,410,218)	1,973,686	1,381,580
Total governmental activities long-term debt			\$ 14,712,647	\$ 1,388,528	\$ (2,458,248)	\$ 13,642,927	\$ 2,346,580

Note 6 - Long-term Debt (Continued)

Business-type Activities

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Special Assessment Bonds -							
2003 Special Assessment Limited Tax Bonds:							
Amount of issue: \$2,330,000							
Maturing through 2017	4.00%	\$150,000	\$ 150,000	\$ -	\$ (150,000)	\$ -	\$ -
2015 Senior Complex Recreation Facility Refunding Bonds:							
Amount of issue: \$9,075,000		\$850,000 -					
Maturing through 2026	2.29%	\$1,020,000	8,220,000	-	(875,000)	7,345,000	890,000
2014 Ice Arena Refunding Bonds:							
Amount of issue: \$4,905,000		\$485,000 -					
Maturing through 2024	2.40%	\$520,000	3,465,000	-	(480,000)	2,985,000	490,000
Total principal outstanding			11,835,000	-	(1,505,000)	10,330,000	1,380,000
Accumulated compensated absences			72,879	72,876	(72,879)	72,876	72,876
Total business-type activities long-term debt			\$ 11,907,879	\$ 72,876	\$ (1,577,879)	\$ 10,402,876	\$ 1,452,876

Debt Service Requirements to Maturity

Total interest expense for the year was \$625,666. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 965,000	\$ 390,250	\$ 1,355,250	\$ 1,380,000	\$ 229,650	\$ 1,609,650
2020	1,015,000	355,450	1,370,450	1,380,000	197,624	1,577,624
2021	1,070,000	314,100	1,384,100	1,345,000	165,758	1,510,758
2022	1,135,000	267,700	1,402,700	1,350,000	134,476	1,484,476
2023	1,195,000	221,100	1,416,100	1,355,000	102,782	1,457,782
2024-2028	5,265,000	397,600	5,662,600	3,520,000	116,446	3,636,446
Total	\$10,645,000	\$ 1,946,200	\$12,591,200	\$10,330,000	\$ 946,736	\$11,276,736

Deceased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the City's schedule of debt obligations. At June 30, 2018, \$9,485,000 of bonds is considered defeased.

Note 7 - 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, property and casualty claims, and for vehicle and contractor equipment damage claims. 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 four fiscal years.

Note 4 - Capital Assets

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

Governmental Activities

	Balance July 1, 2017	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2018
Capital assets not being depreciated:					
Land	\$ 30,748,798	\$ -	\$ 869,263	\$ -	\$ 31,618,061
Construction in progress	8,554,442	(7,371,513)	2,766,157	(43,185)	3,905,901
Subtotal	39,303,240	(7,371,513)	3,635,420	(43,185)	35,523,962
Capital assets being depreciated:					
Roads	137,107,324	5,834,390	5,934,527	(5,641,937)	143,234,304
Nonmotorized pathway improvements	11,057,755	534,508	560,208	(72,559)	12,079,912
Bridges	2,256,131	132,757	-	-	2,388,888
Drains	17,703,812	-	811,109	(1,030,624)	17,484,297
Buildings and improvements	47,690,426	78,686	126,955	-	47,896,067
Machinery and equipment	16,505,558	79,978	1,739,911	(473,543)	17,851,904
Land improvements	1,022,003	711,194	239,648	-	1,972,845
Library Books	3,814,007	-	365,376	(327,139)	3,852,244
Subtotal	237,157,016	7,371,513	9,777,734	(7,545,802)	246,760,461
Accumulated depreciation:					
Roads	77,553,419	-	5,671,276	(5,641,937)	77,582,758
Nonmotorized pathway improvements	3,764,491	-	530,279	(72,559)	4,222,211
Bridges	1,237,094	-	88,275	-	1,325,369
Drains	10,746,864	-	709,513	(1,030,624)	10,425,753
Buildings and improvements	19,119,851	-	1,210,786	-	20,330,637
Machinery and equipment	11,918,575	-	1,125,241	(448,949)	12,594,867
Land improvements	46,112	-	78,914	-	125,026
Library Books	1,458,752	-	235,526	(327,139)	1,367,139
Subtotal	125,845,158	-	9,649,810	(7,521,208)	127,973,760
Net capital assets being depreciated	111,311,858	7,371,513	127,924	(24,594)	118,786,701
Net governmental activities capital assets	<u>\$150,615,098</u>	<u>\$ -</u>	<u>\$ 3,763,344</u>	<u>\$ (67,779)</u>	<u>\$ 154,310,663</u>