
City of Harper Woods, Michigan

**Financial Report
with Supplemental Information
December 31, 2018**

Mayor and City Council

Mayor

Kenneth A. Poynter

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

Vivian M. Sawicki
Valerie Kindle
Cheryl A. Costantino
Will Smith
Tom Jenny
Veronica Paiz

City Administration

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.

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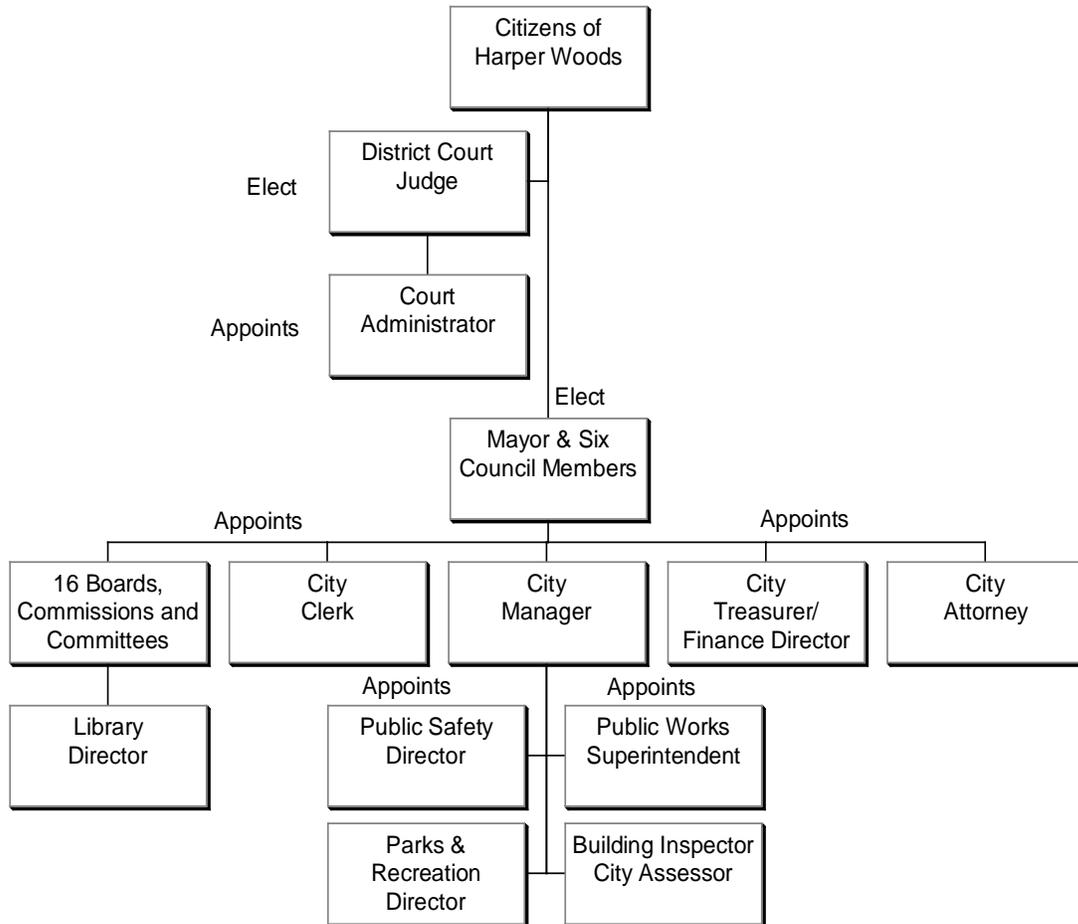
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Introductory Section

CITY OF HARPER WOODS ADMINISTRATIVE ORGANIZATION CHART



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, 2018 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, 2018 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.

Emphasis of Matter

As described in Note 13 to the financial statements, during the year ended December 31, 2018, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which results in the City restating net position for the recognition of the City's other postemployment benefit-related activity incurred prior to January 1, 2018. Our opinion is not modified with respect to this matter.

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

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 and pension contributions; OPEB system schedule of changes in the total OPEB liability; and the major fund budgetary comparison schedules 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 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

June 20, 2019

Financial Section

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, 2018. 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, 2018 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current assets	\$ 14,784	\$ 12,641	\$ 903	\$ 947	\$ 15,687	\$ 13,588
Noncurrent assets - Capital assets	22,739	14,985	5,335	5,458	28,074	20,443
Total assets	37,523	27,626	6,238	6,405	43,761	34,031
Deferred Outflows of Resources	4,475	5,760	533	335	5,008	6,095
Liabilities						
Current liabilities	1,503	1,485	386	355	1,889	1,840
Long-term liabilities	80,591	45,775	11,353	5,234	91,944	51,009
Total liabilities	82,094	47,260	11,739	5,589	93,833	52,849
Deferred Inflows of Resources	10,505	8,792	498	98	11,003	8,890
Net Position						
Net investment in capital assets	11,301	13,037	2,625	2,603	13,926	15,640
Restricted	5,253	3,748	-	-	5,253	3,748
Unrestricted	(67,155)	(39,451)	(8,091)	(1,550)	(75,246)	(41,001)
Total net position	<u>\$(50,601)</u>	<u>\$(22,666)</u>	<u>\$(5,466)</u>	<u>\$ 1,053</u>	<u>\$(56,067)</u>	<u>\$(21,613)</u>

In 2018, the City's combined net deficit increased by approximately 161 percent from a year ago - from \$21.6 million to \$56.1 million. The governmental activities net deficit increased from net deficit of \$22.7 million to a deficit of \$50.6 million. This is a result of the implementation of GASB Statement No. 75 in fiscal year 2018. Fiscal year 2017 amounts shown have not been modified to reflect the retroactive application of the change; however, the ending net position for that year was adjusted to properly state the fiscal year 2018 beginning net position. The business-type activities net position decreased from \$1.05 million to a \$5.5 million deficit as a result of the implementation of GASB Statement No. 75 in fiscal year 2018.

City of Harper Woods, Michigan

Management's Discussion and Analysis

The following table shows the change in net position for the year ended December 31, 2018 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenue						
Program revenue:						
Charges for services	\$ 4,150	\$ 4,434	\$ 4,904	\$ 4,263	\$ 9,054	\$ 8,697
Operating grants and contributions	248	292	-	-	248	292
Capital grants and contributions	109	98	-	-	109	98
General revenue:						
Property taxes	9,316	7,847	-	-	9,316	7,847
State-shared revenue	2,661	2,707	-	-	2,661	2,707
Interest	-	-	-	-	-	-
Miscellaneous	1,083	503	-	-	1,083	502
Total revenue	17,567	15,881	4,904	4,263	22,471	20,143
Program Expenses						
General government	8,062	8,283	-	-	8,062	8,282
Public safety	4,575	5,518	-	-	4,575	5,518
Public works	3,360	3,320	-	-	3,360	3,320
Recreation and culture	886	977	-	-	886	977
Interest on long-term debt	329	101	-	-	329	101
Water and sewer	-	-	5,989	4,781	5,989	4,781
Total program expenses	17,212	18,199	5,989	4,781	23,201	22,979
Transfers	-	(269)	-	269	-	-
Change in Net Position	355	(2,587)	(1,085)	(249)	(730)	(2,836)
Net Position - Beginning of year - As restated	(50,956)	(20,079)	(4,381)	1,302	(55,337)	(18,777)
Net Position - End of year	<u>\$ (50,601)</u>	<u>\$ (22,666)</u>	<u>\$ (5,466)</u>	<u>\$ 1,053</u>	<u>\$ (56,067)</u>	<u>\$ (21,613)</u>

Governmental Activities

Total revenue for the City's governmental activities was \$17.6 million for the year ended December 31, 2018. The City experienced an increase in property tax revenue, while state revenue and charges for services decreased in 2018.

Management's Discussion and Analysis

Expenses for the City's governmental activities totaled \$17.2 million for the year ended December 31, 2018, which was a decrease of approximately 5.4 percent, with public safety showing the largest decrease as a result of retirements/terminations. 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, 2018:

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. The City had long-term employees retire, which reduces future payroll expense; however, those employees had vacation and sick leave payouts which resulted in higher wages reported than expected. The City incurred additional expenses from the unexpected breakdown of its 911 emergency call service system that occurred in the prior year and several tax tribunal settlements.

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 \$4.6 million in 2018. 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.

Management's Discussion and Analysis

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 2018. Significant revenue budget variances were due to the decreased revenue from fines and forfeitures and increased property tax revenue due to rising property tax values, adjustments for delinquent taxes, and smaller tax tribunal settlements. Significant favorable expenditure variances were due to containment of health care costs, allocation of administrative salaries to various funds.

Capital Asset and Debt Administration

At the end of fiscal year 2018, the City had \$28.1 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, Sewage Disposal System Revenue Bond, Milk River Drainage District Bond, and a Capital Improvement Bond. The Library Bond has a maturity date in 2024, the Sewage Revenue Bond has a maturity date in 2021, the Milk River Drainage District Bond has a maturity date in 2039, and the Capital Improvement Bond has a maturity date in 2038.

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.

December 31, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 6,836,708	\$ -	\$ 6,836,708	\$ 29,927
Receivables:				
Property taxes	5,009,448	-	5,009,448	-
Customers	-	935,576	935,576	-
Other receivables	584,632	-	584,632	-
Due from other governmental units	536,943	-	536,943	-
Service fee	1,061,954	-	1,061,954	-
Internal balances	61,964	(61,964)	-	-
Inventories and prepaid items	417,466	29,197	446,663	-
Restricted assets - Restricted cash and cash equivalents	226,380	-	226,380	-
Investment in joint venture (Note 8)	47,924	-	47,924	-
Capital assets: (Note 4)				
Assets not subject to depreciation	9,576,492	-	9,576,492	-
Assets subject to depreciation - Net	13,162,803	5,335,151	18,497,954	-
Total assets	37,522,714	6,237,960	43,760,674	29,927
Deferred Outflows of Resources - Deferred outflows related to pensions (Note 9)	4,475,008	532,989	5,007,997	-
Liabilities				
Accounts payable	390,548	348,918	739,466	-
Due to other governmental units	43,282	-	43,282	-
Refundable deposits, bonds, etc.	-	8,446	8,446	-
Accrued liabilities and other	1,064,657	28,896	1,093,553	-
Rehabilitation escrow	4,593	-	4,593	-
Noncurrent liabilities:				
Due within one year	600,813	171,483	772,296	-
Due in more than one year:				
Accumulated employee benefits	552,980	-	552,980	-
Provision for claims	77,000	-	77,000	-
Net pension liability (Note 9)	25,011,665	2,650,710	27,662,375	-
Net OPEB liability (Note 10)	42,951,686	5,970,763	48,922,449	-
Long-term debt - Net of current portion (Note 6)	11,396,480	2,560,000	13,956,480	-
Total liabilities	82,093,704	11,739,216	93,832,920	-
Deferred Inflows of Resources				
Property taxes levied for the following year	7,117,279	-	7,117,279	29,927
Deferred inflows related to pensions (Note 9)	952,426	159,669	1,112,095	-
Deferred inflows related to OPEB (Note 10)	2,435,505	338,562	2,774,067	-
Total deferred inflows of resources	10,505,210	498,231	11,003,441	29,927
Net Position				
Net investment in capital assets	11,301,382	2,625,151	13,926,533	-
Restricted:				
Roads	824,057	-	824,057	-
Drain maintenance and debt service	3,869,805	-	3,869,805	-
Library	57,451	-	57,451	-
Refuse	14,545	-	14,545	-
Drug enforcement	12,294	-	12,294	-
Grants	13,908	-	13,908	-
Public safety	84,387	-	84,387	-
Municipal improvement	376,380	-	376,380	-
Unrestricted	(67,155,401)	(8,091,649)	(75,247,050)	-
Total net position	\$ (50,601,192)	\$ (5,466,498)	\$ (56,067,690)	\$ -

City of Harper Woods, Michigan

Functions/Programs	Program Revenue			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 8,061,519	\$ 1,581,466	\$ -	\$ -
Public safety	4,575,131	61,815	247,988	82,556
Public works	3,359,880	2,194,056	-	26,137
Recreation and culture	886,192	312,250	-	-
Interest on long-term debt	329,070	-	-	-
Total governmental activities	17,211,792	4,149,587	247,988	108,693
Business-type activities - Water and Sewer Fund	5,989,013	4,904,498	-	-
Total primary government	\$ 23,200,805	\$ 9,054,085	\$ 247,988	\$ 108,693
Component units - Brownfield Redevelopment Center	\$ 33,409	\$ -	\$ -	\$ -

General revenue:

Property taxes
 State-shared revenue
 Loss from joint venture
 Income from joint venture
 Other miscellaneous income

Total general revenue

Change in Net Position

Net Position - Beginning of year - As restated (Note 13)

Net Position - End of year

Statement of Activities

Year Ended December 31, 2018

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (6,480,053)	\$ -	\$ (6,480,053)	\$ -
(4,182,772)	-	(4,182,772)	-
(1,139,687)	-	(1,139,687)	-
(573,942)	-	(573,942)	-
(329,070)	-	(329,070)	-
(12,705,524)	-	(12,705,524)	-
-	(1,084,515)	(1,084,515)	-
(12,705,524)	(1,084,515)	(13,790,039)	-
-	-	-	(33,409)
9,316,269	-	9,316,269	33,409
2,661,442	-	2,661,442	-
(14,319)	-	(14,319)	-
5,367	-	5,367	-
1,091,476	-	1,091,476	-
13,060,235	-	13,060,235	33,409
354,711	(1,084,515)	(729,804)	-
(50,955,903)	(4,381,983)	(55,337,886)	-
\$ (50,601,192)	\$ (5,466,498)	\$ (56,067,690)	\$ -

City of Harper Woods, Michigan

**Governmental Funds
Balance Sheet**

December 31, 2018

	General Fund	Storm Drain Fund	Refuse Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments (Note 3)	\$ 621,889	\$ 4,278,787	\$ 237,285	\$ 1,589,743	\$ 6,727,704
Receivables:					
Property taxes	4,286,126	-	316,761	406,561	5,009,448
Other receivables	331,521	56,619	46,492	150,000	584,632
Due from other governmental units	302,493	-	-	234,450	536,943
Service fee	-	1,061,954	-	-	1,061,954
Due from other funds (Note 5)	61,964	-	-	-	61,964
Inventories and prepaid items	411,920	-	-	5,546	417,466
Restricted assets	-	-	-	226,380	226,380
	<u>\$ 6,015,913</u>	<u>\$ 5,397,360</u>	<u>\$ 600,538</u>	<u>\$ 2,612,680</u>	<u>\$ 14,626,491</u>
Total assets					
Liabilities					
Accounts payable	\$ 194,780	\$ 47,585	\$ 34,669	\$ 110,500	\$ 387,534
Due to other governmental units	-	-	-	43,282	43,282
Accrued liabilities and other	917,318	13,672	24,987	28,526	984,503
Rehabilitation escrow	-	-	-	4,593	4,593
	<u>1,112,098</u>	<u>61,257</u>	<u>59,656</u>	<u>186,901</u>	<u>1,419,912</u>
Total liabilities					
Deferred Inflows of Resources - Property taxes levied for the following year					
	<u>4,072,888</u>	<u>1,833,984</u>	<u>526,337</u>	<u>684,070</u>	<u>7,117,279</u>
Total liabilities and deferred inflows of resources	5,184,986	1,895,241	585,993	870,971	8,537,191
Fund Balances					
Nonspendable:					
Inventory	19,313	-	-	5,546	24,859
Prepays	392,607	-	-	-	392,607
Restricted:					
Roads	-	-	-	824,057	824,057
Drain maintenance and debt service	-	3,502,119	-	367,686	3,869,805
Grants	-	-	-	13,908	13,908
Capital projects	-	-	-	376,380	376,380
Library	-	-	-	57,451	57,451
Drug enforcement	-	-	-	12,294	12,294
Public safety	-	-	-	84,387	84,387
Refuse	-	-	14,545	-	14,545
Unassigned	419,007	-	-	-	419,007
	<u>830,927</u>	<u>3,502,119</u>	<u>14,545</u>	<u>1,741,709</u>	<u>6,089,300</u>
Total fund balances					
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 6,015,913</u>	<u>\$ 5,397,360</u>	<u>\$ 600,538</u>	<u>\$ 2,612,680</u>	<u>\$ 14,626,491</u>

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

December 31, 2018

Fund Balances Reported in Governmental Funds	\$ 6,089,300
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	22,584,705
Investments in joint ventures are not financial resources and are not reported in the funds	47,924
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(11,664,293)
Accrued interest is not due and payable in the current period and is not reported in the funds	(79,400)
Some employee fringe benefits 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:	
Employee compensated absences	(852,980)
Pension benefits	(21,489,083)
Retiree healthcare benefits	(45,387,191)
Other long-term liabilities, such as claims and judgments, landfill closure and postclosure costs, and net pension obligations, do not present a claim on current financial resources and are not reported as fund liabilities	(110,000)
Internal service funds are included as part of governmental activities	<u>259,826</u>
Net Position of Governmental Activities	<u>\$ (50,601,192)</u>

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2018

	General Fund	Storm Drain Fund	Refuse Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 8,095,893	\$ -	\$ 526,009	\$ 694,367	\$ 9,316,269
Intergovernmental:					
Federal sources	235,431	-	-	-	235,431
State sources	1,699,789	-	-	1,149,643	2,849,432
Charges for services	417,816	-	435,720	-	853,536
Fines and forfeitures	816,074	-	-	-	816,074
Licenses and permits	383,391	-	-	-	383,391
Service fees	276,130	1,819,017	-	-	2,095,147
Other revenue	313,963	-	12,406	760,487	1,086,856
	<u>12,238,487</u>	<u>1,819,017</u>	<u>974,135</u>	<u>2,604,497</u>	<u>17,636,136</u>
Total revenue					
Expenditures					
Current services:					
General government	6,045,814	-	7,000	1,146,322	7,199,136
Public safety	4,729,945	-	-	23,752	4,753,697
Public works	476,999	1,298,936	889,945	599,373	3,265,253
Recreation and culture	301,549	-	-	445,806	747,355
Capital outlay	125,160	-	-	165,017	290,177
Debt service:					
Principal	-	-	-	200,000	200,000
Interest and fiscal charges	-	157,986	-	95,619	253,605
	<u>11,679,467</u>	<u>1,456,922</u>	<u>896,945</u>	<u>2,675,889</u>	<u>16,709,223</u>
Total expenditures					
Excess of Revenue Over (Under)					
Expenditures	559,020	362,095	77,190	(71,392)	926,913
Other Financing Sources (Uses) (Note 5)					
Transfers in	-	-	-	421,294	421,294
Transfers out	(21,294)	-	-	(400,000)	(421,294)
Proceeds from capital improvement bond	-	-	-	1,182,937	1,182,937
	<u>(21,294)</u>	<u>-</u>	<u>-</u>	<u>1,204,231</u>	<u>1,182,937</u>
Total other financing (uses) sources					
Net Change in Fund Balances	537,726	362,095	77,190	1,132,839	2,109,850
Fund Balances - Beginning of year	293,201	3,140,024	(62,645)	608,870	3,979,450
Fund Balances - End of year	<u>\$ 830,927</u>	<u>\$ 3,502,119</u>	<u>\$ 14,545</u>	<u>\$ 1,741,709</u>	<u>\$ 6,089,300</u>

Governmental Funds

**Reconciliation of the Statement of Revenue, Expenditures, and Changes in
Fund Balances to the Statement of Activities**

Year Ended December 31, 2018

Net Change in Fund Balances Reported in Governmental Funds	\$	2,109,850
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:		
Depreciation expense		(1,266,867)
Capital outlay		221,207
Income from joint ventures does not represent current resources and is not reported in the funds		5,367
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position		(1,182,937)
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)		305,646
Interest expense is recognized in the government-wide statements as it accrues		(67,137)
Changes in some employee costs (pension, OPEB, and compensated absences) do not require the use of current financial resources and, therefore, are not reported in the governmental funds		221,556
Claims and similar costs that do not use current financial resources are not reported as expenditures in the governmental funds		(29,000)
Internal service funds are included as part of governmental activities		37,026
Change in Net Position of Governmental Activities	\$	354,711

Proprietary Funds
Statement of Net Position

December 31, 2018

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ -	\$ 109,004
Receivables - Customer receivables	935,576	-
Inventories and prepaid items	29,197	-
Total current assets	964,773	109,004
Noncurrent assets - Capital assets - Assets subject to depreciation - Net (Note 4)	5,335,151	154,590
Total assets	6,299,924	263,594
Deferred Outflows of Resources - Deferred outflows related to pensions (Note 9)	532,989	-
Liabilities		
Current liabilities:		
Accounts payable	348,918	3,014
Due to other funds (Note 5)	61,964	-
Refundable deposits, bonds, etc.	8,446	-
Accrued liabilities and other	28,896	754
Current portion of compensated absences (Note 6)	21,483	-
Current portion of long-term debt (Note 6)	150,000	-
Total current liabilities	619,707	3,768
Noncurrent liabilities:		
Net pension liability (Note 9)	2,650,710	-
Net OPEB liability (Note 10)	5,970,763	-
Long-term debt - Net of current portion (Note 6)	2,560,000	-
Total noncurrent liabilities	11,181,473	-
Deferred Inflows of Resources		
Deferred inflows related to pensions (Note 9)	159,669	-
Deferred inflows related to OPEB (Note 10)	338,562	-
Total deferred inflows of resources	498,231	-
Net Position		
Net investment in capital assets	2,625,151	154,590
Unrestricted	(8,091,649)	105,236
Total net position	<u><u>\$ (5,466,498)</u></u>	<u><u>\$ 259,826</u></u>

City of Harper Woods, Michigan

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Position

Year Ended December 31, 2018

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Operating Revenue		
Customer billings	\$ 4,750,090	\$ -
Other operating revenue	154,408	-
Billings to other funds	-	307,695
	4,904,498	307,695
Operating Expenses		
Cost of materials	-	52,070
Water supply and sewage disposal	2,776,870	-
Operating and maintenance costs	1,872,660	119,289
General and administrative	1,078,555	60,500
Depreciation	191,365	38,810
	5,919,450	270,669
Operating (Loss) Income	(1,014,952)	37,026
Nonoperating Expense - Interest expense	(69,563)	-
Change in Net Position	(1,084,515)	37,026
Net Position - Beginning of year - As restated (Note 13)	(4,381,983)	222,800
Net Position - End of year	\$ (5,466,498)	\$ 259,826

Proprietary Funds
Statement of Cash Flows

Year Ended December 31, 2018

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Cash Flows from Operating Activities		
Receipts from customers	\$ 4,808,681	\$ -
Receipts from interfund services and reimbursements	61,964	298,252
Payments to suppliers	(3,509,954)	(92,845)
Payments to employees and fringes	(1,150,161)	(106,403)
Payments to other funds	(19,000)	(35,000)
	<u>191,530</u>	<u>64,004</u>
Net cash and cash equivalents provided by operating activities	191,530	64,004
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(68,738)	-
Principal and interest paid on capital debt	(214,563)	-
	<u>(283,301)</u>	<u>-</u>
Net cash and cash equivalents used in capital and related financing activities	(283,301)	-
Net (Decrease) Increase in Cash and Cash Equivalents	(91,771)	64,004
Cash and Cash Equivalents - Beginning of year	91,771	45,000
Cash and Cash Equivalents - End of year	<u>\$ -</u>	<u>\$ 109,004</u>
Classification of Cash and Cash Equivalents - Cash and investments	<u>\$ -</u>	<u>\$ 109,004</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (1,014,952)	\$ 37,026
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation and amortization	191,365	38,810
Changes in assets and liabilities:		
Receivables	(95,817)	-
Due to and from other funds	61,964	(9,443)
Prepaid and other assets	(13,687)	-
Net pension or OPEB liability	1,030,218	-
Accounts payable	32,439	(1,215)
Accrued and other liabilities	-	(1,174)
	<u>1,206,482</u>	<u>26,978</u>
Total adjustments	1,206,482	26,978
Net cash and cash equivalents provided by operating activities	<u>\$ 191,530</u>	<u>\$ 64,004</u>

Fiduciary Funds
Statement of Fiduciary Assets and Liabilities

December 31, 2018

	<u>Agency</u>
Assets - Cash	\$ 1,258,210
Liabilities	
Due to other governmental units	\$ 60,005
Refundable deposits, bonds, etc.	20,910
Tax collections distributable	<u>1,177,295</u>
Total liabilities	\$ 1,258,210

Note 1 - Significant Accounting Policies

Accounting and Reporting Principles

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

Reporting Entity

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

The City is a member of the Milk River Drainage District, administered by Wayne County, Michigan. The drainage district serves Wayne County, Michigan; the State of Michigan; and the cities of Grosse Pointe Woods, Harper Woods, and St. Clair Shores, Michigan. At December 31, 2018, the drainage district had issued \$19,293,916 of debt to make improvements to the system. The total estimated cost of the project is \$36,170,000, and it is expected to be completed in 2019. The City of Harper Woods, Michigan is responsible for 45.81 percent of the project. As of December 31, 2018, the City has recorded \$8,838,543 for its share of the debt and completed capital improvements. The City records the activity in the Storm Drain Fund. The drainage district does not issue separate financial statements.

Discretely Presented Component Unit

Brownfield Redevelopment Authority

The Brownfield Redevelopment Authority (the "Authority") 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 Council. In addition, the Authority's budget is subject to approval by the City Council. Complete financial reports can be obtained from the City of Harper Woods, Michigan at 19617 Harper Avenue, Harper Woods, MI 48225.

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.

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.

December 31, 2018

Note 1 - Significant Accounting Policies (Continued)

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.

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

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 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, Michigan 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.

Note 1 - Significant Accounting Policies (Continued)

Proprietary Funds

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 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

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 the following:

- 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.

Interfund Activity

During the course of operations, the City 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.

Furthermore, 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.

Note 1 - Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include property, buildings, equipment, intangible assets, 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.

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

	Depreciable Life - Years
Infrastructure (roads, sidewalks, storm drains)	20-40
Water and sewer system	50-60
Buildings and improvements	25-50
Machinery and equipment	5-20
Vehicles	5-15
Office furnishings	10-20
Land improvements	15-20

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 will not be recognized as an outflow of resources (expense/expenditure) until then.

The City has 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 differences in assumed and actual plan experience, changes in plan assumptions, and contributions subsequent to the measurement date.

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 will not be recognized as an inflow of resources (revenue) until that time.

Note 1 - Significant Accounting Policies (Continued)

The City has three 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 and variances between the plan's actual investment earnings compared to the plan's assumed investment earnings. (3) The City has deferred inflows of resources related to the other postemployment benefit plan, which are reported in the government-wide and enterprise fund financial statements. The deferred inflows of resources result from changes in plan assumptions.

Net Position Flow Assumption

The City will sometimes 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

The City will sometimes 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. Furthermore, 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).

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.

December 31, 2018

Note 1 - Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each December 1 and become an enforceable lien at that time; the tax is based 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 2017 property tax revenue was levied and collectible on December 1, 2017 and is recognized as revenue in the year ended December 31, 2018 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2017 taxable valuation of the City totaled \$204,579,643, on which taxes levied consisted of 20.000 mills for operating purposes, 1.375 mills for debt service, 1.9168 mills for the library, and 2.5517 mills for rubbish removal. This resulted in approximately \$4,046,000 for operating, \$303,000 for debt service, \$388,000 for the library, and \$516,000 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, 2018 and 16.000 mills on December 1, 2018 for the payment of public safety expenditures. The taxes levied during 2018 as a result of the Public Act 33 millage resulted in approximately \$3,943,000 recognized in the General Fund as tax revenue for the year ended December 31, 2018.

Property taxes billed during the month of December 2018, with the exception of the Public Act 33 millage, will be used to finance 2019 operations. As such, these taxes are unavailable and are recorded as deferred inflows of resources in the respective funds at December 31, 2018.

Pension

The City offers a defined benefit pension plan to its employees. 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 pensions, 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 pension 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 records a net OPEB liability for the difference between the total OPEB liability calculated by the actuary and the OPEB plan's fiduciary net position. For the purpose of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's OPEB plan and additions to/deductions from the OPEB plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Compensated Absences (Vacation and Sick Leave)

It is the City's policy to permit 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.

Note 1 - Significant Accounting Policies (Continued)

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.

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.

Upcoming Accounting Pronouncements

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending December 31, 2019.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the City's financial statements for the year ending December 31, 2020.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all special revenue funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, activity, and line item. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. State law requires the City to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits cities to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. There were no significant amendments during the year, except for those relating to the increase in property tax revenue resulting from an increase in millage rates.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

December 31, 2018

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

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the City incurred expenditures in the General Fund and Refuse Fund that were in excess of the amounts budgeted, as follows:

- *Law Enforcement* - Law enforcement expenditures in the General Fund were approximately \$147,000 higher than budgeted.
- *Public Works (Rubbish Disposal)* - Rubbish disposal expenditures in the Refuse Fund were approximately \$34,000 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:

Shortfall at January 1, 2018		\$	(130,782)
Current year permit revenue			371,610
Related expenses:			
Direct costs	\$	480,408	
Estimated indirect costs		48,041	528,449
			<u> </u>
Current year shortfall			<u>(156,839)</u>
Cumulative shortfall December 31, 2018		\$	<u><u>(287,621)</u></u>

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 law also allows investments outside the state of Michigan when fully insured. 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.

December 31, 2018

Note 3 - Deposits and Investments (Continued)

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a 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 \$8.5 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 FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

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

Governmental Activities

	Balance January 1, 2018	Reclassifications	Additions	Disposals	Balance December 31, 2018
Capital assets not being depreciated:					
Land	\$ 737,949	\$ -	\$ -	\$ -	\$ 737,949
Construction in progress	50,553	(50,553)	8,838,543	-	8,838,543
Subtotal	788,502	(50,553)	8,838,543	-	9,576,492
Capital assets being depreciated:					
Roads	16,561,485	-	-	-	16,561,485
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	3,726,905	50,553	221,207	-	3,998,665
Vehicles	4,388,629	-	-	-	4,388,629
Office furnishings	277,979	-	-	-	277,979
Land improvements	553,194	-	-	-	553,194
Subtotal	41,826,168	50,553	221,207	-	42,097,928
Accumulated depreciation:					
Roads	11,380,003	-	662,460	-	12,042,463
Sidewalks	1,118,867	-	177	-	1,119,044
Storm drains	7,015,652	-	272,273	-	7,287,925
Buildings and improvements	1,540,703	-	85,136	-	1,625,839
Machinery and equipment	2,505,958	-	100,163	-	2,606,121
Vehicles	3,627,703	-	146,962	-	3,774,665
Office furnishings	168,562	-	13,404	-	181,966
Land improvements	272,000	-	25,102	-	297,102
Subtotal	27,629,448	-	1,305,677	-	28,935,125
Net capital assets being depreciated	14,196,720	50,553	(1,084,470)	-	13,162,803
Net governmental activities capital assets	\$ 14,985,222	\$ -	\$ 7,754,073	\$ -	\$ 22,739,295

December 31, 2018

Note 4 - Capital Assets (Continued)

Business-type Activities

	Balance January 1, 2018	Additions	Disposals	Balance December 31, 2018
Capital assets being depreciated:				
Water system	\$ 7,992,532	\$ -	\$ -	\$ 7,992,532
Sewer system	1,961,497	68,738	-	2,030,235
Machinery and equipment	199,020	-	-	199,020
Subtotal	10,153,049	68,738	-	10,221,787
Accumulated depreciation:				
Water system	3,362,173	136,519	-	3,498,692
Sewer system	1,238,117	27,469	-	1,265,586
Machinery and equipment	94,981	27,377	-	122,358
Subtotal	4,695,271	191,365	-	4,886,636
Net business-type activities capital assets	<u>\$ 5,457,778</u>	<u>\$ (122,627)</u>	<u>\$ -</u>	<u>\$ 5,335,151</u>

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

Governmental activities:	
General government	\$ 15,697
Public safety	182,228
Public works	937,637
Recreation and culture	131,305
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	38,810
Total governmental activities	<u>\$ 1,305,677</u>
Business-type activities - Water and sewer	<u>\$ 191,365</u>

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances at December 31, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 61,964

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.

December 31, 2018

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

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

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	General Obligation Bonds Fund	\$ 21,294
Major Streets Fund	Local Streets Fund	400,000

The transfer from the General Fund to the General Obligation Bonds Fund represents a transfer of discretionary funds for debt service requirements. The transfer from the Major Streets Fund to the Local Streets Fund, both of which are nonmajor governmental funds, represents the transfer of discretionary funds for local street construction.

Note 6 - Long-term Debt

Long-term debt activity for the year ended December 31, 2018 can be summarized as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
Unlimited tax general obligation bonds	\$ 1,800,000	\$ -	\$ (200,000)	\$ 1,600,000	\$ 225,000
Capital lease obligations	148,459	-	(105,646)	42,813	42,813
Milk River Intercounty Drain bond	-	8,838,543	-	8,838,543	-
Capital Improvement bond	-	1,182,937	-	1,182,937	-
Total bonds payable	1,948,459	10,021,480	(305,646)	11,664,293	267,813
Accumulated compensated absences	814,249	38,731	-	852,980	300,000
Total governmental activities long-term debt	\$ 2,762,708	\$ 10,060,211	\$ (305,646)	\$ 12,517,273	\$ 567,813

Business-type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable - Limited tax general obligation bonds	\$ 2,855,000	\$ -	\$ (145,000)	\$ 2,710,000	\$ 150,000
Accumulated compensated absences	21,483	-	-	21,483	21,483
Total business-type activities long-term debt	\$ 2,876,483	\$ -	\$ (145,000)	\$ 2,731,483	\$ 171,483

December 31, 2018

Note 6 - Long-term Debt (Continued)

General Obligation Bonds and Contracts

The City issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligations have been issued for both governmental and business-type activities. 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 City. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Long-term obligations outstanding at December 31, 2018 are as follows:

Purpose	Year Issued	Interest Rates	Maturing	Outstanding
Governmental Activities				
Unlimited tax general obligation bonds:				
General Obligation Library Bonds, \$3,100,000 original issue	2004	3.30 to 5.00%	2024	\$ 1,600,000
Capital Improvements Bonds, \$1,183,000 original issue	2018	4.00%	2038	1,182,937
State Revolving Fund - Milk River Intercounty Drain Bonds	2016	2.50%	2039	8,838,543
Business-type Activities				
State Revolving Loan Fund - Sewage Disposal System Revenue Bonds, used to improve sewer system	2012	2.50%	2033	2,710,000

Debt Service Requirements to Maturity

Total interest expense for the year was \$398,633. 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
2019	\$ 267,813	\$ 338,500	\$ 606,313	\$ 150,000	\$ 65,875	\$ 215,875
2020	913,921	314,762	1,228,683	155,000	62,062	217,062
2021	956,955	286,554	1,243,509	160,000	58,125	218,125
2022	1,001,279	256,599	1,257,878	160,000	54,125	214,125
2023	1,044,312	224,856	1,269,168	165,000	50,063	215,063
2024-2028	4,354,711	720,328	5,075,039	900,000	185,000	1,085,000
2029-2033	2,724,366	201,468	2,925,834	1,020,000	64,750	1,084,750
2034-2038	400,936	41,380	442,316	-	-	-
Total	<u>\$ 11,664,293</u>	<u>\$ 2,384,447</u>	<u>\$ 14,048,740</u>	<u>\$ 2,710,000</u>	<u>\$ 540,000</u>	<u>\$ 3,250,000</u>

Bond Issuance

During 2012, the City issued \$3,410,000 in revenue bonds with an average 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, 2018, \$2,855,000 in bond proceeds had been received as reimbursement for allowable construction costs and is recorded as long-term debt at December 31, 2018 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 \$3,250,000. During the current year, net revenue of the system totaled \$(773,596) compared to annual debt requirements of \$214,563.

December 31, 2018

Note 6 - Long-term Debt (Continued)

During 2016, the City became a part of the Milk River Drainage District (MRDD) to acquire, operate, and maintain the Milk River Drain. The MRDD apportioned responsibility to the City to pay 45.81 percent of the state revolving bonds debt. As of December 31, 2018, the City is responsible for \$8,838,543 in bond proceeds, which have been distributed for allowable construction costs and are recorded as long-term debt within the GASB 34 Fund.

During 2018, the City issued \$1,183,000 in capital improvement bonds with an interest rate of 4.0 percent. The proceeds of these bonds were received to fund capital improvements throughout the City. As of December 31, 2018, the City is responsible for \$1,182,937 in bond proceeds that are recorded as long-term debt within the GASB 34 Fund.

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 three fiscal years.

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

The 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.

In September 2017, the City became a defendant to a class action claim challenging the legality of its stormwater service charge. During 2018, the City received an unfavorable ruling in the litigation and has appealed the ruling. As of the date these financial statements were available to be issued, the City's appeal is still in process, and the City has determined that its obligations cannot be reasonably estimated. Accordingly, no provision of liability has been recorded as of December 31, 2018.

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, and Grosse Pointe Woods, Michigan. 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 \$47,924 at December 31, 2018 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 - Pension Plan

Plan Description

The City of Harper Woods, Michigan provides a monthly retirement benefit (with alternative lump-sum payment options) to employees who meet the eligibility requirements, including age and years of service. The benefits are provided through the Municipal Employees' Retirement System (MERS), an agent multiple-employer plan administered by a nine-member retirement board.

The MERS plan 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.mersofmich.com or in writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

Benefits Provided

MERS provides certain retirement, nonduty and duty disability, and survivor benefits to plan members and beneficiaries. The MERS plan covers all full-time employees of the City.

Retirement benefits for general clerical, including dispatcher employees, are calculated as follows: for prior service earned, a 2.25 percent multiplier will be used. Benefit will be frozen as of December 1, 2015 (the "MERS effective date"). Future service shall be earned at a 2.00 percent multiplier after the MERS effective date. For members hired after the MERS effective date, the multiplier shall be 1.50 percent. Final average compensation shall be calculated based on the highest consecutive 36 months of wages using base pay plus up to 240 hours of vacation and/or compensatory time. Normal retirement age is 60 with 10 or more years of service or age 55 with 25 or more years of service. The vesting period is 10 years. Duty disability does not require vesting. Benefits are determined by MERS rules. Nonduty disability requires vesting, and the benefit is equal to the MERS defined benefit formula. Survivor benefits are selected by employees at the time of retirement eligibility according to options provided by MERS rules. Duty death benefits do not require vesting. Benefits are determined according to MERS rules. Nonduty death benefits require vesting, and benefit levels are determined by MERS rules. An employee who leaves service may withdraw his or her contributions plus any accumulated interest in accordance with MERS rules.

Retirement benefits for DPW employees and general administrators are calculated as follows: for prior service earned, a 2.25 percent multiplier will be used. Benefit will be frozen as of the MERS effective date. Future service shall be earned at a 2.00 percent multiplier after the MERS effective date. For members hired after the MERS effective date, the multiplier shall be 1.50 percent. Final average compensation shall be calculated based on the highest consecutive 36 months of wages using base pay plus up to 240 hours of vacation and/or compensatory time. Normal retirement age is 60 with 10 or more years of service or age 55 with 25 or more years of service. The vesting period is 10 years. Duty disability does not require vesting. Benefits are determined by MERS rules. Nonduty disability requires vesting, and the benefit is equal to the MERS defined benefit formula. Survivor benefits are selected by employees at the time of retirement eligibility according to options provided by MERS rules. Duty death benefits do not require vesting. Benefits are determined according to MERS rules. Nonduty death benefits require vesting, and benefit levels are determined by MERS rules. An employee who leaves service may withdraw his or her contributions plus any accumulated interest in accordance with MERS rules.

Note 9 - Pension Plan (Continued)

Retirement benefits for police patrol and command employees are calculated as follows: for prior service earned, a 2.75 percent multiplier will be used not to exceed 80 percent of final average compensation. Benefit will be frozen as of the MERS effective date. Future service shall be earned at a 2.50 percent multiplier after the MERS effective date. For members hired after January 1, 2013 (Tier 2), the multiplier shall be 1.50 percent. Final average compensation for command shall be calculated based on the highest consecutive 36 months of wages using base pay plus up to 400 hours of overtime earned within a 12-month period within the 36-month final average compensation period. Final average compensation for police officers shall be calculated based on the highest consecutive 36 months of wages using base pay plus up to 240 hours of vacation pay. Normal retirement age is 55 with 10 or more years of service or age 50 with 25 or more years of service. The vesting period is 10 years. Duty disability does not require vesting. Benefits are determined by MERS rules. Nonduty disability requires vesting, and the benefit is equal to the MERS defined benefit formula. Survivor benefits are selected by employees at the time of retirement eligibility according to options provided by MERS rules. Duty death benefits do not require vesting. Benefits are determined according to MERS rules. Nonduty death benefits require vesting, and benefit levels are determined by MERS rules. An employee who leaves service may withdraw his or her contributions plus any accumulated interest in accordance with MERS rules.

Retirement benefits for fire employees are calculated as follows: for prior service earned, a 2.75 percent multiplier will be used not to exceed 80 percent of final average compensation. Benefit will be frozen as of the MERS effective date. Future service shall be earned at a 2.50 percent multiplier after the MERS effective date. Final average compensation for fire employees shall be calculated based on the highest consecutive 36 months of wages using base pay plus up to 400 hours of overtime earned within a 12-month period within the 36-month final average compensation period. Normal retirement age is 55 with 10 or more years of service or age 50 with 25 or more years of service. The vesting period is 10 years. Duty disability does not require vesting. Benefits are determined by MERS rules. Nonduty disability requires vesting, and the benefit is equal to the MERS defined benefit formula. Survivor benefits are selected by employees at the time of retirement eligibility according to options provided by MERS rules. Duty death benefits do not require vesting. Benefits are determined according to MERS rules. Nonduty death benefits require vesting, and benefit levels are determined by MERS rules. An employee who leaves service may withdraw his or her contributions plus any accumulated interest in accordance with MERS rules.

Benefit terms provide for annual cost of living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are one-half of the change in the Consumer Price Index, limited to a maximum increase in retirement allowance of 2 percent for general employees and 3 percent for public safety employees.

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.

Employees Covered by Benefit Terms

At the December 31, 2017 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	117
Inactive plan members entitled to but not yet receiving benefits	9
Active plan members	61
Total employees covered by the plan	187

Note 9 - Pension Plan (Continued)

Contributions

State law requires public employers to make pension contributions in accordance with an actuarial valuation. Accordingly, MERS retains an independent actuary for this purpose, and the City annually contributes the amount determined to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees may be required to make pension contributions based on the amounts agreed upon in union contracts. The City's required contribution is determined after consideration of the required contribution rate of employees.

For the year ended December 31, 2018, the average active employee contribution rate was 6.00 percent to 8.00 percent of annual pay for the various employee groups, and the City's average contribution rate was 54.1 percent of annual payroll.

Net Pension Liability

The net pension liability reported at December 31, 2018 was determined using a measure of the total pension liability and the pension net position as of the December 31, 2017 measurement date. The December 31, 2017 total pension liability was determined by an actuarial valuation performed as of that date.

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, 2016	\$ 50,135,997	\$ 22,536,026	\$ 27,599,971
Changes for the year:			
Service cost	451,509	-	451,509
Interest	3,863,384	-	3,863,384
Differences between expected and actual experience	719,026	-	719,026
Contributions - Employer	-	1,901,927	(1,901,927)
Contributions - Employee	-	252,891	(252,891)
Net investment income	-	2,862,210	(2,862,210)
Benefit payments, including refunds	(4,138,907)	(4,138,907)	-
Administrative expenses	-	(45,513)	45,513
Net changes	895,012	832,608	62,404
Balance at December 31, 2017	<u>\$ 51,031,009</u>	<u>\$ 23,368,634</u>	<u>\$ 27,662,375</u>

The plan's fiduciary net position represents 45.8 percent of the total pension liability.

Note 9 - Pension Plan (Continued)

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

For the year ended December 31, 2018, the City recognized pension expense of \$2,796,355.

At December 31, 2018, 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	\$ 543,399	\$ 314,045
Changes in assumptions	1,954,528	-
Net difference between projected and actual earnings on pension plan investments	-	595,237
Employer contributions to the plan subsequent to the measurement date	2,307,258	-
Total	\$ 4,805,185	\$ 909,282

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (note that employer contributions subsequent to the measurement date will reduce the net pension liability and, therefore, will not be included in future pension expense):

Years Ending December 31	Amount
2019	\$ 790,111
2020	783,357
2021	243,279
2022	(228,102)

Actuarial Assumptions

The total pension liability in the December 31, 2017 actuarial valuation was determined using an inflation assumption of 2.5 percent, assumed salary increases of 3.75 to 14.75 percent, an investment rate of return (net of pension plan investment expenses, gross of administrative expenses) of 8.00 percent, and the RP-2014 mortality tables. These assumptions were applied to all periods included in the measurement.

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 assumed that employee contributions will be made at the current contribution rate and that city contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

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.

Note 9 - Pension Plan (Continued)

Investment Rate of Return

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 the December 31, 2017 measurement date, for each major asset class included in the pension plan's target asset allocation, are summarized in the following tables:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	55.50 %	6.65 %
Global fixed income	18.50	1.76
Real assets	13.50	7.72
Diversifying strategies	12.50	5.50

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	\$ 32,651,832	\$ 27,662,375	\$ 23,402,463

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is not available in the separately issued financial report. 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 plan's fiduciary net position and additions to/deductions from fiduciary net position have 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 Benefit Plan

Plan Description

The City provides OPEB for all employees who meet eligibility requirements. The benefits are provided through the City of Harper Woods Retiree Healthcare Benefit Plan, a single-employer defined benefit OPEB plan administered by the City of Harper Woods, Michigan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

December 31, 2018

Note 10 - Other Postemployment Benefit Plan (Continued)

Benefits Provided

City of Harper Woods Retiree Healthcare Benefit Plan provides healthcare benefits to all general, DPW, police, and fire retirees and their spouse and dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. 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.

Employees Covered by Benefit Terms

The following members were covered by the benefit terms:

	City of Harper Woods Retiree Healthcare Benefit Plan
Date of member count	December 31, 2016
Inactive plan members or beneficiaries currently receiving benefits	105
Inactive plan members entitled to but not yet receiving benefits	7
Active plan members	<u>56</u>
Total plan members	<u><u>168</u></u>

Contributions

Retiree healthcare costs are paid by the City on a "pay-as-you-go" basis. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment. For the fiscal year ended December 31, 2018, the City made payments for postemployment health benefit premiums of \$1,359,774.

Total OPEB Liability

The City's total OPEB liability of \$48,922,449 was measured as of December 31, 2018 and was determined by an actuarial valuation performed as of December 31, 2016, which used updated procedures to roll forward the estimated liability to December 31, 2018.

Changes in the total OPEB liability during the measurement year were as follows:

Changes in Total OPEB Liability	Total OPEB Liability
Balance at January 1, 2018	\$ 51,414,327
Changes for the year:	
Service cost	1,109,099
Interest	1,620,733
Changes in assumptions	(3,861,936)
Benefit payments, including refunds	<u>(1,359,774)</u>
Net changes	<u>(2,491,878)</u>
Balance at December 31, 2018	<u><u>\$ 48,922,449</u></u>

Note 10 - Other Postemployment Benefit Plan (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the City recognized OPEB expense of \$1,641,963.

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 2,774,067

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

Years Ending December 31	Amount
2019	\$ (1,087,869)
2020	(1,087,869)
2021	(598,329)
Total	<u>\$ (2,774,067)</u>

Actuarial Assumptions

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using an inflation assumption of 2.50 percent; assumed salary increases (including inflation) of 3.75 percent; an investment rate of return (net of investment expenses) of 3.64 percent; a healthcare cost trend rate of 8.00 percent for 2018, decreasing 0.50 percent per year to an ultimate rate of 4.00 percent for 2026 and later years; and the RP-2014 mortality tables and the entry age actuarial cost method. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2016 was 24 years. These assumptions were applied to all periods included in the measurement.

Discount Rate

The discount rate used to measure the total OPEB liability was 3.64 percent. The discount rate was based on the 20-year general obligation tax-exempt municipal bond yield.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.64 percent, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (2.64%)	Current Discount Rate (3.64%)	1 Percent Increase (4.64%)
Total OPEB liability of the City of Harper Woods Retiree Healthcare Benefit Plan	\$ 58,630,606	\$ 48,922,449	\$ 41,296,196

December 31, 2018

Note 10 - Other Postemployment Benefit Plan (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the City, calculated using the healthcare cost trend rate of 8.0 percent, as well as what the City's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percent Decrease (7.0%)	Current Healthcare Cost Trend Rate (8.0%)	1 Percent Increase (9.0%)
Total OPEB liability of the City of Harper Woods Retiree Healthcare Benefit Plan	\$ 41,082,770	\$ 48,922,449	\$ 58,939,045

Assumption Changes

The discount rate increased from 3.16 percent to 3.64 percent. There were no other assumption changes for the year ended December 31, 2018.

Note 11 - Contingent Liabilities

The City is subject to various legal proceedings and claims that arise in the ordinary course of its 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.

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, 2018, the City abated \$33,409 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 - Change in Accounting Principle

During the current year, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result, the government-wide statements and the proprietary funds now include a liability for the unfunded portion of the City's retiree healthcare costs. Some of the change in this net OPEB liability will be recognized immediately as part of the OPEB expense measurement, and part will be deferred and recognized over future years. Refer to the other postemployment benefit plan footnote for further details. This change does not impact the General Fund or any other governmental funds

As a result of implementing this statement, the beginning net position of the governmental activities, business-type activities, and Water and Sewer Fund has been restated as follows:

	Net Position		
	December 31, 2017 - As Previously Reported	December 31, 2017 - As Restated	Adjustment for Implementation of GASB Statement No. 75
Governmental activities	\$ (22,665,784)	\$ (50,955,903)	\$ (28,290,119)
Business-type activities/Water and Sewer Fund	1,053,271	(4,381,983)	(5,435,254)

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule
General Fund

Year Ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 6,904,510	\$ 7,873,485	\$ 8,095,893	\$ 222,408
Intergovernmental:				
Federal sources	282,688	234,652	235,431	779
State sources	1,449,626	1,668,527	1,699,789	31,262
Charges for services	1,401,551	518,088	417,816	(100,272)
Fines and forfeitures	-	853,096	816,074	(37,022)
Licenses and permits	446,087	429,851	383,391	(46,460)
Service fees	-	301,614	276,130	(25,484)
Other revenue	788,036	177,450	313,963	136,513
Total revenue	11,272,498	12,056,763	12,238,487	181,724
Expenditures				
Current services:				
General government:				
City Council	35,283	35,393	30,543	4,850
City manager	134,152	85,336	78,977	6,359
General services administration	791,629	530,357	467,731	62,626
Clerk/Elections	129,303	131,130	121,888	9,242
District court	501,612	519,770	507,171	12,599
Dial-A-Ride/PAATS	16,053	79,773	75,265	4,508
Insurance and other functions	4,175,633	4,771,880	4,764,239	7,641
Public safety:				
Law enforcement	3,346,295	3,420,126	3,567,318	(147,192)
Fire and EMS	782,346	706,280	677,535	28,745
Other	507,872	510,194	485,092	25,102
Public works	525,682	513,423	476,999	36,424
Recreation and culture	284,004	359,774	301,549	58,225
Capital outlay	-	132,705	125,160	7,545
Total expenditures	11,229,864	11,796,141	11,679,467	116,674
Excess of Revenue Over Expenditures	42,634	260,622	559,020	298,398
Other Financing Sources (Uses)				
Transfers in	75,000	-	-	-
Transfers out	-	(23,600)	(21,294)	2,306
Total other financing sources (uses)	75,000	(23,600)	(21,294)	2,306
Net Change in Fund Balance	117,634	237,022	537,726	300,704
Fund Balance - Beginning of year	293,201	293,201	293,201	-
Fund Balance - End of year	\$ 410,835	\$ 530,223	\$ 830,927	\$ 300,704

City of Harper Woods, Michigan

Required Supplemental Information
 Budgetary Comparison Schedule - Major Special Revenue Funds
 Refuse

Year Ended December 31, 2018

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 509,900	\$ 530,853	\$ 526,009	\$ (4,844)
Charges for services	384,085	421,638	435,720	14,082
Other revenue	8,000	8,000	12,406	4,406
Total revenue	901,985	960,491	974,135	13,644
Expenditures - Current services				
General government	7,000	7,000	7,000	-
Public works - Rubbish disposal	793,885	855,763	889,945	(34,182)
Total expenditures	800,885	862,763	896,945	(34,182)
Net Change in Fund Balance	101,100	97,728	77,190	(20,538)
Fund Balance - Beginning of year	(62,645)	(62,645)	(62,645)	-
Fund Balance - End of year	<u>\$ 38,455</u>	<u>\$ 35,083</u>	<u>\$ 14,545</u>	<u>\$ (20,538)</u>

City of Harper Woods, Michigan

Required Supplemental Information

Schedule of Changes in the Net Pension Liability and Related Ratios

Last Four Fiscal Years

	2018 (December 31, 2017 Measurement Date)	2017 (December 31, 2016 Measurement Date)	2016 (December 31, 2015 Measurement Date)	2015 (December 31, 2014 Measurement Date)
Total Pension Liability				
Service cost	\$ 451,509	\$ 442,165	\$ 447,927	\$ 847,028
Interest	3,863,384	3,835,112	4,644,147	4,116,587
Changes in benefit terms	-	-	(8,564,790)	-
Differences between expected and actual experience	719,026	192,145	(2,931,089)	-
Changes in assumptions	-	-	938,326	4,325,983
Benefit payments, including refunds	(4,138,907)	(4,102,443)	(4,689,984)	(4,117,700)
Net Change in Total Pension Liability	895,012	366,979	(10,155,463)	5,171,898
Total Pension Liability - Beginning of year	50,135,997	49,769,018	59,924,481	54,752,583
Total Pension Liability - End of year	\$ 51,031,009	\$ 50,135,997	\$ 49,769,018	\$ 59,924,481
Plan Fiduciary Net Position				
Contributions - Employer	\$ 1,901,927	\$ 1,897,426	\$ 1,416,670	\$ 1,500,000
Contributions - Member	252,891	275,417	204,517	279,160
Net investment income	2,862,210	2,421,348	1,168,106	362,145
Administrative expenses	(45,513)	(47,748)	(13,106)	(11,000)
Benefit payments, including refunds	(4,138,907)	(4,102,443)	(4,689,984)	(4,117,700)
Other	-	-	356,032	(3,461)
Net Change in Plan Fiduciary Net Position	832,608	444,000	(1,557,765)	(1,990,856)
Plan Fiduciary Net Position - Beginning of year	22,536,026	22,092,026	23,649,791	25,640,647
Plan Fiduciary Net Position - End of year	\$ 23,368,634	\$ 22,536,026	\$ 22,092,026	\$ 23,649,791
City's Net Pension Liability - Ending	\$ 27,662,375	\$ 27,599,971	\$ 27,676,992	\$ 36,274,690
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	45.79 %	44.95 %	44.39 %	39.47 %
Covered Payroll	\$ 3,514,933	\$ 3,315,282	\$ 315,021	\$ 4,799,027
City's Net Pension Liability as a Percentage of Covered Payroll	787.00 %	832.51 %	8,785.76 %	755.88 %

*Note: Governmental Accounting Standards Board Statement No. 68 was implemented beginning with fiscal year 2015. Therefore, 10-year trend information is not yet available.

City of Harper Woods, Michigan

Required Supplemental Information Schedule of Changes in the Total OPEB Liability and Related Ratios

	Last One Fiscal Year
	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 1,109,099
Interest	1,620,733
Changes in assumptions	(3,861,936)
Benefit payments, including refunds	<u>(1,359,774)</u>
Net Change in Total OPEB Liability	(2,491,878)
Total OPEB Liability - Beginning of year	<u>51,414,327</u>
Total OPEB Liability - End of year	<u>\$ 48,922,449</u>
Covered Employee Payroll	\$ 4,425,575
Total OPEB Liability as a Percentage of Covered Employee Payroll	1,105.45 %

Notes to Schedule

There are no assets accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

Changes in assumptions - Changes in assumptions reflect the effects of changes in the discount rate each period. The discount rate increased from 3.16 percent to 3.64 percent from 2017 to 2018.

Other Supplemental Information

City of Harper Woods, Michigan

	Special Revenue Funds			
	Library Fund	Drug Law Enforcement	Police Forfeiture, Canine, and Special Projects Fund	Community Development Block Grant
Assets				
Cash and investments	\$ 241,369	\$ 12,294	\$ 84,387	\$ 105,341
Receivables:				
Property taxes	233,948	-	-	-
Other receivables	-	-	-	-
Due from other governmental units	-	-	-	-
Inventories and prepaid items - Prepaid expenses	-	-	-	-
Restricted assets - Restricted cash and cash equivalents	-	-	-	-
Total assets	\$ 475,317	\$ 12,294	\$ 84,387	\$ 105,341
Liabilities				
Accounts payable	\$ 872	\$ -	\$ -	\$ 104,404
Due to other governmental units	-	-	-	-
Accrued liabilities and other	23,078	-	-	-
Rehabilitation escrow	-	-	-	-
Total liabilities	23,950	-	-	104,404
Deferred Inflows of Resources - Property taxes levied for the following year	393,916	-	-	-
Total liabilities and deferred inflows of resources	417,866	-	-	104,404
Fund Balances				
Nonspendable	-	-	-	-
Restricted:				
Roads	-	-	-	-
Drain maintenance and debt service	-	-	-	-
Grants	-	-	-	937
Capital projects	-	-	-	-
Library	57,451	-	-	-
Drug enforcement	-	12,294	-	-
Public safety	-	-	84,387	-
Total fund balances	57,451	12,294	84,387	937
Total liabilities, deferred inflows of resources, and fund balances	\$ 475,317	\$ 12,294	\$ 84,387	\$ 105,341

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2018

Special Revenue Funds			Debt Service Fund	Capital Project Fund		
Loan Revolving	Local Streets Fund	Major Streets Fund	General Obligation Bonds Fund	Municipal Improvements Fund	Total	
\$ 18,607	\$ 432,184	\$ 210,334	\$ 485,227	\$ -	\$ 1,589,743	
-	-	-	172,613	-	406,561	
-	69,593	164,857	-	150,000	150,000	
-	-	5,546	-	-	5,546	
-	-	-	-	226,380	226,380	
\$ 18,607	\$ 501,777	\$ 380,737	\$ 657,840	\$ 376,380	\$ 2,612,680	
\$ -	\$ 885	\$ 4,339	\$ -	\$ -	\$ 110,500	
-	12,785	30,497	-	-	43,282	
1,043	1,478	2,927	-	-	28,526	
4,593	-	-	-	-	4,593	
5,636	15,148	37,763	-	-	186,901	
-	-	-	290,154	-	684,070	
5,636	15,148	37,763	290,154	-	870,971	
-	-	5,546	-	-	5,546	
-	486,629	337,428	-	-	824,057	
-	-	-	367,686	-	367,686	
12,971	-	-	-	-	13,908	
-	-	-	-	376,380	376,380	
-	-	-	-	-	57,451	
-	-	-	-	-	12,294	
-	-	-	-	-	84,387	
12,971	486,629	342,974	367,686	376,380	1,741,709	
\$ 18,607	\$ 501,777	\$ 380,737	\$ 657,840	\$ 376,380	\$ 2,612,680	

City of Harper Woods, Michigan

	Special Revenue Funds			
	Library Fund	Drug Law Enforcement	Police Forfeiture, Canine, and Special Projects Fund	Community Development Block Grant
Revenue				
Property taxes	\$ 400,739	\$ -	\$ -	\$ -
Intergovernmental - State sources	10,440	-	-	-
Other revenue	30,105	30,322	12,557	264,405
Total revenue	441,284	30,322	12,557	264,405
Expenditures				
Current services:				
General government	-	-	-	264,405
Public safety	-	18,050	5,702	-
Public works	-	-	-	-
Recreation and culture	445,806	-	-	-
Capital outlay	-	12,017	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	445,806	30,067	5,702	264,405
Excess of Revenue (Under) Over Expenditures	(4,522)	255	6,855	-
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from capital improvement bond	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balances	(4,522)	255	6,855	-
Fund Balances - Beginning of year	61,973	12,039	77,532	937
Fund Balances - End of year	\$ 57,451	\$ 12,294	\$ 84,387	\$ 937

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

Year Ended December 31, 2018

Special Revenue Funds			Debt Service Fund	Capital Project Fund	
Loan Revolving	Local Streets Fund	Major Streets Fund	General Obligation Bonds Fund	Municipal Improvements Fund	Total
\$ -	\$ -	\$ -	\$ 293,628	\$ -	\$ 694,367
-	336,562	802,641	-	-	1,149,643
-	82,109	189,129	-	151,860	760,487
-	418,671	991,770	293,628	151,860	2,604,497
-	28,500	48,000	-	805,417	1,146,322
-	-	-	-	-	23,752
-	305,929	293,444	-	-	599,373
-	-	-	-	-	445,806
-	-	-	-	153,000	165,017
-	-	-	200,000	-	200,000
-	-	-	95,619	-	95,619
-	334,429	341,444	295,619	958,417	2,675,889
-	84,242	650,326	(1,991)	(806,557)	(71,392)
-	400,000	-	21,294	-	421,294
-	-	(400,000)	-	-	(400,000)
-	-	-	-	1,182,937	1,182,937
-	400,000	(400,000)	21,294	1,182,937	1,204,231
-	484,242	250,326	19,303	376,380	1,132,839
12,971	2,387	92,648	348,383	-	608,870
\$ 12,971	\$ 486,629	\$ 342,974	\$ 367,686	\$ 376,380	\$ 1,741,709

City of Harper Woods, Michigan

Other Supplemental Information
Combining Statement of Assets and Liabilities
Agency Funds

December 31, 2018

	Tax Collection	District Court	Total Agency Funds
Assets - Cash and cash equivalents	\$ 1,177,295	\$ 80,915	\$ 1,258,210
Liabilities			
Due to other governmental units	\$ -	\$ 60,005	\$ 60,005
Refundable deposits, bonds, etc.	-	20,910	20,910
Tax collections distributable	1,177,295	-	1,177,295
Total liabilities	\$ 1,177,295	\$ 80,915	\$ 1,258,210