
City of Harper Woods, Michigan

**Financial Report
with Supplementary Information
December 31, 2022**

Mayor and City Council

Mayor

Valerie Kindle

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

Vivian M. Sawicki
Cheryl A. Costantino
Gerianne LaPratt
Tom Jenny
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.

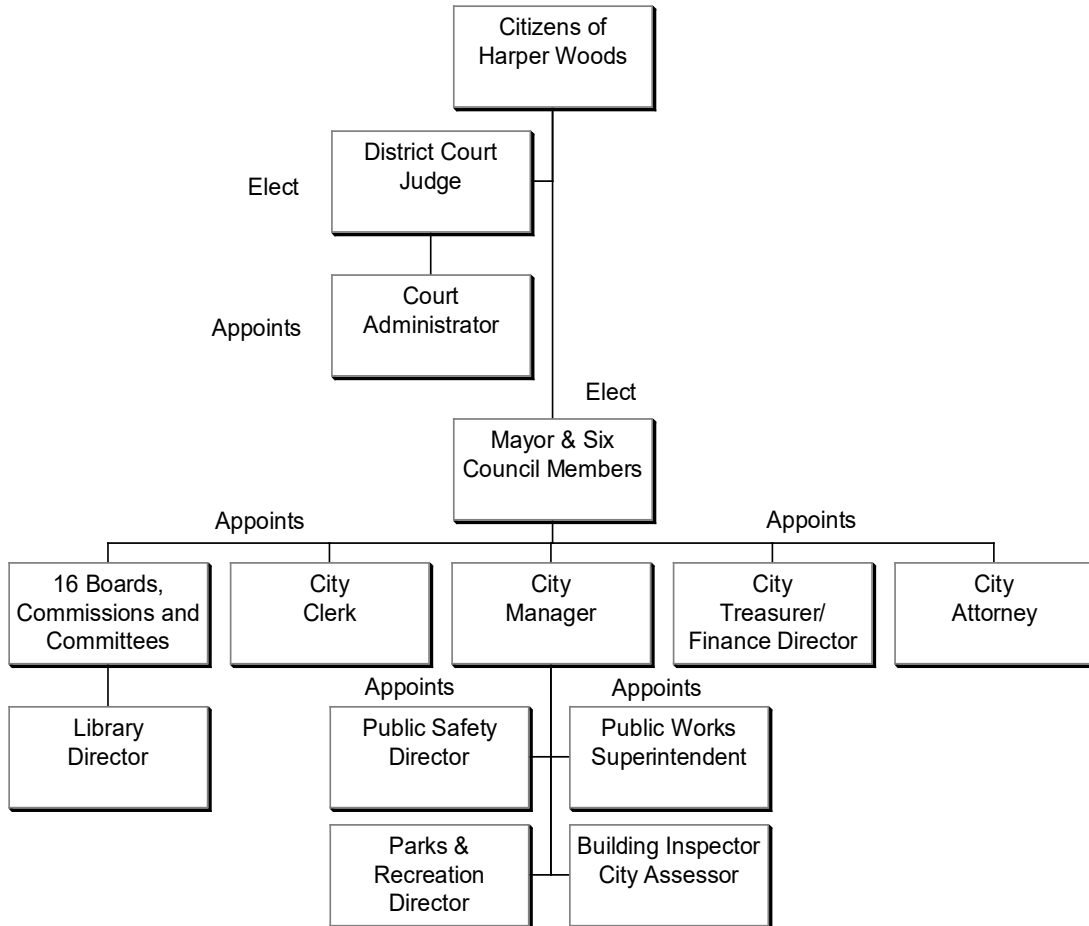
The elective officials of the City consist of seven council members and the mayor, all of whom are nominated and elected from the City at large. Three of its members are elected to the council every two years for four-year terms. The mayor is elected every two years for a two-year term.

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.

Administrative Organization Chart	1
Independent Auditor's Report	2-4
Management's Discussion and Analysis	5-8
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10-11
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	12
Reconciliation of the Balance Sheet to the Statement of Net Position	13
Statement of Revenue, Expenditures, and Changes in Fund Balances	14
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Proprietary Funds:	
Statement of Net Position	16
Statement of Revenue, Expenses, and Changes in Net Position	17
Statement of Cash Flows	18
Fiduciary Funds:	
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Net Position	20
Notes to Financial Statements	21-41
Required Supplementary Information	42
Budgetary Comparison Schedule - General Fund	43
Budgetary Comparison Schedule - Major Special Revenue Fund	44
Schedule of Changes in the Net Pension Liability and Related Ratios	45
Schedule of Pension Contributions	46
Schedule of Changes in the Total OPEB Liability and Related Ratios	47
Notes to Required Supplementary Information	48-49
Other Supplementary Information	50
Nonmajor Governmental Funds:	
Combining Balance Sheet	51-52
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	53-54
Combining Statement of Fiduciary Net Position	55
Combining Statement of Changes in Fiduciary Net Position	56

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

Opinions

We have audited the 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, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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 as of December 31, 2022 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the City and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary 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 is the responsibility of management and, 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 supplementary 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The other supplementary 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. Such 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. The 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual financial report. The other information comprises the administrative organization chart but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Plante & Moren, PLLC

June 22, 2023

Financial Section

Management's Discussion and Analysis

This section of the annual financial report for the City of Harper Woods, Michigan (the "City") is our discussion and analysis of the City's performance for the fiscal year ended December 31, 2022. 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, 2022 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Assets						
Current assets	\$ 16,940	\$ 17,660	\$ 2,214	\$ 2,590	\$ 19,154	\$ 20,250
Noncurrent assets - Capital assets	29,446	30,014	4,967	4,895	34,413	34,909
Total assets	46,386	47,674	7,181	7,485	53,567	55,159
Deferred Outflows of Resources	4,103	4,503	693	705	4,796	5,208
Liabilities						
Current liabilities	3,502	5,391	1,756	637	5,258	6,028
Long-term liabilities	64,108	75,029	7,649	9,180	71,757	84,209
Total liabilities	67,610	80,420	9,405	9,817	77,015	90,237
Deferred Inflows of Resources	13,764	10,511	916	526	14,680	11,037
Net Position						
Net investment in capital assets	10,431	9,741	2,882	2,650	13,313	12,391
Restricted	3,527	3,611	-	-	3,527	3,611
Unrestricted	(44,842)	(52,106)	(5,330)	(4,803)	(50,172)	(56,909)
Total net position	<u>\$ (30,885)</u>	<u>\$ (38,754)</u>	<u>\$ (2,447)</u>	<u>\$ (2,153)</u>	<u>\$ (33,332)</u>	<u>\$ (40,907)</u>

In 2022, the City's combined net deficit decreased by approximately 19 percent from a year ago - from \$40.9 million to \$33.3 million. The governmental activities net deficit decreased from a net deficit of \$38.7 million to a deficit of \$30.9 million. This is primarily a result of the \$9.8 million decrease in Other

Management's Discussion and Analysis

Postemployment Benefits OPEB liability, which was due mostly to changes in actuarial assumptions to calculate the OPEB liability. Further, the change in governmental activities net position was affected by a significant decrease in current liabilities, which largely was due to payments made on the \$2.0 million settlement reached in the stormwater litigation in the current year that was recorded as a liability at the end of 2021. The business-type activities net deficit increased from \$2.1 million to a \$2.4 million deficit primarily as a result of costs relating to the stormwater litigation settlement.

The following table shows the change in net position for the year ended December 31, 2022 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenue						
Program revenue:						
Charges for services	\$ 3,791	\$ 3,611	\$ 5,186	\$ 5,189	\$ 8,977	\$ 8,800
Operating grants and contributions	901	656	-	-	901	656
Capital grants and contributions	700	86	157	387	857	473
General revenue:						
Property taxes	10,572	9,985	-	-	10,572	9,985
State-shared revenue	3,325	3,292	-	-	3,325	3,292
Interest	-	-	-	-	-	-
Miscellaneous	584	555	-	-	584	555
Total revenue	19,873	18,185	5,343	5,576	25,216	23,761
Program Expenses						
General government	6,638	8,596	-	-	6,638	8,596
District court	164	174	-	-	164	174
Public safety	429	5,569	-	-	429	5,569
Public works	3,302	6,005	-	-	3,302	6,005
Recreation and culture	949	923	-	-	949	923
Interest on long-term debt	522	495	-	-	522	495
Water and sewer	-	-	5,637	5,000	5,637	5,000
Total program expenses	12,004	21,762	5,637	5,000	17,641	26,762
Transfers	-	-	-	-	-	-
Change in Net Position	7,869	(3,577)	(294)	576	7,575	(3,001)
Net Position - Beginning of year	(38,754)	(35,177)	(2,153)	(2,729)	(40,907)	(37,906)
Net Position - End of year	<u>\$ (30,885)</u>	<u>\$ (38,754)</u>	<u>\$ (2,447)</u>	<u>\$ (2,153)</u>	<u>\$ (33,332)</u>	<u>\$ (40,907)</u>

Governmental Activities

Total revenue for the City's governmental activities was \$19.9 million for the year ended December 31, 2022. The City experienced an increase in property tax revenue collections, grant revenue, charges for services, and state shared revenue in 2022.

Management's Discussion and Analysis

Expenses for the City's governmental activities totaled \$12.0 million for the year ended December 31, 2022, a decrease of approximately 44.8 percent, which is primarily a result of significant decreases in OPEB expense due to a change in actuarial assumptions used to calculate the OPEB liability. Public works expense decreased by \$1.9M from 2021 due to settlement costs relating to the 2022 stormwater litigation being shared by the Water and Sewer fund, a business-type activity.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City provides potable water to its residents. The City pumps its sewage to the City of Detroit, Michigan for treatment and disposal. The City decreased its revenue in 2022 by \$0.2 million from 2021 due to a decrease in capital grants in 2022 and increased its expenses for 2022 by \$0.6 million as compared to 2021. There was an overall decrease in net position of \$0.3 million for 2022.

The City's Funds

Our analysis of the City's major funds begins on page 12, 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 2022. The General Fund is supported primarily by property taxes and state-shared revenue. Fund balance in the general fund increased by \$1.2M from 2021, largely due to increases in property tax revenue and state-shared revenue.

The Storm Drain Fund manages the Milk River Drain, debt, and maintenance. It is funded by a designated storm water drain millage. Fund balance in the Storm Drain Fund decreased by \$2.0M from 2021 due primarily to expenditures associated with the City's stormwater litigation settlement.

The Refuse Fund manages the City's rubbish removal services. It is funded by a dedicated property tax millage and user fees. Fund balance of the refuse fund decreased by \$49k from 2021 as a result of reductions in service revenue.

Management's Discussion and Analysis

General Fund Budgetary Highlights

Over the course of the year, the city administration and City Council monitor the budget and, if necessary, amend the budget to take into account unanticipated events that occur during the year. There were amendments made in 2022. 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 and Police and Fire administration.

Capital Asset and Debt Administration

At the end of fiscal year 2022, the City had \$34.4 million invested in capital assets (land, buildings, equipment, vehicles, and water, sewer, and storm lines). Further information regarding the City's capital asset balances can be found in Note 4 to the financial statements.

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 2033, 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. At the end of fiscal year 2022, the City had \$21.1M of outstanding long-term debt. Further information regarding the City's debt balances can be found in Note 6 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The City will continue to face challenges but has made substantial strides in the redevelopment of large land parcels that were once dormant due to the closing of the former Eastland Mall complex. The land parcels are now being developed by Northpointe Development with a \$94M dollar investment which will help elevate the overall tax base and revenues of the City.

On the expense side of the equation, medical insurance and employee retention/recruitment continues to be a concern. The City has made changes to both active and retiree healthcare plans that have enabled the city to reduce its OPEB legacy costs by over \$10M dollars from year 2021 alone. The city is on the State's short list for receiving a pension stability grant that will bring the city's funding level to 60% and help reduce its actuarial determined payment going forward. The city will be positioned for sensible incremental millage rate reductions, in the future, while growing its tax base at the same time without any reduction in city services.

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.

Statement of Net Position

December 31, 2022

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
Assets				
Cash and cash equivalents (Note 3)	\$ 9,964,696	\$ 450,950	\$ 10,415,646	\$ 25,659
Receivables:				
Property taxes	4,762,677	1,584	4,764,261	-
Customer receivables	-	1,716,144	1,716,144	-
Other receivables	361,459	-	361,459	-
Due from other governmental units	672,266	-	672,266	-
Service fee	962,448	-	962,448	-
Inventories and prepaid items	156,397	44,923	201,320	-
Investment in joint ventures (Note 8)	60,462	-	60,462	-
Capital assets: (Note 4)				
Assets not subject to depreciation	1,408,637	161,542	1,570,179	-
Assets subject to depreciation - Net	28,037,363	4,805,945	32,843,308	-
Total assets	46,386,405	7,181,088	53,567,493	25,659
Deferred Outflows of Resources - Deferred pension costs	4,103,025	693,127	4,796,152	-
Liabilities				
Accounts payable	275,368	310,021	585,389	-
Customer deposits	-	6,900	6,900	-
Accrued liabilities and other	1,322,075	39,360	1,361,435	-
Unearned revenue	538,320	-	538,320	-
Stormwater settlement liability (Note 7)	-	1,229,930	1,229,930	-
Noncurrent liabilities:				
Due within one year:				
Current portion of compensated absences (Note 6)	200,000	4,795	204,795	-
Current portion of bonds and contracts payable (Note 6)	1,166,121	165,000	1,331,121	-
Due in more than one year:				
Compensated absences (Note 6)	819,409	-	819,409	-
Net pension liability (Note 9)	27,376,798	3,482,513	30,859,311	-
Total OPEB liability (Note 10)	17,918,008	2,246,762	20,164,770	-
Bonds and contracts payable - Net of current portion (Note 6)	17,849,075	1,920,000	19,769,075	-
Other	145,003	-	145,003	-
Total liabilities	67,610,177	9,405,281	77,015,458	-
Deferred Inflows of Resources				
Property taxes levied for the following year	7,846,641	-	7,846,641	25,659
Deferred pension cost reductions (Note 9)	1,731,638	391,468	2,123,106	-
Deferred OPEB cost reductions (Note 10)	4,185,721	524,851	4,710,572	-
Total deferred inflows of resources	13,764,000	916,319	14,680,319	25,659
Net Position (Deficit)				
Net investment in capital assets	10,430,804	2,882,487	13,313,291	-
Restricted:				
Roads	2,482,676	-	2,482,676	-
Drain maintenance and debt service	427,564	-	427,564	-
Library	321,694	-	321,694	-
Refuse	25,233	-	25,233	-
Drug enforcement	859	-	859	-
Grants	183,920	-	183,920	-
Public safety	84,856	-	84,856	-
Unrestricted	(44,842,353)	(5,329,872)	(50,172,225)	-
Total net position (deficit)	\$ (30,884,747)	\$ (2,447,385)	\$ (33,332,132)	\$ -

City of Harper Woods, Michigan

		Program Revenue		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and	and
			Contributions	Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 6,638,090	\$ 1,446,003	\$ 483,947	\$ -
District court	164,181	-	224,296	-
Public safety	428,709	40,130	123,386	175,010
Public works	3,302,439	2,010,354	69,090	521,092
Recreation and culture	948,886	294,967	-	4,011
Interest on long-term debt	522,255	-	-	-
Total governmental activities	12,004,560	3,791,454	900,719	700,113
Business-type activities - Water and Sewer Fund				
	5,636,979	5,185,556	-	157,219
Total primary government	\$ 17,641,539	\$ 8,977,010	\$ 900,719	\$ 857,332
Component units - Brownfield Redevelopment Authority				
	\$ 19,967	\$ -	\$ -	\$ -
General revenue:				
Property taxes				
Unrestricted state-shared revenue				
Income 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, 2022

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (4,708,140)	\$ -	\$ (4,708,140)	\$ -
60,115	-	60,115	-
(90,183)	-	(90,183)	-
(701,903)	-	(701,903)	-
(649,908)	-	(649,908)	-
(522,255)	-	(522,255)	-
(6,612,274)	-	(6,612,274)	-
-	(294,204)	(294,204)	-
(6,612,274)	(294,204)	(6,906,478)	-
-	-	-	(19,967)
10,572,451	-	10,572,451	19,967
3,325,409	-	3,325,409	-
16,058	-	16,058	-
567,679	-	567,679	-
14,481,597	-	14,481,597	19,967
7,869,323	(294,204)	7,575,119	-
(38,754,070)	(2,153,181)	(40,907,251)	-
\$ (30,884,747)	\$ (2,447,385)	\$ (33,332,132)	\$ -

City of Harper Woods, Michigan

Governmental Funds Balance Sheet

December 31, 2022

		Debt Service Fund	Special Revenue Fund		
	General Fund	Storm Drain Fund	Refuse Fund	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 4,130,356	\$ 1,016,431	\$ 277,583	\$ 4,278,057	\$ 9,702,427
Receivables:					
Property taxes	4,130,056	3,522	310,706	318,393	4,762,677
Other receivables	247,135	-	101,937	12,387	361,459
Due from other governmental units	357,527	-	-	314,739	672,266
Service fee	-	962,448	-	-	962,448
Due from other funds (Note 5)	22,344	-	-	-	22,344
Inventories and prepaid items	151,048	-	-	5,349	156,397
Total assets	\$ 9,038,466	\$ 1,982,401	\$ 690,226	\$ 4,928,925	\$ 16,640,018
Liabilities					
Accounts payable	\$ 161,346	\$ -	\$ 47,154	\$ 62,939	\$ 271,439
Due to other funds	-	-	-	22,344	22,344
Accrued liabilities and other	884,133	8,246	19,466	64,807	976,652
Unearned revenue	-	-	-	538,320	538,320
Deferred Inflows of Resources - Property taxes levied for the following year	4,680,555	1,930,757	598,373	636,956	7,846,641
Total liabilities and deferred inflows of resources	5,726,034	1,939,003	664,993	1,325,366	9,655,396
Fund Balances					
Nonspendable:					
Inventory	9,611	-	-	5,349	14,960
Prepays	141,437	-	-	-	141,437
Restricted:					
Roads	-	-	-	2,477,327	2,477,327
Drain maintenance and debt service	-	43,398	-	384,166	427,564
Grants	-	-	-	183,920	183,920
Library	-	-	-	321,694	321,694
Drug enforcement	-	-	-	859	859
Public safety	-	-	-	84,856	84,856
Refuse	-	-	25,233	-	25,233
Assigned - Capital projects	-	-	-	145,388	145,388
Unassigned	3,161,384	-	-	-	3,161,384
Total fund balances	3,312,432	43,398	25,233	3,603,559	6,984,622
Total liabilities, deferred inflows of resources, and fund balances	\$ 9,038,466	\$ 1,982,401	\$ 690,226	\$ 4,928,925	\$ 16,640,018

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

December 31, 2022

Fund Balances Reported in Governmental Funds	\$ 6,984,622
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	29,415,090
Investments in joint ventures are not financial resources and are not reported in the funds	60,462
Bonds payable are not due and payable in the current period and are not reported in the funds	(19,015,196)
Accrued interest is not due and payable in the current period and is not reported in the funds	(118,110)
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	(48,128,549)
Accrued liabilities are not due and payable in the current period and are not reported in the funds	(369,609)
Internal service funds are included as part of governmental activities	<u>286,543</u>
Net Position (Deficit) of Governmental Activities	<u><u>\$ (30,884,747)</u></u>

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2022

		Debt Service Fund	Special Revenue Fund		
	General Fund	Storm Drain Fund	Refuse Fund	Nonmajor Funds	Total Governmental Funds
Revenue					
Property taxes	\$ 9,287,221	\$ 6,459	\$ 599,288	\$ 679,483	\$ 10,572,451
Intergovernmental:					
Federal grants	183,330	-	-	977,203	1,160,533
State sources	2,604,086	-	16,410	1,416,808	4,037,304
Charges for services	361,778	-	375,819	-	737,597
Fines and forfeitures	306,830	-	-	-	306,830
Licenses and permits	823,849	-	-	-	823,849
Service fees	274,711	1,709,535	-	-	1,984,246
Other revenue	430,770	-	17,802	84,475	533,047
Total revenue	14,272,575	1,715,994	1,009,319	3,157,969	20,155,857
Expenditures					
Current services:					
General government	7,540,819	-	7,000	538,658	8,086,477
District court	-	-	-	164,181	164,181
Public safety	4,644,565	-	-	7,510	4,652,075
Public works	460,396	2,460,039	1,051,470	1,406,835	5,378,740
Recreation and culture	366,019	-	-	467,237	833,256
Capital outlay	12,142	-	-	125,191	137,333
Debt service:					
Principal	-	798,882	-	321,000	1,119,882
Interest and fiscal charges	-	449,841	-	77,587	527,428
Total expenditures	13,023,941	3,708,762	1,058,470	3,108,199	20,899,372
Excess of Revenue Over (Under) Expenditures	1,248,634	(1,992,768)	(49,151)	49,770	(743,515)
Other Financing Sources (Uses) (Note 5)					
Transfers in	-	-	-	501,417	501,417
Transfers out	(101,417)	-	-	(400,000)	(501,417)
Total other financing (uses) sources	(101,417)	-	-	101,417	-
Net Change in Fund Balances	1,147,217	(1,992,768)	(49,151)	151,187	(743,515)
Fund Balances - Beginning of year	2,165,215	2,036,166	74,384	3,452,372	7,728,137
Fund Balances - End of year	<u>\$ 3,312,432</u>	<u>\$ 43,398</u>	<u>\$ 25,233</u>	<u>\$ 3,603,559</u>	<u>\$ 6,984,622</u>

Governmental Funds

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

Year Ended December 31, 2022

Net Change in Fund Balances Reported in Governmental Funds	\$ (743,515)
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	(1,831,092)
Capital outlay	1,293,505
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	(223,032)
Gain from joint ventures does not represent current resources and is not reported in the funds	16,058
Finance 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)	1,269,546
Interest expense is recognized in the government-wide statements as it accrues	10,996
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	6,434,469
Timing of recognition of claims and similar costs that do not use current financial resources differs between governmental funds and the statement of activities	1,652,413
Internal service funds are included as part of governmental activities	(10,025)
Change in Net Position of Governmental Activities	<u>\$ 7,869,323</u>

Proprietary Funds
Statement of Net Position

December 31, 2022

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	\$ 450,950	\$ 262,269
Receivables	1,717,728	-
Inventories and prepaid items	44,923	-
Total current assets	2,213,601	262,269
Noncurrent assets - Capital assets - Assets subject to depreciation - Net (Note 4)	4,967,487	30,910
Total assets	7,181,088	293,179
Deferred Outflows of Resources - Deferred pension costs (Note 9)	693,127	-
Liabilities		
Current liabilities:		
Accounts payable	310,021	3,929
Customer deposits	6,900	-
Accrued liabilities and other	39,360	2,707
Stormwater settlement liability (Note 7)	1,229,930	-
Current portion of compensated absences (Note 6)	4,795	-
Current portion of bonds and contracts payable (Note 6)	165,000	-
Total current liabilities	1,756,006	6,636
Noncurrent liabilities:		
Net pension liability (Note 9)	3,482,513	-
Total OPEB liability (Note 10)	2,246,762	-
Bonds and contracts payable - Net of current portion (Note 6)	1,920,000	-
Total noncurrent liabilities	7,649,275	-
Deferred Inflows of Resources		
Deferred pension cost reductions (Note 9)	391,468	-
Deferred OPEB cost reductions (Note 10)	524,851	-
Total deferred inflows of resources	916,319	-
Net Position (Deficit)		
Net investment in capital assets	2,882,487	30,910
Unrestricted	(5,329,872)	255,633
Total net position (deficit)	<u>\$ (2,447,385)</u>	<u>\$ 286,543</u>

City of Harper Woods, Michigan

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

Year Ended December 31, 2022

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Operating Revenue		
Customer billings	\$ 5,135,369	\$ -
Other operating revenue	50,187	-
Billings to other funds	-	351,861
Total operating revenue	5,185,556	351,861
Operating Expenses		
Cost of materials	-	70,752
Water supply and sewage disposal	2,805,688	-
Operating and maintenance costs	1,643,431	199,714
General and administrative	978,825	60,500
Depreciation	155,910	30,920
Total operating expenses	5,583,854	361,886
Operating Loss	(398,298)	(10,025)
Nonoperating Expense - Interest expense	(53,125)	-
Loss - Before capital contributions	(451,423)	(10,025)
Capital Contributions - Capital grants	157,219	-
Change in Net Position	(294,204)	(10,025)
Net Position (Deficit) - Beginning of year	(2,153,181)	296,568
Net Position (Deficit) - End of year	<u><u>\$ (2,447,385)</u></u>	<u><u>\$ 286,543</u></u>

Proprietary Funds
Statement of Cash Flows

Year Ended December 31, 2022

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Fund - Equipment Fund
Cash Flows from Operating Activities		
Receipts from customers	\$ 5,137,484	\$ -
Receipts from interfund services and reimbursements	-	351,861
Payments to suppliers	(4,106,596)	(187,828)
Payments to employees and fringes	(1,151,203)	(116,334)
Payments to other funds	(19,000)	(35,000)
Net cash and cash equivalents (used in) provided by operating activities	(139,315)	12,699
Cash Flows from Capital and Related Financing Activities		
Receipt of capital grants	157,219	-
Purchase of capital assets	(228,344)	-
Principal and interest paid on capital debt	(214,125)	-
Net cash and cash equivalents used in capital and related financing activities	(285,250)	-
Net (Decrease) Increase in Cash and Cash Equivalents	(424,565)	12,699
Cash and Cash Equivalents - Beginning of year	875,515	249,570
Cash and Cash Equivalents - End of year	\$ 450,950	\$ 262,269
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (398,298)	\$ (10,025)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	155,910	30,920
Changes in assets and liabilities:		
Receivables	(48,072)	-
Prepaid and other assets	(631)	-
Net pension or OPEB liability	(787,238)	-
Accounts payable	939,014	(7,915)
Accrued and other liabilities	-	(281)
Total adjustments	258,983	22,724
Net cash and cash equivalents (used in) provided by operating activities	\$ (139,315)	\$ 12,699

City of Harper Woods, Michigan

Fiduciary Funds Statement of Fiduciary Net Position

December 31, 2022

	<u>Custodial Funds</u>
Assets	
Cash and investments	\$ 1,634,676
Receivables - Property taxes	<u>2,364,431</u>
Total assets	3,999,107
Liabilities - Due to other governmental units	1,634,676
Deferred Inflows of Resources - Taxes levied for subsequent year	<u>2,364,431</u>
Net Position	<u><u>\$ -</u></u>

Fiduciary Funds
Statement of Changes in Fiduciary Net Position

Year Ended December 31, 2022

	<u>Custodial Funds</u>
Additions	
Property tax collections for other governments	\$ 7,304,390
Court collections	<u>169,826</u>
Total additions	7,474,216
Deductions	
Disbursements to Wayne County, Michigan	5,701,028
Disbursements to Harper Woods Schools	48,445
Disbursements to Grosse Pointe Schools	1,322,045
Disbursements to Grosse Pointe Library	210,790
Disbursements to Wayne County Land Bank	25,631
Disbursements to State of Michigan	145,677
Bond disbursements	<u>20,600</u>
Total deductions	<u>7,474,216</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, 2022, 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, 2022, the City has recorded \$17,341,259 for its share of the outstanding debt and \$19,593,019 for its share of the completed capital improvements. In addition to the debt, the City has recorded a liability of \$145,003 due to cost overruns as of December 31, 2022. 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 Debt Service 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 Special Revenue 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.

December 31, 2022

Note 1 - Significant Accounting Policies (Continued)

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.

Specific Balances and Transactions**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand and demand deposits.

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:

	Depreciable Life - Years
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 assets that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

Note 1 - Significant Accounting Policies (Continued)

The City has one item that qualifies for reporting in this category. 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.

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 assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

The City has three items that qualify for reporting in this category: (1) The City has property taxes levied before the period budgeted. These property taxes are shown as deferred inflows of resources on 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 defined benefit pension plan, which are reported in the government-wide and enterprise fund financial statements. (3) The City has deferred inflows of resources related to the other postemployment benefit plan, which are reported in the government-wide and enterprise fund financial statements.

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.

December 31, 2022

Note 1 - Significant Accounting Policies (Continued)

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 exist only temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

Property taxes are levied 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 2021 property tax revenue was levied and collectible on December 31, 2021 and is recognized as revenue in the year ended December 31, 2022 when the proceeds of the levy are budgeted and available for the financing of operations.

The 2021 taxable valuation of the City totaled \$229,391,432, on which taxes levied consisted of 19.7091 mills for operating purposes, 1.00 mills for debt service, 1.8888 mills for the library, and 2.5144 mills for rubbish removal. This resulted in approximately \$4,548,000 for operating, \$237,000 for debt service, \$434,000 for the library, and \$580,000 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, 2022 and 15.75 mills on December 31, 2022 for the payment of public safety expenditures. The taxes levied during 2022 as a result of the Public Act 33 millage resulted in approximately \$4,461,000 recognized in the General Fund as tax revenue for the year ended December 31, 2022.

Property taxes billed during the month of December 2022, with the exception of the Public Act 33 millage, will be used to finance 2023 operations. As such, these taxes are unavailable and are recorded as deferred inflows of resources in the respective funds at December 31, 2022.

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. Benefit payments are recognized when due and payable in accordance with the benefit terms.

Compensated Absences (Vacation and Sick Leave)

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

Note 1 - Significant Accounting Policies (Continued)

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Water and Sewer Fund and internal service funds is charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Upcoming Accounting Pronouncements

In 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 April 2022, the Governmental Accounting Standards Board issued Statement No. 99, *Omnibus 2022*, which establishes or amends accounting and financial reporting requirements for specific issues related to financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements, the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP), nonmonetary transactions, pledges of future revenue, the focus of government-wide financial statements, and terminology. 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 June 2022, the Governmental Accounting Standards Board issued Statement No. 100, *Accounting Changes and Error Corrections*, which enhances the accounting and financial reporting requirements for accounting changes and error corrections. The provisions of this statement are effective for the City's financial statements for the year ending December 31, 2024.

December 31, 2022

Note 1 - Significant Accounting Policies (Continued)

In June 2022, the Governmental Accounting Standards Board issued Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences under a unified model. This statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means and establishes guidance for measuring a liability for leave that has not been used. It also updates disclosure requirements for compensated absences. The provisions of this statement are effective for the City's financial statements for the year ending December 31, 2024.

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, 2022		\$	(670,652)
Current year permit revenue			754,195
Related expenses:			
Direct costs	\$	756,345	
Estimated indirect costs		75,635	831,980
			<u>(77,785)</u>
Current year shortfall			<u>(77,785)</u>
Cumulative shortfall at December 31, 2022		\$	<u>(748,437)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications 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 \$12.0 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.

December 31, 2022

Note 4 - Capital Assets

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

Governmental Activities

	Balance January 1, 2022	Reclassifications	Additions	Disposals	Balance December 31, 2022
Capital assets not being depreciated:					
Land	\$ 737,949	\$ -	\$ -	\$ -	\$ 737,949
Construction in progress	1,251,071	(1,251,071)	-	-	-
Subtotal	1,989,020	(1,251,071)	-	-	737,949
Capital assets being depreciated:					
Roads	16,781,857	-	291,067	-	17,072,924
Sidewalks	1,119,044	-	-	-	1,119,044
Stormwater drains	29,109,906	1,251,071	122,981	-	30,483,958
Buildings and improvements	4,661,497	-	-	-	4,661,497
Machinery and equipment	4,442,682	-	119,876	-	4,562,558
Vehicles	4,915,532	-	-	-	4,915,532
Office furnishings	277,979	-	11,383	-	289,362
Land improvements	553,194	-	77,510	-	630,704
Subtotal	61,861,691	1,251,071	622,817	-	63,735,579
Accumulated depreciation:					
Roads	14,034,248	-	677,096	-	14,711,344
Sidewalks	1,119,044	-	-	-	1,119,044
Stormwater drains	8,961,352	-	744,923	-	9,706,275
Buildings and improvements	1,889,935	-	97,819	-	1,987,754
Machinery and equipment	2,940,205	-	125,486	-	3,065,691
Vehicles	4,297,884	-	176,810	-	4,474,694
Office furnishings	221,128	-	12,839	-	233,967
Land improvements	372,408	-	27,039	-	399,447
Subtotal	33,836,204	-	1,862,012	-	35,698,216
Net capital assets being depreciated	28,025,487	1,251,071	(1,239,195)	-	28,037,363
Net governmental activities capital assets	<u>\$ 30,014,507</u>	<u>\$ -</u>	<u>\$ (1,239,195)</u>	<u>\$ -</u>	<u>\$ 28,775,312</u>

December 31, 2022

Note 4 - Capital Assets (Continued)

Business-type Activities

	Balance January 1, 2022	Additions	Disposals	Balance December 31, 2022
Capital assets being depreciated:				
Water system	\$ 8,081,673	\$ 66,802	\$ -	\$ 8,148,475
Sewer system	2,030,235	-	-	2,030,235
Machinery and equipment	199,020	-	-	199,020
Subtotal	10,310,928	66,802	-	10,377,730
Accumulated depreciation:				
Water system	3,911,807	142,756	-	4,054,563
Sewer system	1,305,048	13,154	-	1,318,202
Machinery and equipment	199,020	-	-	199,020
Subtotal	5,415,875	155,910	-	5,571,785
Net business-type activities capital assets	\$ 4,895,053	\$ (89,108)	\$ -	\$ 4,805,945

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

Governmental activities:	
General government	\$ 40,869
Public safety	204,333
Public works	1,466,052
Recreation and culture	119,838
Internal service fund depreciation is charged to the various functions based on their usage of the asset	30,920
Total governmental activities	\$ 1,862,012
Business-type activities - Water and sewer	\$ 155,910

Construction Commitments

The City has pending road and parking lot resurfacing projects and a park reconstruction project at year end. The City has committed approximately \$1,466,000 to these projects.

Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances at December 31, 2022 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	District Court Mental Health Fund	\$ 15,883
	Coronavirus Fund	6,461

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, 2022

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	\$ 12,537
	General Obligation Bonds Fund	88,880
	Total General Fund	101,417
Major Streets Fund	Local Streets Fund	400,000
	Total	\$ 501,417

The transfer from the General Fund to the General Obligation Bonds Fund represents a transfer of discretionary funds for debt service requirements. The transfer from the General Fund to the MIDC - Grant Fund - Courts Fund represents transfer 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, 2022 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	\$ 149,664	\$ -	\$ (149,664)	\$ -	\$ -
Milk River Intercounty Drain Bond - 2016 series	15,261,602	-	(680,279)	14,581,323	696,312
Milk River Intercounty Drain Bond - 2020 series	2,878,539	-	(118,603)	2,759,936	121,809
Total direct borrowings and direct placements principal outstanding	18,289,805	-	(948,546)	17,341,259	818,121
Other debt:					
Unlimited tax general obligation bonds	900,000	-	(275,000)	625,000	300,000
Capital Improvement Bond	1,094,937	-	(46,000)	1,048,937	48,000
Total other debt principal outstanding	1,994,937	-	(321,000)	1,673,937	348,000
Accumulated compensated absences	1,005,192	521,456	(507,239)	1,019,409	200,000
Total governmental activities long-term debt	\$ 21,289,934	\$ 521,456	\$ (1,776,785)	\$ 20,034,605	\$ 1,366,121

December 31, 2022

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:	\$ 2,245,000	\$ -	\$ (160,000)	\$ 2,085,000	\$ 165,000
Accrued compensated absences	3,676	2,959	(1,840)	4,795	4,795
Total business-type activities long-term debt	<u>\$ 2,248,676</u>	<u>\$ 2,959</u>	<u>\$ (161,840)</u>	<u>\$ 2,089,795</u>	<u>\$ 169,795</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, 2022 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	\$ 625,000
Capital Improvements Bonds, \$1,183,000 original issue	2018	4.00%	2038	1,048,937
Direct borrowings and direct placements:				
State Revolving Fund - Milk River Intercounty Drain Bonds	2016	2.50%	2039	14,581,323
State Revolving Fund - Milk River Intercounty Drain Bonds	2020	1.88	2034	2,759,936
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	2,085,000

Debt Service Requirements to Maturity

Total interest expense for the year was \$575,380. 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		
2023	\$ 818,121	\$ 406,436	\$ 348,000	\$ 62,300	\$ 1,634,857	\$ 165,000	\$ 50,063	\$ 215,063	
2024	839,651	386,485	375,000	46,353	1,647,489	170,000	45,875	215,875	
2025	861,180	366,016	52,000	37,000	1,316,196	175,000	41,563	216,563	
2026	879,504	345,059	54,000	34,880	1,313,443	180,000	37,125	217,125	
2027	901,034	323,613	56,000	32,680	1,313,327	185,000	32,562	217,562	
2028-2032	4,850,561	1,277,090	317,000	127,020	6,571,671	1,000,000	90,000	1,090,000	
2033-2037	5,478,588	655,276	385,000	57,100	6,575,964	210,000	2,625	212,625	
2038-2042	2,712,620	76,714	86,937	1,740	2,878,011	-	-	-	
Total	<u>\$ 17,341,259</u>	<u>\$ 3,836,689</u>	<u>\$ 1,673,937</u>	<u>\$ 399,073</u>	<u>\$ 23,250,958</u>	<u>\$ 2,085,000</u>	<u>\$ 299,813</u>	<u>\$ 2,384,813</u>	

Note 6 - Long-term Debt (Continued)

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, 2022, \$2,085,000 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 \$2,384,813. During the current year, net expense of the system totaled \$242,388 compared to annual debt requirements of \$215,063.

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, 2022, the City is responsible for \$14,581,323 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, 2022, the City is responsible for \$1,048,937 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, 2022, the City is responsible for \$2,759,936 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.

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. A liability of \$2,000,000 was recorded as of December 31, 2021 based upon a preliminary settlement agreement. During 2022, the City agreed upon a final settlement of \$2,000,000. As of December 31, 2022, the City's remaining liability is \$1,229,930.

December 31, 2022

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 \$60,462 at December 31, 2022 and is reported as part of the governmental activities in the statement of net position. The Authority is expected to sell real estate assets in future years. It is unknown what benefit the City will realize as a result of these transactions. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional benefit or burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 3664 Nesting Ridge Drive, Rochester Hills, MI 48309.

Note 9 - Pension Plan

Plan Description

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

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

Benefits Provided

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

Retirement benefits for general clerical, including dispatcher employees, are calculated as follows: for prior service earned, a 2.25 percent multiplier will be used. Benefits 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.

Note 9 - Pension Plan (Continued)

Retirement benefits for DPW employees and general administrators are calculated as follows: for prior service earned, a 2.25 percent multiplier will be used. Benefits 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. Benefits will be frozen as of the MERS effective date. Future service shall be earned at a 2.50 percent multiplier after the MERS effective date. For members hired after January 1, 2013 (Tier 2), the multiplier shall be 1.50 percent. Final average compensation for command shall be calculated based on the highest consecutive 36 months of wages using base pay plus up to 400 hours of overtime earned within a 12-month period within the 36-month final average compensation period. Final average compensation for police officers shall be calculated based on the highest consecutive 36 months of wages using base pay plus up to 240 hours of vacation pay. Normal retirement age is 55 with 10 or more years of service or age 50 with 25 or more years of service. The vesting period is 10 years. Duty disability does not require vesting. Benefits are determined by MERS rules. Nonduty disability requires vesting, and the benefit is equal to the MERS defined benefit formula. Survivor benefits are selected by employees at the time of retirement eligibility according to options provided by MERS rules. Duty death benefits do not require vesting. Benefits are determined according to MERS rules. Nonduty death benefits require vesting, and benefit levels are determined by MERS rules. An employee who leaves service may withdraw his or her contributions plus any accumulated interest in accordance with MERS rules.

Retirement benefits for fire employees are calculated as follows: for prior service earned, a 2.75 percent multiplier will be used not to exceed 80 percent of final average compensation. Benefits 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.

December 31, 2022

Note 9 - Pension Plan (Continued)***Employees Covered by Benefit Terms***

At the December 31, 2021 measurement date, the following members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	118
Inactive plan members entitled to but not yet receiving benefits	11
Active plan members	59
	<hr/>
Total employees covered by the plan	188
	<hr/>

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, 2022, 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 89.8 percent of annual payroll.

Net Pension Liability

The net pension liability reported at December 31, 2022 was determined using a measure of the total pension liability and the pension net position as of the December 31, 2021 measurement date. The December 31, 2021 total pension liability was determined by an actuarial valuation performed as of that date.

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

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Plan Net Position	Net Pension Liability
Balance at December 31, 2020	\$ 54,147,078	\$ 23,369,559	\$ 30,777,519
Changes for the year:			
Service cost	433,712	-	433,712
Interest	3,972,477	-	3,972,477
Changes in benefits	12,505	-	12,505
Differences between expected and actual experience	392,552	-	392,552
Changes in assumptions	1,808,950	-	1,808,950
Contributions - Employer	-	3,205,055	(3,205,055)
Contributions - Employee	-	257,108	(257,108)
Net investment income	-	3,113,159	(3,113,159)
Benefit payments, including refunds	(4,189,015)	(4,189,015)	-
Administrative expenses	-	(36,918)	36,918
	<hr/>	<hr/>	<hr/>
Net changes	2,431,181	2,349,389	81,792
	<hr/>	<hr/>	<hr/>
Balance at December 31, 2021	\$ 56,578,259	\$ 25,718,948	\$ 30,859,311

The plan's fiduciary net position represents 45.5 percent of the total pension liability.

December 31, 2022

Note 9 - Pension Plan (Continued)

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

For the year ended December 31, 2022, the City recognized pension expense of \$3,909,979.

At December 31, 2022, 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	\$ 196,276	\$ (322,352)
Changes in assumptions	1,340,810	-
Net difference between projected and actual earnings on pension plan investments	-	(1,800,754)
Employer contributions to the plan subsequent to the measurement date	3,259,066	-
Total	<u>\$ 4,796,152</u>	<u>\$ (2,123,106)</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
2023	\$ 983,994
2024	(762,659)
2025	(534,134)
2026	(273,219)

Actuarial Assumptions

The total pension liability in the December 31, 2021 actuarial valuation was determined using an inflation assumption of 2.5 percent, assumed salary increases of 3.00 to 9.70 percent, an investment rate of return (net of pension plan investment expenses, gross of administrative expenses) of 7.25 percent, and the Pub-2010 mortality tables with scale MP-2019. These assumptions were applied to all periods included in the measurement and are based on an experience study conducted in 2020 for the period from January 1, 2014 through December 31, 2018.

Discount Rate

The discount rate used to measure the total pension liability was 7.25 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.

December 31, 2022

Note 9 - Pension Plan (Continued)***Investment Rate of Return***

The long-term expected rate of return on pension plan investments was determined using a model in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return as of the December 31, 2021 measurement date, for each major asset class included in the pension plan's target asset allocation, are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	60.00 %	4.50 %
Global fixed income	20.00	2.00
Private investments	20.00	7.00

The following presents the net pension liability of the City, calculated using the discount rate of 7.25 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 (6.25 percent) or 1 percentage point higher (8.25 percent) than the current rate:

	1 Percentage Point Decrease (6.25%)	Current Discount Rate (7.25%)	1 Percentage Point Increase (8.25%)
Net pension liability of the City	\$ 36,644,947	\$ 30,859,311	\$ 25,945,905

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, 2021 to December 31, 2022, 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 7.60 percent down to 7.25 percent. The MERS Retirement Board adopted a dedicated gains policy that automatically adjusts the assumed rate of investment return by using excess asset gains to mitigate large increases in required contributions to the plan.

December 31, 2022

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.

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, 2022
Inactive plan members or beneficiaries currently receiving benefits	179
Inactive plan members entitled to but not yet receiving benefits	10
Active plan members	26
Total plan members	215

Contributions

The actuarially determined contribution for the year ended December 31, 2022 was \$2,021,413. 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, 2022, the City made payments for postemployment health benefit premiums of \$1,119,812.

Total OPEB Liability

The City's total OPEB liability of \$20,164,770 was measured as of December 31, 2022 and was determined by an actuarial valuation performed as of the same date.

December 31, 2022

Note 10 - Other Postemployment Benefit Plan (Continued)

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, 2021	\$ 31,340,345
Changes for the year:	
Service cost	237,664
Interest	697,907
Differences between expected and actual experience	(518,755)
Changes in assumptions	(10,472,579)
Benefit payments, including refunds	(1,119,812)
Net changes	(11,175,575)
Balance at December 31, 2022	\$ 20,164,770

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2022, the City recognized OPEB recovery of \$6,695,426.

At December 31, 2022, the City reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 222,324
Changes in assumptions	4,488,248
Total	<u>\$ 4,710,572</u>

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

Year Ending December 31	Amount
2023	\$ (4,710,572)

Actuarial Assumptions

The total OPEB liability in the December 31, 2022 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 5.50 to 7.25 percent for 2022, decreasing each year to an ultimate rate of 4.50 percent for 2033 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 a closed basis. The remaining amortization period at December 31, 2022 was 24 years. These assumptions were applied to all periods included in the measurement.

The actuarial assumptions used in the December 31, 2022 valuation were based on the results of an actuarial experience study for the period 2014 - 2018.

Discount Rate

The discount rate used to measure the total OPEB liability was 4.31 percent. The discount rate was based on the 20-year general obligation tax-exempt municipal bond yield.

December 31, 2022

Note 10 - Other Postemployment Benefit Plan (Continued)

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 4.31 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 (3.31%)	Current Discount Rate (4.31%)	1 Percentage Point Increase (5.31%)
Total OPEB liability of the City of Harper Woods Retiree Healthcare Benefit Plan	\$ 22,839,772	\$ 20,164,770	\$ 17,973,300

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 5.5 to 7.25 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 (4.5 to 6.25%)	Current Health Care Cost Trend Rate (5.5 to 7.25%)	1 Percentage Point Increase (6.5 to 8.25%)
Total OPEB liability of the City of Harper Woods Retiree Healthcare Benefit Plan	\$ 18,022,128	\$ 20,164,770	\$ 22,750,581

Assumption Changes

The discount rate increased from 2.25 percent to 4.31 percent; the immediate medical trend was decreased from 7.50 percent to 7.25 percent pre-65 and from 5.75 percent to 5.50 percent post-65 and percapita claims costs and premium equivalent rates were updated to reflect experience since the previous valuation, including a decrease in Medicare Advantage premiums ranging from 8-13 percent. There were no other assumption changes for the year ended December 31, 2022.

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, 2022, the City abated \$19,967 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 Supplementary Information

Required Supplementary Information
Budgetary Comparison Schedule
General Fund

Year Ended December 31, 2022

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 9,114,155	\$ 8,975,600	\$ 9,287,221	\$ 311,621
Intergovernmental:				
Federal grants	-	1,280	183,330	182,050
State sources	1,734,268	2,266,341	2,604,086	337,745
Charges for services	298,330	360,968	361,778	810
Fines and forfeitures	661,911	314,868	306,830	(8,038)
Licenses and permits	383,650	707,944	823,849	115,905
Service fees	299,297	302,606	274,711	(27,895)
Other revenue	157,172	287,231	430,770	143,539
Total revenue	12,648,783	13,216,838	14,272,575	1,055,737
Expenditures				
Current services:				
General government:				
City Council	28,560	43,509	44,374	(865)
City manager	195,388	355,914	358,779	(2,865)
General services administration	1,087,116	1,208,907	1,291,475	(82,568)
Clerk/Elections	115,634	218,495	213,782	4,713
District court	45,108	43,383	43,586	(203)
Dial-A-Ride/PAATS	55,248	85,927	71,956	13,971
Insurance and other functions	5,676,141	5,572,385	5,516,867	55,518
Public safety:				
Law enforcement	3,481,544	3,036,122	3,142,452	(106,330)
Fire and EMS	674,397	684,321	734,230	(49,909)
Other	445,012	772,522	767,883	4,639
Public works	524,410	451,669	460,396	(8,727)
Recreation and culture	164,190	376,826	366,019	10,807
Capital outlay	61,718	210,702	12,142	198,560
Total expenditures	12,554,466	13,060,682	13,023,941	36,741
Excess of Revenue Over Expenditures	94,317	156,156	1,248,634	1,092,478
Other Financing Uses - Transfers out	(89,700)	(102,348)	(101,417)	931
Net Change in Fund Balance	4,617	53,808	1,147,217	1,093,409
Fund Balance - Beginning of year	2,165,215	2,165,215	2,165,215	-
Fund Balance - End of year	<u>\$ 2,169,832</u>	<u>\$ 2,219,023</u>	<u>\$ 3,312,432</u>	<u>\$ 1,093,409</u>

City of Harper Woods, Michigan

Required Supplementary Information Budgetary Comparison Schedule - Major Special Revenue Fund Refuse Fund

Year Ended December 31, 2022

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 602,025	\$ 602,025	\$ 599,288	\$ (2,737)
Intergovernmental - State sources - Local Community Stabilization Authority	-	-	16,410	16,410
Charges for services	395,304	395,304	375,819	(19,485)
Other revenue	9,493	9,493	17,802	8,309
Total revenue	1,006,822	1,006,822	1,009,319	2,497
Expenditures - Current services	1,010,045	1,022,500	1,058,470	(35,970)
Net Change in Fund Balance	(3,223)	(15,678)	(49,151)	(33,473)
Fund Balance - Beginning of year	74,384	74,384	74,384	-
Fund Balance - End of year	<u>\$ 71,161</u>	<u>\$ 58,706</u>	<u>\$ 25,233</u>	<u>\$ (33,473)</u>

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

Last Eight Fiscal Years

	2022 (December 31, 2021 Measurement Date)	2021 (December 31, 2020 Measurement Date)	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	\$ 433,712	\$ 449,470	\$ 436,682	\$ 444,595	\$ 451,509	\$ 442,165	\$ 447,927	\$ 847,028
Interest	3,972,477	3,936,260	3,964,290	3,929,729	3,863,384	3,835,112	4,644,147	4,116,587
Changes in benefit terms	12,505	-	-	-	-	-	(8,564,790)	-
Differences between expected and actual experience	392,552	(967,056)	210,401	320,634	719,026	192,145	(2,931,089)	-
Changes in assumptions	1,808,950	1,309,004	1,897,540	-	-	-	938,326	4,325,983
Benefit payments, including refunds	(4,189,015)	(4,297,483)	(4,254,621)	(4,263,376)	(4,138,907)	(4,102,443)	(4,689,984)	(4,117,700)
Net Change in Total Pension Liability	2,431,181	430,195	2,254,292	431,582	895,012	366,979	(10,155,463)	5,171,898
Total Pension Liability - Beginning of year	54,147,078	53,716,883	51,462,591	51,031,009	50,135,997	49,769,018	59,924,481	54,752,583
Total Pension Liability - End of year	\$ 56,578,259	\$ 54,147,078	\$ 53,716,883	\$ 51,462,591	\$ 51,031,009	\$ 50,135,997	\$ 49,769,018	\$ 59,924,481
Plan Fiduciary Net Position								
Contributions - Employer	\$ 3,205,055	\$ 2,626,288	\$ 2,463,260	\$ 2,307,256	\$ 1,901,927	\$ 1,897,426	\$ 1,416,670	\$ 1,500,000
Contributions - Member	257,108	251,214	245,225	261,726	252,891	275,417	204,517	279,160
Net investment income (loss)	3,113,159	2,914,730	2,740,536	(859,644)	2,862,210	2,421,348	1,168,106	362,145
Administrative expenses	(36,918)	(42,946)	(47,173)	(44,067)	(45,513)	(47,748)	(13,106)	(11,000)
Benefit payments, including refunds	(4,189,015)	(4,297,483)	(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	2,349,389	1,451,803	1,147,227	(2,598,105)	832,608	444,000	(1,557,765)	(1,990,856)
Plan Fiduciary Net Position - Beginning of year	23,369,559	21,917,756	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	\$ 25,718,948	\$ 23,369,559	\$ 21,917,756	\$ 20,770,529	\$ 23,368,634	\$ 22,536,026	\$ 22,092,026	\$ 23,649,791
City's Net Pension Liability - Ending	\$ 30,859,311	\$ 30,777,519	\$ 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	45.46 %	43.16 %	40.80 %	40.36 %	45.79 %	44.95 %	44.39 %	39.47 %
Covered Payroll	\$ 3,567,573	\$ 3,598,707	\$ 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	864.99 %	855.24 %	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.

City of Harper Woods, Michigan

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

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 3,259,066	\$ 3,120,613	\$ 2,626,343	\$ 2,366,370	\$ 2,307,258	\$ 1,901,927	\$ 1,932,282	\$ 2,387,419	\$ 1,917,203	\$ 1,858,968
Contributions in relation to the statutorily required contribution	3,259,066	3,120,613	2,626,343	2,366,370	2,307,258	1,901,927	1,932,282	1,716,561	1,500,000	-
Contribution Deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (670,858)	\$ (417,203)	\$ (1,858,968)
City's Covered Payroll	\$ 3,567,573	\$ 3,567,573	\$ 3,598,707	\$ 3,530,179	\$ 3,491,428	\$ 3,420,092	\$ 3,514,933	\$ 3,315,282	\$ 3,105,021	\$ 4,799,027
Contributions as a Percentage of Covered Payroll	91.35 %	87.47 %	72.98 %	67.03 %	66.08 %	55.61 %	54.97 %	51.78 %	48.31 %	- %

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	17 years
Asset valuation method	5-year smoothed market
Inflation	2.50 percent
Salary increase	3.00 percent to 9.70 percent, including inflation
Investment rate of return	7.00 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	For preretirement participants, Pub-2010 Juvenile Mortality Tables for ages 0-17, PubG-2010 Employee Mortality Tables for ages 18-80, and PubG-2010 Healthy Retiree Tables for ages 81-120. For nondisabled retirees and beneficiaries, Pub-2010 Juvenile Mortality Tables for ages 0-17, PubG-2010 Employee Mortality Tables for ages 18-49, and PubG-2010 Healthy Retiree Tables for ages 50-120, each multiplied by 106 percent. For disabled retirees, Pub-2010 Juvenile Mortality Tables for ages 0-17 and PubNS-2010 Disabled Retiree Tables for ages 18-120.

Required Supplementary Information

Schedule of Changes in the Total OPEB Liability and Related Ratios

	Last Five Fiscal Years				
	2022	2021	2020	2019	2018
Total OPEB Liability					
Service cost	\$ 237,664	\$ 256,977	\$ 182,665	\$ 159,223	\$ 1,109,099
Interest	697,907	682,013	838,773	896,630	1,620,733
Changes in benefit terms	-	-	-	(10,723,396)	-
Differences between expected and actual experience	(518,755)	179,201	(230,934)	3,182,671	-
Changes in assumptions	(10,472,579)	(4,322,465)	10,110,835	(14,724,046)	(3,861,936)
Benefit payments, including refunds	(1,119,812)	(1,328,761)	(1,331,729)	(1,409,761)	(1,359,774)
Net Change in Total OPEB Liability	(11,175,575)	(4,533,035)	9,569,610	(22,618,679)	(2,491,878)
Total OPEB Liability - Beginning of year	31,340,345	35,873,380	26,303,770	48,922,449	51,414,327
Total OPEB Liability - End of year	\$ 20,164,770	\$ 31,340,345	\$ 35,873,380	\$ 26,303,770	\$ 48,922,449
Covered-employee Payroll	\$ 1,823,333	\$ 3,864,733	\$ 2,359,766	\$ 2,435,782	\$ 4,425,575
Total OPEB Liability as a Percentage of Covered-employee Payroll	1,105.93 %	810.93 %	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, 2022

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 Council* - City council expenditures in the General Fund were approximately \$900 higher than budgeted.
- *City Manager* - City manager expenditures in the General Fund were approximately \$3,000 higher than budgeted.
- *General Services Administration* - General services administration expenditures in the General Fund were approximately \$83,000 higher than budgeted.
- *District Court* - District court expenditures in the General Fund were approximately \$200 higher than budgeted.
- *Law Enforcement* - Law enforcement expenditures in the General Fund were approximately \$106,000 higher than budgeted.
- *Fire and EMS* - Fire and EMS expenditures in the General Fund were approximately \$50,000 higher than budgeted.
- *Public Works* - Public works expenditures in the General Fund were approximately \$9,000 higher than budgeted.
- *Refuse Fund* - Expenditures in the Refuse Fund were approximately \$36,000 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 8.00 percent down to 7.60 percent; (b) assumed salary increases were decreased from a range of 3.75 - 14.75 percent to a range of 3.00 - 14.00 percent; and (c) the assumed rate of wage inflation decreased from 3.75 to 3.00 percent.

December 31, 2022

Changes in assumptions in 2021 reflect the effects of the following changes in assumptions from fiscal year 2020 to fiscal year 2021: (a) assumed salary increases were decreased from a range of 3.00 - 14.00 percent to a range of 3.00 - 9.70 percent; (b) the mortality rates were updated from various RP-2014 mortality tables to various Pub-2010 mortality tables; (c) the FAC load assumption increased to reflect FAC loads of 1 to 15 percent, up from 0 to 12 percent; and (d) withdrawal rates and retirement rates were updated to incorporate separate public safety and general withdrawal rates.

Changes in assumptions in 2022 reflect the effects of the following changes in assumptions from fiscal year 2021 to fiscal year 2022: (a) assumed annual rate of return and discount rate were updated from 7.60 percent down to 7.25 percent and (b) the MERS Retirement Board adopted a dedicated gains policy that automatically adjusts the assumed rate of investment return by using excess asset gains to mitigate large increases in required contributions to the Plan.

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.

Change in assumptions in 2021 reflect the effects of the following changes in assumptions from 2020 to 2021: (a) the discount rate increased from 1.93 percent to 2.25 percent, (b) the immediate medical trend was decreased from 8.00 percent to 7.50 percent pre-65 and from 6.25 percent to 5.75 percent post-65, and (c) the mortality improvement scale was updated from scale MP-2019 to MP-2021.

Change in assumptions in 2022 reflect the effects of the following changes in assumptions from 2021 to 2022: (a) the discount rate increased from 2.25 percent to 4.31 percent and (b) the immediate medical trend was decreased from 7.50 percent to 7.25 percent pre-65 and from 5.75 percent to 5.50 percent post-65.

Other Supplementary 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	Local Streets Fund	Major Streets Fund
Assets							
Cash	\$ 569,835	\$ 859	\$ 84,856	\$ 8,989	\$ 28,646	\$ 1,148,256	\$ 1,220,662
Receivables:							
Property taxes	224,084	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Due from other governmental units	-	-	-	24,383	-	84,913	205,443
Inventories and prepaid items	-	-	-	-	-	-	5,349
Total assets	\$ 793,919	\$ 859	\$ 84,856	\$ 33,372	\$ 28,646	\$ 1,233,169	\$ 1,431,454
Liabilities							
Accounts payable	\$ 3,481	\$ -	\$ -	\$ -	\$ 283	\$ 14,251	\$ 8,397
Due to other funds	-	-	-	-	-	-	-
Accrued liabilities and other	20,747	-	-	24,383	4,563	6,150	7,761
Unearned revenue - American Rescue Plan Act	-	-	-	-	-	-	-
Total liabilities	24,228	-	-	24,383	4,846	20,401	16,158
Deferred Inflows of Resources - Property taxes levied for the following year	447,997	-	-	-	-	-	-
Total liabilities and deferred inflows of resources	472,225	-	-	24,383	4,846	20,401	16,158
Fund Balances							
Nonspendable	-	-	-	-	-	-	5,349
Restricted:							
Roads	-	-	-	-	-	1,067,380	1,409,947
Drain maintenance and debt service	-	-	-	-	-	-	-
Grants	-	-	-	8,989	23,800	-	-
Library	321,694	-	-	-	-	-	-
Drug enforcement	-	859	-	-	-	-	-
Public safety	-	-	84,856	-	-	-	-
Assigned	-	-	-	-	-	145,388	-
Total fund balances	321,694	859	84,856	8,989	23,800	1,212,768	1,415,296
Total liabilities, deferred inflows of resources, and fund balances	\$ 793,919	\$ 859	\$ 84,856	\$ 33,372	\$ 28,646	\$ 1,233,169	\$ 1,431,454

Other Supplementary Information
Combining Balance Sheet
Nonmajor Governmental Funds

December 31, 2022

Special Revenue Funds					Debt Service Fund	Capital Project Fund	
Mental Health - 32A District Court Fund	MIDC - Grant Fund - Courts Fund	Adult Drug Court Grant Fund	Coronavirus State Fund - Grant Fund	ARPA - Grant Fund	General Obligation Bonds Fund	Municipal Improvements Fund	Total
\$ 11,952	\$ 147,086	\$ 101	\$ 5,347	\$ 572,652	\$ 478,816	\$ -	\$ 4,278,057
-	-	-	-	-	94,309	-	318,393
7,684	-	-	4,703	-	-	-	12,387
-	-	-	-	-	-	-	314,739
-	-	-	-	-	-	-	5,349
\$ 19,636	\$ 147,086	\$ 101	\$ 10,050	\$ 572,652	\$ 573,125	\$ -	\$ 4,928,925
\$ 1,851	\$ 638	\$ -	\$ -	\$ 34,038	\$ -	\$ -	\$ 62,939
15,883	-	-	6,461	-	-	-	22,344
626	274	-	9	294	-	-	64,807
-	-	-	-	538,320	-	-	538,320
18,360	912	-	6,470	572,652	-	-	688,410
-	-	-	-	-	188,959	-	636,956
18,360	912	-	6,470	572,652	188,959	-	1,325,366
-	-	-	-	-	-	-	5,349
-	-	-	-	-	-	-	2,477,327
-	-	-	-	-	384,166	-	384,166
1,276	146,174	101	3,580	-	-	-	183,920
-	-	-	-	-	-	-	321,694
-	-	-	-	-	-	-	859
-	-	-	-	-	-	-	84,856
-	-	-	-	-	-	-	145,388
1,276	146,174	101	3,580	-	384,166	-	3,603,559
\$ 19,636	\$ 147,086	\$ 101	\$ 10,050	\$ 572,652	\$ 573,125	\$ -	\$ 4,928,925

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	Local Streets Fund	Major Streets Fund
Revenue							
Property taxes	\$ 436,283	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	23,084	-	-	28,945	-	472,451	1,143,075
Other revenue	23,050	-	9,146	-	-	15,565	36,318
Total revenue	482,417	-	9,146	28,945	-	488,016	1,179,393
Expenditures							
Current services:							
General government	-	-	-	20,001	-	28,500	48,000
District court	-	-	-	-	-	-	-
Public safety	-	-	7,510	-	-	-	-
Public works	-	-	-	-	-	706,195	700,640
Recreation and culture	467,237	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	63,320	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	467,237	-	7,510	20,001	-	798,015	748,640
Excess of Revenue Over (Under) Expenditures	15,180	-	1,636	8,944	-	(309,999)	430,753
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	-	400,000	-
Transfers out	-	-	-	-	-	-	(400,000)
Total other financing sources (uses)	-	-	-	-	-	400,000	(400,000)
Net Change in Fund Balances	15,180	-	1,636	8,944	-	90,001	30,753
Fund Balances - Beginning of year	306,514	859	83,220	45	23,800	1,122,767	1,384,543
Fund Balances - End of year	<u>\$ 321,694</u>	<u>\$ 859</u>	<u>\$ 84,856</u>	<u>\$ 8,989</u>	<u>\$ 23,800</u>	<u>\$ 1,212,768</u>	<u>\$ 1,415,296</u>

Other Supplementary Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended December 31, 2022

Special Revenue Funds					Debt Service Fund	Capital Project Fund	
Mental Health - 32A District Court Fund	MIDC - Grant Fund - Courts Fund	Adult Drug Court Grant Fund	Coronavirus State Fund - Grant Fund	Other Federal Grants - ARPA	General Obligation Bonds Fund	Municipal Improvements Fund	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 243,200	\$ -	\$ 679,483
36,679	178,235	-	9,382	483,947	18,213	-	2,394,011
-	-	396	-	-	-	-	84,475
36,679	178,235	396	9,382	483,947	261,413	-	3,157,969
-	-	-	6,643	435,514	-	-	538,658
40,002	123,875	304	-	-	-	-	164,181
-	-	-	-	-	-	-	7,510
-	-	-	-	-	-	-	1,406,835
-	-	-	-	-	-	-	467,237
-	-	-	2,055	48,433	-	11,383	125,191
-	-	-	-	-	321,000	-	321,000
-	-	-	-	-	77,587	-	77,587
40,002	123,875	304	8,698	483,947	398,587	11,383	3,108,199
(3,323)	54,360	92	684	-	(137,174)	(11,383)	49,770
-	12,537	-	-	-	88,880	-	501,417
-	-	-	-	-	-	-	(400,000)
-	12,537	-	-	-	88,880	-	101,417
(3,323)	66,897	92	684	-	(48,294)	(11,383)	151,187
4,599	79,277	9	2,896	-	432,460	11,383	3,452,372
\$ 1,276	\$ 146,174	\$ 101	\$ 3,580	\$ -	\$ 384,166	\$ -	\$ 3,603,559

City of Harper Woods, Michigan

Other Supplementary Information Combining Statement of Fiduciary Net Position Custodial Funds

December 31, 2022

	Tax Collection	District Court	Total
Assets			
Cash	\$ 1,620,388	\$ 14,288	\$ 1,634,676
Receivables - Property taxes	2,364,431	-	2,364,431
Total assets	3,984,819	14,288	3,999,107
Liabilities - Due to other governmental units	1,620,388	14,288	1,634,676
Deferred Inflows of Resources - Taxes levied in subsequent year	2,364,431	-	2,364,431
Total liabilities and deferred inflows of resources	3,984,819	14,288	3,999,107
Net Position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

City of Harper Woods, Michigan

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

Year Ended December 31, 2022

	Tax Collection	District Court	Total
Additions			
Property tax collections for other governments	\$ 7,304,390	\$ -	\$ 7,304,390
Court collections	-	169,826	169,826
Total additions	7,304,390	169,826	7,474,216
Deductions			
Disbursements to Wayne County, Michigan	5,697,479	3,549	5,701,028
Disbursements to Harper Woods Schools	48,445	-	48,445
Disbursements to Grosse Pointe Schools	1,322,045	-	1,322,045
Disbursements to Grosse Pointe Library	210,790	-	210,790
Disbursements to Wayne County Land Bank	25,631	-	25,631
Disbursements to State of Michigan	-	145,677	145,677
Bond disbursements	-	20,600	20,600
Total deductions	7,304,390	169,826	7,474,216
Net Change in Fiduciary Net Position	-	-	-
Net Position - Beginning of year	-	-	-
Net Position - End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>