
City of Harper Woods, Michigan

**Financial Report
with Supplemental Information
December 31, 2020**

Mayor and City Council

Mayor

Valerie Kindle

Mayor Pro-Tem
Council Member
Council Member
Council Member
Council Member
Council Member

Cheryl A. Costantino
Vivian M. Sawicki
Veronica Paiz
Ernestine Lyons
Regina Williams
Ivery Toussant, Jr.

City Administration

Acting City Manager

John Szymanski

City Clerk

Leslie M. Frank

Acting City Treasurer

Kim Keogh

Acting Finance Director

Maria Nawrocki

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.

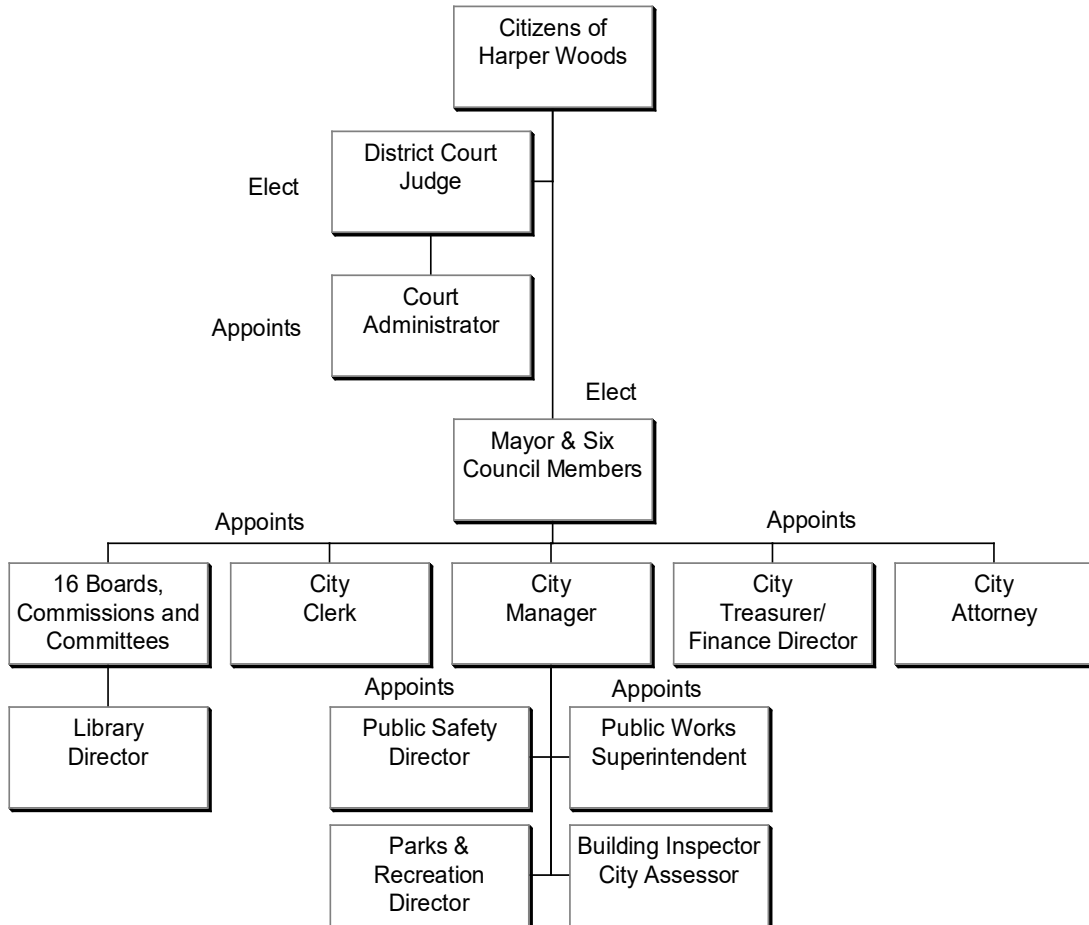
The elective officials of the City consist of seven council members and the mayor, all of whom are nominated and elected from the City at large. Three of its members are elected to the council every two years for four-year terms. The mayor is elected every two years for a two-year term.

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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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, 2020 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, 2020 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 explained in Note 1, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, which established accounting and financial reporting standards for the identification and reporting of fiduciary activities, and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which expanded required disclosures related to the City's debt obligations. Our opinion is not modified with respect to these matters.

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 related ratios and pension contributions, OPEB system schedule of changes in the total OPEB liability and related ratios; 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 24, 2021

Financial Section

City of Harper Woods, Michigan

Management's Discussion and Analysis

This section of the annual financial report for the City of Harper Woods, Michigan (the "City") is our discussion and analysis of the City's performance for the fiscal year ended December 31, 2020. 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, 2020 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Assets						
Current assets	\$ 17,233	\$ 16,639	\$ 1,651	\$ 985	\$ 18,884	\$ 17,624
Noncurrent assets - Capital assets	30,698	24,623	4,981	5,158	35,679	29,781
Total assets	47,931	41,262	6,632	6,143	54,563	47,405
Deferred Outflows of Resources	9,088	6,402	1,158	765	10,246	7,167
Liabilities						
Current liabilities	3,211	1,721	456	380	3,667	2,101
Long-term liabilities	80,349	66,156	9,896	9,004	90,245	75,160
Total liabilities	83,560	67,877	10,352	9,384	93,912	77,261
Deferred Inflows of Resources	8,636	15,680	167	1,156	8,803	16,836
Net Position						
Net investment in capital assets	10,644	10,361	2,576	2,598	13,220	12,959
Restricted	5,406	5,758	-	-	5,406	5,758
Unrestricted	(51,227)	(52,012)	(5,305)	(6,230)	(56,532)	(58,242)
Total net position	\$ (35,177)	\$ (35,893)	\$ (2,729)	\$ (3,632)	\$ (37,906)	\$ (39,525)

In 2020, the City's combined net deficit decreased by approximately 4.1 percent from a year ago - from \$39.5 million to \$37.9 million. The governmental activities net deficit decreased from net deficit of \$35.9 million to a deficit of \$35.1 million. This is primarily a result of changes made to the Other Postemployment Benefits (OPEB) plan administered by the City in fiscal year 2019, which continues to result in OPEB cost

recovery rather than OPEB expense, combined with increases in both long-term debt and capital assets as a result of further activity involving the Milk River Drainage District. The business-type activities net position decreased from \$3.6 million to a \$2.7 million deficit as a result of the changes made to the OPEB plan as described above.

The following table shows the change in net position for the year ended December 31, 2020 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenue						
Program revenue:						
Charges for services	\$ 3,520	\$ 4,018	\$ 5,600	\$ 5,149	\$ 9,120	\$ 9,167
Operating grants and contributions	883	284	-	-	883	284
Capital grants and contributions	481	833	200	-	681	833
General revenue:						
Property taxes	10,284	9,773	-	-	10,284	9,773
State-shared revenue	2,852	3,070	-	-	2,852	3,070
Interest	-	-	-	-	-	-
Miscellaneous	439	362	-	-	439	362
Total revenue	18,459	18,340	5,800	5,149	24,259	23,489
Program Expenses						
General government	7,484	3,141	-	-	7,484	3,141
District court	164	242	-	-	164	242
Public safety	4,592	(5,236)	-	-	4,592	(5,236)
Public works	4,235	4,249	-	-	4,235	4,249
Recreation and culture	801	845	-	-	801	845
Interest on long-term debt	467	391	-	-	467	391
Water and sewer	-	-	4,897	3,315	4,897	3,315
Total program expenses	17,743	3,632	4,897	3,315	22,640	6,947
Transfers	-	-	-	-	-	-
Change in Net Position	716	14,708	903	1,834	1,619	16,542
Net Position - Beginning of year	(35,893)	(50,601)	(3,632)	(5,466)	(39,525)	(56,067)
Net Position - End of year	\$ (35,177)	\$ (35,893)	\$ (2,729)	\$ (3,632)	\$ (37,906)	\$ (39,525)

Governmental Activities

Total revenue for the City's governmental activities was \$18.5 million for the year ended December 31, 2020. The City experienced an increase in property tax revenue, while charges for services and state shared revenue decreased in 2020.

Expenses for the City's governmental activities totaled \$17.7 million for the year ended December 31, 2020, an increase of approximately 389 percent, which is primarily a result of significant OPEB cost recovery recognized primary during 2020 based on changes made to the plan. The approximate OPEB cost recovery for 2020 was \$0.6 million for general government and \$1.3 million for public safety as opposed to \$4.9 million and \$10.7 million for 2019, respectively.

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. The City increased its revenue by \$0.6 million over 2019 due to rate increases for services as well as the receipt of capital grant revenue.

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 2020. 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.

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 2020. Significant positive revenue budget variances were due to the increased grant revenue from federal, state, and local sources and increased property tax revenue due to rising property tax values. Significant unfavorable expenditure variances were due to fringe benefit costs, Police and Fire administration, and rubbish disposal costs.

Capital Asset and Debt Administration

At the end of fiscal year 2020, the City had \$35.7 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 Bonds, 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 Bonds have maturity dates in 2039 (2016 Series) and 2034 (2020 Series), 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 and actively pursued changes in employee collective bargaining agreements. 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. The economic fallout due to COVID-19 continues to cause unanticipated expenses in the City's budget, which may be partially offset by future grant funding.

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, 2020

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 9,977,922	\$ 176,451	\$ 10,154,373	\$ 21,578
Receivables:				
Property taxes	4,665,018	-	4,665,018	-
Customer receivables	-	1,410,442	1,410,442	-
Other receivables	823,498	-	823,498	-
Due from other governmental units	564,157	-	564,157	-
Service fee	993,383	-	993,383	-
Internal balances	306	(306)	-	-
Inventories and prepaid items	94,826	64,693	159,519	-
Restricted assets - Restricted cash and cash equivalents	58,610	-	58,610	-
Investment in joint ventures (Note 8)	55,376	-	55,376	-
Capital assets: (Note 4)				
Assets not subject to depreciation	3,065,682	-	3,065,682	-
Assets subject to depreciation - Net	27,631,764	4,981,050	32,612,814	-
Total assets	47,930,542	6,632,330	54,562,872	21,578
Deferred Outflows of Resources				
Deferred pension costs (Note 9)	4,343,534	491,942	4,835,476	-
Deferred OPEB costs (Note 10)	4,744,249	665,919	5,410,168	-
Total deferred outflows of resources	9,087,783	1,157,861	10,245,644	-
Liabilities				
Accounts payable	553,925	216,854	770,779	-
Customer deposits	-	2,400	2,400	-
Accrued liabilities and other	1,254,071	32,952	1,287,023	-
Rehabilitation escrow	4,578	-	4,578	-
Noncurrent liabilities:				
Due within one year:				
Current portion of compensated absences (Note 6)	300,000	361	300,361	-
Provision for claims	-	44,000	44,000	-
Current portion of bonds and contracts payable (Note 6)	1,097,941	160,000	1,257,941	-
Due in more than one year:				
Compensated absences (Note 6)	720,268	-	720,268	-
Net pension liability (Note 9)	28,564,022	3,235,105	31,799,127	-
Total OPEB liability (Note 10)	31,457,845	4,415,535	35,873,380	-
Bonds and contracts payable - Net of current portion (Note 6)	19,013,960	2,245,000	21,258,960	-
Other	592,841	-	592,841	-
Total liabilities	83,559,451	10,352,207	93,911,658	-
Deferred Inflows of Resources				
Property taxes levied for the following year	7,449,572	-	7,449,572	21,578
Deferred OPEB cost reductions (Note 10)	1,186,306	166,511	1,352,817	-
Total deferred inflows of resources	8,635,878	166,511	8,802,389	21,578
Net Position (Deficit)				
Net investment in capital assets	10,644,155	2,576,050	13,220,205	-
Restricted:				
Roads	2,095,938	-	2,095,938	-
Drain maintenance and debt service	2,833,504	-	2,833,504	-
Library	146,841	-	146,841	-
Refuse	75,370	-	75,370	-
Drug enforcement	103	-	103	-
Grants	173,421	-	173,421	-
Public safety	80,742	-	80,742	-
Unrestricted	(51,227,078)	(5,304,577)	(56,531,655)	-
Total net position (deficit)	\$ (35,177,004)	\$ (2,728,527)	\$ (37,905,531)	\$ -

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	\$ 7,484,283	\$ 1,286,724	\$ 85,358	\$ 230,712
District court	163,720	-	285,700	1,593
Public safety	4,591,936	44,499	419,247	206,600
Public works	4,235,094	1,895,647	-	42,330
Health and welfare	-	-	92,729	-
Recreation and culture	801,282	293,260	-	-
Interest on long-term debt	467,052	-	-	-
Total governmental activities	17,743,367	3,520,130	883,034	481,235
Business-type activities - Water and Sewer Fund	4,896,176	5,599,899	-	200,000
Total primary government	\$ 22,639,543	\$ 9,120,029	\$ 883,034	\$ 681,235
Component units - Brownfield Redevelopment Authority	\$ 23,183	\$ -	\$ -	\$ -

General revenue:
 Property taxes
 Unrestricted state-shared revenue
 Gain from joint venture
 Other miscellaneous income
 Total general revenue

Change in Net Position

Net Position (Deficit) - Beginning of year

Net Position (Deficit) - End of year

Statement of Activities

Year Ended December 31, 2020

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (5,881,489)	\$ -	\$ (5,881,489)	\$ -
123,573	-	123,573	-
(3,921,590)	-	(3,921,590)	-
(2,297,117)	-	(2,297,117)	-
92,729	-	92,729	-
(508,022)	-	(508,022)	-
(467,052)	-	(467,052)	-
(12,858,968)	-	(12,858,968)	-
-	903,723	903,723	-
(12,858,968)	903,723	(11,955,245)	-
-	-	-	(23,183)
10,283,574	-	10,283,574	23,183
2,851,987	-	2,851,987	-
13,052	-	13,052	-
426,547	-	426,547	-
13,575,160	-	13,575,160	23,183
716,192	903,723	1,619,915	-
(35,893,196)	(3,632,250)	(39,525,446)	-
\$ (35,177,004)	\$ (2,728,527)	\$ (37,905,531)	\$ -

Governmental Funds
Balance Sheet

December 31, 2020

	Debt Service Fund		Special Revenue Fund		Total Governmental Funds
	General Fund	Storm Drain Fund	Refuse Fund	Nonmajor Funds	
Assets					
Cash and investments (Note 3)	\$ 2,845,573	\$ 3,533,648	\$ 320,679	\$ 3,078,716	\$ 9,778,616
Receivables:					
Property taxes	3,985,254	-	298,025	381,739	4,665,018
Other receivables	665,340	81,694	63,154	13,310	823,498
Due from other governmental units	350,823	-	-	213,334	564,157
Service fee	-	993,383	-	-	993,383
Due from other funds (Note 5)	358	-	-	4,308	4,666
Inventories and prepaid items	78,596	-	-	16,230	94,826
Restricted assets	-	-	-	58,610	58,610
Total assets	\$ 7,925,944	\$ 4,608,725	\$ 681,858	\$ 3,766,247	\$ 16,982,774
Liabilities					
Accounts payable	\$ 152,754	\$ 327,134	\$ 23,924	\$ 48,615	\$ 552,427
Due to other funds	4,308	-	-	52	4,360
Accrued liabilities and other	1,179,913	13,654	23,902	31,895	1,249,364
Rehabilitation escrow	-	-	-	4,578	4,578
Deferred Inflows of Resources					
Unavailable revenue	92,729	-	-	-	92,729
Property taxes levied for the following year	4,331,025	1,832,934	558,662	726,951	7,449,572
Total deferred inflows of resources	4,423,754	1,832,934	558,662	726,951	7,542,301
Total liabilities and deferred inflows of resources	5,760,729	2,173,722	606,488	812,091	9,353,030
Fund Balances					
Nonspendable:					
Inventory	19,262	-	-	16,230	35,492
Prepays	59,334	-	-	-	59,334
Restricted:					
Roads	-	-	-	2,079,708	2,079,708
Drain maintenance and debt service	-	2,435,003	-	398,501	2,833,504
Grants	-	-	-	173,421	173,421
Capital projects	-	-	-	58,610	58,610
Library	-	-	-	146,841	146,841
Drug enforcement	-	-	-	103	103
Public safety	-	-	-	80,742	80,742
Refuse	-	-	75,370	-	75,370
Unassigned	2,086,619	-	-	-	2,086,619
Total fund balances	2,165,215	2,435,003	75,370	2,954,156	7,629,744
Total liabilities, deferred inflows of resources, and fund balances	\$ 7,925,944	\$ 4,608,725	\$ 681,858	\$ 3,766,247	\$ 16,982,774

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

December 31, 2020

Fund Balances Reported in Governmental Funds	\$ 7,629,744
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	30,604,696
Receivables that are not collected soon after year end are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds	92,729
Investments in joint ventures are not financial resources and are not reported in the funds	55,376
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds	(20,111,901)
Accrued interest is not due and payable in the current period and is not reported in the funds	(129,106)
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	(53,140,658)
Accrued liabilities are not due and payable in the current period and are not reported in the funds	(466,785)
Internal service funds are included as part of governmental activities	<u>288,901</u>
Net Position (Deficit) of Governmental Activities	<u><u>\$ (35,177,004)</u></u>

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2020

	General Fund	Debt Service Fund	Storm Drain Fund	Special Revenue Fund	Nonmajor Funds	Total Governmental Funds
Revenue						
Property taxes	\$ 8,968,553	\$ -		\$ 586,780	\$ 728,241	\$ 10,283,574
Intergovernmental:						
Federal grants	505,172	-		-	-	505,172
State sources	1,749,540	16,189		-	1,614,194	3,379,923
Local grants and contributions	230,712	-		-	-	230,712
Charges for services	345,261	-		334,129	-	679,390
Fines and forfeitures	642,176	-		-	-	642,176
Licenses and permits	379,599	-		-	-	379,599
Service fees	287,675	1,636,518		-	-	1,924,193
Other revenue	343,451	-		9,492	105,449	458,392
Total revenue	13,452,139	1,652,707		930,401	2,447,884	18,483,131
Expenditures						
Current services:						
General government	6,721,853	-		7,000	80,550	6,809,403
District court	-	-		-	162,213	162,213
Public safety	4,627,046	-		-	8,666	4,635,712
Public works	538,136	1,718,153		965,560	711,731	3,933,580
Recreation and culture	288,214	-		-	415,020	703,234
Capital outlay	593,015	6,269,638		-	308,531	7,171,184
Debt service:						
Principal	-	645,921		-	268,000	913,921
Interest and fiscal charges	-	337,345		-	102,623	439,968
Total expenditures	12,768,264	8,971,057		972,560	2,057,334	24,769,215
Excess of Revenue Over (Under)						
Expenditures	683,875	(7,318,350)		(42,159)	390,550	(6,286,084)
Other Financing Sources (Uses) (Note 5)						
Transfers in	-	-		100,000	302,721	402,721
Transfers out	(202,721)	-		-	(200,000)	(402,721)
New debt issued	-	6,104,638		-	-	6,104,638
Proceeds from capital lease obligations	449,525	-		-	-	449,525
Total other financing sources	246,804	6,104,638		100,000	102,721	6,554,163
Net Change in Fund Balances	930,679	(1,213,712)		57,841	493,271	268,079
Fund Balances - Beginning of year	1,234,536	3,648,715		17,529	2,460,885	7,361,665
Fund Balances - End of year	\$ 2,165,215	\$ 2,435,003		\$ 75,370	\$ 2,954,156	\$ 7,629,744

Governmental Funds

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

Year Ended December 31, 2020

Net Change in Fund Balances Reported in Governmental Funds	\$ 268,079
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	(1,632,386)
Capital outlay	7,271,340
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds until it is available	92,729
Gain from joint ventures does not represent current resources and is not reported in the funds	13,052
Capital lease and bond proceeds provide current financial resources to governmental funds but increase long-term liabilities in the statement of net position	(6,554,163)
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)	1,072,796
Interest expense is recognized in the government-wide statements as it accrues	(27,084)
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	191,855
Internal service funds are included as part of governmental activities	19,974
Change in Net Position of Governmental Activities	<u>\$ 716,192</u>

Proprietary Funds
Statement of Net Position

December 31, 2020

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 176,451	\$ 199,306
Receivables - Customer receivables	1,410,442	-
Inventories and prepaid items	64,693	-
Total current assets	1,651,586	199,306
Noncurrent assets - Capital assets - Assets subject to depreciation - Net (Note 4)	4,981,050	92,750
Total assets	6,632,636	292,056
Deferred Outflows of Resources		
Deferred pension costs (Note 9)	491,942	-
Deferred OPEB costs (Note 10)	665,919	-
Total deferred outflows of resources	1,157,861	-
Liabilities		
Current liabilities:		
Accounts payable	216,854	1,498
Due to other funds (Note 5)	306	-
Customer deposits	2,400	-
Accrued liabilities and other	32,952	1,657
Current portion of compensated absences (Note 6)	361	-
Provision for claims	44,000	-
Current portion of bonds and contracts payable (Note 6)	160,000	-
Total current liabilities	456,873	3,155
Noncurrent liabilities:		
Net pension liability (Note 9)	3,235,105	-
Total OPEB liability (Note 10)	4,415,535	-
Bonds and contracts payable - Net of current portion (Note 6)	2,245,000	-
Total noncurrent liabilities	9,895,640	-
Deferred Inflows of Resources - Deferred OPEB cost reductions (Note 10)	166,511	-
Net Position (Deficit)		
Net investment in capital assets	2,576,050	92,750
Unrestricted	(5,304,577)	196,151
Total net position (deficit)	<u>\$ (2,728,527)</u>	<u>\$ 288,901</u>

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

Year Ended December 31, 2020

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Operating Revenue		
Customer billings	\$ 5,483,980	\$ -
Other operating revenue	115,919	-
Billings to other funds	-	313,784
Total operating revenue	<u>5,599,899</u>	<u>313,784</u>
Operating Expenses		
Cost of materials	-	41,453
Water supply and sewage disposal	2,682,402	-
Operating and maintenance costs	889,231	160,937
General and administrative	1,085,431	60,500
Depreciation	177,049	30,920
Total operating expenses	<u>4,834,113</u>	<u>293,810</u>
Operating Income	765,786	19,974
Nonoperating Expense - Interest expense	<u>(62,063)</u>	<u>-</u>
Income - Before capital contributions	703,723	19,974
Capital Contributions - Capital grants	<u>200,000</u>	<u>-</u>
Change in Net Position	903,723	19,974
Net Position (Deficit) - Beginning of year	<u>(3,632,250)</u>	<u>268,927</u>
Net Position (Deficit) - End of year	<u><u>\$ (2,728,527)</u></u>	<u><u>\$ 288,901</u></u>

Proprietary Funds
Statement of Cash Flows

Year Ended December 31, 2020

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Cash Flows from Operating Activities		
Receipts from customers	\$ 5,263,865	\$ -
Receipts from interfund services and reimbursements	-	313,784
Payments to suppliers	(3,757,164)	(112,018)
Payments to employees and fringes	(1,092,375)	(134,935)
Payments to other funds	(19,000)	(35,000)
Claims paid	(33,000)	-
Payments for interfund services and reimbursements	(327,828)	-
	<u>34,498</u>	<u>31,831</u>
Net cash and cash equivalents provided by operating activities	34,498	31,831
Cash Flows from Capital and Related Financing Activities		
Receipt of capital grants	200,000	-
Principal and interest paid on capital debt	(217,063)	-
	<u>(17,063)</u>	<u>-</u>
Net cash and cash equivalents used in capital and related financing activities	(17,063)	-
Net Increase in Cash and Cash Equivalents	17,435	31,831
Cash and Cash Equivalents - Beginning of year	159,016	167,475
Cash and Cash Equivalents - End of year	<u><u>\$ 176,451</u></u>	<u><u>\$ 199,306</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 765,786	\$ 19,974
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	177,049	30,920
Changes in assets and liabilities:		
Receivables	(336,034)	-
Due to and from other funds	(327,828)	-
Prepaid and other assets	15,163	-
Net pension or OPEB liability	(96,285)	-
Accounts payable	(130,353)	(19,697)
Estimated claims liability	(33,000)	-
Accrued and other liabilities	-	634
	<u>(731,288)</u>	<u>11,857</u>
Total adjustments	(731,288)	11,857
Net cash and cash equivalents provided by operating activities	<u><u>\$ 34,498</u></u>	<u><u>\$ 31,831</u></u>

City of Harper Woods, Michigan

**Fiduciary Funds
Statement of Fiduciary Net Position**

December 31, 2020

	<u>Custodial Funds</u>
Assets - Cash	\$ 1,469,603
Liabilities	
Due to other governmental units	11,494
Customer deposits	1,965
Tax collections distributable	<u>1,456,144</u>
Total liabilities	<u>1,469,603</u>
Net Position	<u><u>\$ -</u></u>

City of Harper Woods, Michigan

**Fiduciary Funds
Statement of Changes in Fiduciary Net Position**

Year Ended December 31, 2020

	<u>Custodial Funds</u>
Additions	
Property tax collections	\$ 8,984,928
Court collections	<u>272,449</u>
Total additions	9,257,377
Deductions	
Disbursements to Wayne County, Michigan	4,917,731
Disbursements to Harper Woods Schools	2,526,288
Disbursements to Grosse Pointe Schools	1,332,303
Disbursements to Grosse Pointe Library	193,571
Disbursements to Wayne County Land Bank	23,308
Disbursements to State of Michigan	188,182
Bond disbursements	<u>75,994</u>
Total deductions	<u>9,257,377</u>
Net Change in Fiduciary Net Position	-
Net Position - Beginning of year	<u>-</u>
Net Position - End of year	<u><u>\$ -</u></u>

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 accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units are, in substance, part of the City's operations, even though they are separate legal entities. Thus, blended component units are appropriately presented as funds of the City. 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. As of December 31, 2020, the drainage district had issued \$36,170,000 of debt to make improvements to the system. The City of Harper Woods, Michigan is responsible for 45.81 percent of the project. During 2020, the drainage district issued an additional \$6,385,000 of bonds to pay for the remainder of its improvement project. The City is responsible for 64.11 percent of the bond issuance, as a contributing entity prepaid its share of the assessment in full. As of December 31, 2020, the City has recorded \$17,531,314 for its share of the outstanding debt and \$18,644,019 for its share of the completed capital improvements. In addition to the debt, the City has recorded a liability of \$466,785 due to cost overruns as of December 31, 2020. The City records the activity in the Storm Drain Fund. The drainage district does not issue separate financial statements.

Blended Component Unit

The 32A District Court (the "Court") is a fiduciary component unit governed by a three-member board appointed by the City's governing body. Although it is legally separate from the City, the District Court is reported as if it were part of the primary government because the governing bodies of the Court and the City are substantially the same. In addition, the City has a financial burden related to the Court. The Court 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.

Note 1 - Significant Accounting Policies (Continued)

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.

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 health care-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.

Note 1 - Significant Accounting Policies (Continued)

Fund Accounting

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

Governmental Funds

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.

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:

- Custodial funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

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.

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.

Note 1 - Significant Accounting Policies (Continued)

Specific Balances and Transactions

Cash, Cash Equivalents, and Investments

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

Inventories and Prepaid Items

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

Capital Assets

Capital assets, which include property, buildings, equipment, 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:

	<u>Depreciable Life - Years</u>
Infrastructure (roads, sidewalks, storm drains)	20-40
Water and sewer system	50-60
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 other financing sources, 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 two items that qualify for reporting in this category. (1) The City has deferred outflows of resources related to the defined benefit pension plan, which are reported in the government-wide and enterprise fund financial statements. (2) The City has deferred outflows of resources related to the other postemployment benefit plan, which are reported in the government-wide and enterprise fund financial statements.

Note 1 - Significant Accounting Policies (Continued)

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The City has two items that qualify for reporting in this category. (1) The City has property taxes levied before the period budgeted. These property taxes are shown as deferred inflows of resources on the governmental funds balance sheet and 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 other postemployment benefit plan, which are reported in the government-wide and enterprise fund financial statements.

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.

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 2019 property tax revenue was levied and collectible on December 1, 2019 and is recognized as revenue in the year ended December 31, 2020 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2019 taxable valuation of the City totaled \$217,624,707, on which taxes levied consisted of 19.974 mills for operating purposes, 1.375 mills for debt service, 1.9143 mills for the library, and 2.5483 mills for rubbish removal. This resulted in approximately \$4,347,000 for operating, \$299,000 for debt service, \$417,000 for the library, and \$555,000 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, 2020 and 16.000 mills on December 1, 2020 for the payment of public safety expenditures. The taxes levied during 2020 as a result of the Public Act 33 millage resulted in approximately \$4,126,000 recognized in the General Fund as tax revenue for the year ended December 31, 2020.

Property taxes billed during the month of December 2020, with the exception of the Public Act 33 millage, will be used to finance 2021 operations. As such, these taxes are unavailable and are recorded as deferred inflows of resources in the respective funds at December 31, 2020.

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 health care benefits to retirees. The City records the total OPEB liability calculated by the actuary. For the purpose of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, have been determined on the same basis as they would be 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.

Adoption of New Accounting Pronouncements

As of December 31, 2020, the City adopted GASB Statement No. 83, *Certain Asset Retirement Obligations*. The City did not identify any material asset retirement obligations.

During the current year, the City adopted GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying and reporting fiduciary activities. As a result of implementing this standard, tax collection funds, which were previously reported as agency funds, are now reported as custodial funds. In addition, the 32A District Court is now reported as a fiduciary component unit. Previously, certain funds in City's custody were reported as agency funds.

The City also adopted GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This statement establishes criteria to improve the information that is disclosed in the notes to the government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

Upcoming Accounting Pronouncements

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 were originally effective for the City's financial statements for the year ended December 31, 2020 but were extended to December 31, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*.

Note 1 - Significant Accounting Policies (Continued)

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. This statement addresses eight unrelated practice issues and technical inconsistencies in authoritative literature. The standard addresses leases, intraentity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The standard has various effective dates. The City does not believe this pronouncement will have a significant impact on its financial statements but is still making a full evaluation.

In March 2020, the GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, to bring a uniform guidance on how to report public-private and public-public partnership arrangements. As a result, transferors in public-private or public-public arrangements will recognize receivables for installment payments, deferred inflows of resources, and, when applicable, capital assets. Operators will recognize liabilities for installment payments and intangible right-to-use assets and, when applicable, deferred outflows of resources and liabilities for assets being transferred. This statement also provides guidance for accounting and financial reporting for availability payment arrangements, in which a government compensates an operator for services such as designing, constructing, financing, maintaining, or operating an underlying asset for a period of time in an exchange or exchange-like transaction. The provisions of this statement are effective for the City's financial statements for the year ending December 31, 2023.

In May 2020, the Governmental Accounting Standards Board issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which defines SBITAs and provides accounting and financial reporting for SBITAs by governments. This statement requires a government to recognize a subscription liability and an intangible right-to-use subscription asset for SBITAs. 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, 2023.

In June 2020, the Governmental Accounting Standards Board issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. While this standard had certain aspects impacting defined contribution pension and OPEB plans and other employee benefit plans that were effective immediately, it also clarifies when a 457 should be considered a pension plan or an other employee benefit plan to assist in the application of GASB Statement No. 84 to these types of plans. The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement related to 457 plans are effective for the City's financial statements for the year ending December 31, 2022.

Note 2 - Stewardship, Compliance, and Accountability

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:

Cumulative shortfall at January 1, 2020		\$	(404,698)
Current year permit revenue			371,096
Related expenses:			
Direct costs	\$	416,661	
Estimated indirect costs		41,666	458,327
		<u> </u>	<u> </u>
Current year shortfall			(87,231)
Cumulative shortfall December 31, 2020		\$	<u><u>(491,929)</u></u>

December 31, 2020

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 that matures no more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The City has adopted an investment policy in accordance with state law.

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a third-party custodian's failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. The City's investment policy requires that the City limit investments to the safest types of securities; prequalify the financial institutions, brokers, dealers, intermediaries, and advisors with which the City does business; and diversify the investment portfolio so potential losses on individual securities will be minimized. At year end, the City had \$11.7 million of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The City believes that, due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation (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.

December 31, 2020

Note 4 - Capital Assets

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

Governmental Activities

	Balance January 1, 2020	Reclassifications	Additions	Disposals	Balance December 31, 2020
Capital assets not being depreciated:					
Land	\$ 737,949	\$ -	\$ -	\$ -	\$ 737,949
Construction in progress	3,234,054	(7,477,744)	6,571,423	-	2,327,733
Subtotal	3,972,003	(7,477,744)	6,571,423	-	3,065,682
Capital assets being depreciated:					
Roads	16,561,485	-	-	-	16,561,485
Sidewalks	1,119,044	-	-	-	1,119,044
Stormwater drains	19,729,481	7,477,744	-	-	27,207,225
Buildings and improvements	4,307,994	-	306,276	-	4,614,270
Machinery and equipment	4,056,453	-	372,512	-	4,428,965
Vehicles	4,388,629	-	487,914	-	4,876,543
Office furnishings	277,979	-	-	-	277,979
Land improvements	553,194	-	-	-	553,194
Subtotal	50,994,259	7,477,744	1,166,702	-	59,638,705
Accumulated depreciation:					
Roads	12,704,922	-	662,459	-	13,367,381
Sidewalks	1,119,044	-	-	-	1,119,044
Stormwater drains	7,670,680	-	586,709	-	8,257,389
Buildings and improvements	1,705,788	-	87,606	-	1,793,394
Machinery and equipment	2,712,000	-	110,243	-	2,822,243
Vehicles	3,913,737	-	178,084	-	4,091,821
Office furnishings	195,260	-	13,103	-	208,363
Land improvements	322,204	-	25,102	-	347,306
Subtotal	30,343,635	-	1,663,306	-	32,006,941
Net capital assets being depreciated	20,650,624	7,477,744	(496,604)	-	27,631,764
Net governmental activities capital assets	\$ 24,622,627	\$ -	\$ 6,074,819	\$ -	\$ 30,697,446

December 31, 2020

Note 4 - Capital Assets (Continued)

Business-type Activities

	Balance January 1, 2020	Additions	Disposals	Balance December 31, 2020
Capital assets being depreciated:				
Water system	\$ 7,992,532	\$ -	\$ -	\$ 7,992,532
Sewer system	2,030,235	-	-	2,030,235
Machinery and equipment	199,020	-	-	199,020
Subtotal	10,221,787	-	-	10,221,787
Accumulated depreciation:				
Water system	3,635,212	136,518	-	3,771,730
Sewer system	1,278,740	13,154	-	1,291,894
Machinery and equipment	149,736	27,377	-	177,113
Subtotal	5,063,688	177,049	-	5,240,737
Net business-type activities capital assets	<u>\$ 5,158,099</u>	<u>\$ (177,049)</u>	<u>\$ -</u>	<u>\$ 4,981,050</u>

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

Governmental activities:	
General government	\$ 23,945
Public safety	218,948
Public works	1,272,392
Recreation and culture	117,101
Internal service fund depreciation is charged to the various functions based on their usage of the asset	<u>30,920</u>
Total governmental activities	<u>\$ 1,663,306</u>
Business-type activities - Water and sewer	\$ 177,049

Construction Commitments

The City has pending road resurfacing projects at year end. The City has committed approximately \$777,000 to these projects.

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances at December 31, 2020 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer Fund	\$ 306
	Nonmajor governmental funds	52
Nonmajor governmental funds	General Fund	4,308

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, 2020

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	MIDC - Grant Fund - Courts Fund	\$ 12,661
	Mental Health Fund - 32A District Court	600
	General Obligation Bonds Fund	89,460
	Refuse Fund	100,000
	Total General Fund	202,721
Major Streets Fund	Local Streets Fund	200,000
	Total	<u>\$ 402,721</u>

The transfer from the General Fund to the General Obligation Bonds Fund represents a transfer of discretionary funds for debt service requirements. The transfers from the General Fund to the MIDC - Grant Fund, Mental Health Fund, and Refuse Fund represent transfers of discretionary funds for operations of the receiving funds. 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, 2020 can be summarized as follows:

Governmental Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable:					
Direct borrowings and direct placements:					
Capital lease obligations	\$ -	\$ 449,525	\$ (158,875)	\$ 290,650	\$ 140,986
Milk River Intercounty Drain bond - 2016 series	12,072,597	4,496,880	(645,921)	15,923,556	661,955
Milk River Intercounty Drain bond - 2020 series	-	1,607,758	-	1,607,758	-
Total direct borrowings and direct placements principal outstanding	12,072,597	6,554,163	(804,796)	17,821,964	802,941
Other debt:					
Unlimited tax general obligation bonds	1,375,000	-	(225,000)	1,150,000	250,000
Capital Improvement Bond	1,182,937	-	(43,000)	1,139,937	45,000
Total other debt principal outstanding	2,557,937	-	(268,000)	2,289,937	295,000
Accumulated compensated absences	895,307	351,349	(226,388)	1,020,268	300,000
Total governmental activities long-term debt	<u>\$ 15,525,841</u>	<u>\$ 6,905,512</u>	<u>\$ (1,299,184)</u>	<u>\$ 21,132,169</u>	<u>\$ 1,397,941</u>

December 31, 2020

Note 6 - Long-term Debt (Continued)

Business-type Activities

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds payable - Direct borrowings - Limited tax general obligation bonds	\$ 2,560,000	\$ -	\$ (155,000)	\$ 2,405,000	\$ 160,000
Accrued compensated absences	934	2,766	(3,339)	361	361
Claims and judgments	44,000	-	-	44,000	44,000
Total business-type activities long-term debt	<u>\$ 2,604,934</u>	<u>\$ 2,766</u>	<u>\$ (158,339)</u>	<u>\$ 2,449,361</u>	<u>\$ 204,361</u>

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, 2020 are as follows:

Purpose	Year Issued	Interest Rates	Maturing	Outstanding
Governmental Activities				
Other debt -				
Unlimited tax general obligation bonds:				
General Obligation Library Bonds, \$3,100,000 original issue	2004	3.30 to 5.00%	2024	\$ 1,150,000
Capital Improvements Bonds, \$1,183,000 original issue	2018	4.00%	2038	1,139,937
Direct borrowings and direct placements:				
State Revolving Fund - Milk River Intercounty Drain Bonds	2016	2.50%	2039	15,923,556
State Revolving Fund - Milk River Intercounty Drain Bonds	2020	1.86%	2034	1,607,758
Capital lease obligations	2020	5.90 to 6.65%	2022	290,650
Business-type Activities				
Direct borrowings and direct placements -				
State Revolving Loan Fund - Sewage Disposal System Revenue Bonds, used to improve sewer system	2015	2.50%	2033	\$ 2,405,000

December 31, 2020

Note 6 - Long-term Debt (Continued)

Debt Service Requirements to Maturity

Total interest expense for the year was \$501,280. 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		
	Direct Borrowings and Direct Placements		Other Debt		Total	Direct Borrowings and Direct Placements		Total
	Principal	Interest	Principal	Interest		Principal	Interest	
2021	\$ 802,940	\$ 428,830	\$ 295,000	\$ 90,013	\$ 1,616,783	\$ 160,000	\$ 58,125	\$ 218,125
2022	948,545	411,282	321,000	76,836	1,757,663	160,000	54,125	214,125
2023	818,121	382,609	348,000	62,300	1,611,030	165,000	50,063	215,063
2024	839,651	362,639	375,000	46,353	1,623,643	170,000	45,875	215,875
2025	861,180	342,189	52,000	37,000	1,292,369	175,000	41,563	216,563
2026-2030	4,621,062	1,386,182	293,000	151,420	6,451,664	950,000	138,750	1,088,750
2031-2035	4,924,380	799,426	356,000	86,720	6,166,526	625,000	23,563	648,563
2036-2040	4,006,085	203,425	249,937	15,280	4,474,727	-	-	-
Total	\$ 17,821,964	\$ 4,316,582	\$ 2,289,937	\$ 565,922	\$ 24,994,405	\$ 2,405,000	\$ 412,064	\$ 2,817,064

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, 2020, \$2,405,000 of the bond proceeds is outstanding and is recorded as long-term debt 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 \$2,817,063. During the current year, net revenue of the system totaled \$942,835 compared to annual debt requirements of \$218,125.

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, 2020, the City is responsible for \$15,923,556 in bond proceeds still outstanding, which have been distributed for allowable construction costs and are recorded as long-term debt within governmental activities.

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, 2020, the City is responsible for \$1,139,937 in outstanding bond proceeds that are recorded as long-term debt within governmental activities.

During 2020, the MRDD took on additional debt. The City is responsible for 64.11 percent of the state revolving bond. As of December 31, 2020, the City is responsible for \$1,607,758 in bond proceeds, which have been distributed for allowable construction costs and are recorded as long-term debt within governmental activities.

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.

Note 7 - Risk Management (Continued)

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

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.

In September 2017, the City became a defendant to a class action claim challenging the legality of its stormwater service charge. During 2018 and 2019, the City received unfavorable rulings in the litigation and has appealed the rulings with the Michigan Supreme Court. As of the date these financial statements were available to be issued, the City's appeal is still in progress, and the City has determined that the threshold under generally accepted accounting principles for accrual of a liability has not been met. Accordingly, no provision of liability has been recorded as of December 31, 2020.

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 \$55,376 at December 31, 2020 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.

Note 9 - Pension Plan (Continued)

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.

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.

Note 9 - Pension Plan (Continued)

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, 2019 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	120
Inactive plan members entitled to but not yet receiving benefits	12
Active plan members	60
Total employees covered by the plan	192

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, 2020, 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 69.8 percent of annual payroll.

Net Pension Liability

The net pension liability reported at December 31, 2020 was determined using a measure of the total pension liability and the pension net position as of the December 31, 2019 measurement date. The December 31, 2019 total pension liability was determined by an actuarial valuation performed as of that date.

Note 9 - Pension Plan (Continued)

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2018	\$ 51,462,591	\$ 20,770,529	\$ 30,692,062
Changes for the year:			
Service cost	436,682	-	436,682
Interest	3,964,290	-	3,964,290
Differences between expected and actual experience	210,401	-	210,401
Changes in assumptions	1,897,540	-	1,897,540
Contributions - Employer	-	2,463,260	(2,463,260)
Contributions - Employee	-	245,225	(245,225)
Net investment income	-	2,740,536	(2,740,536)
Benefit payments, including refunds	(4,254,621)	(4,254,621)	-
Administrative expenses	-	(47,173)	47,173
Net changes	2,254,292	1,147,227	1,107,065
Balance at December 31, 2019	\$ 53,716,883	\$ 21,917,756	\$ 31,799,127

The plan's fiduciary net position represents 40.8 percent of the total pension liability.

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

For the year ended December 31, 2020, the City recognized pension expense of \$4,501,283.

At December 31, 2020, 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	\$ 247,145	\$ -
Changes in assumptions	1,883,024	-
Net difference between projected and actual earnings on pension plan investments	78,835	-
Employer contributions to the plan subsequent to the measurement date	2,626,472	-
Total	<u>\$ 4,835,476</u>	<u>\$ -</u>

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
2021	\$ 1,356,198
2022	777,938
2023	303,394
2024	(228,525)

Note 9 - Pension Plan (Continued)

Actuarial Assumptions

The total pension liability in the December 31, 2019 actuarial valuation was determined using an inflation assumption of 2.5 percent, assumed salary increases of 3.00 to 14.75 percent, an investment rate of return (net of pension plan investment expenses, gross of administrative expenses) of 7.6 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 7.60 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.

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, 2019 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	60.00 %	6.15 %
Global fixed income	20.00	1.26
Private investments	20.00	6.56

The following presents the net pension liability of the City, calculated using the discount rate of 7.60 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 (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	1 Percentage Point Decrease (6.60%)	Current Discount Rate (7.60%)	1 Percentage Point Increase (8.60%)
Net pension liability of the City	\$ 37,051,925	\$ 31,779,127	\$ 27,274,383

Note 9 - Pension Plan (Continued)

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.

Assumption Changes

From the time of the last measurement date at December 31, 2019 to December 31, 2020, the following significant assumptions were modified in order to perform the measurement of the total pension liability:

The assumed annual rate of return and discount rate were updated from 8.0 percent down to 7.6 percent. The assumed rate of wage inflation decreased from 3.75 percent to 3.0 percent.

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*.

Benefits Provided

The City of Harper Woods Retiree Healthcare Benefit Plan provides health care benefits to all general, DPW, police, and fire retirees and their spouses and dependents hired prior to January 1, 2015. The plan has been closed to employees hired on or after January 1, 2015. Benefits are provided through a third-party insurer. The full cost of the benefits is covered by the plan for participants who retired prior to January 1, 2019. For participants retiring on or after January 1, 2019, monthly stipends are provided in lieu of traditional retiree health care. 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.

December 31, 2020

Note 10 - Other Postemployment Benefit Plan (Continued)

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, 2020
Inactive plan members or beneficiaries currently receiving benefits	169
Inactive plan members entitled to but not yet receiving benefits	11
Active plan members	<u>34</u>
Total plan members	<u><u>214</u></u>

Contributions

The actuarially determined contribution for the year ended December 31, 2020 was \$1,614,025. Retiree health care 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, 2020, the City made payments for postemployment health benefit premiums of \$1,331,729.

Total OPEB Liability

The City's total OPEB liability of \$35,873,380 was measured as of December 31, 2020 and was determined by an actuarial valuation performed as of December 31, 2020.

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

Changes in Total OPEB Liability	Total OPEB Liability
Balance at December 31, 2019	\$ 26,303,770
Changes for the year:	
Service cost	182,665
Interest	838,773
Differences between expected and actual experience	(230,934)
Changes in assumptions	10,110,835
Benefit payments, including refunds	<u>(1,331,729)</u>
Net changes	<u>9,569,610</u>
Balance at December 31, 2020	<u><u>\$ 35,873,380</u></u>

December 31, 2020

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, 2020, the City recognized OPEB cost savings of \$861,395.

At December 31, 2020, 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
Difference between expected and actual experience	\$ 137,053	\$ 120,439
Changes in assumptions	5,273,115	1,232,378
Total	<u>\$ 5,410,168</u>	<u>\$ 1,352,817</u>

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
2021	\$ 3,631,900
2022	425,451
Total	<u>\$ 4,057,351</u>

Actuarial Assumptions

The total OPEB liability in the December 31, 2020 actuarial valuation was determined using an inflation assumption of 2.50 percent; assumed salary increases (including inflation) of 3.00 percent; an investment rate of return (net of investment expenses) of 0 percent; a health care cost trend rate ranging from 6.50 to 8.25 percent for 2020, decreasing 0.25 percent per year to an ultimate rate of 4.50 percent for 2035 and later years; and the Pub-2010 mortality tables and the entry age actuarial cost method. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2020 was 26 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 1.93 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 1.93 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 Percentage Point Decrease (0.93%)	Current Discount Rate (1.93%)	1 Percentage Point Increase (2.93%)
Total OPEB liability of the City of Harper Woods Retiree Healthcare Benefit Plan	\$ 42,484,755	\$ 35,873,380	\$ 30,708,750

Note 10 - Other Postemployment Benefit Plan (Continued)

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

The following presents the total OPEB liability of the City, calculated using the health care cost trend rate of 7.0 to 8.25 percent, as well as what the City's total OPEB liability would be if it were calculated using a health care cost trend rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1 Percentage Point Decrease (5.5 to 7.25%)	Current Health Care Cost Trend Rate (6.5 to 8.25%)	1 Percentage Point Increase (7.5 to 9.25%)
Total OPEB liability of the City of Harper Woods Retiree Healthcare Benefit Plan	\$ 30,868,628	\$ 35,873,380	\$ 42,179,298

Assumption Changes

The discount rate decreased from 3.26 percent to 1.93 percent, the health care cost trend rate changed from a range between 7.0 percent and 8.5 percent to a range between 6.5 percent and 8.25 percent, and mortality rates were updated from the RP-2014 mortality tables to the Pub-2010 mortality tables. There were no other assumption changes for the year ended December 31, 2020, except for the updated per capita claims cost assumption, including the change to plan designs.

Note 11 - 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, 2020, the City abated \$23,183 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.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule
General Fund

Year Ended December 31, 2020

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 8,181,615	\$ 8,571,339	\$ 8,968,553	\$ 397,214
Intergovernmental:				
Federal grants	86,972	86,972	505,172	418,200
State sources	1,742,832	1,617,742	1,749,540	131,798
Local grants and contributions - Capital grants	-	-	230,712	230,712
Charges for services	408,444	311,227	345,261	34,034
Fines and forfeitures	732,612	706,032	642,176	(63,856)
Licenses and permits	389,553	359,500	379,599	20,099
Service fees	281,680	318,102	287,675	(30,427)
Other revenue	188,081	276,105	343,451	67,346
Total revenue	12,011,789	12,247,019	13,452,139	1,205,120
Expenditures				
Current services:				
General government:				
City Council	33,420	37,591	34,200	3,391
City manager	60,947	79,588	95,227	(15,639)
General services administration	469,563	651,555	758,984	(107,429)
Clerk/Elections	130,310	117,006	168,578	(51,572)
District court	506,076	479,650	477,907	1,743
Dial-A-Ride/PAATS	67,083	44,000	51,535	(7,535)
Insurance and other functions	5,532,870	5,103,432	5,135,422	(31,990)
Public safety:				
Law enforcement	3,496,173	3,388,000	3,470,455	(82,455)
Fire and EMS	602,636	633,795	734,415	(100,620)
Other	488,884	488,694	422,176	66,518
Public works	447,025	427,539	538,136	(110,597)
Recreation and culture	325,064	281,108	288,214	(7,106)
Capital outlay	168,392	128,638	593,015	(464,377)
Total expenditures	12,328,443	11,860,596	12,768,264	(907,668)
Excess of Revenue (Under) Over Expenditures	(316,654)	386,423	683,875	297,452
Other Financing (Uses) Sources - Transfers (out) in	(96,960)	(96,960)	246,804	343,764
Net Change in Fund Balance	(413,614)	289,463	930,679	641,216
Fund Balance - Beginning of year	1,234,536	1,234,536	1,234,536	-
Fund Balance - End of year	\$ 820,922	\$ 1,523,999	\$ 2,165,215	\$ 641,216

City of Harper Woods, Michigan

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

Year Ended December 31, 2020

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 528,639	\$ 580,916	\$ 586,780	\$ 5,864
Charges for services	271,120	354,037	334,129	(19,908)
Other revenue	10,000	12,591	9,492	(3,099)
Total revenue	809,759	947,544	930,401	(17,143)
Expenditures - Current services				
General government	7,000	7,000	7,000	-
Public works - Rubbish disposal	761,084	859,996	965,560	(105,564)
Total expenditures	768,084	866,996	972,560	(105,564)
Other Financing Sources - Transfers in	-	-	100,000	100,000
Net Change in Fund Balance	41,675	80,548	57,841	(22,707)
Fund Balance - Beginning of year	17,529	17,529	17,529	-
Fund Balance - End of year	<u>\$ 59,204</u>	<u>\$ 98,077</u>	<u>\$ 75,370</u>	<u>\$ (22,707)</u>

Required Supplemental Information
Schedule of Changes in the Net Pension Liability and Related Ratios

Last Six Fiscal Years

	2020 (December 31, 2019 Measurement Date)	2019 (December 31, 2018 Measurement Date)	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	\$ 436,682	\$ 444,595	\$ 451,509	\$ 442,165	\$ 447,927	\$ 847,028
Interest	3,964,290	3,929,729	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	210,401	320,634	719,026	192,145	(2,931,089)	-
Changes in assumptions	1,897,540	-	-	-	938,326	4,325,983
Benefit payments, including refunds	(4,254,621)	(4,263,376)	(4,138,907)	(4,102,443)	(4,689,984)	(4,117,700)
Net Change in Total Pension Liability	2,254,292	431,582	895,012	366,979	(10,155,463)	5,171,898
Total Pension Liability - Beginning of year	51,462,591	51,031,009	50,135,997	49,769,018	59,924,481	54,752,583
Total Pension Liability - End of year	\$ 53,716,883	\$ 51,462,591	\$ 51,031,009	\$ 50,135,997	\$ 49,769,018	\$ 59,924,481
Plan Fiduciary Net Position						
Contributions - Employer	\$ 2,463,260	\$ 2,307,256	\$ 1,901,927	\$ 1,897,426	\$ 1,416,670	\$ 1,500,000
Contributions - Member	245,225	261,726	252,891	275,417	204,517	279,160
Net investment income (loss)	2,740,536	(859,644)	2,862,210	2,421,348	1,168,106	362,145
Administrative expenses	(47,173)	(44,067)	(45,513)	(47,748)	(13,106)	(11,000)
Benefit payments, including refunds	(4,254,621)	(4,263,376)	(4,138,907)	(4,102,443)	(4,689,984)	(4,117,700)
Other	-	-	-	-	356,032	(3,461)
Net Change in Plan Fiduciary Net Position	1,147,227	(2,598,105)	832,608	444,000	(1,557,765)	(1,990,856)
Plan Fiduciary Net Position - Beginning of year	20,770,529	23,368,634	22,536,026	22,092,026	23,649,791	25,640,647
Plan Fiduciary Net Position - End of year	\$ 21,917,756	\$ 20,770,529	\$ 23,368,634	\$ 22,536,026	\$ 22,092,026	\$ 23,649,791
City's Net Pension Liability - Ending	\$ 31,799,127	\$ 30,692,062	\$ 27,662,375	\$ 27,599,971	\$ 27,676,992	\$ 36,274,690
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	40.80 %	40.36 %	45.79 %	44.95 %	44.39 %	39.47 %
Covered Payroll	\$ 3,530,179	\$ 3,491,428	\$ 3,514,933	\$ 3,315,282	\$ 315,021	\$ 4,799,027
City's Net Pension Liability as a Percentage of Covered Payroll	900.78 %	879.07 %	787.00 %	832.51 %	8,785.76 %	755.88 %

Notes to Schedule

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

Required Supplemental Information
Schedule of Pension Contributions
Municipal Employees' Retirement System

**Last Ten Fiscal Years
Years Ended December 31**

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 2,626,343	\$ 2,366,370	\$ 2,307,258	\$ 1,901,927	\$ 1,932,282	\$ 2,387,419	\$ 1,917,203	\$ 1,858,968	\$ 1,447,960	\$ 1,139,769
Contributions in relation to the statutorily required contribution	2,626,343	2,366,370	2,307,258	1,901,927	1,932,282	1,716,561	1,500,000	-	1,390,661	150,000
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (670,858)	\$ (417,203)	\$ (1,858,968)	\$ (57,299)	\$ (989,769)
City's Covered Payroll	\$ 3,530,179	\$ 3,491,428	\$ 3,420,092	\$ 3,514,933	\$ 3,315,282	\$ 3,105,021	\$ 4,799,027	\$ 4,719,273	\$ 5,389,968	\$ 6,229,056
Contributions as a Percentage of Covered Payroll	74.40 %	67.78 %	67.46 %	54.11 %	58.28 %	55.28 %	31.26 %	- %	25.80 %	2.41 %

Notes to Schedule of Pension Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of December 31, one year prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19 years
Asset valuation method	Five-year smoothed market
Inflation	2.50 percent
Salary increase	3.75 percent to 14.75 percent, including inflation
Investment rate of return	7.60 percent, net of pension plan investment and gross of administrative expenses
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	50 percent female/50 percent male RP-2014 Healthy Annuity Mortality Table (rates multiplied by 105 percent), RP-2014 Employee Mortality Table and RP-2014 Juvenile Mortality Table. For disabled retirees, RP-2014 Disabled Retiree Mortality Table, 50 percent male and 50 percent female blend

City of Harper Woods, Michigan

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

	Last Three Fiscal Years		
	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 182,665	\$ 159,223	\$ 1,109,099
Interest	838,773	896,630	1,620,733
Changes in benefit terms	-	(10,723,396)	-
Differences between expected and actual experience	(230,934)	3,182,671	-
Changes in assumptions	10,110,835	(14,724,046)	(3,861,936)
Benefit payments, including refunds	(1,331,729)	(1,409,761)	(1,359,774)
Net Change in Total OPEB Liability	9,569,610	(22,618,679)	(2,491,878)
Total OPEB Liability - Beginning of year	26,303,770	48,922,449	51,414,327
Total OPEB Liability - End of year	<u>\$ 35,873,380</u>	<u>\$ 26,303,770</u>	<u>\$ 48,922,449</u>
Covered-employee Payroll	\$ 2,359,766	\$ 2,435,782	\$ 4,425,575
Total OPEB Liability as a Percentage of Covered-employee Payroll	1,520.21 %	1,079.89 %	1,105.45 %

Note 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.

December 31, 2020

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. 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.

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

During the year, the City of Harper Woods, Michigan incurred significant expenditures that were in excess of the amounts budgeted, as follows:

- *City Manager* - City manager expenditures in the General Fund were approximately \$16,000 higher than budgeted.
- *General Services Administration* - General services administration expenditures in the General Fund were approximately \$107,000 higher than budgeted.
- *Clerk/Elections* - Clerk/Elections expenditures in the General Fund were approximately \$52,000 higher than budgeted.
- *Dial-A-Ride/PAATS* - Dial-A-Ride/PAATs expenditures in the General Fund were approximately \$8,000 higher than budgeted.
- *Insurance and Other Functions* - Insurance and other functions expenditures in the General Fund were approximately \$32,000 higher than budgeted.
- *Law Enforcement* - Law enforcement expenditures in the General Fund were approximately \$82,000 higher than budgeted.
- *Fire and EMS* - Fire and EMS expenditures in the General Fund were approximately \$101,000 higher than budgeted.
- *Public Works* - Public works expenditures in the General Fund were approximately \$111,000 higher than budgeted.
- *Recreation and Culture* - Recreation and culture expenditures in the General Fund were approximately \$7,000 higher than budgeted.
- *Capital Outlay* - Capital outlay expenditures in the General Fund were approximately \$464,000 higher than budgeted.
- *Transfers Out* - Transfers out of the General Fund were approximately \$344,000 higher than budgeted.
- *Public Works (Rubbish Disposal)* - Rubbish disposal expenditures in the Refuse Fund were approximately \$106,000 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.

Pension Information

Changes in Assumptions

Changes in assumptions in 2015 reflect the effect of changes in the mortality assumptions used. In 2015, the valuation changed from using the 1984 Group Annuity Mortality Table to using the RP-2000 Combined Healthy Life Mortality Table adjusted for mortality improvements.

Changes in assumptions in 2016 reflect the effects of the following changes in assumptions from fiscal year 2015 to fiscal year 2016: (a) inflation decreased from 3.00 percent to 2.50 percent; (b) salary increase ranges changed from 4.50-8.30 percent to 3.75-14.75 percent, including inflation; and (c) mortality rates were updated from the RP-2000 Combined Healthy Life Mortality Table to various RP-2014 mortality tables.

Changes in assumptions in 2020 reflect the effects of the following changes in assumptions from fiscal year 2019 to fiscal year 2020: (a) assumed annual rate of return and discount rate were updated from 8.0 percent down to 7.6 percent, and (b) the assumed rate of wage inflation decreased from 3.75 to 3.0 percent.

OPEB Information

Benefit Changes

Changes in benefit terms in 2019 reflect the effects of changes in the plan's expected future benefit payments resulting from the plan amendment that was effective January 1, 2019. The plan has been closed to employees hired on or after January 1, 2015. For participants hired prior to January 1, 2015 and retiring on or after January 1, 2019, monthly stipends are provided in lieu of traditional retiree health care. Premium contributions from the City changed from being 100 percent up to PA 152 hard caps for pre-65 retirees and 100 percent for post-65 retirees to monthly stipends ranging from \$300 to \$900 for pre-65 retirees and \$225 per person for post-65 retirees.

Changes in Assumptions

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

Changes in assumptions in 2019 reflect the effects of changes in the discount rate, health care cost trend rate, and vision cost trend rate, as well as the effects of certain plan changes resulting from the plan amendment. The discount rate decreased from 3.64 to 3.26 percent, the health care cost trend rate changed from 8.00 percent to a range between 7.00 and 8.50 percent, and the vision cost trend rates were increased from 4.00 to 4.50 percent.

Change in assumptions in 2020 reflect the effects of the following changes in assumptions from 2019 to 2020: (a) the discount rate was decreased from 3.26 to 1.93 percent, (b) the health care cost trend rate changed from a range of 7.0 to 8.5 percent to a range of 6.5 to 8.25 percent, and (c) mortality rates were updated from the RP-2014 mortality tables to the Pub-2010 mortality tables.

Other Supplemental Information

City of Harper Woods, Michigan

	Special Revenue Funds				
	Library Fund	Drug Law Enforcement Fund	Police Forfeiture, Canine, and Special Projects Fund	Community Development Block Grant Fund	Loan Revolving Fund
Assets					
Cash and investments	\$ 377,906	\$ 3,119	\$ 80,742	\$ 45	\$ 37,892
Receivables:					
Property taxes	219,870	-	-	-	-
Other receivables	627	-	-	-	10,471
Due from other governmental units	-	-	-	-	-
Due from other funds	-	-	-	-	-
Inventories and prepaid items	-	-	-	-	-
Restricted assets - Restricted cash and cash equivalents	-	-	-	-	-
Total assets	\$ 598,403	\$ 3,119	\$ 80,742	\$ 45	\$ 48,363
Liabilities					
Accounts payable	\$ 9,664	\$ 3,016	\$ -	\$ -	\$ -
Due to other funds	52	-	-	-	-
Accrued liabilities and other	23,654	-	-	-	-
Rehabilitation escrow	-	-	-	-	4,578
Total liabilities	33,370	3,016	-	-	4,578
Deferred Inflows of Resources -					
Property taxes levied for the following year	418,192	-	-	-	-
Total liabilities and deferred inflows of resources	451,562	3,016	-	-	4,578
Fund Balances					
Nonspendable	-	-	-	-	-
Restricted:					
Roads	-	-	-	-	-
Drain maintenance and debt service	-	-	-	-	-
Grants	-	-	-	45	43,785
Capital projects	-	-	-	-	-
Library	146,841	-	-	-	-
Drug enforcement	-	103	-	-	-
Public safety	-	-	80,742	-	-
Total fund balances	146,841	103	80,742	45	43,785
Total liabilities, deferred inflows of resources, and fund balances	\$ 598,403	\$ 3,119	\$ 80,742	\$ 45	\$ 48,363

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2020

Special Revenue Funds				Debt Service Fund	Capital Project Fund		
Local Streets Fund	Major Streets Fund	Mental Health - 32A District Court Fund	MIDC - Grant Fund - Courts Fund	General Obligation Bonds Fund	Municipal Improvements Fund		Total
\$ 848,425	\$ 1,059,789	\$ 4	\$ 125,403	\$ 545,391	\$ -		\$ 3,078,716
-	-	-	-	161,869	-		381,739
-	-	2,212	-	-	-		13,310
63,003	150,331	-	-	-	-		213,334
-	-	-	4,308	-	-		4,308
-	16,230	-	-	-	-		16,230
-	-	-	-	-	58,610		58,610
\$ 911,428	\$ 1,226,350	\$ 2,216	\$ 129,711	\$ 707,260	\$ 58,610		\$ 3,766,247
\$ 1,336	\$ 33,449	\$ 175	\$ 975	\$ -	\$ -		\$ 48,615
-	-	-	-	-	-		52
2,025	5,030	-	1,186	-	-		31,895
-	-	-	-	-	-		4,578
3,361	38,479	175	2,161	-	-		85,140
-	-	-	-	308,759	-		726,951
3,361	38,479	175	2,161	308,759	-		812,091
-	16,230	-	-	-	-		16,230
908,067	1,171,641	-	-	-	-		2,079,708
-	-	-	-	398,501	-		398,501
-	-	2,041	127,550	-	-		173,421
-	-	-	-	-	58,610		58,610
-	-	-	-	-	-		146,841
-	-	-	-	-	-		103
-	-	-	-	-	-		80,742
908,067	1,187,871	2,041	127,550	398,501	58,610		2,954,156
\$ 911,428	\$ 1,226,350	\$ 2,216	\$ 129,711	\$ 707,260	\$ 58,610		\$ 3,766,247

City of Harper Woods, Michigan

	Special Revenue Funds				
	Library Fund	Drug Law Enforcement Fund	Police Forfeiture, Canine, and Special Projects Fund	Community Development Block Grant Fund	Loan Revolving Fund
Revenue					
Property taxes	\$ 418,781	\$ -	\$ -	\$ -	\$ -
Intergovernmental - State sources	11,397	-	-	-	-
Other revenue	19,343	-	7,720	-	31,504
Total revenue	449,521	-	7,720	-	31,504
Expenditures					
Current services:					
General government	-	-	-	-	-
District court	-	-	-	-	-
Public safety	-	1,622	7,044	-	-
Public works	-	-	-	-	-
Recreation and culture	415,020	-	-	-	-
Capital outlay	-	748	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	415,020	2,370	7,044	-	-
Excess of Revenue Over (Under) Expenditures	34,501	(2,370)	676	-	31,504
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net Change in Fund Balances	34,501	(2,370)	676	-	31,504
Fund Balances - Beginning of year	112,340	2,473	80,066	45	12,281
Fund Balances - End of year	\$ 146,841	\$ 103	\$ 80,742	\$ 45	\$ 43,785

Other Supplemental Information

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

Year Ended December 31, 2020

Special Revenue Funds			Debt Service Fund		Capital Project Fund		Total
Local Streets Fund	Major Streets Fund	Mental Health - 32A District Court Fund	MIDC - Grant Fund - Courts Fund	General Obligation Bonds Fund	Municipal Improvements Fund		
\$ -	\$ -	\$ -	\$ -	\$ 309,460	\$ -	\$ -	\$ 728,241
390,959	932,832	18,360	260,646	-	-	-	1,614,194
13,652	33,230	-	-	-	-	-	105,449
404,611	966,062	18,360	260,646	309,460	-	-	2,447,884
28,500	48,000	-	-	-	4,050	-	80,550
-	-	16,988	145,225	-	-	-	162,213
-	-	-	-	-	-	-	8,666
401,280	310,451	-	-	-	-	-	711,731
-	-	-	-	-	-	-	415,020
-	-	-	1,507	-	306,276	-	308,531
-	-	-	-	268,000	-	-	268,000
-	-	-	-	102,623	-	-	102,623
429,780	358,451	16,988	146,732	370,623	310,326	-	2,057,334
(25,169)	607,611	1,372	113,914	(61,163)	(310,326)	-	390,550
200,000	-	600	12,661	89,460	-	-	302,721
-	(200,000)	-	-	-	-	-	(200,000)
200,000	(200,000)	600	12,661	89,460	-	-	102,721
174,831	407,611	1,972	126,575	28,297	(310,326)	-	493,271
733,236	780,260	69	975	370,204	368,936	-	2,460,885
\$ 908,067	\$ 1,187,871	\$ 2,041	\$ 127,550	\$ 398,501	\$ 58,610	\$ -	\$ 2,954,156

City of Harper Woods, Michigan

**Other Supplemental Information
Combining Statement of Fiduciary Net Position
Custodial Funds**

December 31, 2020

	<u>Tax Collection</u>	<u>District Court</u>	<u>Total</u>
Assets - Cash and investments	\$ 1,456,144	\$ 13,459	\$ 1,469,603
Liabilities			
Due to other governmental units	-	11,494	11,494
Customer deposits	-	1,965	1,965
Tax collections distributable	1,456,144	-	1,456,144
Total liabilities	<u>1,456,144</u>	<u>13,459</u>	<u>1,469,603</u>
Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Harper Woods, Michigan

**Other Supplemental Information
Combining Statement of Changes in Fiduciary Net Position
Custodial Funds**

Year Ended December 31, 2020

	<u>Tax Collection</u>	<u>District Court</u>	<u>Total</u>
Additions			
Property tax collections	\$ 8,984,928	\$ -	\$ 8,984,928
Court collections	-	272,449	272,449
Total additions	8,984,928	272,449	9,257,377
Deductions			
Disbursements to Wayne County, Michigan	4,909,458	8,273	4,917,731
Disbursements to Harper Woods Schools	2,526,288	-	2,526,288
Disbursements to Grosse Pointe Schools	1,332,303	-	1,332,303
Disbursements to Grosse Pointe Library	193,571	-	193,571
Disbursements to Wayne County Land Bank	23,308	-	23,308
Disbursements to State of Michigan	-	188,182	188,182
Bond disbursements	-	75,994	75,994
Total deductions	8,984,928	272,449	9,257,377
Net Change in Fiduciary Net Position	-	-	-
Net Position - Beginning of year	-	-	-
Net Position - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>