

City of Harper Woods, Michigan

**Financial Report
with Supplemental Information
December 31, 2016**

City of Harper Woods, Michigan

Mayor and City Council

Mayor

Kenneth A. Poynter

Council Member
Council Member
Council Member
Council Member
Council Member
Council Member

Vivian M. Sawicki
Hugh R. Marshall
Valerie Kindle
Cheryl A. Costantino
Tom Jenny
Veronica Paiz

City Administration

City Manager

Randolph A. Skotarczyk

Deputy City Manager

Joseph Rheker

City Clerk

Leslie M. Frank

City Treasurer/Finance Director

John Szymanski

City Auditors

Plante & Moran, PLLC

City of Harper Woods, Michigan

General Comments

The City of Harper Woods, Michigan (the “City”) is administered under a council-manager form of government, in accordance with a home rule charter as adopted by the electors on October 24, 1951 and subsequently amended.

The elective officials of the City consist of six council members and the mayor, all of whom are nominated and elected from the City at large. Three of its members are elected to the council every two years for four-year terms. The mayor is elected every two years for a two-year term.

City officials who are appointed by and sit at the pleasure of the council are the manager, clerk, and treasurer. All other administrative officers are appointed by the manager, subject to confirmation by the council.

City of Harper Woods, Michigan

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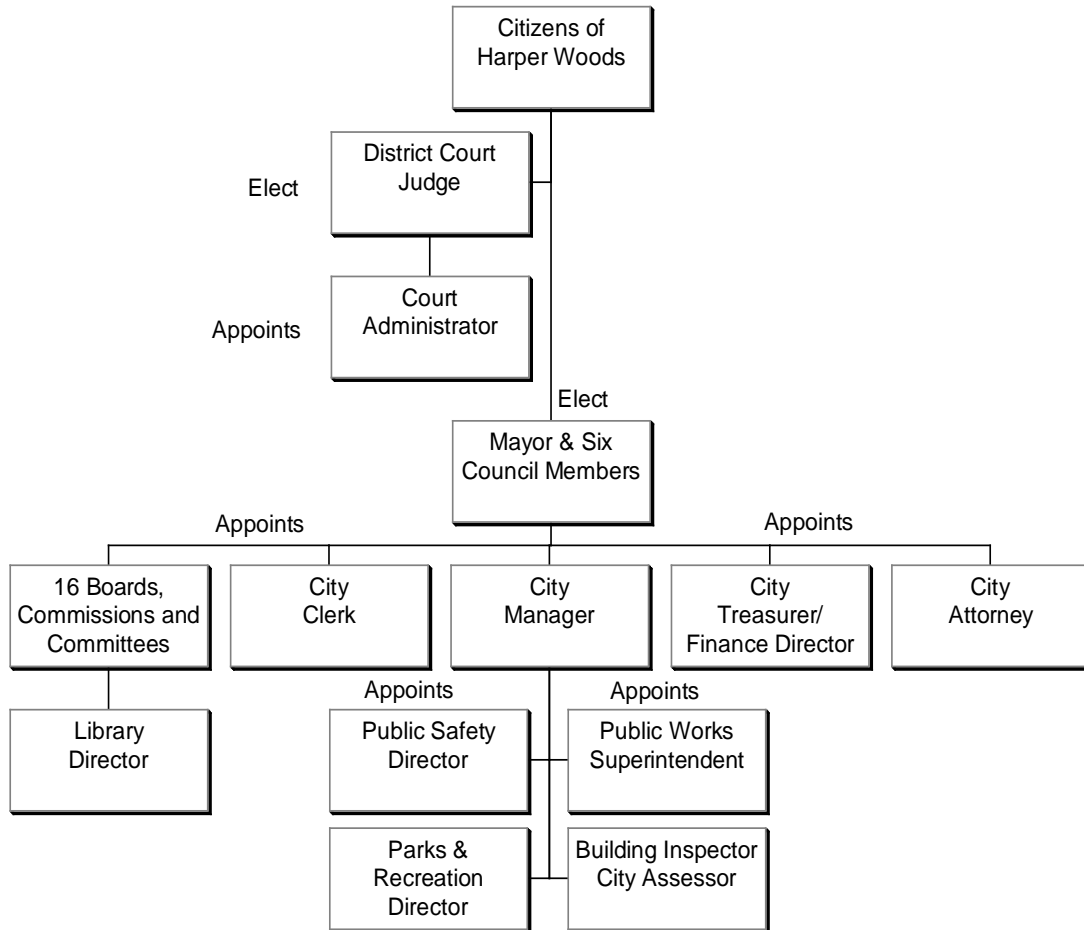
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Introductory Section

CITY OF HARPER WOODS ADMINISTRATIVE ORGANIZATION CHART



Financial Section

Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Harper Woods, Michigan

Report on the Financial Statements

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 Harper Woods, Michigan (the "City") as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the City of Harper Woods, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Harper Woods, Michigan as of December 31, 2016 and the respective changes in its financial position and, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Honorable Mayor
and Members of the City Council
City of Harper Woods, Michigan

Emphasis of Matter

As discussed in Note 14 to the basic financial statements, net position as of January 1, 2016 of the business-type activities and the Water and Sewer Fund has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension system schedules of changes in the net pension liability, pension contributions, and investment returns, OPEB system schedule of funding progress, and the major fund budgetary comparison schedules, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harper Woods, Michigan's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information, as identified in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

June 28, 2017

City of Harper Woods, Michigan

Management's Discussion and Analysis

This section of the annual financial report for the City of Harper Woods, Michigan (the "City") is our discussion and analysis of the City's performance for the fiscal year ended December 31, 2016. Please read it in conjunction with the City's financial statements, which follow this section.

Using this Annual Report

This annual report includes a series of financial statements. Two kinds of statements follow, which present different views of the City. The statement of net position and the statement of activities provide information about the City as a whole and present a longer-term view of the City's finances. This kind of statement measures the cost of providing services for the year, shows whether the taxpayers have funded the full cost of providing government services, and uses the accrual basis of accounting.

The second kind of statement includes the fund financial statements, which show the status of the City in more detail. The fund financial statements also show how the services and programs of the City were financed in the short term. The fund statements include the fiduciary fund statements, which provide information about activities in which the City acts solely as a trustee or agent for benefit of those outside the government.

The City of Harper Woods, Michigan as a Whole

The following table shows, in a condensed format, the net position as of December 31, 2016 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015 - As Restated	2016	2015 - As Restated
Assets						
Current assets	\$ 12,632	\$ 12,807	\$ 1,145	\$ 702	\$ 13,776	\$ 13,509
Noncurrent assets - Capital assets	15,386	16,460	5,563	4,961	20,949	21,421
Total assets	28,018	29,267	6,708	5,663	34,725	34,930
Deferred Outflows of Resources	6,944	6,547	408	202	7,352	6,749
Liabilities						
Current liabilities	1,990	2,671	778	547	2,768	3,218
Long-term liabilities	44,017	51,271	4,922	3,962	48,939	55,233
Total liabilities	46,007	53,942	5,700	4,509	51,707	58,451
Deferred Inflows of Resources	9,034	7,050	114	-	9,148	7,050
Net Position						
Net investment in capital assets	13,284	14,335	2,725	2,450	16,009	16,785
Restricted	3,185	2,203	-	-	3,185	2,203
Unrestricted	(35,571)	(41,716)	(1,423)	(1,094)	(37,972)	(42,810)
Total net position	<u>\$ (20,079)</u>	<u>\$ (25,178)</u>	<u>\$ 1,302</u>	<u>\$ 1,356</u>	<u>\$ (18,778)</u>	<u>\$ (23,822)</u>

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

Expenses for the City's governmental activities totaled \$10.3 million for the year ended December 31, 2016, which was a decrease of approximately 47.7 percent, with public safety showing the largest decrease related to a \$5.7 million pension recovery in the current year. All other activities are showing slight increases or decreases over the last year.

The following represents the most significant financial highlights for the year ended December 31, 2016:

The City continued to review personnel levels to reduce expenses, along with continuing to curb spending. The City did not make reductions in city service areas, but maintained spending in the service areas. Capital outlays were reduced. The City had long-term employees retire, which reduces future payroll expense; however, those employees had payouts which resulted in higher wages reported than expected.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide potable water to our residents. The City pumps its sewage to the City of Detroit, Michigan for treatment and disposal. This year's operations were negative, in part due to rising operating costs. The outcome was again buffered by charging 50 percent of the excess flow to the Storm Drain Fund for Milk River Drain maintenance, a practice started in 2005, when Wayne County changed its invoicing for sewer and drain charges.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. Funds are created to help manage money for specific purposes, as well as show accountability for certain activities. The City's major funds are the General Fund, Storm Drain Fund, and Refuse Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire services, which incurred expenses of approximately \$4.5 million in 2016. The General Fund is supported primarily by property taxes and state-shared revenue.

The Storm Drain Fund manages the Milk River Drain, debt, and maintenance. It is funded by a storm water utility charge based on property area and imperviousness.

The Refuse Fund manages the City's rubbish removal services. It is funded by a dedicated property tax millage and user fees.

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the city administration and City Council monitor the budget and, if necessary, amend the budget to take into account unanticipated events that occur during the year. There were amendments made in 2016. Significant revenue budget variances were due to the increased revenue from service fees and decreased property tax revenue due to decreases in property tax values, adjustments for delinquent taxes, and tax tribunal settlements. Significant expenditure variances were due to the cost of health care as well as employee wages and retiree payouts.

Capital Asset and Debt Administration

At the end of fiscal year 2016, the City had \$20.9 million invested in capital assets (land, buildings, equipment, vehicles, and water, sewer, and storm lines).

Debt reported in these financial statements is related to a Library Bond and Sewage Disposal System Revenue Bond. The Library Bond has a maturity date in 2024 and the Sewage Revenue Bond has a maturity date in 2021.

Economic Factors and Next Year's Budgets and Rates

The City will continue to face challenges with reduction in property tax revenue due to the reduction in state-equalized value of properties and the continuing impact of the Headlee Amendment and Proposal A. The City will need to watch the budget closely and consider amendments as necessary.

On the expense side of the equation, medical insurance continues to be a concern. The City has made changes to both active and retiree plans, which was possible once we contracted with Cornerstone Municipal. Water rates are analyzed each year and increased as necessary to fund operations. We will continue to monitor the budget in the Water and Sewer Fund closely and make amendments and adjustments as necessary.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with an overview of the City's finances and to show the City's accountability for the revenue it receives. If you have any questions about this report or need additional information, we invite you to contact the City of Harper Woods, Michigan's finance department.

City of Harper Woods, Michigan

Statement of Net Position December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 5,517,695	\$ -	\$ 5,517,695	\$ 25,049
Receivables:				
Taxes	4,623,182	202,300	4,825,482	-
Customers	-	1,191,296	1,191,296	-
Other receivables	522,878	-	522,878	-
Due from other governmental units	407,859	-	407,859	-
Service fee	1,043,496	-	1,043,496	-
Internal balances (Note 5)	269,383	(269,383)	-	-
Inventories and prepaid items	192,059	20,947	213,006	-
Investment in joint venture (Note 8)	55,498	-	55,498	-
Capital assets (Note 4):				
Assets not subject to depreciation	737,949	-	737,949	-
Assets subject to depreciation - Net	14,647,489	5,562,672	20,210,161	-
Total assets	28,017,488	6,707,832	34,725,320	25,049
Deferred Outflows of Resources - Deferred outflows related to pensions	6,943,872	407,717	7,351,589	-
Liabilities				
Accounts payable	599,906	585,507	1,185,413	-
Accrued liabilities and other	527,244	26,827	554,071	-
Rehabilitation escrow	325,951	-	325,951	-
Noncurrent liabilities:				
Due within one year (Note 6)	536,527	165,860	702,387	-
Due in more than one year:				
Accumulated employee benefits	470,600	-	470,600	-
Net pension liability (Note 9)	26,142,033	1,534,959	27,676,992	-
Net other postemployment benefit obligations (Note 10)	15,539,566	694,104	16,233,670	-
Long-term debt - Net of current portion (Note 6)	1,865,066	2,692,528	4,557,594	-
Total liabilities	46,006,893	5,699,785	51,706,678	-
Deferred Inflows of Resources				
Property taxes levied for the following year	7,089,489	-	7,089,489	25,049
Deferred inflows related to pensions	1,944,564	114,177	2,058,741	-
Total deferred inflows of resources	9,034,053	114,177	9,148,230	25,049
Net Position				
Net investment in capital assets	13,283,845	2,725,144	16,008,989	-
Restricted for:				
Streets and highways	301,474	-	301,474	-
Debt service	2,651,491	-	2,651,491	-
Library	56,795	-	56,795	-
Drug enforcement	52,735	-	52,735	-
Grants	13,960	-	13,960	-
Construction	23,307	-	23,307	-
Public safety	85,151	-	85,151	-
Unrestricted	(36,548,344)	(1,423,557)	(37,971,901)	-
Total net position	\$ (20,079,586)	\$ 1,301,587	\$ (18,777,999)	\$ -

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Harper Woods, Michigan

Functions/Programs	Expenses	Expenses - Pension Recovery	Program Revenue	
			Charges for Services	Operating Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 7,506,563	\$ (1,935,641)	\$ 1,771,523	\$ -
Public safety	4,954,590	(5,682,232)	66,137	306,239
Public works	4,456,909	-	2,155,650	-
Recreation and culture	950,414	-	328,786	-
Interest on long-term debt	18,473	-	-	-
Total governmental activities	17,886,949	(7,617,873)	4,322,096	306,239
Business-type activities - Water and Sewer Fund	4,864,745	-	4,099,267	-
Total primary government	<u>\$ 22,751,694</u>	<u>\$ (7,617,873)</u>	<u>\$ 8,421,363</u>	<u>\$ 306,239</u>
Component unit - Brownfield Redevelopment Center	<u>\$ 43,840</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenue:				
Property taxes				
State-shared revenue				
Other miscellaneous income				
Income from joint venture				
Total general revenue				
Transfers				
Change in Net Position				
Net Position - Beginning of year (as restated) (Note 14)				
Net Position - End of year				

Statement of Activities
Year Ended December 31, 2016

Program Revenue Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
\$ -	\$ (3,799,399)	\$ -	\$ (3,799,399)	\$ -
85,056	1,185,074	-	1,185,074	-
26,139	(2,275,120)	-	(2,275,120)	-
-	(621,628)	-	(621,628)	-
-	(18,473)	-	(18,473)	-
111,195	(5,529,546)	-	(5,529,546)	-
-	-	(765,478)	(765,478)	-
\$ 111,195	(5,529,546)	(765,478)	(6,295,024)	-
\$ -	-	-	-	(43,840)
	8,302,661	-	8,302,661	43,840
	2,271,699	-	2,271,699	-
	761,831	-	761,831	-
	3,126	-	3,126	-
	11,339,317	-	11,339,317	43,840
	(711,250)	711,250	-	-
	5,098,521	(54,228)	5,044,293	-
	(25,178,107)	1,355,815	(23,822,292)	-
	\$ (20,079,586)	\$ 1,301,587	\$ (18,777,999)	\$ -

City of Harper Woods, Michigan

Governmental Funds Balance Sheet December 31, 2016

	General Fund	Storm Drain Fund	Refuse Fund	Nonmajor Funds	Total
Assets					
Cash and investments (Note 3)	\$ 511,890	\$ 3,302,013	\$ -	\$ 1,350,912	\$ 5,164,815
Receivables:					
Taxes	3,897,421	-	307,353	418,408	4,623,182
Other receivables	433,736	89,142	-	-	522,878
Due from other governmental units	247,341	-	-	160,518	407,859
Service fee	-	1,043,496	-	-	1,043,496
Due from other funds (Note 5)	399,462	-	-	-	399,462
Inventories and prepaid items	181,466	-	-	10,593	192,059
Total assets	\$ 5,671,316	\$ 4,434,651	\$ 307,353	\$ 1,940,431	\$ 12,353,751
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 294,316	\$ 226,935	\$ 8,485	\$ 66,334	\$ 596,070
Accrued liabilities and other	416,866	24,769	39,322	31,433	512,390
Rehabilitation escrow	-	-	-	325,951	325,951
Total liabilities	711,182	251,704	47,807	423,718	1,434,411
Deferred Inflows of Resources - Property taxes levied for the following year	4,050,306	1,836,812	511,722	690,649	7,089,489
Fund Balances					
Nonspendable:					
Inventory	30,983	-	-	10,593	41,576
Prepays	150,483	-	-	-	150,483
Restricted:					
Roads	-	-	-	301,474	301,474
Debt service	-	2,346,135	-	305,356	2,651,491
Grants	-	-	-	13,960	13,960
Library	-	-	-	56,795	56,795
Drug enforcement	-	-	-	52,735	52,735
Construction	23,307	-	-	-	23,307
Public safety	-	-	-	85,151	85,151
Unassigned	705,055	-	(252,176)	-	452,879
Total fund balances	909,828	2,346,135	(252,176)	826,064	3,829,851
Total liabilities, deferred inflows of resources, and fund balances	\$ 5,671,316	\$ 4,434,651	\$ 307,353	\$ 1,940,431	\$ 12,353,751

City of Harper Woods, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Position December 31, 2016

Fund Balance Reported in Governmental Funds	\$ 3,829,851
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	15,148,738
Investments in joint ventures are not financial resources and are not reported in the funds	55,498
Net pension obligation is not due and payable in the current period and is not reported in the funds	(26,142,033)
Net OPEB obligation is not due and payable in the current period and is not reported in the funds	(15,539,566)
Certain changes in pension plan net position are reported as deferred inflows of resources in the statement of net position, but are not reported in the funds	(1,944,564)
Certain changes in pension plan net position are reported as deferred outflows of resources in the statement of net position, but are not reported in the funds	6,943,872
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(2,101,593)
Accrued interest is not due and payable in the current period and is not reported in the funds	(13,529)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities	(770,600)
Internal service funds are included as part of governmental activities	454,340
Net Position of Governmental Activities	<u>\$ (20,079,586)</u>

City of Harper Woods, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended December 31, 2016

	General Fund	Storm Drain Fund	Refuse Fund	Nonmajor Funds	Total
Revenue					
Property taxes	\$ 7,001,581	\$ -	\$ 526,094	\$ 774,986	\$ 8,302,661
Licenses and permits	468,564	-	-	-	468,564
Federal sources	209,488	-	-	-	209,488
State sources	1,580,366	-	-	862,682	2,443,048
Charges for services	488,107	-	393,494	-	881,601
Fines and forfeitures	847,540	-	-	-	847,540
Service fees	288,886	1,837,110	-	-	2,125,996
Miscellaneous revenue	393,739	-	11,802	466,282	871,823
Total revenue	11,278,271	1,837,110	931,390	2,103,950	16,150,721
Expenditures					
Current:					
General government	5,640,597	-	7,000	86,000	5,733,597
Public safety	4,515,488	-	-	36,181	4,551,669
Public works	581,071	965,632	805,023	1,136,616	3,488,342
Recreation and culture	291,465	-	-	610,380	901,845
Capital outlay	237,950	177	-	2,279	240,406
Debt service:					
Principal retirement	-	-	-	150,000	150,000
Interest and fiscal charges	-	-	-	88,350	88,350
Total expenditures	11,266,571	965,809	812,023	2,109,806	15,154,209
Excess of Revenue Over (Under) Expenditures	11,700	871,301	119,367	(5,856)	996,512
Other Financing Sources (Uses) (Note 5)					
Proceeds from capital lease obligation	195,398	-	-	-	195,398
Transfers in	-	-	-	279,999	279,999
Transfers out	(711,250)	-	-	(279,999)	(991,249)
Total other financing uses	(515,852)	-	-	-	(515,852)
Net Change in Fund Balances	(504,152)	871,301	119,367	(5,856)	480,660
Fund Balances (Deficit) - Beginning of year	1,413,980	1,474,834	(371,543)	831,920	3,349,191
Fund Balances (Deficit) - End of year	<u>\$ 909,828</u>	<u>\$ 2,346,135</u>	<u>\$ (252,176)</u>	<u>\$ 826,064</u>	<u>\$ 3,829,851</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

City of Harper Woods, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) of Governmental Funds to the Statement of Activities Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds	\$ 480,660
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	195,398
Depreciation expense	(1,242,040)
Income from joint ventures does not represent current resources and is not reported in the funds	3,126
Net pension liabilities and related deferred outflows/inflows reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements	7,496,742
Net other postemployment benefit obligations reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements	(1,726,191)
Capital lease proceeds provide current financial resources to governmental funds, but represent an increase in long-term liabilities in the statement of net position	(195,399)
Capital lease payments and repayment of bond principal are expenditures in the governmental funds, but not in the statement of activities (where they reduce long-term debt)	218,806
Change in accrued interest payable and other	1,072
Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources and, therefore, are not reported in the fund statements until they come due for payment	(174,299)
Internal service funds are included as part of governmental activities	40,646
Change in Net Position of Governmental Activities	<u>\$ 5,098,521</u>

City of Harper Woods, Michigan

Proprietary Funds Statement of Net Position December 31, 2016

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ -	\$ 352,880
Receivables - Customer receivables	1,393,596	-
Prepaid expenses and other assets	20,947	-
Total current assets	1,414,543	352,880
Noncurrent assets - Capital assets (Note 4) - Assets subject to depreciation - Net		
	5,562,672	236,700
Total assets	6,977,215	589,580
Deferred Outflows of Resources - Deferred outflows related to pensions		
	407,717	-
Liabilities		
Current liabilities:		
Accounts payable	585,507	3,836
Due to other funds (Note 5)	269,383	130,079
Accrued liabilities and other	26,827	1,325
Current portion of compensated absences (Note 6)	20,860	-
Current portion of long-term debt (Note 6)	145,000	-
Total current liabilities	1,047,577	135,240
Noncurrent liabilities:		
Net pension liability (Note 9)	1,534,959	-
Net other postemployment benefit obligation (Note 10)	694,104	-
Long-term debt (Note 6)	2,692,528	-
Total noncurrent liabilities	4,921,591	-
Total liabilities	5,969,168	135,240
Deferred Inflows of Resources - Deferred inflows related to pensions		
	114,177	-
Net Position		
Net investment in capital assets	2,725,144	236,700
Unrestricted (deficit)	(1,423,557)	217,640
Total net position	<u>\$ 1,301,587</u>	<u>\$ 454,340</u>

City of Harper Woods, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended December 31, 2016

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Customer billings	\$ 4,026,018	\$ -
Other operating revenue	73,249	-
Billings to other funds	-	292,129
Total operating revenue	4,099,267	292,129
Operating Expenses		
Cost of materials	-	26,587
Water supply and sewage disposal	2,808,797	-
Operating and maintenance costs	963,475	136,556
General and administrative	982,714	60,500
Depreciation	109,759	27,840
Total operating expenses	4,864,745	251,483
Operating (Loss) Income	(765,478)	40,646
Transfers In (Note 5)	711,250	-
Change in Net Position	(54,228)	40,646
Net Position - Beginning of year (as restated) (Note 14)	1,355,815	413,694
Net Position - End of year	\$ 1,301,587	\$ 454,340

City of Harper Woods, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2016

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	\$ 4,027,588	\$ -
Receipts from interfund services and reimbursements	-	307,919
Payments to suppliers	(2,642,147)	(136,118)
Payments to employees	(1,312,402)	(88,206)
Internal activity - Payments to other funds	(481,429)	-
Net cash (used in) provided by operating activities	(408,390)	83,595
Cash Flows from Noncapital Financing Activities -		
Transfers from other funds	711,250	-
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(711,240)	-
Net proceeds received from capital debt	326,240	-
Net cash used in capital and related financing activities	(385,000)	-
Net (Decrease) Increase in Cash and Cash Equivalents	(82,140)	83,595
Cash and Cash Equivalents - Beginning of year	82,140	269,285
Cash and Cash Equivalents - End of year	\$ -	\$ 352,880
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (765,478)	\$ 40,646
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	109,759	27,840
Changes in assets and liabilities:		
Receivables	(71,679)	-
Prepaid and other assets	8,217	-
Accounts payable	973,751	(1,933)
Due (to) from others	(462,429)	15,790
Accrued and other liabilities	(200,531)	1,252
Net cash (used in) provided by operating activities	\$ (408,390)	\$ 83,595

City of Harper Woods, Michigan

Fiduciary Funds Statement of Fiduciary Net Position December 31, 2016

	<u>Agency Funds</u>
Assets - Cash	\$ 190,941
Liabilities	
Due to other governmental units	\$ 76,026
Refundable deposits, bonds, etc.	20,262
Tax collections distributable	94,653
	<hr/>
Total liabilities	\$ 190,941

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note I - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies used by the City of Harper Woods, Michigan (the "City"):

Reporting Entity

The City of Harper Woods, Michigan is governed by an elected seven-member council (board). The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units - The City has the Brownfield Redevelopment Authority (the "Authority"), which was created to facilitate the implementation of plans for the identification, treatment, and revitalization of an environmentally distressed area within the City designated as the Brownfield Redevelopment Zone. The Authority's governing body, which consists of five individuals, is selected by the City's council. In addition, the Authority's budget is subject to approval by the City's council. Complete financial statements can be obtained from the City of Harper Woods, Michigan at 19617 Harper Avenue, Harper Woods, MI 48225.

Accounting and Reporting Principles

The City follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB).

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. 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. The statements also present a schedule reconciling these amounts to the modified accrual-based presentation found in the fund-based statements.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

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 revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (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. Taxes and other items not properly included among program revenue are reported instead as general revenue.

For the most part, the effect of interfund activity has been removed from these 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 revenue reported for the various functions concerned.

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.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Revenue is not recognized until it is collected, or collected soon enough after the end of the year that it is available to pay for obligations outstanding at the end of the year. For this purpose, the City considers amounts collected within 60 days of year end to be available for recognition. The following major revenue sources meet the availability criterion: property taxes, intergovernmental sources, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred inflow." Proprietary funds and fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Fund Accounting

The City accounts for its various activities in several different funds in order to demonstrate accountability for how we have spent certain resources - separate funds allow us to show the particular expenditures for which specific revenue was used. The various funds are aggregated into three broad fund types:

Governmental Funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds. The City reports the following funds as “major” governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide general government services other than those specifically assigned to another fund.
- The Storm Drain Fund accounts for the annual payment of principal and interest on the City's share of Wayne County storm drain improvement bonds, as well as related maintenance costs on the drains. Financing is provided through a service fee charged to all properties within the City.
- The Refuse Fund accounts for the resources from a dedicated property tax millage to fund rubbish disposal activities.

Proprietary Funds include enterprise funds (which provide goods or services to users in exchange for charges or fees) and internal service funds (which provide goods or services to other funds of the City). The City reports the following fund as a “major” enterprise fund:

- The Water and Sewer Fund records maintenance and operations for the water and sewer provided to city residents and businesses that are financed primarily through user charges.

The City's internal service funds are used to allocate insurance costs and machinery and equipment purchases and maintenance to the various funds on a full accrual basis, so that the full costs are recognized and allocated to the various funds in the year that the costs are incurred.

Fiduciary Funds include amounts held in a fiduciary capacity for others. These amounts will not be used to operate our government's programs. Activities that are reported as fiduciary include:

- Agency funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note I - Summary of Significant Accounting Policies (Continued)

Interfund activity: During the course of operations, the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

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.

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), 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 \$2,500 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 acquisition value at the date of donation.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note I - Summary of Significant Accounting Policies (Continued)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$68,552 of interest expense was capitalized as part of the cost of assets under construction.

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

Capital Asset Class	Years
Infrastructure (roads, sidewalks, storm drains)	20-40
Land improvements	15-20
Buildings and building improvements	25-50
Vehicles	5-15
Office furnishings	10-20
Machinery and equipment	5-20
Water and sewer system	50

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method; bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an "other financing source," as well as bond premiums and discounts. The General Fund and debt service funds are generally used to liquidate governmental long-term debt.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City had one item that qualifies for reporting in this category, which is the deferred outflows of resources related to the defined benefit pension plan. The deferred outflows of resources related to the defined benefit plan are reported in the government-wide and enterprise fund financial statements. The deferred outflows of resources result from variances between the plan's actual investment earnings compared to the plan's assumed investment earnings, changes in plan assumptions, and contributions subsequent to the measurement date.

Note I - Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify for reporting in this category. (1) The City has property taxes levied before the period budgeted. These property taxes are shown as deferred inflows of resources on both the governmental funds balance sheet as well as the statement of net position. Those property taxes will be recognized as revenue next year, as those amounts were levied for the subsequent year's budgeted operations. (2) The City has deferred inflows of resources related to the defined benefit pension plan, which are reported in the government-wide and enterprise fund financial statements. The deferred inflows of resources result from differences in assumed and actual plan experience.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Note I - Summary of Significant Accounting Policies (Continued)

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The City Council may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

Property taxes are levied and become a lien on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2015 tax is levied and collectible on December 1, 2015 and is recognized as revenue in the year ended December 31, 2016, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2015 taxable valuation of the City totaled \$214,475,740, on which taxes levied consisted of 20.000 mills for operating purposes, 2.000 mills for debt service, 1.9168 mills for the library, and 2.5517 mills for rubbish removal. This resulted in approximately \$4,240,000 for operating purposes, \$424,000 for debt service, \$406,000 for the library, and \$541,000 for rubbish removal. These amounts are recognized in their respective funds as tax revenue. Pursuant to Public Act 33 of 1951, the City levied 4.000 mills on July 1, 2016 and 14.500 mills on December 1, 2016 for the payment of public safety expenditures. The taxes levied during 2016 as a result of the Public Act 33 millage resulted in approximately \$3,494,000 recognized in the General Fund as tax revenue for the year ended December 31, 2016.

Property taxes billed during the month of December 2016, with the exception of the Public Act 33 millage, will be used to finance 2017 operations. As such, these taxes are unavailable and are recorded as deferred inflows of resources in the respective funds at December 31, 2016.

Note I - Summary of Significant Accounting Policies (Continued)

Pension Costs - The City offers pension benefits to retirees. The City records a net pension liability for the difference between the total pension liability calculated by the actuary and the pension plan's fiduciary net position. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from the pension plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Other Postemployment Benefit Costs - The City offers retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any. The net OPEB obligation has generally been liquidated from the General Fund and Water and Sewer Fund.

Compensated Absences (Vacation and Sick Leave) - The City allows employees to accumulate earned but unused sick and vacation pay benefits. Under the City's policies, employees earn benefits based on time of service with the City. The government-wide and proprietary fund statements accrue all vacation and sick pay as it is earned. A liability for these amounts is reported in governmental funds as it becomes due for payment, generally when time is taken off or employees terminate their employment.

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund and internal service funds is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service 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.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

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 - Stewardship, Compliance, and Accountability

Budgetary Information

The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are also approved by the City Council. Unexpended appropriations lapse at year end and encumbrances outstanding at December 31, 2016 have not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. Budgetary comparison schedules are presented on the same basis of accounting used in preparing the adopted budget.

The budget document presents information by fund, activity, and line item. The level of budgetary control adopted by the City Council is the activity level. Expenditures at this level in excess of appropriations are a violation of state law. A comparison of the adopted budget with the actual revenue and expenditures for the year for the General Fund and Refuse Fund is presented as required supplemental information following the notes to the financial statements.

Excess of Expenditures Over Appropriations in Budgeted Funds

City Council - City council expenditures in the General Fund were approximately \$9,000 higher than budgeted.

City Manager - City manager expenditures in the General Fund were approximately \$5,000 higher than budgeted.

General Services Administration - General services administration expenditures in the General Fund were approximately \$48,000 higher than budgeted.

Clerk/Elections - Clerk/Elections expenditures in the General Fund were approximately \$46,000 higher than budgeted.

Building and Grounds - Building and grounds expenditures in the General Fund were approximately \$64,000 higher than budgeted.

District Court - District court expenditures in the General Fund were approximately \$67,000 higher than budgeted.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Law Enforcement - Law enforcement expenditures in the General Fund were approximately \$526,000 higher than budgeted.

Fire and EMS - Fire and EMS expenditures in the General Fund were approximately \$88,000 higher than budgeted.

Other Law Enforcement - Other law enforcement expenditures in the General Fund were approximately \$268,000 higher than budgeted.

Public Works - Public works expenditures in the General Fund were approximately \$46,000 higher than budgeted.

Recreation and Culture - Recreation and culture expenditures in the General Fund were approximately \$30,000 higher than budgeted.

Capital Outlay - Capital outlay expenditures in the General Fund were approximately \$157,000 higher than budgeted.

Public Works (Rubbish Disposal) - Rubbish disposal expenditures in the Refuse Fund were approximately \$20,000 higher than budgeted.

The budget overruns relate primarily to unanticipated professional service fees related to capital projects and other repairs and maintenance, cost of health care, employee wages, and retiree payouts.

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 is as follows:

Surplus at January 1, 2016		\$	143,912
Current year permit revenue			452,991
Related expenses:			
Direct costs	\$	521,451	
Estimated indirect costs		<u>52,145</u>	<u>573,596</u>
Current year deficit			<u>(120,605)</u>
Cumulative surplus at December 31, 2016		\$	<u>23,307</u>

Fund Deficits - The City has accumulated a deficit of unrestricted net position in the Equipment Fund. In addition, the City has accumulated a deficit of unassigned fund balance in the Refuse Fund. Plans to eliminate the deficits will be filed with the State of Michigan Local Audit Finance Division.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 3 - Deposits and Investments

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

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 third-party custodian's failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. The City's investment policy requires that the City limit investments to the safest types of securities, prequalify the financial institutions, brokers, dealers, intermediaries, and advisors with which the City does business, and diversify the investment portfolio so potential losses on individual securities will be minimized. At year end, the City had \$6.4 million of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 4 - Capital Assets

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

	Balance January 1, 2016	Additions	Disposals	Balance December 31, 2016
Governmental Activities				
Capital assets not being depreciated - Land	\$ 737,949	\$ -	\$ -	\$ 737,949
Capital assets being depreciated:				
Roads	15,993,495	-	-	15,993,495
Sidewalks	1,119,044	-	-	1,119,044
Storm drains	10,890,938	-	-	10,890,938
Buildings and improvements	4,307,994	-	-	4,307,994
Machinery and equipment	3,602,609	-	-	3,602,609
Vehicles	4,057,116	195,398	-	4,252,514
Office furnishings	277,979	-	-	277,979
Land improvements	553,194	-	-	553,194
Subtotal	40,802,369	195,398	-	40,997,767
Accumulated depreciation:				
Roads	10,089,163	639,740	-	10,728,903
Sidewalks	1,117,775	546	-	1,118,321
Storm drains	6,471,106	272,273	-	6,743,379
Buildings and improvements	1,372,943	83,880	-	1,456,823
Machinery and equipment	2,306,714	107,487	-	2,414,201
Vehicles	3,360,422	126,543	-	3,486,965
Office furnishings	141,316	13,751	-	155,067
Land improvements	220,959	25,660	-	246,619
Subtotal	25,080,398	1,269,880	-	26,350,278
Net capital assets being depreciated	15,721,971	(1,074,482)	-	14,647,489
Net capital assets	\$ 16,459,920	\$ (1,074,482)	\$ -	\$ 15,385,438

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 4 - Capital Assets (Continued)

	Balance January 1, 2016	Additions	Disposals	Balance December 31, 2016
Business-type Activities				
Capital assets not being depreciated - Construction in progress	\$ 2,853,727	\$ -	\$ (2,853,727)	\$ -
Capital assets being depreciated:				
Water system	5,110,535	2,851,974	-	7,962,509
Sewer system	1,240,998	712,993	-	1,953,991
Machinery and equipment	157,928	-	-	157,928
Subtotal	6,509,461	3,564,967	-	10,074,428
Accumulated depreciation:				
Water system	3,146,775	78,879	-	3,225,654
Sewer system	1,183,510	21,300	-	1,204,810
Machinery and equipment	71,712	9,580	-	81,292
Subtotal	4,401,997	109,759	-	4,511,756
Net capital assets being depreciated	2,107,464	3,455,208	-	5,562,672
Net capital assets	\$ 4,961,191	\$ 3,455,208	\$ (2,853,727)	\$ 5,562,672

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

Governmental activities:	
General government	\$ 91,303
Public safety	149,349
Public works	969,450
Recreation and culture	31,938
Internal service fund depreciation is charged to the various functions based on their usage of the asset	27,840
Total governmental activities	\$ 1,269,880
Business-type activities - Water and sewer	\$ 109,759

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund receivables of the City at December 31, 2016 are as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Water and Sewer Fund	\$ 269,383
	Internal Service fund	<u>130,079</u>
	Total General Fund	<u>\$ 399,462</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Transfer In	Transfer Out	Amount
Water and Sewer Fund	General Fund	\$ 711,250
Nonmajor governmental funds	Nonmajor governmental funds	279,999

The transfer from the General Fund to the Water and Sewer Fund represents the transfer of discretionary funds for water and sewer services and construction. The transfer from the nonmajor governmental funds to the nonmajor governmental funds represents the transfer of discretionary funds for local street construction.

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. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Long-term obligations are summarized as follows:

Description	Amount
Governmental Activities	
Unlimited tax general obligation bonds - 2004 General Obligation Library Bonds, \$3,100,000 original issue, bearing interest from 3.30 percent to 5.00 percent, maturing in 2024	<u>\$ 1,975,000</u>

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 6 - Long-term Debt (Continued)

Description	Amount				
Business-type Activities					
State Revolving Loan Fund - 2013 Sewage Disposal System Revenue Bonds, used to improve sewer system, bearing interest at 2.5 percent, maturing in 2021					<u>\$ 2,837,528</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Unlimited tax general obligation bonds	\$ 2,125,000	\$ -	\$ 150,000	\$ 1,975,000	\$ 175,000
Capital lease obligations	-	195,398	68,806	126,592	61,527
Total bonds payable	2,125,000	195,398	218,806	2,101,592	236,527
Accumulated compensated absences	596,301	174,299	-	770,600	300,000
Total governmental activities	<u>\$ 2,721,301</u>	<u>\$ 369,697</u>	<u>\$ 218,806</u>	<u>\$ 2,872,192</u>	<u>\$ 536,527</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities					
Limited tax general obligation bonds	\$ 2,511,288	\$ 466,240	\$ 140,000	\$ 2,837,528	\$ 145,000
Accumulated compensated absences	21,758	-	898	20,860	20,860
Total business-type activities	<u>\$ 2,533,046</u>	<u>\$ 466,240</u>	<u>\$ 140,898</u>	<u>\$ 2,858,388</u>	<u>\$ 165,860</u>

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 6 - Long-term Debt (Continued)

Total interest expense for the year was approximately \$87,279. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending December 31	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2017	\$ 236,527	\$ 88,454	\$ 324,981	\$ 145,000	\$ 69,126	\$ 214,126
2018	265,065	77,316	342,381	145,000	65,501	210,501
2019	225,000	64,806	289,806	150,000	61,813	211,813
2020	225,000	55,413	280,413	155,000	58,001	213,001
2021	250,000	45,313	295,313	160,000	54,063	214,063
2022-2026	900,000	62,568	962,568	850,000	208,441	1,058,441
2027-2031	-	-	-	975,000	94,379	1,069,379
2032-2033	-	-	-	257,528	4,407	261,935
Total	<u>\$ 2,101,592</u>	<u>\$ 393,870</u>	<u>\$ 2,495,462</u>	<u>\$ 2,837,528</u>	<u>\$ 615,731</u>	<u>\$ 3,453,259</u>

Bond Issuance - During 2012, the City issued \$3,410,000 in revenue bonds with an interest rate of 2.5 percent. The proceeds of these bonds are received on a reimbursement basis to fund sewer improvements throughout the City. As of December 31, 2016, \$2,837,528 in bond proceeds had been received as reimbursement for allowable construction costs and are recorded as long-term debt at December 31, 2016 within the Water and Sewer Fund. The bonds are payable solely from the net revenue of the sewer system. The remaining principal and interest to be paid on the bonds is \$3,453,259. During the current year, net revenue of the system totaled (\$657,672) compared to annual debt requirements of \$206,586.

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 medical claims and participates in the Michigan Municipal League 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 six fiscal years.

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

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 7 - Risk Management (Continued)

The City is also exposed to risk of loss as a result of flood damage to resident properties caused by sewage overflows. Previous incidents such as these were generally considered "acts of God" for which the City was not liable. However, as a result of a recent Michigan Supreme Court ruling, the City could now be liable for flood damages due to sewage overflows. Public Act 222 of 2001 has tempered this court ruling by 50 percent of the cause in order to support any claim against the City. In May 2002, the City Council adopted an ordinance consistent with the new state statute to further protect the City from sewer backup claims. The City has purchased commercial insurance to cover such claims.

Note 8 - Joint Venture

The City is a member of the Grosse Pointes - Clinton Refuse Disposal Authority (the "Authority") joint venture, which provides refuse disposal services to participating municipalities in the counties of Wayne and Macomb, Michigan. Other members include the cities of Grosse Pointe Farms, Grosse Pointe Park, Grosse Pointe, Grosse Pointe Shores, Grosse Pointe Woods, Mount Clemens, and the Township of Clinton. The City Council appoints one member to the joint venture's governing board, which then approves its annual budget. The Authority currently contracts with a commercial refuse disposal company and bills members for their proportionate share of costs.

The City's interest in the net position of the Authority totaled \$55,498 at December 31, 2016 and is reported as part of the governmental activities in the statement of net position. The Authority is expected to sell real estate assets in future years. It is unknown what benefit the City will realize as a result of these transactions. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional benefit or burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 3664 Nesting Ridge Drive, Rochester Hills, MI 48309.

Note 9 - Defined Benefit Pension Plan

Plan Description - The City participates in an agent multiple-employer defined benefit pension plan administered by the Municipal Employees Retirement System of Michigan (MERS) that covers all employees of the City. MERS was established as a statewide public employee pension plan by the Michigan Legislature under PA 135 of 1945 and is administered by a nine-member retirement board.

MERS issues a publicly available financial report, which includes the financial statements and required supplemental information of this defined benefit plan. This report can be obtained at www.mersofmichigan.com or in writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Note 9 - Defined Benefit Pension Plan (Continued)

Benefits Provided - The plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. PA 427 of 1984, as amended, established and amends the benefit provisions of the participants in MERS.

The MERS plan covers all full-time employees of the City.

Retirement benefits for general clerical employees are calculated as 2.25 percent of the average of the employee's highest five consecutive years out of the last 10 years times the employee's years of service. Normal retirement age is 60 with 10 or more years of service. The vesting period is 10 years. Benefits begin at age 60. Employees are eligible for duty-related disability benefits upon hire and for nonduty disability benefits after 10 years of service. Duty disability benefits are computed as regular retirement with a minimum benefit of 15 percent of final average salary. Nonduty disability retirement benefits are determined in the same manner as retirement benefits, but are payable immediately without an actuarial reduction. Duty death benefits equal a refund of accumulated contributions plus a benefit equal to the worker's compensation payment to the surviving spouse, unmarried children under 18, and dependent parents. Benefits are payable upon termination of worker's compensation and continue for life or until remarriage. Nonduty death benefits are computed as regular retirement, but actuarially reduced in accordance with a 100 percent joint and survivor election. An employee who leaves service may withdraw his or her contributions plus any accumulated interest.

Retirement benefits for DPW employees and general administrators are calculated as 2.25 percent of the average of the employee's highest five consecutive years for DPW and three consecutive years for general administrators out of the last 10 years. General administrators have a maximum benefit of 80 percent of the employee's final average salary. Normal retirement age is 60 with 10 or more years of service, with early retirement at 55 with 25 years of service. Vesting period is 10 years. Benefits begin at age 60 or at age 55 with 25 years of service. Employees are eligible for duty-related disability benefits upon hire and for nonduty disability benefits after 10 years of service. Duty disability benefits are computed as regular retirement with a minimum benefit of 15 percent of final average salary. Nonduty disability retirement benefits are determined in the same manner as retirement benefits. Duty death benefits equal a refund of accumulated contributions plus a benefit equal to the worker's compensation payment to the surviving spouse, unmarried children under 18, and dependent parents. Benefits are payable upon termination of worker's compensation and continue for life or until remarriage. Nonduty death benefits are computed as regular retirement, but actuarially reduced in accordance with a 100 percent joint and survivor election. An employee who leaves service may withdraw his or her contributions plus any accumulated interest.

Note 9 - Defined Benefit Pension Plan (Continued)

Retirement benefits for police patrol, command, and police chief are calculated as 2.75 percent of the average of the employee's highest three consecutive years for police command, and five consecutive years for patrol out of the last 10 years for police command, and five years for patrol with a maximum benefit of 80 percent of the employee's final average salary. Normal retirement age is 55 regardless of years of service, with early retirement at 50 with 25 years of service. The vesting period is 10 years. Benefits begin at age 60 or at age 50 with 25 years of service. Employees are eligible for duty-related disability benefits upon hire and for nonduty disability benefits after 10 years of service. Duty disability benefits are computed as regular retirement with a minimum benefit of 15 percent of final average salary. Nonduty disability retirement benefits are determined in the same manner as retirement benefits. Duty death benefits equal a refund of accumulated contributions plus a benefit equal to the worker's compensation payment to the surviving spouse, unmarried children under 18, and dependent parents. Benefits are payable upon termination of worker's compensation and continue for life or until remarriage. Nonduty death benefits are computed as regular retirement, but actuarially reduced in accordance with a 100 percent joint and survivor election. An employee who leaves service may withdraw his or her contributions plus any accumulated interest.

Retirement benefits for fire employees are calculated as 2.75 percent of the average of the employee's highest three consecutive years out of the last five years, with a maximum benefit of 80 percent of the employee's final average salary. Normal retirement age is 55 with 10 years of service, with early retirement at 50 with 25 years of service. The vesting period is 10 years. Benefits begin at age 60 or at age 50 with 25 years of service. Employees are eligible for duty-related disability benefits upon hire and for nonduty disability benefits after 10 years of service. Duty disability benefits are computed as regular retirement with a minimum benefit of 15 percent of final average salary. Nonduty disability retirement benefits are determined in the same manner as retirement benefits. Duty death benefits equal a refund of accumulated contributions plus a benefit equal to the worker's compensation payment to the surviving spouse, unmarried children under 18, and dependent parents. Benefits are payable upon termination of worker's compensation and continue for life or until remarriage. Nonduty death benefits are computed as regular retirement, but are actuarially reduced in accordance with a 100 percent joint and survivor election. An employee who leaves service may withdraw his or her contributions plus any accumulated interest.

Benefit terms, within the parameters established by MERS, are generally established and amended by authority of the City Council, generally after negotiations of these terms with the affected unions. Police and fire employees benefit terms may be subject to binding arbitration in certain circumstances.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 9 - Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms - At the December 31, 2015 measurement date, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	116
Inactive plan members entitled to but not yet receiving benefits	4
Active plan members	<u>55</u>
Total employees covered by MERS	<u><u>175</u></u>

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, MERS retains an independent actuary to determine the annual contribution. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS retirement board. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The employer may establish contribution rates to be paid by its covered employees.

For the year ended December 31, 2016, the average active employee contribution rate was between 5.00 percent and 7.25 percent of annual pay and the City's average contribution rate was 45.6 percent of annual payroll.

Net Pension Liability

The net pension liability reported at December 31, 2016 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of December 31, 2014, which used update procedures to roll forward the estimated liability to December 31, 2015.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 9 - Defined Benefit Pension Plan (Continued)

Changes in the net pension liability during the measurement year were as follows:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2014	\$ 59,924,481	\$ 23,649,791	\$ 36,274,690
Service cost	447,927	-	447,927
Interest	4,644,147	-	4,644,147
Changes in benefits	(8,564,790)	-	(8,564,790)
Differences between expected and actual experience	(2,931,089)	-	(2,931,089)
Changes in assumptions	938,326	-	938,326
Contributions - Employer	-	1,416,670	(1,416,670)
Contributions - Employee	-	204,517	(204,517)
Net investment income	-	1,168,106	(1,168,106)
Benefit payments, including refunds	(4,689,984)	(4,689,984)	-
Administrative expenses	-	(13,106)	13,106
Other	-	356,032	(356,032)
Net changes	(10,155,463)	(1,557,765)	(8,597,698)
Balance at December 31, 2015	\$ 49,769,018	\$ 22,092,026	\$ 27,676,992

Assumption Changes - From the time of the last measurement date at December 31, 2014 to December 31, 2015, the following significant assumptions were modified in order to perform the measurement of the total pension liability: (a) inflation decreased from 3.00 percent to 2.50 percent, (b) salary increase ranges changed from 4.50-8.30 percent to 3.75-14.75 percent including inflation, (c) investment rate of return increased from 7.75 percent to 8.00 percent, gross of pension plan investment expense and adjusted for inflation, and (d) mortality rates were updated from RP-2000 Combined Healthy Life Mortality Table to various RP-2014 mortality tables described below.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 9 - Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2016, the City recognized pension expense of \$5,458,554. At December 31, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (2,058,741)
Changes in assumptions	3,749,050	-
Net difference between projected and actual earnings on pension plan investments	1,670,257	-
Employer contributions to the plan subsequent to the measurement date	1,932,282	-
Total	<u>\$ 7,351,589</u>	<u>\$ (2,058,741)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending December 31	Amount
2017	\$ 481,531
2018	481,531
2019	861,105
2020	918,400
2021	617,999

Actuarial Assumptions - The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%	
Salary increases	3.75 - 14.75%	
Investment rate of return	8.00%	Gross of pension plan investment expense, including inflation

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 9 - Defined Benefit Pension Plan (Continued)

Mortality rates were based on a 50 percent male - 50 percent female blend of the following tables: (a) RP-2014 Healthy Annuitant Mortality Tables, with rates multiplied by 105 percent, (b) RP-2014 Employee Mortality Tables, and (c) RP-2014 Juvenile Mortality Tables. For disabled retirees, the mortality tables were based on the 50 percent male - 50 percent female blend of the RP-2014 Disabled Retiree Mortality Tables.

Discount Rate - The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumes that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of December 31, 2015, the measurement date, for each major asset class are summarized in the following table:

Asset Class	Target Allocation (%)	Long-term Expected Real Rate of Return
Global equity	58 %	5.00 %
Global fixed income	20	2.20
Real assets	12	4.20
Diversifying strategies	10	6.50

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 9 - Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 8.00 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.00 percent) or 1 percentage point higher (9.00 percent) than the current rate:

	1 Percent Decrease (7.00%)	Current Discount Rate (8.00%)	1 Percent Increase (9.00%)
Net pension liability of the City	\$ 32,583,613	\$ 27,676,992	\$ 23,476,003

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is not available in a separately issued financial report. For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows or resources related to pension, and pension expense, information about the plan's fiduciary net position and additions to/deductions from fiduciary net position has been determined on the same basis as they are reported by the plan. The plan uses the economic resources measurement focus and the full accrual basis of accounting. Investments are stated at fair value. Contribution revenue is recorded as contributions are due pursuant to legal requirements. Benefit payments and refunds of employee contributions are recognized as expense when due and payable in accordance with the benefit terms.

Note 10 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to all general, DPW, police, and fire employees. Eligibility conditions are as follows: general (age 60 with 10 or more years of service), DPW (age 60 with 10 or more years of service or age 55 with 25 or more years of service), police (age 50 with 25 or more years of service or age 55 with 10 or more years of service), and fire (age 50 with 25 or more years of service or age 55 with 10 or more years of service). The benefits provided cover the retired employee, as well as his or her spouse and eligible dependents. At December 31, 2013, the date of the most recent actuarial valuation, membership consisted of 113 retirees currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and 62 current active employees. At December 31, 2016, 120 retirees were eligible.

Funding Policy - The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). As shown below, the City has made no contributions to advance fund these benefits as of December 31, 2016.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 10 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2016, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2013. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	\$ 3,277,619
Interest on the prior year's net OPEB obligation	572,627
Less adjustment to the annual required contribution	<u>(665,950)</u>
Annual OPEB cost	3,184,296
Amounts contributed:	
Payments of current premiums	(1,266,306)
Advance funding	<u>-</u>
Increase in net OPEB obligation	1,917,990
OPEB obligation - Beginning of year	<u>14,315,680</u>
OPEB obligation - End of year	<u>\$ 16,233,670</u>

Employer contributions and annual OPEB cost data for the current and two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
12/31/16	\$ 3,184,296	39.8 %	\$ 16,233,670
12/31/15	3,106,008	35.0	14,315,680
12/31/14	3,248,323	30.6	12,296,685

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/13	\$ -	\$ 47,780,322	\$ 47,780,322	-	% \$ 3,929,586	1,215.9 %
12/31/10	-	54,633,594	54,633,594	-	6,229,056	877.1
12/31/08	-	35,500,009	35,500,009	-	6,521,118	544.4

Note 10 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2013 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 4 percent after year nine. Both rates included a 4.0 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013 was 27 years.

Note 11 - Contingent Liabilities

The City is a defendant in various legal actions that have arisen in the normal course of business. In the opinion of management, eventual resolution of these claims will not have a material effect on the City's financial position or results of operations.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 12 - Tax Abatements

The Brownfield Redevelopment Authority, a discretely presented component unit, uses Brownfield Redevelopment Agreements under PA 381 of 1996 to reimburse taxpayers that remediate environmental contamination on their properties. As a result of these agreements, the City's tax revenue is reduced. For the fiscal year ended December 31, 2016, the City abated \$43,840 of taxes under this program. There are no provisions to recapture taxes.

There are no significant abatements made by other governments that reduce the City's tax revenue.

Note 13 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the City to recognize on the face of the financial statements its net OPEB liability related to its participation in the OPEB plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2018 fiscal year.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this standard is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The standard will establish criteria for identifying fiduciary activities of all state and local governments, focusing such criteria on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the City's 2018 fiscal year.

Note 14 - Reporting Change (Prior Period Adjustments)

Net position of the business-type activities and the Water and Sewer Fund as of January 1, 2016 has been restated to adjust for an overstatement of accounts receivable and revenue.

The effect of this correction was to decrease net position by \$179,128 as of January 1, 2016 and reduce the change in net position for the year ended December 31, 2015 in the Water and Sewer Fund and business-type activities by the same amount.

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2016

Note 14 - Reporting Change (Prior Period Adjustments) (Continued)

The effect of this change is as follows:

	<u>Business-type Activities</u>	<u>Water and Sewer Fund</u>
Net position - December 31, 2015 - As previously reported	\$ 1,534,943	\$ 1,534,943
Adjustment for overstatement of accounts receivable and revenue	<u>(179,128)</u>	<u>(179,128)</u>
Net position - December 31, 2015 - As restated	<u>\$ 1,355,815</u>	<u>\$ 1,355,815</u>

The effect of the change in net position of the prior year is as follows:

	<u>Business-type Activities</u>	<u>Water and Sewer Fund</u>
Change in net position - December 31, 2015 - As previously reported	\$ (47,137)	\$ (47,137)
Adjustment for overstatement of accounts receivable and revenue	<u>(179,128)</u>	<u>(179,128)</u>
Change in net position - December 31, 2015 - As restated	<u>\$ (226,265)</u>	<u>\$ (226,265)</u>

Required Supplemental Information

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 7,628,178	\$ 7,433,985	\$ 7,001,581	\$ (432,404)
Licenses and permits	301,250	245,750	468,564	222,814
Federal sources	270,984	212,196	209,488	(2,708)
State sources	1,443,179	1,567,467	1,580,366	12,899
Charges for services	1,496,068	436,761	488,107	51,346
Service fees	-	1,000,000	847,540	(152,460)
Interest	-	300,000	288,886	(11,114)
Miscellaneous revenue	397,724	416,224	393,739	(22,485)
Total revenue	11,537,383	11,612,383	11,278,271	(334,112)
Expenditures - Current				
General government:				
City Council	24,363	24,363	33,438	(9,075)
City manager	98,681	98,681	103,486	(4,805)
General services administration	715,468	506,168	554,134	(47,966)
Clerk/Elections	101,720	121,220	166,762	(45,542)
Buildings and grounds	-	-	64,366	(64,366)
District court	437,090	437,091	504,267	(67,176)
Dial-A-Ride/PAATS	220	137,800	65,138	72,662
Insurance and other functions	5,387,147	5,511,591	4,149,006	1,362,585
Total general government	6,764,689	6,836,914	5,640,597	1,196,317
Law enforcement:				
Law enforcement	2,831,828	2,760,140	3,286,216	(526,076)
Fire and EMS	695,166	623,191	710,974	(87,783)
Other	250,500	250,500	518,298	(267,798)
Total law enforcement	3,777,494	3,633,831	4,515,488	(881,657)
Public works	535,210	535,210	581,071	(45,861)
Recreation and culture	270,715	261,465	291,465	(30,000)
Capital outlay	-	80,688	237,950	(157,262)
Total expenditures	11,348,108	11,348,108	11,266,571	81,537
Excess of Revenue Over Expenditures	189,275	264,275	11,700	(252,575)
Other Financing Sources (Uses)				
Proceeds from capital lease obligation	-	-	195,398	195,398
Transfers out	(161,250)	(947,500)	(711,250)	236,250
Total other financing uses	(161,250)	(947,500)	(515,852)	431,648
Net Change in Fund Balance	28,025	(683,225)	(504,152)	179,073
Fund Balance - Beginning of year	1,413,980	1,413,980	1,413,980	-
Fund Balance - End of year	<u>\$ 1,442,005</u>	<u>\$ 730,755</u>	<u>\$ 909,828</u>	<u>\$ 179,073</u>

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Refuse Fund Year Ended December 31, 2016

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 543,500	\$ 543,354	\$ 526,094	\$ (17,260)
Charges for services	386,390	379,837	393,494	13,657
Other revenue	-	10,981	11,802	821
Total revenue	<u>929,890</u>	<u>934,172</u>	<u>931,390</u>	<u>(2,782)</u>
Expenditures - Current				
General government	7,000	7,000	7,000	-
Public works - Rubbish disposal	<u>831,270</u>	<u>785,311</u>	<u>805,023</u>	<u>(19,712)</u>
Total expenditures	<u>838,270</u>	<u>792,311</u>	<u>812,023</u>	<u>(19,712)</u>
Net Change in Fund Balance	91,620	141,861	119,367	(22,494)
Fund Balance (Deficit) -				
Beginning of year	<u>(371,543)</u>	<u>(371,543)</u>	<u>(371,543)</u>	<u>-</u>
Fund Balance (Deficit) -				
End of year	<u>\$ (279,923)</u>	<u>\$ (229,682)</u>	<u>\$ (252,176)</u>	<u>\$ (22,494)</u>

City of Harper Woods, Michigan

Required Supplemental Information Schedule of Changes in the Net Pension Liability and Related Ratios Last Two Fiscal Years

	2016 (12/31/15 Measurement Date)	2015 (12/31/14 Measurement Date)
	<u> </u>	<u> </u>
Total Pension Liability		
Service cost	\$ 447,927	\$ 847,028
Interest	4,644,147	4,116,587
Changes in benefits	(8,564,790)	-
Differences between expected and actual experience	(2,931,089)	-
Changes in assumptions	938,326	4,325,983
Benefit payments, including refunds	<u>(4,689,984)</u>	<u>(4,117,700)</u>
Net Change in Total Pension Liability	(10,155,463)	5,171,898
Total Pension Liability - Beginning of year	<u>59,924,481</u>	<u>54,752,583</u>
Total Pension Liability - End of year	<u>\$ 49,769,018</u>	<u>\$ 59,924,481</u>
Plan Fiduciary Net Position		
Contributions - Employer	\$ 1,416,670	\$ 1,500,000
Contributions - Members	204,517	279,160
Net investment income	1,168,106	362,145
Administrative expenses	(13,106)	(11,000)
Benefit payments, including refunds	(4,689,984)	(4,117,700)
Other	<u>356,032</u>	<u>(3,461)</u>
Net Change in Plan Fiduciary Net Position	(1,557,765)	(1,990,856)
Plan Fiduciary Net Position - Beginning of year	<u>23,649,791</u>	<u>25,640,647</u>
Plan Fiduciary Net Position - End of year	<u>\$ 22,092,026</u>	<u>\$ 23,649,791</u>
City's Net Pension Liability - Ending	<u>\$ 27,676,992</u>	<u>\$ 36,274,690</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	44.39 %	39.47 %
Covered Employee Payroll	\$ 3,105,021	\$ 4,799,027
City's Net Pension Liability as a Percentage of Covered Employee Payroll	891.4 %	755.9 %

City of Harper Woods, Michigan

Required Supplemental Information Schedule of Pension Contributions Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 1,932,282	\$ 2,387,419	\$ 1,917,203	\$ 1,858,968	\$ 1,447,960	\$ 1,139,769	\$ 902,340	\$ 699,704	\$ 652,491	\$ 502,015
Contributions in relation to the actuarially determined contribution	<u>1,932,282</u>	<u>1,716,561</u>	<u>1,500,000</u>	<u>-</u>	<u>1,390,661</u>	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>500,000</u>	<u>500,000</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ 670,858</u>	<u>\$ 417,203</u>	<u>\$ 1,858,968</u>	<u>\$ 57,299</u>	<u>\$ 989,769</u>	<u>\$ 902,340</u>	<u>\$ 699,704</u>	<u>\$ 152,491</u>	<u>\$ 2,015</u>
Covered employee payroll	\$ 3,105,021	\$ 4,799,027	\$ 4,799,027	\$ 4,719,273	\$ 5,389,968	\$ 6,229,056	\$ 6,733,424	\$ 6,521,118	\$ 6,270,323	\$ 5,872,496
Contributions as a percentage of covered employee payroll	62.2 %	35.8 %	31.3 %	- %	25.8 %	2.4 %	- %	- %	8.0 %	8.5 %

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 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial-cost method	Entry-age normal
Amortization method	Level percent-of-payroll, closed period
Remaining amortization period	26 years
Asset valuation method	Five-year smoothed market
Inflation	3.00 percent for price inflation, 4.50 percent for wage inflation
Salary increases	4.50 percent to 8.30 percent, including inflation
Investment rate of return	7.75 percent (net of investment and administrative expenses)
Retirement age	Age-based table of rates that are specific to the type of eligibility condition.
Mortality	RP-2000 Combined Healthy Life Mortality Table

City of Harper Woods, Michigan

Required Supplemental Information Schedule of Pension Investment Returns Last Ten Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Annual money-weighted rate of return - Net of investment expense	2.5 %	0.5 %	1.4 %	- %	- %	- %	- %	- %	- %	- %

City of Harper Woods, Michigan

Required Supplemental Information OPEB System Schedule of Funding Progress Year Ended December 31, 2016

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/13	\$ -	\$ 47,780,322	\$ 47,780,322	- %	\$ 3,929,586	1,215.9 %
12/31/10	-	54,633,594	54,633,594	-	6,229,056	877.1
12/31/08	-	35,500,009	35,500,009	-	6,521,118	544.4

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/16	12/31/13	\$ 3,277,619	38.6 %
12/31/15	12/31/13	3,168,741	34.3
12/31/14	12/31/13	3,030,343	32.9

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2013, the latest actuarial valuation, is as follows:

Amortization method	Level percent
Amortization period (perpetual)	27-year closed
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	4.0%
*Includes inflation at	2.5%
Cost-of-living adjustments	None

Other Supplemental Information

City of Harper Woods, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds December 31, 2016

	Special Revenue Funds						Debt Service Fund		Total Nonmajor Governmental Funds
	Library Fund	Drug Law Enforcement	Police Forfeiture, Canine, and Special Projects Fund	Community Development Block Grant	Loan Revolving	Local Streets Fund	Major Streets Fund	General Obligation Bonds Fund	
Assets									
Cash and investments	\$ 241,421	\$ 52,735	\$ 85,151	\$ 63	\$ 322,219	\$ 166,417	\$ 59,548	\$ 423,358	\$ 1,350,912
Receivables:									
Taxes	228,689	-	-	-	-	-	-	189,719	418,408
Other governmental units	-	-	-	-	17,629	42,219	100,670	-	160,518
Inventories and prepaid	-	-	-	-	-	-	10,593	-	10,593
Total assets	\$ 470,110	\$ 52,735	\$ 85,151	\$ 63	\$ 339,848	\$ 208,636	\$ 170,811	\$ 613,077	\$ 1,940,431
Liabilities, Deferred Inflows of Resources, and Fund Balances									
Liabilities									
Accounts payable	\$ 3,120	\$ -	\$ -	\$ -	\$ -	\$ 21,848	\$ 41,366	\$ -	\$ 66,334
Accrued liabilities and other	27,267	-	-	-	-	1,458	2,708	-	31,433
Rehabilitation escrow	-	-	-	-	325,951	-	-	-	325,951
Total liabilities	30,387	-	-	-	325,951	23,306	44,074	-	423,718
Deferred Inflows of Resources -									
Property taxes levied for the following year	382,928	-	-	-	-	-	-	307,721	690,649
Fund Balances									
Nonspendable - Inventory	-	-	-	-	-	-	10,593	-	10,593
Restricted:									
Roads	-	-	-	-	-	185,330	116,144	-	301,474
Debt service	-	-	-	-	-	-	-	305,356	305,356
Grants	-	-	-	63	13,897	-	-	-	13,960
Library	56,795	-	-	-	-	-	-	-	56,795
Drug enforcement	-	52,735	-	-	-	-	-	-	52,735
Public safety	-	-	85,151	-	-	-	-	-	85,151
Total fund balances	56,795	52,735	85,151	63	13,897	185,330	126,737	305,356	826,064
Total liabilities, deferred inflows of resources, and fund balances	\$ 470,110	\$ 52,735	\$ 85,151	\$ 63	\$ 339,848	\$ 208,636	\$ 170,811	\$ 613,077	\$ 1,940,431

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended December 31, 2016

	Special Revenue Funds							Debt Service	Total Nonmajor Governmental Funds
	Library Fund	Drug Law Enforcement	Police Forfeiture, Canine, and Special Projects Fund	Community Development Block Grant	Loan - Revolving	Local Streets Fund	Major Streets Fund	General Obligation Bonds Fund	
Revenue									
Property taxes	\$ 364,869	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 410,117	\$ 774,986
State-shared revenue and grants	9,309	-	-	9,563	-	249,307	594,503	-	862,682
Other revenue	200,020	5,495	96,751	-	-	49,073	114,943	-	466,282
Total revenue	574,198	5,495	96,751	9,563	-	298,380	709,446	410,117	2,103,950
Expenditures									
Current:									
General government	-	-	-	9,500	-	28,500	48,000	-	86,000
Public safety	-	24,581	11,600	-	-	-	-	-	36,181
Public works	-	-	-	-	-	369,870	766,746	-	1,136,616
Recreation and culture	610,380	-	-	-	-	-	-	-	610,380
Capital outlay	-	2,279	-	-	-	-	-	-	2,279
Debt service	-	-	-	-	-	-	-	238,350	238,350
Total expenditures	610,380	26,860	11,600	9,500	-	398,370	814,746	238,350	2,109,806
Excess of Revenue (Under) Over Expenditures	(36,182)	(21,365)	85,151	63	-	(99,990)	(105,300)	171,767	(5,856)
Other Financing Sources (Uses)									
Transfers in	-	-	-	-	-	279,999	-	-	279,999
Transfers out	-	-	-	-	-	-	(279,999)	-	(279,999)
Total other financing sources (uses)	-	-	-	-	-	279,999	(279,999)	-	-
Net Change in Fund Balances	(36,182)	(21,365)	85,151	63	-	180,009	(385,299)	171,767	(5,856)
Fund Balances - Beginning of year	92,977	74,100	-	-	13,897	5,321	512,036	133,589	831,920
Fund Balances - End of year	\$ 56,795	\$ 52,735	\$ 85,151	\$ 63	\$ 13,897	\$ 185,330	\$ 126,737	\$ 305,356	\$ 826,064

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Net Position Internal Service Funds December 31, 2016

	Equipment Fund	Self-insurance Fund	Total
Assets			
Cash and investments	\$ 83,595	\$ 269,285	\$ 352,880
Noncurrent assets - Capital assets	236,700	-	236,700
Total assets	320,295	269,285	589,580
Liabilities - Current liabilities			
Accounts payable	3,836	-	3,836
Due to other funds	130,079	-	130,079
Accrued liabilities and other	1,325	-	1,325
Total liabilities	135,240	-	135,240
Net Position			
Net investment in capital assets	236,700	-	236,700
Unrestricted (deficit)	(51,645)	269,285	217,640
Total net position	\$ 185,055	\$ 269,285	\$ 454,340

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Position Internal Service Funds Year Ended December 31, 2016

	Equipment Fund	Self-insurance Fund	Total
Operating Revenue - Billings to other funds	\$ 292,129	\$ -	\$ 292,129
Operating Expenses			
Cost of materials	26,587	-	26,587
Other operating and maintenance costs	136,556	-	136,556
General and administrative	60,500	-	60,500
Depreciation	27,840	-	27,840
Total operating expenses	251,483	-	251,483
Change in Net Position	40,646	-	40,646
Net Position - Beginning of year	144,409	269,285	413,694
Net Position - End of year	<u>\$ 185,055</u>	<u>\$ 269,285</u>	<u>\$ 454,340</u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended December 31, 2016

	Equipment Fund	Self-insurance Fund	Total
Cash Flows from Operating Activities			
Receipts from interfund services and reimbursements	\$ 307,919	\$ -	\$ 307,919
Payments to suppliers	(136,118)	-	(136,118)
Payments to employees	(88,206)	-	(88,206)
Net Change in Cash and Cash Equivalents -			
Net cash provided by operating activities	83,595	-	83,595
Cash and Cash Equivalents - Beginning of year	-	269,285	269,285
Cash and Cash Equivalents - End of year	\$ 83,595	\$ 269,285	\$ 352,880
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 40,646	\$ -	\$ 40,646
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	27,840	-	27,840
Changes in assets and liabilities:			
Accounts payable	(1,933)	-	(1,933)
Due to others	15,790	-	15,790
Accrued and other liabilities	1,252	-	1,252
Net cash provided by operating activities	\$ 83,595	\$ -	\$ 83,595

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds December 31, 2016

	<u>Tax Collection</u>	<u>District Court</u>	<u>Total Agency Funds</u>
Assets - Cash and cash equivalents	\$ 94,653	\$ 96,288	\$ 190,941
Liabilities			
Due to other governmental units	\$ -	\$ 76,026	\$ 76,026
Refundable deposits, bonds, etc.	-	20,262	20,262
Tax collections distributable	94,653	-	94,653
Total liabilities	\$ 94,653	\$ 96,288	\$ 190,941