City of Harper Woods, Michigan

Financial Report
with Supplemental Information
December 31, 2013

Mayor and City Council

Mayor	Kenneth A. Poynter
Mayor Pro Tem	Daniel S. Palmer
Council Member	Vivian M. Sawicki
Council Member	Hugh R. Marshall
Council Member	Valeria Kindle
Council Member	Cheryl A. Costantino
Council Member	Charles Flanagan

City Administration

City Manager	Randolph A. Skotarczyk
City Clerk	Leslie M. Frank
City Treasurer/Finance Director	Laura L. Stowell

City Auditors

Plante & Moran, PLLC

General Comments

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

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

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

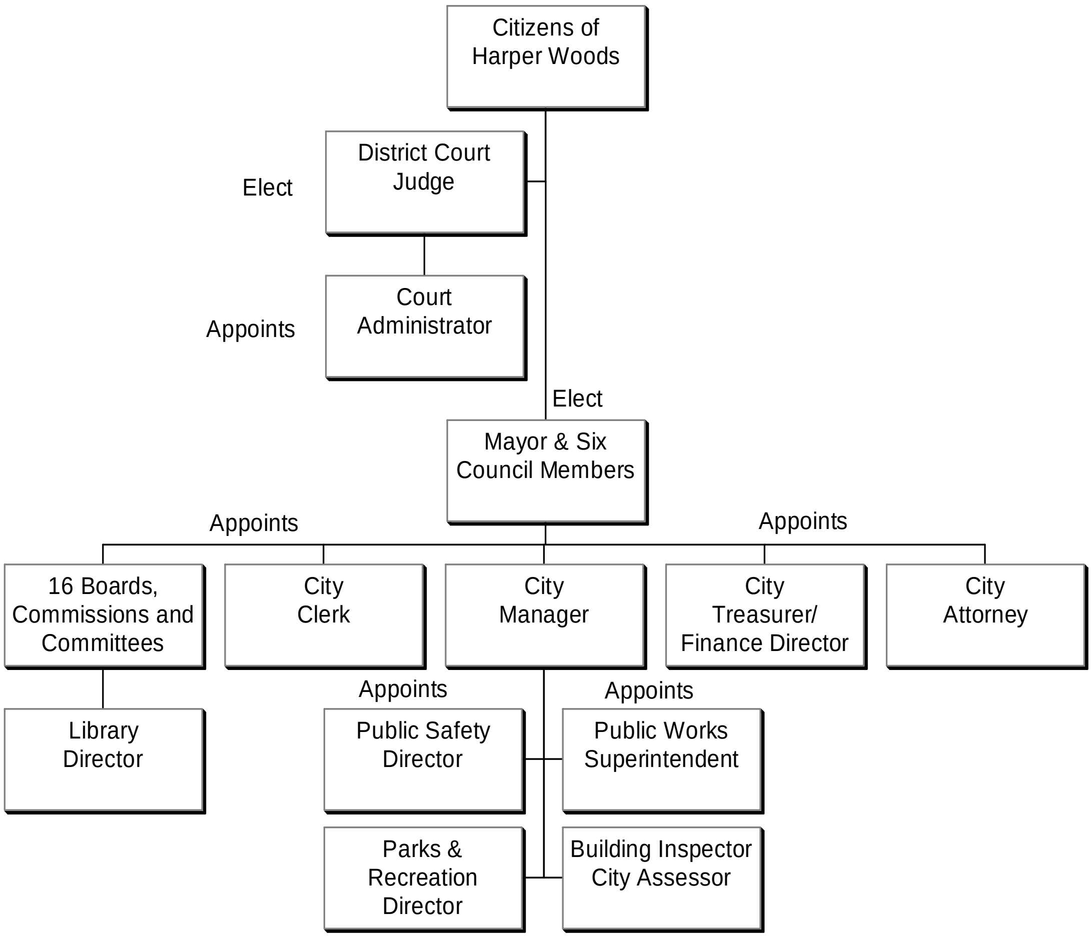
City of Harper Woods, Michigan

Contents

Contents (Continued)

Introductory Section

CITY OF HARPER WOODS
ADMINISTRATIVE ORGANIZATION CHART



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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harper Woods, Michigan as of and for the year ended December 31, 2013 and the related notes to the financial statements, which collectively comprise the City of Harper Woods, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harper Woods, Michigan as of December 31, 2013 and the respective changes in its financial position, and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the basic financial statements, the City adopted new accounting guidance related to transactions previously reported as assets and liabilities. As a result, the City now reports deferred inflows of resources for property taxes levied for the next year's budget. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2014 on our consideration of the City of Harper Woods, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Harper Woods, Michigan's internal control over financial reporting and compliance.

Plante & Moran, PLLC

June 23, 2014

Financial Section

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, 2013. 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 as a Whole

The following table shows, in a condensed format, the net position as of December 31, 2013 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets						
Current assets	$ 12,995	$ 14,795	$ 1,061	$ 134	$ 14,056	$ 14,929
Noncurrent assets - Capital assets	18,108	19,043	3,590	2,435	21,698	21,478
Total assets	31,103	33,838	4,651	2,569	35,754	36,407
Liabilities						
Current liabilities	4,475	12,723	653	339	5,128	13,062
Long-term liabilities	17,656	16,641	1,449	536	19,105	17,177
Total liabilities	22,131	29,364	2,102	875	24,233	30,239
Deferred Inflows of Resources	8,072	-	-	-	8,072	-
Net Position						
Net investment in capital assets	14,363	14,051	2,516	2,435	16,879	16,486
Restricted	769	1,363	-	-	769	1,363
Unrestricted	(14,232)	(10,940)	33	(741)	(14,199)	(11,681)
Total net position	**$ 900**	**$ 4,474**	**$ 2,549**	**$ 1,694**	**$ 3,449**	**$ 6,168**

The City's combined net position decreased by 44.1 percent from a year ago - from $6.2 million to $3.4 million. The governmental activities net position decreased by 79.9 percent. This is a result of the major and nonmajor funds incurring losses this year. The business-type activities net position increased by 50 percent as a result of the operating and nonoperating gain in the Water and Sewer Fund.

The following table shows the change in net position for the year ended December 31, 2013 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue						
Program revenue:						
Charges for services	$ 4,269	$ 3,914	$ 3,437	$ 3,002	$ 7,706	$ 6,916
Operating grants and contributions	1,112	976	292	151	1,404	1,127
General revenue:						
Property taxes	8,823	10,622	-	-	8,823	10,622
State-shared revenue	1,386	1,382	-	-	1,386	1,382
Interest	3	16	-	-	3	16
Miscellaneous	446	701	-	-	446	701
Total revenue	16,039	17,611	3,729	3,153	19,768	20,764
Program Expenses						
General government	8,895	9,323	-	-	8,895	9,323
Public safety	4,692	4,377	-	-	4,692	4,377
Public works	4,992	4,588	-	-	4,992	4,588
Recreation and culture	877	791	-	-	877	791
Interest on long-term debt	157	190	-	-	157	190
Water and sewer	-	-	2,874	2,836	2,874	2,836
Total program expenses	19,613	19,269	2,874	2,836	22,487	22,105
Change in Net Position	(3,574)	(1,658)	855	317	(2,719)	(1,341)
Net Position - Beginning of year	4,474	6,132	1,694	1,377	6,168	7,509
Net Position - End of year	**$ 900**	**$ 4,474**	**$ 2,549**	**$ 1,694**	**$ 3,449**	**$ 6,168**

Governmental Activities

Total revenue for the City's governmental activities was $16.0 million for the year ended December 31, 2013. The City continued to experience a decrease in property tax revenue related to the recent reductions in property tax values within the City, along with reductions in state-shared revenue and other areas, but saw an increase in revenue due to the police/fire assessment and increase in the building fees due to increased fees and inspection along with the vacant property registration fee.

Expenses for the City's governmental activities totaled $19.6 million for the year ended December 31, 2013, which was an increase of approximately 1.8 percent, with public works and public safety showing the largest increase. All other activities are showing slight decreases over the last year.

The following represents the most significant financial highlights for the year ended December 31, 2013:

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

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide potable water to our residents. The City pumps its sewage to the City of Detroit for treatment and disposal. This year's operations were positive this year, in part due to the City increasing the rate at the end of 2012. The outcome was again buffered by charging 50 percent of the excess flow to the Storm Drain Fund for Milk River Drain maintenance, a practice started in 2005, when Wayne County changed its invoicing for sewer and drain charges.

The City's Funds

Our analysis of the City's major funds begins on page 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 $4.7 million in 2013. The General Fund is supported primarily by property taxes and state-shared revenue.

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

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

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 was an amendment made in 2013. Significant revenue budget variances were due to the increased revenue from service fees and decreased property tax revenue due to decreases in property tax values, adjustments for delinquent taxes, and tax tribunal settlements. Significant expenditure variances were due to the cost of health care as well as employee wages and retiree payouts. It should be noted that the City did not make its full contribution to the retirement system and had not fully contributed in prior years, resulting in an obligation to the retirement system of approximately $5.3 million.

Capital Asset and Debt Administration

At the end of fiscal year 2013, the City had $21.7 million invested in capital assets (land, buildings, equipment, vehicles, and water, sewer, and storm lines).

Debt reported in these financial statements is related to the two General Obligation Street Bonds issued in 1999 and 2001, Library Bond, and Sewage Disposal System Revenue Bond. The Street Bonds have a maturity date in 2014, the Library Bond has a maturity date in 2024, and the Sewage Revenue Bond has a maturity date in 2021.

Economic Factors and Next Year's Budgets and Rates

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

On the expense side of the equation, medical insurance continues to be a concern. The City has made changes to both active and retiree plans, which was possible once we contracted with Cornerstone Municipal. Water rates were increased in 2012 after not raising rates for four years. We will continue to monitor the budget in the Water and Sewer Fund closely and make amendments and adjustments as necessary.

Contacting the City's Management

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

City of Harper Woods, Michigan

Statement of Net Position
December 31, 2013

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and investments (Note 3)	$ 4,576,839	$ 34,287	$ 4,611,126	$ -
Receivables:				
Taxes	5,390,211	-	5,390,211	-
Customers	-	1,161,873	1,161,873	-
Other receivables	242,658	-	242,658	-
Due from other governmental units	1,029,860	286,400	1,316,260	-
Service fee	1,103,313	-	1,103,313	-
Due from component units	12,757	-	12,757	-
Due from primary government	-	-	-	37,216
Internal balances (Note 5)	447,482	(447,482)	-	-
Inventories and prepaid items	161,189	26,078	187,267	-
Investment in joint venture (Note 9)	30,511	-	30,511	-
Capital assets (Note 4):				
Assets not subject to depreciation	737,949	1,367,196	2,105,145	-
Assets subject to depreciation - Net	17,370,161	2,222,456	19,592,617	-
Total assets	31,102,930	4,650,808	35,753,738	37,216
Liabilities				
Accounts payable	1,363,019	480,867	1,843,886	-
Due to pension trust fund	32,448	-	32,448	-
Due to component units	37,216	-	37,216	-
Due to primary government	-	-	-	12,757
Accrued liabilities and other	994,907	19,065	1,013,972	-
Unearned revenue	-	-	-	24,459
Rehabilitation escrow	325,951	-	325,951	-
Noncurrent liabilities:				
Due within one year (Note 6)	1,721,031	153,248	1,874,279	-
Due in more than one year:				
Accumulated employee benefits	543,473	-	543,473	-
Net pension obligation (Note 8)	5,078,996	175,138	5,254,134	-
Net other postemployment benefit obligations	9,710,143	334,833	10,044,976	-
Long-term debt - Net of current portion	2,323,793	938,591	3,262,384	-
Total liabilities	22,130,977	2,101,742	24,232,719	37,216
Deferred Inflows of Resources -				
Property taxes levied for the following year	8,071,840	-	8,071,840	-
Net Position				
Net investment in capital assets	14,363,286	2,516,061	16,879,347	-
Restricted for:				
Streets and highways	154,409	-	154,409	-
Debt service	221,347	-	221,347	-
Library	146,545	-	146,545	-
Drug enforcement	91,683	-	91,683	-
Grants	13,912	-	13,912	-
Construction	141,180	-	141,180	-
Unrestricted	(14,232,249)	33,005	(14,199,244)	-
Total net position	**$ 900,113**	**$ 2,549,066**	**$ 3,449,179**	**$ -**

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

City of Harper Woods, Michigan

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	$ 8,894,925	$ 1,865,350	$ -	$ 6,745
Public safety	4,692,027	80,118	263,127	65,211
Public works	4,991,992	1,956,413	769,327	-
Recreation and culture	877,459	367,342	7,105	-
Interest on long-term debt	155,811	-	-	-
Total governmental activities	19,612,214	4,269,223	1,039,559	71,956
Business-type activities - Water and Sewer Fund	2,873,531	3,436,714	291,660	-
Total primary government	**$ 22,485,745**	**$ 7,705,937**	**$ 1,331,219**	**$ 71,956**
Component unit - Brownfield Redevelopment Center	**$ 49,176**	**$ -**	**$ -**	**$ -**

General revenues:
- Property taxes
- State-shared revenue
- Investment income
- Other miscellaneous income
- Loss from joint venture

Total general revenues

Change in Net Position

Net Position - Beginning of year

Net Position - End of year

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
$ (7,022,830)	$ -	$ (7,022,830)	$ -
(4,283,571)	-	(4,283,571)	-
(2,266,252)	-	(2,266,252)	-
(503,012)	-	(503,012)	-
(155,811)	-	(155,811)	-
(14,231,476)	-	(14,231,476)	-
-	854,843	854,843	-
(14,231,476)	854,843	(13,376,633)	-
-	-	-	(49,176)
8,823,376	-	8,823,376	49,176
1,386,087	-	1,386,087	-
2,916	-	2,916	-
449,291	-	449,291	-
(3,718)	-	(3,718)	-
10,657,952	-	10,657,952	49,176
(3,573,524)	854,843	(2,718,681)	-
4,473,637	1,694,223	6,167,860	-
$ 900,113	**$ 2,549,066**	**$ 3,449,179**	**$ -**

Governmental Funds
Balance Sheet
December 31, 2013

	General Fund	Storm Drain Fund	Refuse	Nonmajor Funds	Total
Assets					
Cash and investments (Note 3)	$ 1,610,701	$ 1,185,333	$ 223,153	$ 1,285,231	$ 4,304,418
Receivables:					
Taxes	4,149,526	-	382,058	858,627	5,390,211
Other receivables	184,325	53,523	4,810	-	242,658
Due from other governmental units	884,085	-	-	145,775	1,029,860
Service fee	-	1,103,313	-	-	1,103,313
Due from component units	12,757	-	-	-	12,757
Due from other funds (Note 5)	230,868	-	-	5,907	236,775
Advances to other funds (Note 5)	-	-	397,829	-	397,829
Inventories and prepaid items	152,989	-	-	8,200	161,189
Total assets	**$ 7,225,251**	**$ 2,342,169**	**$ 1,007,850**	**$ 2,303,740**	**$ 12,879,010**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 192,116	$ 258,863	$ 865,954	$ 37,054	$ 1,353,987
Due to pension trust fund	32,448	-	-	-	32,448
Due to component units	-	-	20,061	17,155	37,216
Due to other funds (Note 5)	-	-	-	5,907	5,907
Accrued liabilities and other	862,142	25,937	22,373	58,387	968,839
Rehabilitation escrow	-	-	-	325,951	325,951
Total liabilities	1,086,706	284,800	908,388	444,454	2,724,348
Deferred Inflows of Resources					
Property taxes levied for the following year	4,373,492	1,836,022	557,527	1,304,799	8,071,840
Unavailable revenue - not collected within the period of availability	362,592	-	-	-	362,592
Total deferred inflows of resources	4,736,084	1,836,022	557,527	1,304,799	8,434,432
Fund Balances					
Nonspendable:					
Inventory	-	-	-	8,200	8,200
Prepaids	152,989	-	-	-	152,989
Long-term receivable	-	-	397,829	-	397,829
Restricted:					
Roads	-	-	-	154,409	154,409
Debt service	-	221,347	-	-	221,347
Grants	-	-	-	13,912	13,912
Library	-	-	-	146,545	146,545
Drug enforcement	-	-	-	91,683	91,683
Construction	141,180	-	-	-	141,180
Assigned:					
Roads	-	-	-	139,017	139,017
Library	-	-	-	721	721
Unassigned	1,108,292	-	(855,894)	-	252,398
Total fund balances	1,402,461	221,347	(458,065)	554,487	1,720,230
Total liabilities, deferred inflows of resources, and fund balances	**$ 7,225,251**	**$ 2,342,169**	**$ 1,007,850**	**$ 2,303,740**	**$ 12,879,010**

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

Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
December 31, 2013

Fund Balance Reported in Governmental Funds	$	1,720,230
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		18,050,710
Investments in joint ventures are not financial resources and are not reported in the funds		30,511
Net pension obligation is not due and payable in the current period and is not reported in the funds		(5,078,996)
Net OPEB obligation is not due and payable in the current period and is not reported in the funds		(9,710,143)
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		362,592
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds		(3,744,824)
Accrued interest is not due and payable in the current period and is not reported in the funds		(24,787)
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities		(843,473)
Internal Service Funds are included as part of governmental activities		138,293
Net Position of Governmental Activities	**$**	**900,113**

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)
Year Ended December 31, 2013

	General Fund	Storm Drain Fund	Refuse	Nonmajor Funds	Total
Revenue					
Property taxes	$ 6,841,090	$ 745	$ 592,256	$ 1,389,285	$ 8,823,376
Licenses and permits	326,791	-	-	-	326,791
Federal sources	300,145	-	-	-	300,145
State sources	1,292,712	-	-	776,432	2,069,144
Charges for services	1,912,120	-	128,634	-	2,040,754
Service fees	75,000	1,827,779	-	-	1,902,779
Interest	2,916	-	-	-	2,916
Miscellaneous revenue	314,093	-	-	75,704	389,797
Total revenue	11,064,867	1,828,524	720,890	2,241,421	15,855,702
Expenditures					
Current:					
General government	5,526,090	-	7,000	125,794	5,658,884
Public safety	4,735,996	-	-	1,860	4,737,856
Public works	641,084	1,829,297	927,898	673,968	4,072,247
Recreation and culture	345,422	-	-	443,854	789,276
Capital outlay	94,824	-	-	-	94,824
Debt service:					
Principal retirement	-	-	-	1,325,000	1,325,000
Interest and fiscal charges	-	-	-	182,137	182,137
Total expenditures	11,343,416	1,829,297	934,898	2,752,613	16,860,224
Excess of Expenditures Over Revenue	(278,549)	(773)	(214,008)	(511,192)	(1,004,522)
Other Financing Sources (Uses)					
Proceeds from capital lease obligation	94,824	-	-	-	94,824
Transfers in (Note 5)	-	-	-	740,850	740,850
Transfers out (Note 5)	(565,850)	(75,000)	-	(100,000)	(740,850)
Total other financing (uses) sources	(471,026)	(75,000)	-	640,850	94,824
Net Change in Fund Balances	(749,575)	(75,773)	(214,008)	129,658	(909,698)
Fund Balances (Deficit) - Beginning of year	2,152,036	297,120	(244,057)	424,829	2,629,928
Fund Balances (Deficit) - End of year	**$ 1,402,461**	**$ 221,347**	**$ (458,065)**	**$ 554,487**	**$ 1,720,230**

Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended December 31, 2013

Net Change in Fund Balances - Total Governmental Funds	$ (909,698)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	420,354
Depreciation expense	(1,317,150)
Net book value of assets disposed of	(13,076)
Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	186,706
Loss from joint venture	(3,718)
Net pension obligation is not due and payable in the current period and is not reported in the funds	(1,926,684)
Net OPEB obligation is not due and payable in the current period and is not reported in the funds	(2,132,800)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,341,972
Capital lease proceeds provide current financial resources to governmental funds, but represent an increase in long-term liabilities in the statement of net position	(94,824)
Change in accrued interest payable and other	9,354
Decrease in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	76,054
Changes in other items, such as pension fund payable, previously reported in the statement of activities as it did not represent current resources, expended during the year and therefore reported in the fund statements	887,165
Internal Service Funds are included as part of governmental activities	(97,179)
Change in Net Position of Governmental Activities	**$ (3,573,524)**

Proprietary Funds
Statement of Net Position
December 31, 2013

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	$ 34,287	$ 272,421
Receivables:		
Customer receivables	1,161,873	-
Due from other governmental units	286,400	-
Due from other funds (Note 5)	-	49,653
Prepaid expenses and other assets	26,078	-
Total current assets	1,508,638	322,074
Noncurrent assets:		
Capital assets:		
Assets not subject to depreciation (Note 4)	1,367,196	-
Assets subject to depreciation - Net (Note 4)	2,222,456	57,400
Total assets	5,098,290	379,474
Liabilities		
Current liabilities:		
Accounts payable	480,867	9,032
Due to other funds (Note 5)	49,653	230,868
Accrued liabilities and other	19,065	1,281
Current portion of compensated absences (Note 6)	18,248	-
Current portion of long-term debt (Note 6)	135,000	-
Total current liabilities	702,833	241,181
Noncurrent liabilities:		
Advances from other funds (Note 5)	397,829	-
Net pension obligation (Note 8)	175,138	-
Net other postemployment benefit obligation (Note 10)	334,833	-
Long-term debt (Note 6)	938,591	-
Total noncurrent liabilities	1,846,391	-
Total liabilities	2,549,224	241,181
Net Position		
Net investment in capital assets	2,516,061	57,400
Unrestricted asset	33,005	80,893
Total net position	**$ 2,549,066**	**$ 138,293**

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended December 31, 2013

	Business-type Activities	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Customer billings	$ 3,377,434	$ -
Other operating revenue	59,280	-
Billings to other funds	-	258,813
Total operating revenue	3,436,714	258,813
Operating Expenses		
Cost of materials	2,270	64,317
Water supply and sewage disposal	1,827,801	-
Operating and maintenance costs	659,643	218,795
General and administrative	251,549	60,500
Depreciation	129,300	12,380
Total operating expenses	2,870,563	355,992
Operating Income (Loss)	566,151	(97,179)
Interest Expense	(2,968)	-
Nonoperating Revenue - Operating grants	291,660	-
Change in Net Position	854,843	(97,179)
Net Position - Beginning of year	1,694,223	235,472
Net Position - End of year	**$ 2,549,066**	**$ 138,293**

Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2013

	Business-type Activities Enterprise - Water and Sewer Fund	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	$ 3,364,201	$ -
Receipts from interfund services and reimbursements	5,503	341,328
Payments to suppliers	(2,243,129)	(228,634)
Payments to employees	(362,109)	(112,694)
Other payments	(278,490)	-
Net cash provided by operating activities	485,976	-
Cash Flows from Noncapital Financing Activities		
Operating grants	291,660	-
Repayments of loans from other funds	(800,098)	-
Net cash used in noncapital financing activities	(508,438)	-
Cash Flows from Capital and Related Financing Activities		
Issuance of bonds	1,073,591	-
Purchase of capital assets	(1,283,468)	-
Interest paid on capital debt	(2,968)	-
Net cash used in capital and related financing activities	(212,845)	-
Net (Decrease) Increase in Cash and Cash Equivalents	(235,307)	-
Cash and Cash Equivalents - Beginning of year	269,594	272,421
Cash and Cash Equivalents - End of year	**$ 34,287**	**$ 272,421**
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities		
Operating income (loss)	$ 566,151	$ (97,179)
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	129,300	12,380
Changes in assets and liabilities:		
Receivables	(358,208)	-
Due from other funds	5,503	82,515
Prepaid and other assets	(9,685)	-
Accounts payable	150,947	5,531
Accrued and other liabilities	1,968	(3,247)
Net cash provided by operating activities	**$ 485,976**	**$ -**

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

Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2013

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System	Agency Funds
Assets		
Cash	$ 1,219,118	$ 1,456,210
Investments:		
U.S. government securities	4,580,334	-
Stocks	9,140,191	-
Bonds	2,868,600	-
Mutual funds	7,639,717	-
Municipal bonds	311,309	-
Receivables:		
Property taxes receivable	118,597	-
Accrued interest receivable	69,678	-
Due from primary government	-	32,448
Total assets	25,947,544	**$ 1,488,658**
Liabilities		
Accounts payable	2,250	$ -
Due to pension trust fund	304,647	132,408
Refundable deposits, bonds, etc.	-	60,086
Rehabilitation escrow	-	1,296,164
Total liabilities	306,897	**$ 1,488,658**
Net Position Held in Trust for Pension and Other Employee Benefits	**$ 25,640,647**	

Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2013

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System
Additions	
Investment income:	
Interest and dividends	$ 847,349
Net appreciation in fair value of investments	3,103,087
Less investment expenses	(181,720)
Net investment income	3,768,716
Contributions - Employee	377,307
Total additions	4,146,023
Deductions	
Benefit payments	4,059,943
Refunds to employees	902,608
Administrative expenses	11,000
Total deductions	4,973,551
Net Decrease in Net Position Held in Trust	(827,528)
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	26,468,175
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	**$ 25,640,647**

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Harper Woods, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Harper Woods, Michigan:

Reporting Entity

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

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

Accounting and Reporting Principles

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

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 revenues 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (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 revenues 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 revenues 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.

Revenues are not recognized until they are collected, or collected soon enough after the end of the year that they are 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 - Summary of Significant Accounting Policies (Continued)

Fund Accounting

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

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

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

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

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

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

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

- The Pension and Other Employee Benefits Trust Fund accounts for the activities of the employees' retirement system, which accumulates resources for pension payments to qualified employees; and

Note 1 - Summary of Significant Accounting Policies (Continued)

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

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

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

Specific Balances and Transactions

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and storm drains), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than $2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, $7,205 of interest expense was capitalized as part of the cost of assets under construction.

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

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

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

Note 1 - Summary of Significant Accounting Policies (Continued)

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, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. During 2013, the City had no deferred outflows that qualified to be reported in the deferred outflow category.

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, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has two items that qualify for reporting in this category. The deferred inflows of resources related to unavailable revenues are reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from various sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The government also has property taxes levied before the period budgeted. These property taxes are shown as deferred inflows of resources on both the governmental funds balance sheet as well as the statement of net position. Those property taxes will be recognized as revenue next year, as those amounts were levied for the subsequent year's budgeted operations.

Net Position Flow Assumption

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Balance Flow Assumption

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

Fund Balance Policies

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

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

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

Property Tax Revenue

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

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's 2012 tax is levied and collectible on December 1, 2012 and is recognized as revenue in the year ended December 31, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the City totaled $239,452,760, on which taxes levied consisted of 20.000 mills for operating purposes, 4.000 mills for debt service, 1.9168 mills for the library, and 2.500 mills for rubbish removal. This resulted in approximately $4,792,000 for operating purposes, $965,000 for debt service, $457,000 for the library, and $599,000 for rubbish removal. These amounts are recognized in their respective funds as tax revenue. Pursuant to Public Act 33 of 1951, the City levied 2.000 mills on July 1, 2013 and 7.500 mills on December 1, 2013 for the payment of public safety expenditures. The taxes levied during 2013 as a result of the Public Act 33 millage resulted in approximately $1,933,000 recognized in the General Fund as tax revenue for the year ended December 31, 2013.

Property taxes billed during the month of December 2013, with the exception of the Public Act 33 millage, will be used to finance 2014 operations. As such, these taxes are unavailable and are recorded as deferred inflows of resources in the respective funds at December 31, 2013.

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree health care benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, pension and OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and “adjustment to the ARC” on the beginning of year underpaid amount, if any.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary Funds Operating Classification - Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues 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 revenues of the Water and Sewer Fund and internal service funds are 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 revenues and expenses not meeting this definition are reported as nonoperating revenues 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.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are also approved by the City Council. Unexpended appropriations lapse at year end and encumbrances outstanding at December 31, 2013 have not been calculated. During the current year, the budget was amended for the General Fund.

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

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

Excess of Expenditures Over Appropriations in Budgeted Funds

General Government - General government expenditures in the General Fund were approximately $152,000 higher than the appropriation as a result of fringe benefits and health insurance expenditures being higher than the amount anticipated.

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

Public Works - Public works expenditures in the General Fund and Refuse Fund were approximately $10,000 and $89,000, respectively, higher than the appropriation as a result of overtime expenditures and rubbish removal expenditures being higher than the amount anticipated.

Law Enforcement - Law enforcement expenditures in the General Fund were approximately $10,000 higher than the appropriation as a result of protective inspection expenditures being higher than the amount anticipated.

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation, to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity is as follows:

Shortfall at January 1, 2013		$ (63,317)
Current year permit revenue		304,589
Related expenses:		
Direct costs	$ 90,993	
Estimated indirect costs	9,099	100,092
Current year surplus		204,497
Cumulative surplus at December 31, 2013		$ 141,180

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

Noncompliance with Legal or Contractual Provisions - As disclosed in Note 8, the City did not fully fund the recommended pension contribution as determined by the actuary, which violates Article 9 of the Michigan Constitution.

Note 3 - Deposits and Investments

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

The Employees' Retirement System is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed $250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

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 $2.7 million of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it invests funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Pension and Other Employee Benefit Trust Fund - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's Pension and Other Employee Benefit Trust Fund does not have an investment policy for custodial credit risk.

Note 3 - Deposits and Investments (Continued)

At year end, the following investment securities were uninsured and unregistered and held by a counterparty or by its trust department or agent, but not in the City's name:

Investment Type	Carrying Value	How Held
United States government agency securities	$ 4,580,334	Counterparty
Corporate bonds	2,868,600	Counterparty
Municipal bonds	311,309	Counterparty
Mutual funds	7,639,717	Counterparty
Equity securities	9,140,191	Counterparty
Total uninsured and unregistered	$ 24,540,151	

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Less than 6 Years	6 to 15 Years	Greater than 15 Years
Primary Government -				
Bank investment pools	$ 2,957,837	$ 2,957,837	$ -	$ -
Employees' Retirement System				
Corporate bonds	2,868,600	728,465	1,266,917	873,218
Municipal bonds	311,309	75,120	236,189	-
United States Treasury	1,179,580	265,167	428,132	486,281
United States government agency securities	3,400,754	279,858	511,696	2,569,200

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Federal Home Loan Mortgage Corporation	$ 1,055,999	Not rated	Not rated
Federal Home Loan Bank	96,881	AA+	Standard & Poor's
Federal National Mortgage Association	1,437,721	Not rated	Not rated
Government National Mortgage Association	810,152	Not rated	Not rated
United States Treasury	1,179,580	Not rated	Not rated
Bank investment pool	2,957,837	Not rated	Not rated
Municipal bonds	311,309	Not rated to AA	Standard & Poor's
Corporate bonds	2,868,600	BBB- to AA+	Standard & Poor's

Note 3 - Deposits and Investments (Continued)

Concentration of Credit Risk - The City and the City's pension fund do not limit investments in any one issuer. At December 31, 2013, the City's pension fund maintained investments in the Federal Home Loan Mortgage Corporation and Federal National Mortgage Association totaling approximately 4.7 percent and 5.9 percent, respectively, of the pension fund's total investments.

Note 4 - Capital Assets

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

	Balance January 1, 2013	Additions	Disposals	Balance December 31, 2013
Governmental Activities				
Capital assets not being depreciated - Land	$ 737,949	$ -	$ -	$ 737,949
Capital assets being depreciated:				
Roads	15,993,495	-	-	15,993,495
Sidewalks	1,119,044	-	-	1,119,044
Storm drains	10,890,938	-	-	10,890,938
Buildings and improvements	4,257,729	-	-	4,257,729
Machinery and equipment	3,159,312	242,981	-	3,402,293
Vehicles	3,384,753	146,545	133,567	3,397,731
Office furnishings	247,151	30,828	-	277,979
Land improvements	503,194	-	-	503,194
Subtotal	39,555,616	420,354	133,567	39,842,403
Accumulated depreciation:				
Roads	8,169,943	639,740	-	8,809,683
Sidewalks	1,062,340	54,343	-	1,116,683
Storm drains	5,654,287	272,273	-	5,926,560
Buildings and improvements	1,127,999	77,436	-	1,205,435
Machinery and equipment	1,909,201	116,702	-	2,025,903
Vehicles	3,093,002	130,408	107,491	3,115,919
Office furnishings	101,568	12,921	-	114,489
Land improvements	131,863	25,707	-	157,570
Subtotal	21,250,203	1,329,530	107,491	22,472,242
Net capital assets being depreciated	18,305,413	(909,176)	26,076	17,370,161
Net capital assets	$ 19,043,362	$ (909,176)	$ 26,076	$ 18,108,110

Note 4 - Capital Assets (Continued)

	Balance January 1, 2013	Additions	Disposals	Balance December 31, 2013
Business-type Activities				
Capital assets not being depreciated - Construction in progress	$ 83,728	$ 1,283,468	$ -	$ 1,367,196
Capital assets being depreciated:				
Water system	5,110,535	-	-	5,110,535
Sewer system	1,240,998	-	-	1,240,998
Machinery and equipment	62,133	-	-	62,133
Subtotal	6,413,666	-	-	6,413,666
Accumulated depreciation:				
Water system	2,880,167	108,000	-	2,988,167
Sewer system	1,119,610	21,300	-	1,140,910
Machinery and equipment	62,133	-	-	62,133
Subtotal	4,061,910	129,300	-	4,191,210
Net capital assets being depreciated	2,351,756	(129,300)	-	2,222,456
Net capital assets	$ 2,435,484	$ 1,154,168	$ -	$ 3,589,652

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

Governmental activities:	
General government	$ 14,286
Public safety	174,188
Public works	982,153
Recreation and culture	158,903
Total governmental activities	$ 1,329,530
Business-type activities - Water and sewer	$ 129,300

Construction Commitments - The City had begun construction on sewer projects at year end. At year end, the City's commitments with contractors were approximately $1,492,000.

Note 5 - Interfund Receivables, Payables, and Transfers

Below are interfund receivables of the City at December 31, 2013:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Internal service fund	$ 230,868
Nonmajor governmental funds	Nonmajor governmental funds	5,907
Internal service funds	Water and Sewer Fund	49,653
	Total	$ 286,428

Receivable Fund	Payable Fund	Amount
Advances from/to Other Funds		
Refuse Fund	Water and Sewer Fund	$ 397,829

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Brownfield Redevelopment Authority - Component unit	Refuse Fund	$ 20,061
	Nonmajor governmental funds	17,155
	Total Brownfield Redevelopment Authority - Component unit	$ 37,216
General Fund	Brownfield Redevelopment Authority - Component Unit	$ 12,757

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

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

Transfer In	Transfer Out	Amount
Nonmajor governmental funds	General Fund	$ 565,850
	Storm Drain Fund	75,000
	Nonmajor governmental funds	100,000
	Total nonmajor governmental funds	$ 740,850

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

The transfers from the General Fund to the nonmajor governmental funds represent the transfer of discretionary funds for debt service requirements.

The transfers from the Storm Drain Fund and nonmajor governmental funds to the nonmajor governmental funds represents the transfer of discretionary funds for local street construction.

Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Long-term obligations are summarized as follows

Description	Amount
Governmental Activities	
Unlimited tax general obligation bonds:	
1999 General Obligation Road Bonds, $5,000,000 original issue, bearing interest from 4.125% to 5.00%, maturing in 2014	$ 1,000,000
2004 General Obligation Library Bonds, $3,100,000 original issue, bearing interest from 3.30% to 5.00%, maturing in 2024	2,400,000
2001 General Obligation Road Bonds, $1,500,000 original issue, bearing interest from 4.00% to 5.00%, maturing in 2014	250,000
Subtotal	3,650,000
Installment purchase obligations - Capital leases, bearing interest at 6.00%, maturing in 2015	94,824
Total governmental activity debt	$ 3,744,824

Description	Amount
Business-type Activities	
State Revolving Loan Fund:	
2013 Sewage Disposal System Revenue Bonds, used to improve sewer system, bearing interest at 2.5%, maturing in 2021	$ 1,073,591

Note 6 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Unlimited tax general obligation bonds	$ 4,975,000	$ -	$ 1,325,000	$ 3,650,000	$ 1,375,000
Capital lease obligations	16,972	94,824	16,972	94,824	46,031
Total bonds payable	4,991,972	94,824	141,972	3,744,824	1,421,031
Accumulated compensated absences	919,527	-	76,054	843,473	300,000
Total governmental activities	$ 5,911,499	$ 94,824	$ 218,026	$ 4,588,297	$ 1,721,031

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
Limited tax general obligation bonds	$ -	$ 1,073,591	$ -	$ 1,073,591	$ 135,000
Total bonds payable	$ -	$ 1,073,591	$ -	$ 1,073,591	$ 135,000
Accumulated compensated absences	23,064	-	4,816	18,248	18,248
Total business-type activities	$ 23,064	$ 1,073,591	$ 4,816	$ 1,091,839	$ 153,248

The City has pledged its full faith and credit to pay its proportionate share of the outstanding debt issued by the Milk River Inter-County Drainage District. The total Milk River Inter-County Drainage District debt consists of three loans and two bond issues with an original face value of approximately $31,750,000. No balances were outstanding as of December 31, 2013.

Total interest expense for the year was approximately $185,000. Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
Years Ending December 31	Principal	Interest	Total	Principal	Interest	Total
2014	$ 1,421,031	$ 130,476	$ 1,551,507	$ 135,000	$ 26,536	$ 161,536
2015	198,793	96,303	295,096	135,000	22,566	157,566
2016	150,000	87,600	237,600	140,000	19,129	159,129
2017	175,000	81,175	256,175	145,000	15,566	160,566
2018	200,000	73,575	273,575	145,000	11,941	156,941
2019-2023	1,275,000	220,788	1,495,788	373,591	13,946	387,537
2024-2028	325,000	7,313	332,313	-	-	-
Total	$ 3,744,824	$ 697,230	$ 4,442,054	$ 1,073,591	$ 109,684	$ 1,183,275

Note 6 - Long-term Debt (Continued)

Bond Issuance - During 2012, the City issued $3,410,000 in limited tax general obligation (revenue) bonds with an interest rate of 2.5 percent. The proceeds of these bonds are received on a reimbursement basis to fund sewer improvements throughout the City. As of December 31, 2013, $1,073,591 in bond proceeds had been received as reimbursement for allowable construction costs and are recorded as long-term debt at December 31, 2013 within the Water and Sewer Fund.

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past six fiscal years.

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

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 not purchased commercial insurance to cover such claims. There is no liability outstanding as of December 31, 2013 and the City believes that there are sufficient resources in the Self-insurance Internal Service Fund to cover potential claims that may arise in the near term.

Note 8 - Defined Benefit Pension Plan

Plan Description - The City of Harper Woods Employees' Retirement System (the "System") is the administrator of a single-employer defined benefit pension plan (the "Plan") that covers all full-time employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2012, the date of the most recent actuarial valuation, membership consisted of 116 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 64 current active employees. The Plan does not issue a separate financial report.

Note 8 - Defined Benefit Pension Plan (Continued)

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Please refer to Note 1 for further significant accounting policies.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees ranging from 5.0 percent to 7.25 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the Plan are financed through investment earnings.

Annual Pension Cost and Net Pension Obligation

Annual required contribution	$ 1,858,968
Interest on net pension obligation	256,519
Adjustment to annual required contribution	(171,281)
Annual pension cost (APC)	1,944,206
Increase in net pension obligation	1,944,206
Net pension obligation - Beginning of year	3,309,928
Net pension obligation - End of year	$ 5,254,134

The annual pension costs, the percentage contributed to the Plan, and the net pension obligation for the current and two preceding years were as follows:

	Fiscal Year Ended December 31		
	2013	2012	2011
Annual pension cost (APC)	$ 1,944,206	$ 1,681,908	$ 1,181,210
Percentage of APC contributed	- %	82.7 %	7.9 %
Net pension obligation	$ 5,254,134	$ 3,309,928	$ 3,018,681

Funding Status and Funding Progress - As of December 31, 2012, the most recent actuarial valuation date, the Plan was 55.3 percent funded. The actuarial accrued liability for benefits was $53.9 million and the actuarial value of assets was $29.8 million, resulting in an unfunded actuarial accrued liability of $24 million. The covered payroll (annual payroll to active employees covered by the Plan) was $4.7 million and the ratio of the unfunded actuarial accrued liability to the covered payroll was 510.0 percent.

Note 8 - Defined Benefit Pension Plan (Continued)

The schedule of funding progress, presented as required supplemental information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

Article 9 of the Michigan Constitution requires local units of government to fully fund the recommended contribution as determined by the actuary, which was $1,858,968 for 2013. In 2013, the City did not contribute to the Plan.

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2012, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 7.75 investment rate of return, (b) projected salary increases of 4.5 percent to 8.3 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 28 years.

Reserves - As of December 31, 2013, the Plan's legally required reserves were more than the net position of the Plan.

Reserve for employees' contributions	$ 12,620,303
Reserve for retired benefit payments	39,598,511

Note 9 - Joint Venture

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

The City's interest in the net position of the Authority totaled $30,511 at December 31, 2013 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 10 - Other Postemployment Benefits

Plan Description - The City provides retiree healthcare benefits to all general, DPW, police, and fire employees. Eligibility conditions are as follows: general (age 60 with 10 or more years of service), DPW (age 60 with 10 or more years of service or age 55 and 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 dependants. At December 31, 2010, the date of the most recent actuarial valuation, general membership consisted of 38 retirees currently receiving benefits, two terminated employees entitled to benefits but not yet receiving them, and 36 current active employees. Police and fire membership consisted of 58 retirees currently receiving benefits, two terminated employees entitled to benefits but not currently receiving them, and 47 current active employees. At December 31, 2013, 103 retirees were eligible.

Funding Policy - The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). As shown below, the City has made no contributions to advance-fund these benefits as of December 31, 2013.

Funding Progress - For the year ended December 31, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2010. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	$ 3,478,241
Interest on the prior year's net OPEB obligation	358,029
Less adjustment to the annual required contribution	(137,077)
Annual OPEB cost	3,699,193
Amounts contributed:	
Payments of current premiums	(1,610,428)
Advance funding	-
Increase in net OPEB obligation	2,088,765
OPEB obligation - Beginning of year	7,956,210
OPEB obligation - End of year	$ 10,044,975

Note 10 - Other Postemployment Benefits (Continued)

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

Fiscal Year Ended	Annual OPEB Costs	Percentage Contributed	Net OPEB Obligation
12/31/13	$ 3,699,193	43.5 %	$ 10,044,975
12/31/12	3,499,732	42.8	7,956,210
12/31/11	3,273,964	53.7	5,954,803

The funding progress of the plan is as follows:

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

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

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

Note 10 - Other Postemployment Benefits (Continued)

In the December 31, 2010 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 9 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after year nine. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010 was 30 years.

Note 11 - Contingent Liabilities

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

Note 12 - Change in Accounting

During the current year, the City adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34*. This change did not significantly affect the City's financial statements.

During the current year, the City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this statement is to establish standards that reclassify certain items that were previously reported as assets and liabilities and instead to classify them as deferred inflows of resources, deferred outflows of resources, or as outflows of resources.

As a result of implementing this statement, the following liabilities have been reclassified, as indicated:

Item	Amount	Prior Reporting Classification/Treatment	New Classification after Adoption of GASB No. 65
Property taxes billed, but were levied for next year's budget	$ 8,071,840	Liability	Deferred inflow of resources
Revenue in governmental funds not collected within 60 days of year end	362,592	Liability	Deferred inflow of resources

Note 13 - Upcoming Accounting Pronouncements

In June 2012, GASB Statement No. 67, *Financial Reporting for Pension Plans*, was issued by the Governmental Accounting Standards Board. This new standard, which replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement No. 50, *Pension Disclosures*, establishes standards for financial reporting that outline the basic framework for separately-issued pension plan financial reports and specifies the required approach to measuring the liability of employer(s) and certain nonemployer contributing entities, about which information is required to be disclosed. GASB Statement No. 67 is required to be adopted for years beginning after June 15, 2013. For the City of Harper Woods, Michigan, this standard will be adopted for the year ending December 31, 2014.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending December 31, 2015.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	$ 4,791,500	$ 4,701,300	$ 6,841,090	$ 2,139,790
Police-fire assessment	2,164,250	2,164,250	-	(2,164,250)
Licenses and permits	100,000	300,000	326,791	26,791
Federal sources	311,650	329,650	300,145	(29,505)
State sources	1,285,000	1,285,000	1,292,712	7,712
Charges for services	1,688,950	1,462,300	1,912,120	449,820
Service fees	39,750	-	75,000	75,000
Interest	265	-	2,916	2,916
Miscellaneous revenue	198,485	625,150	314,093	(311,057)
Total revenue	10,579,850	10,867,650	11,064,867	197,217
Expenditures - Current				
General government:				
City council	28,500	28,500	25,327	3,173
City manager	100,300	100,300	99,718	582
General services administration	643,000	789,500	644,023	145,477
Clerk/Elections	136,050	136,050	137,775	(1,725)
District Court	494,700	494,700	521,901	(27,201)
Dial-A-Ride/PAATS	331,300	241,300	318,554	(77,254)
Insurance and other functions	2,852,100	3,584,100	3,778,792	(194,692)
Total general government	4,585,950	5,374,450	5,526,090	(151,640)
Law enforcement:				
Law enforcement	3,305,090	3,611,390	3,614,237	(2,847)
Fire and EMS	1,141,700	1,041,700	1,030,766	10,934
Other	55,250	72,250	90,993	(18,743)
Total law enforcement	4,502,040	4,725,340	4,735,996	(10,656)
Public works	557,890	630,890	641,084	(10,194)
Recreation and culture	326,570	352,570	345,422	7,148
Capital outlay	-	-	94,824	(94,824)
Total expenditures	9,972,450	11,083,250	11,343,416	(260,166)
Excess of Revenue Over (Under) Expenditures	607,400	(215,600)	(278,549)	(62,949)
Other Financing Sources (Uses)				
Proceeds from capital lease obligation	-	-	94,824	94,824
Transfers in	75,000	75,000	-	(75,000)
Transfers out	(531,000)	(565,850)	(565,850)	-
Total other financing uses	(456,000)	(490,850)	(471,026)	19,824
Net Change in Fund Balance	151,400	(706,450)	(749,575)	(43,125)
Fund Balance - Beginning of year	2,152,036	2,152,036	2,152,036	-
Fund Balance - End of year	**$ 2,303,436**	**$ 1,445,586**	**$ 1,402,461**	**$ (43,125)**

Required Supplemental Information
Budgetary Comparison Schedule - Major Special Revenue Funds
Refuse
Year Ended December 31, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	$ 723,500	$ 577,596	$ 592,256	$ 14,660
Charges for services	91,576	130,176	128,634	(1,542)
Total revenue	815,076	707,772	720,890	13,118
Expenditures - Current				
General government	12,000	7,000	7,000	-
Public works - Rubbish disposal	802,100	838,500	927,898	(89,398)
Total expenditures	814,100	845,500	934,898	(89,398)
Excess of Revenue Over (Under) Expenditures	976	(137,728)	(214,008)	(76,280)
Other Financing Sources - Transfers in	-	200,000	-	(200,000)
Net Change in Fund Balance	976	62,272	(214,008)	(276,280)
Fund Balance (Deficit) - Beginning of year	(244,057)	(244,057)	(244,057)	-
Fund Balance (Deficit) - End of year	**$ (243,081)**	**$ (181,785)**	**$ (458,065)**	**$ (276,280)**

Required Supplemental Information
Police and Fire Pension System Schedule of Funding Progress
Year Ended December 31, 2013

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/05	$ 39,433,033	$ 39,543,052	$ 110,019	99.7 %	$ 5,888,821	1.9 %
12/31/06	39,080,964	42,086,688	3,005,724	92.9	5,872,496	51.2
12/31/07	39,945,261	43,109,687	3,164,426	92.7	6,270,323	50.5
12/31/08	38,371,026	44,556,903	6,185,877	86.1	6,521,118	94.9
12/31/09	36,805,237	46,172,159	9,366,922	79.7	6,733,424	139.1
12/31/10	34,526,599	49,100,433	14,573,834	70.3	6,229,056	234.0
12/31/11	32,202,491	54,159,068	21,956,577	59.5	5,389,968	407.4
12/31/12	29,792,716	53,862,623	24,069,907	55.3	4,719,273	510.0

The schedule of employer contributions is as follows:

Fiscal Year Ending	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/05	12/31/04	$ 149,082	100.0 %
12/31/06	12/31/05	556,939	65.0
12/31/07	12/31/06	502,015	99.6
12/31/08	12/31/07	652,491	76.6
12/31/09	12/31/08	699,704	-
12/31/10	12/31/09	902,340	-
12/31/11	12/31/10	1,139,769	13.2
12/31/12	12/31/11	1,447,960	96.0
12/31/13	12/31/12	1,858,968	-

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2012, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level of payroll, closed
Amortization period (perpetual)	28 years
Asset valuation method	Five-year smoothed market
Actuarial assumptions:	
Investment rate of return**	7.75
Projected salary increases**	4.5%-8.3%
**Includes inflation at	4.5%
Cost of living adjustments	None

Required Supplemental Information
OPEB System Schedule of Funding Progress
Year Ended December 31, 2013

The schedule of funding progress is as follows:

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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/13	12/31/10	$ 3,478,241	46.3
12/31/12	12/31/10	3,328,460	45.0
12/31/11	12/31/10	3,185,129	55.2

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

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2010, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	30-year closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	4.5%
*Includes inflation at	4.5%
Cost of living adjustments	None

Other Supplemental Information

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2013

	Special Revenue Funds						Debt Service Fund	
	Library Fund	Drug Law Enforcement	Community Development Block Grant	Loan Revolving	Local Streets Fund	Major Streets Fund	General Obligation Bonds Fund	Total Nonmajor Governmental Funds
Assets								
Cash and investments	$ 358,608	$ 92,197	$ -	$ 322,234	$ 73,335	$ 138,167	$ 300,690	$ 1,285,231
Receivables:								
Taxes	275,066	-	-	-	-	-	583,561	858,627
Other governmental units	-	-	7,802	17,629	35,625	84,719	-	145,775
Due from other funds	-	-	-	-	5,907	-	-	5,907
Inventories and prepaid	-	-	-	-	-	8,200	-	8,200
Total assets	**633,674**	**92,197**	**7,802**	**339,863**	**114,867**	**231,086**	**884,251**	**2,303,740**
Liabilities, Deferred Inflows of Resources, and Fund Balances								
Liabilities								
Accounts payable	$ 4,868	$ 514	$ -	$ -	$ 15,427	$ 16,245	$ -	$ 37,054
Due to component units	17,155	-	-	-	-	-	-	17,155
Due to other funds	-	-	5,907	-	-	-	-	5,907
Accrued liabilities and other	45,732	-	-	-	6,962	5,693	-	58,387
Rehabilitation escrow	-	-	-	325,951	-	-	-	325,951
Total liabilities	67,755	514	5,907	325,951	22,389	21,938	-	444,454
Deferred Inflows of Resources - Property taxes levied for the following year	418,653	-	1,895	-	-	-	884,251	1,304,799
Fund Balances								
Nonspendable - Inventory	-	-	-	-	-	8,200	-	8,200
Restricted:								
Roads	-	-	-	-	57,811	96,598	-	154,409
Grants	-	-	-	13,912	-	-	-	13,912
Library	146,545	-	-	-	-	-	-	146,545
Drug enforcement	-	91,683	-	-	-	-	-	91,683
Assigned	721	-	-	-	34,667	104,350	-	139,738
Total fund balances	147,266	91,683	-	13,912	92,478	209,148	-	554,487
Total liabilities, deferred inflows of resources, and fund balances	**$ 633,674**	**$ 92,197**	**$ 7,802**	**$ 339,863**	**$ 114,867**	**$ 231,086**	**$ 884,251**	**$ 2,303,740**

City of Harper Woods, Michigan

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2013

	Special Revenue Funds						Debt Service Fund	
	Library Fund	Drug Law Enforcement	Community Development Block Grant	Loan - Revolving	Local Streets Fund	Major Streets Fund	General Obligation Bonds Fund	Total Nonmajor Governmental Funds
Revenue								
Property taxes	$ 447,998	$ -	$ -	$ -	$ -	$ -	$ 941,287	$ 1,389,285
State-shared revenue and grants	7,105	-	-	-	227,196	542,131	-	776,432
Other revenue	34,791	4,220	-	-	11,008	25,685	-	75,704
Total revenue	489,894	4,220	-	-	238,204	567,816	941,287	2,241,421
Expenditures								
Current:								
General government	50,680	4,014	-	-	25,600	45,500	-	125,794
Public safety	-	1,860	-	-	-	-	-	1,860
Public works	-	-	-	15	322,293	351,660	-	673,968
Recreation and culture	443,854	-	-	-	-	-	-	443,854
Debt service	-	-	-	-	-	-	1,507,137	1,507,137
Total expenditures	494,534	5,874	-	15	347,893	397,160	1,507,137	2,752,613
Excess of Revenue (Under) Over Expenditures	(4,640)	(1,654)	-	(15)	(109,689)	170,656	(565,850)	(511,192)
Other Financing Sources (Uses)								
Transfers in	-	-	-	-	175,000	-	565,850	740,850
Transfers out	-	-	-	-	-	(100,000)	-	(100,000)
Total other financing sources (uses)	-	-	-	-	175,000	(100,000)	565,850	640,850
Net Change in Fund Balances	(4,640)	(1,654)	-	(15)	65,311	70,656	-	129,658
Fund Balances - Beginning of year	151,906	93,337	-	13,927	27,167	138,492	-	424,829
Fund Balances - End of year	**$ 147,266**	**$ 91,683**	**$ -**	**$ 13,912**	**$ 92,478**	**$ 209,148**	**$ -**	**$ 554,487**

Other Supplemental Information
Combining Statement of Net Position
Internal Service Funds
December 31, 2013

	Equipment Fund	Self-insurance Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	$ -	$ 272,421	$ 272,421
Due from other funds	49,653	-	49,653
Total current assets	49,653	272,421	322,074
Noncurrent assets - Capital assets	57,400	-	57,400
Total assets	107,053	272,421	379,474
Liabilities - Current liabilities			
Accounts payable	9,032	-	9,032
Due to other funds	230,868	-	230,868
Accrued liabilities and other	1,281	-	1,281
Total liabilities	241,181	-	241,181
Net Position			
Net investment in capital assets	57,400	-	57,400
Unrestricted (deficit) asset	(191,528)	272,421	80,893
Total net position	**$ (134,128)**	**$ 272,421**	**$ 138,293**

Other Supplemental Information
Combining Statement of Revenue, Expenses, and Changes in Net Position
Internal Service Funds
Year Ended December 31, 2013

	Equipment Fund	Self-insurance Fund	Total
Operating Revenue - Billings to other funds	$ 258,813	$ -	$ 258,813
Operating Expenses			
Cost of materials	64,317	-	64,317
Other operating and maintenance costs	218,795	-	218,795
General and administrative	60,500	-	60,500
Depreciation	12,380	-	12,380
Total operating expenses	355,992	-	355,992
Change in Net Position	(97,179)	-	(97,179)
Net Position - Beginning of year	(36,949)	272,421	235,472
Net Position - End of year	**$ (134,128)**	**$ 272,421**	**$ 138,293**

Other Supplemental Information
Combining Statement of Cash Flows
Internal Service Funds
Year Ended December 31, 2013

	Equipment Fund	Self-insurance Fund	Total
Cash Flow from Operating Activities			
Receipts from interfund services and reimbursements	$ 341,328	$ -	$ 341,328
Payments to suppliers	(228,634)	-	(228,634)
Payments to employees	(112,694)	-	(112,694)
Net Change in Cash and Cash Equivalents - Net cash provided by operating activities	-	-	-
Cash and Cash Equivalents - Beginning of year	-	272,421	272,421
Cash and Cash Equivalents - End of year	**$ -**	**$ 272,421**	**$ 272,421**
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments	**$ -**	**$ 272,421**	**$ 272,421**
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	$ (97,179)	$ -	$ (97,179)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	12,380	-	12,380
Changes in assets and liabilities:			
Due from others	82,515	-	82,515
Accounts payable	5,531	-	5,531
Accrued and other liabilities	(3,247)	-	(3,247)
Net cash provided by operating activities	**$ -**	**$ -**	**$ -**

Other Supplemental Information
Combining Statement of Assets and Liabilities
Agency Funds
December 31, 2013

	Agency Funds		
	Tax Collection	District Court	Total Agency Funds
Assets			
Cash and cash equivalents	$ 1,263,716	$ 192,494	$ 1,456,210
Due from primary government	32,448	-	32,448
Total assets	**$ 1,296,164**	**$ 192,494**	**$ 1,488,658**
Liabilities			
Due to pension trust fund	$ -	$ 132,408	$ 132,408
Refundable deposits, bonds, etc.	-	60,086	60,086
Tax collections distributable	1,296,164	-	1,296,164
Total liabilities	**$ 1,296,164**	**$ 192,494**	**$ 1,488,658**

City of Harper Woods, Michigan

Federal Awards
Supplemental Information
December 31, 2013

Contents

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Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

Independent Auditor's Report

To the City Council
City of Harper Woods, Michigan

We have audited the basic 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, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 23, 2014, which contained an unmodified opinion on the basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statement that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to June 23, 2014.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plante & Moran, PLLC

Clinton Township, Michigan
June 23, 2014

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the City Council
City of Harper Woods, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic 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, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the City of Harper Woods, Michigan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2013-001 and 2013-002 to be material weaknesses.

To Management and the City Council
City of Harper Woods, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harper Woods, Michigan's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2013-003.

City of Harper Woods, Michigan's Response to Findings

The City of Harper Woods, Michigan's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Harper Woods, Michigan's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

Clinton Township, Michigan
June 23, 2014

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Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the City Council
City of Harper Woods, Michigan

Report on Compliance for the Major Federal Program

We have audited the City of Harper Woods, Michigan's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2013. The City of Harper Woods, Michigan's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Harper Woods, Michigan's major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Harper Woods, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Harper Woods, Michigan's compliance.

To the City Council
City of Harper Woods, Michigan

Opinion on the Major Federal Program

In our opinion, the City of Harper Woods, Michigan complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the City of Harper Woods, Michigan is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Harper Woods, Michigan's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2013-004 to be a material weakness.

The City of Harper Woods, Michigan's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The City of Harper Woods, Michigan's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

To the City Council
City of Harper Woods, Michigan

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

Clinton Township, Michigan
June 23, 2014

City of Harper Woods, Michigan

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Federal Agency/Pass-through Agency/Progam Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security:			
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	N/A	$ 178,707
Assistance to Firefighters Grant - Vehicle	97.044	N/A	48,772
Total U.S. Department of Homeland Security			227,479
U.S. Department of Justice - Office of Community Oriented Policing Services - COPS Hiring Program (CHP) Grant	16.710	N/A	13,831
U.S. Environmental Protection Agency - Office of Water - Passed through State of Michigan - Drinking Water State Revolving Fund	66.468	7229-01	434,246
Total Federal Expenditures			**$ 675,556**

See Note to Schedule of Expenditures of Federal Awards.

Note to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2013

Note - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the City of Harper Woods, Michigan under programs of the federal government for the year ended December 31, 2013. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of City of Harper Woods, Michigan, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows, if applicable, of the City of Harper Woods, Michigan. Pass-through entity identifying numbers are presented where available.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? __X__ Yes ____ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Noncompliance material to financial statements noted? __X__ Yes ____ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? __X__ Yes ____ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ____ Yes __X__ None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? __X__ Yes ____ No

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? ____ Yes __X__ No

Section II - Financial Statement Audit Findings

Reference Number	Finding
2013-001	**Finding Type** - Material weakness

Criteria - The City of Harper Woods, Michigan (the "City") is required to prepare its basic financial statements in accordance with generally accepted accounting principles (GAAP).

Condition - Certain year-end accrual adjustments, report reclassifications, and footnote disclosures were not identified and/or recorded by the City prior to commencement of the year-end audit. These items were corrected in the December 31, 2013 financial statements with the assistance of the auditors.

Context - Material adjustments were recorded subsequent to the commencement of the year-end audit.

Cause - The resources of the finance department are sufficient for handling the day-to-day operations of the City, but personnel do not have the capacity to address all of the necessary year-end closing adjustments and disclosure items. As a result, there are often adjustments that are made with the assistance of the auditors during the course of the year-end audit.

Effect - There are often adjustments that are made with the assistance of the auditors during the course of the year-end audit. Prior to assistance from the auditors, the financial statements were materially misstated.

Recommendation - The City finance department personnel should work to identify all year-end adjustments prior to the commencement of the year-end audit.

Views of Responsible Officials and Planned Corrective Actions - The City has determined that enlisting the assistance of the auditors in identifying certain year-end accrual adjustments, report reclassifications, and footnote disclosures is a cost-effective means of preparing financial statements according to GAAP.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2013-002	**Finding Type** - Material weakness **Criteria** - Goods that are ordered and received, services that are performed, and contracts that are executed prior to year end should be included in accounts payable at December 31, 2013. **Condition** - The City improperly excluded a liability as of year end for the purchase of goods and services because the funds were not disbursed until January 2014. However, the goods and services were received/performed prior to December 31, 2013. As a result, accounts payable was understated by $269,363. **Context** - Accounts payable was understated by $269,363. **Cause** - A comprehensive review of disbursements made subsequent to year end was not performed to identify items that relate to the previous fiscal year. **Effect** - The financial statements did not correctly reflect the liability prior to our audit. **Recommendation** - A review should be performed of all disbursements subsequent to year end to identify any that relate to the previous fiscal year. **Views of Responsible Officials and Planned Corrective Actions** - The City will perform a comprehensive review of subsequent payments to identify any unrecorded liabilities.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2013-003	**Finding Type -** Material noncompliance with laws and regulations
	Criteria - In accordance with Article 9 of the Michigan Constitution, the City did not fully fund the recommended pension contribution as determined by the actuary.
	Condition - The City did not have sufficient cash to fully fund the recommended pension contribution.
	Context - The recommended pension contribution of $1,858,968 was not fully funded and remitted to the City's Employees' Retirement System.
	Cause - The City does not have sufficient cash to fully fund the recommended pension contribution.
	Effect - The City violated Article 9 of the Michigan Constitution requiring local units of government to fully fund the recommended pension contribution as determined by the actuary.
	Recommendation - The City should continue to closely monitor the liability, particularly if the full actuarial recommendations cannot be funded.
	Views of Responsible Officials and Planned Corrective Actions - The City will continue to review the recommended pension contribution in order to determine whether the City has sufficient cash to fully fund the contribution.

Section III - Federal Program Audit Findings

Reference Number	Finding
2013-004	**Program Name** - Staffing for Adequate Fire and Emergency Response (SAFER), CFDA #97.083, Assistance to Firefighters Grant - Vehicle, CFDA #97.044, COPS Hiring Program (CHP) Grant, CFDA #16.710, and Drinking Water State Revolving Fund, CFDA #66.468 - Passed through State of Michigan

Pass-through Entity - Drinking Water State Revolving Fund, CFDA #66.468 - Passed through State of Michigan

Finding Type - Material weakness

Criteria - Per the A133 Compliance Supplement, the City is responsible for tracking the amount of federal funds it has expended in the current year related to each grant program.

Condition - The City was not adequately tracking the federal expenditures incurred during the year, and therefore was not able to prepare the schedule of expenditures of federal awards (the "SEFA").

Questioned Costs - None

Context - The City spent approximately $676,000 in federal funds during the current year across all federal programs with which the City is involved.

Cause and Effect - The City required the auditor's assistance to determine the amount of federal expenditures incurred during the year, as well as the auditor's assistance with the preparation of the SEFA.

Inadequate tracking of federal expenditures could result in the City not being awarded future available federal funds.

Recommendation - The City should maintain detailed records of federal expenditures and to which program the expenditures relate in order to be able to prepare the City's annual SEFA.

Views of Responsible Officials and Planned Corrective Actions - The City will implement procedures to ensure all federal funds awarded and spent by the City during the year are adequately tracked and reported in the City's annual SEFA. Furthermore, the City will ensure the SEFA is thoroughly reviewed and reconciled to the City's financial statements prior to commencement of the year-end audit.

City of Harper Woods, Michigan
Response to Schedule of Findings and Questioned Costs
Year Ended December 31, 2013

2013-004 Staffing for Adequate Fire and Emergency Response (SAFER), CFDA #97.083, Assistance to Firefighters Grant - Vehicle, CFDA #97.044, COPS Hiring Program (CHP) Grant, CFDA #16.710, and Drinking Water State Revolving Fund, CFDA #66.468 - Passed through State of Michigan

Response: The City was not adequately tracking the federal expenditures incurred during the year, and therefore was not able to prepare the schedule of expenditures of federal awards (the "SEFA"). The City will implement procedures to ensure all federal funds awarded and spent by the City during the year are adequately tracked and reported in the City's annual SEFA. Furthermore, the City will ensure the SEFA is thoroughly reviewed and reconciled to the City's financial statements prior to commencement of the year-end audit.

Person Responsible: Laura Stowell, Finance Director

Estimated Completion Date: December 31, 2014

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June 23, 2014

To the Honorable Mayor and
Members of the City Council
City of Harper Woods, Michigan
19167 Harper Avenue
Harper Woods, Michigan 48225

We have audited the financial statements of the City of Harper Woods, Michigan (the "City") as of and for the year ended December 31, 2013 and have issued our report thereon dated June 23, 2014. Professional standards require that we provide you with the following information related to our audit which is divided into the following sections:

Section I - Report on the Results of the Audit Process

Section II - Legislative and Informational Comments

Section I includes information that auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the honorable mayor and members of the City Council of the City of Harper Woods.

Section II contains updated legislative and informational items that we believe will be of interest to you.

In addition to the comments and recommendations in this letter, our observations and comments regarding the City's internal control, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*. This report is included in the supplemental schedule of federal awards and we recommend that the matters we have noted there receive your careful consideration.

We would like to take this opportunity to thank the City's staff for the cooperation and courtesy extended to us during our audit. Their assistance and professionalism were invaluable.

This report is intended solely for the use of the honorable mayor, members of the City Council, and management of the City of Harper Woods, Michigan and is not intended to be, and should not be, used by anyone other than these specified parties.

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

June 23, 2014

We welcome any questions you may have regarding the following communications and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

Plante & Moran, PLLC

David W. Herrington

David. W. Herrington, CPA
Partner

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

June 23, 2014

Section I - Report on the Results of the Audit Process

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 10, 2014, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal controls of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of the City's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of the City, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated June 23, 2014 regarding our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on April 23, 2014.

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

June 23, 2014

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013, except for the adoption of GASB Statements No. 61 and No. 65, which is disclosed in Note 12 to the financial statements.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were those relating to the recording of the pension and the postemployment benefit valuation amount and disclosures and potential property tax refunds.

Management's estimate of the pension and OPEB benefits is based on the annual required contribution as calculated by an actuary. Management's estimate of potential property tax refunds as a result of appeals to the Michigan tax tribunal (MTT) and property tax chargebacks from Wayne County is based on total tax dollars in contention as of year end, as tracked and calculated by management with the assistance of the City's assessor. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole, except for several entries related to property taxes, debt, capital assets, and accounts payable.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the City, and business plans and strategies that may affect the risks of material misstatement with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 23, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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

June 23, 2014

Section II - Legislative and Informational Comments

During our audit, we noted areas where we believe there are opportunities for the City to further strengthen internal control or to increase operating efficiencies. Our observations on those areas are presented for your consideration below:

Financial Outlook

The City has continued to experience financial hardship as a result of declining property tax values and reductions in state and federal revenues. In response, the City has controlled its total compensation costs through modifications of healthcare benefit provisions, performed efficiency reviews in significant funds, and made significant reductions to its staffing levels through attrition and elimination of positions. As a result, the City is a much leaner organization today than it was five years ago. We encourage you to continue to be vigilant, since we believe one of your key considerations in the next few years will be the extent to which you expect the economic recovery will or will not allow revenues to rise sufficiently to meet inflationary cost increases.

Upcoming Accounting Pronouncements - GASB Statement No. 67 and GASB Statement No. 68

In June 2012, the GASB issued two new pension standards, GASB Statements No. 67, *Financial Reporting for Pension Plans,* and No. 68, *Accounting and Financial Reporting for Pensions*. These new standards significantly revise the current accounting and reporting for pensions, both from an employer perspective as well as from a plan perspective. Employers providing defined benefit pensions to their employees must now, under these new standards, recognize their unfunded pension benefit obligation as a liability for the first time to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised and expanded note disclosures and required supplemental information (RSI). Statement No. 67 is required to be adopted for the year ending December 31, 2014 and Statement No. 68 one year later.

Governor Snyder's 2014-2015 Proposed Budget Plans for Revenue Sharing

Governor Snyder's 2014-2015 budget proposal was announced in early February 2014. The proposed budget calls for increases in both Constitutional revenue sharing and EVIP (Economic Vitality Incentive Program) payments. The revenue sharing "pot" for 2014-2015 would total $1.3 billion and would be distributed as follows:

Amount	Description
$764.9 M	Constitutionally required payments
$271.8 M	EVIP
$169.0 M	County revenue sharing
$ 42.2 M	County incentive program
$ 5.0 M	Competitive Grant Assistance Program

The figures above represent a 3 percent increase in the constitutionally required payments and a 15 percent increase in EVIP. The EVIP provides $243 million for qualified cities, villages, and townships that adopt best practices plus an additional $28.8 million for supplemental payments to all qualified local units of government on a population basis, with high-performing and high-need communities receiving the larger share of the proposed payments.

EVIP Best Practices: There are two best practices "paths" a city, village, or township could take to meet the requirements under this standard. (1) If a community so chooses, they could continue to comply with the three existing best practices: accountability and transparency, consolidation of services, and unfunded accrued liability requirements. (2) Under the new budget plan, there would be an alternative second option to the existing EVIP best-practices compliance requirements. A community would have to comply with all four of these new standards below and certify as such by October 1, 2014:

Best Practices under Alternative #2

1. Have an unrestricted fund balance equal to or greater than 6 percent of the most recently adopted General Fund expenditures
2. Make defined benefit pension contributions that are equal to or greater than the annual required contribution amounts determined by actuarial valuation OR indicate you have no DB pension plans
3. Pre-fund, post-employment benefit plans at levels that are equal to or greater than the annual required contribution amounts determined by the actuarial valuation OR indicate you have no DB-type OPEB plans
4. Have a general obligation bond or credit rating that is at least AA- or the equivalent of that rating from two out of three rating agencies (Fitch, Moody's, and S&P)

The remaining $28.8 million of proposed EVIP funding would be used for supplemental payments to qualified cities, townships, and villages and would be calculated based on population with entities that meet one or more of the following four criteria receiving a larger share:

1. Meet the new four best practices standards for EVIP
2. Are in the top 25 percent of Michigan communities with populations of at least 5,000 based on violent crime rates
3. Are in the top 25 percent of Michigan communities with populations of at least 20,000 based on unemployment rates; and
4. Have a deficit elimination plan approved by the Department of Treasury.

For each criterion a community meets, its population would be adjusted upwards 10 percent for purposes of calculating its total aid. This methodology would increase an eligible community's overall relative percentage as compared to others and would increase their share of the available funding. It was stated that this methodology is an attempt to reward the communities that are adhering to best practices but also to provide some additional funding for challenged communities.

Counties would continue to receive both CIP (incentive based payments) and revenue sharing payments. Counties would also have the same alternative "best practice" to that outlined above for cities, townships, and villages. The proposed budget also calls for the 74 eligible counties to receive the maximum allowed funding under the statutory provisions.

In response to this proposal, the House and Senate have set forth budget versions that continue to appropriate dollars for EVIP but remove or change some of the program requirements. The funds budgeted for EVIP in the Senate proposal would move into the revenue sharing formula and all but the transparency requirement would be removed. The House also has legislation that would earmark 5 percent of category 2 dollars for roads (since removed) and 5 percent of category 3 funds for unfunded liabilities. In addition, the House plan would spread the EVIP dollars to more communities. As a result, the increase to communities currently receiving EVIP dollars would decrease. All communities would receive at least $7.146 per capita. We will continue to keep you updated on any significant changes to this proposal.

Personal Property Tax

Significant personal property tax legislation has recently passed. Key provisions of the new acts include:

1. In August 2014, Michigan voters will be asked to approve a shift in use tax dollars to create a replacement fund. If rejected, the eligible manufacturing exemption described below will not occur, and the $40,000 small taxpayer exemption under PA 48 of 2012 would be effective for just the 2014 tax year (personal property tax would be levied again in 2015 for these small businesses).
2. The much-talked-about local essential services assessment (ESA) would be replaced with a State-assessed ESA, which is actually a tax but is being referred to as an assessment simply so that it is recognized as the substitute for the local ESA.

3. The new bills increase the reimbursement to local units for lost personal property tax revenue to an amount stated as 100 percent replacement.

Two key provisions under the previous personal property tax reform legislation (PA 408 of 2012) remain. Businesses will benefit from the following provisions:

1. Under PA 408 of 2012, businesses with less than $40,000 of combined industrial and commercial personal property TV ($80,000 true cash value) would not have to file PPT returns or pay any personal property tax. This provision remains unchanged in these new bills. This exemption begins with the 2014 tax year (December 31, 2013 assessments).

2. "Eligible Manufacturing" property would be exempt from PPT. This would be phased in beginning in 2016 (December 31, 2015 assessment date), with the following provisions:

   a. Any property purchased subsequent to December 31, 2012 would be exempt immediately effective in 2016.
   b. Property purchased prior to December 31, 2012 would be reduced to zero by its 10th year of existence (should take nine years).

Reimbursement to Communities:

Communities will first need to calculate their losses. Losses are classified as either debt loss or non-debt loss, as follows:

- **Debt Loss** - Debt loss is defined as the amount of ad valorem and dedicated taxes that go toward debt that are lost as a result of the personal property tax exemption. During FY 2014-2015 and 2015-2016, revenue distributed by the newly created Local Community Stabilization Authority (LCSA) would equal either a community's debt loss or, in the case of a TIF, the small taxpayer loss. Through the 2015-2016 fiscal year, the losses are limited to the impact of the $40,000 small business exemption. When the phase-out of eligible manufacturing property would begin to occur when tax bills go out in 2016, the debt loss (and corresponding reimbursement) will increase.

- **Non-debt Loss** - Non-debt loss is calculated using the lowest rate of each individual millage levied in the period between 2012 and the year immediately preceding the current year. This will exclude debt millage. The department will compute the loss by comparing the current year taxable value of commercial and industrial property to the taxable value that existed at December 31, 2012 (2013 tax year). In 2016, cities will be reimbursed for non-debt loss for 2014 and 2015 related to the small taxpayer exemption loss. This is for cities only. For 2014 and 2015, townships will be getting reimbursed for the debt loss related to the small business exemption, but not the other losses created by the small business exemption. Starting in 2016, all municipalities are reimbursed for non-debt loss.

Reimbursement for losses comes from two funding sources:

- **Essential Services Reimbursement** - Beginning in 2015-2016, the LCSA would receive a portion of the use tax as well as the full essential services assessments in which to reimburse local units. This assessment is set at a prescribed millage rate based on the acquisition cost of property (depreciation will no longer apply). The rate is set at 2.4 mills for a property's first five years; then 1.25 mills for the next five; then 0.9 mills thereafter. Essential services are defined as ambulance, fire, and police services as well as jail operations. This includes the cost of related pension funding.

  The losses described by the bill are to be paid in order of this priority: school debt; Intermediate School District losses; school operations; government essential services; debt and TIFA forgone increases; and all other reimbursements (defined below). In theory, if there is not enough money available, the lower priority items may not be fully reimbursed. However, that department has indicated that they expect the fund to have enough to cover all reimbursements.

- **All Other Reimbursements** - These reimbursements come from the use tax and would also begin in 2015-2016 and initially be proportional to each local unit's share of total "qualified losses," taking into account the losses of all municipalities. Over time, the reimbursement will shift to be based on each entity's share of eligible manufacturing personal property (based on the amount used in the ESA calculation above). Beginning in FY 2017-2018, 5 percent of the revenue would be distributed proportionally based on each local unit's share of eligible manufacturing personal property. The 5 percent portion would increase in 5 percent increments in each subsequent year. By FY 2036-2037, all revenue in the last category of reimbursements would be distributed based on the local unit's share of eligible manufacturing personal property. In short, in the beginning, the reimbursement is closely tied to the amount of lost personal property taxes, but over time, the community's reimbursement will be tied to the level of eligible manufacturing personal property.

<u>Retro-pay Prohibition - Proposed Changes</u>

Public Act 54 of 2011, which was signed by the governor on June 7, 2011, prohibits retroactive pay on an expired contract and calls for employees working under an expired agreement to bear the cost of any increased healthcare costs until a new contract is in effect. During that period, the public employer is authorized to make payroll deductions necessary to pay the increased cost of maintaining those benefits.

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

June 23, 2014

The Legislature has been working over the past two years to pass a bill to amend PA 54 of 2011 to allow those who are eligible to negotiate contracts under PA 312 of 1969 to be exempt from PA 54. HB 5097 of 2013 and Senate Bill 850 of 2014 have been introduced to provide for exceptions to the retro-pay prohibition for public safety personnel. The passing of this legislation would mean that police, fire, and emergency medical personnel would be eligible to receive retroactive increases in compensation after expiration of their collective bargaining agreement and would also be exempt from having to pay the increased cost of benefits during the time without a contract.

Emergency Manager

Public Act 4 of 2011, which is known as the "emergency manager bill," was repealed by voters in the November 2012 election. In response to the repeal, the Legislature passed a replacement to this bill, PA 436, the Local Financial Stability and Choice Act. This legislation gives distressed communities the following four options:

1. Enter into a consent agreement
2. Mediation with the State
3. Emergency manager
4. Chapter 9 bankruptcy

Another key change is that under this Act, the State will be responsible to pay the salary and other related costs of the emergency manager and not the distressed community. The Act took effect in March 2013.

Deficit Elimination Plans

In May 2014, the Michigan Department of Treasury issued another numbered letter addressing deficit elimination plans. This numbered letter, 2014-1, supersedes the prior numbered letter which the State issued in 2012. This new guidance clarifies when a deficit elimination plan is required and identifies when an entity would need to formulate a deficit elimination plan.

Key changes within this new guidance are:

- For governmental funds other than the General Fund, if the "deferred inflows of resources minus taxes and special assessments receivable" is greater than the "unrestricted fund balance," no deficit elimination plan is necessary. Otherwise, for modified accrual funds, a deficit is still identified as having an unrestricted fund balance deficit, where unrestricted fund balance includes the sum of committed, assigned, and unassigned balances.

- For proprietary, fiduciary, and discretely presented component units:
  - A deficit would not exist if the deferred inflows of resources minus taxes and special assessments receivable are greater than either the unrestricted net position or total net position deficit balance.
  - A deficit would also not exist if current assets less current liabilities is a positive figure. For purposes of this calculation, current liabilities SHOULD NOT include the current portion of long-term obligations.

This new numbered letter does not change the timing of filing the deficit elimination plan. Local units are responsible to file deficit elimination plans concurrent with the submission of the audit report to the Department of Treasury. Local units should not wait for a letter from the State to file their plans. The plans are due on or before the filing of your financial statement. Failure to file a plan can result in withholding of 25 percent of the EVIP revenue sharing payments.

The plans should typically result in elimination of the deficit within one year but should never exceed five years. These plans should also have acceptable evidence to support the plan. The letter defines "acceptable evidence" as certified board/council resolutions approving the funding and the journal entry showing that the transfer was made in the general ledger. As stated in numbered letter 2012-1, "local units with multiple year plans that do not meet their subsequent year deficit projections must submit a revised plan that adheres to the time frame that was originally certified, not to exceed five years." Additionally, if there is a projected multi-year budget, this too must be approved by the council/board and submitted. Plans and support can be emailed to Treas_MunicipalFinance@michigan.gov OR mailed to the Michigan Department of Treasury.

Pension Obligation Bonds and Other Postemployment Benefits Obligation Bonds

Michigan Public Act 329 of 2012 was passed on October 17, 2012 with immediate effect. The Act allows communities that meet certain criteria to issue bonds to fund all or a portion of their unfunded pension and other postemployment benefits (OPEB) liabilities. The bonds are called pension obligation bonds or other postemployment benefits obligation bonds and are collectively referred to as "benefit bonds."

These bonds are subject to federal taxation but are tax exempt by the State of Michigan and must be issued prior to December 31, 2014. The bonds are issued by ordinance or resolution and do not require a vote of the people.

Municipalities must meet all of the following key requirements (the Act also states additional requirements) in order to be eligible to issue benefit bonds:

- Prior to issuance, the municipality must obtain approval from the State Department of Treasury. In addition, the municipality must publish a notice of intent to issue the security.
- Be assigned a credit rating of AA rating or higher by one of the nationally recognized rating agencies (Standards & Poor's, Moody's, or Fitch)
- The issued security shall be rated investment grade by a nationally recognized rating agency.
- The property taxes necessary to meet the debt service obligation may not exceed the limit authorized by law.
- Have a legal capacity to issue the obligation as these bonds are not exempt from legal debt limitations
- Relative to the pension plan, have partial or complete cessation of accruals to a defined benefit plan or closed the defined benefit plan to new or certain existing employee groups and implemented a defined contribution plan (this requirement does not apply to the retiree health care, or OPEB plan)
- The municipality shall covenant with bond holders and the State that it will not, after the issuance of benefit bonds and while the bonds are outstanding, rescind any action taken for the cessation of accruals to a defined benefit plan or complete closure of defined benefit plans for new and existing employees.

Amendments to Public act 152 of 2011 (Health Care Limitations)

On December 11, 2013, legislation was passed (formerly SB 541-545) in an effort to clarify PA 152 of 2011. These amendments are effective immediately. SB 542 and 543 have perhaps the most direct financial impact on communities.

SB 542: This bill modified the current law which allows employers to opt between a percentage-based cap or a dollar-limit (hard cap) on employee health insurance premiums. The bill increases the dollar-cap for individual and spouse coverage from the current limit under PA 152 of $11,000 to $13,455. This applies for all medical plan coverage years beginning in calendar year 2013 according to the current language. The $13,455 cap is increased annually for any changes in medical CPI on an annual basis. Please keep in mind that if your coverage year began after January 1, 2013, this could have resulted in an unanticipated additional cost of $2,455 per employee. Several communities have questioned this aspect but it does not appear to have been addressed in the bill.

Currently, PA 152 excludes elected officials from the number of employees in the dollar cap formula. This would no longer be the case; they would become part of that calculation.

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

June 23, 2014

SB 543: This bill applies only to those public employers that adopt the 80/20 percentage-based option. It clarifies that all public employers (excluding the State) have to have support of a 2/3 vote by the governing body prior to the start of each medical benefit plan coverage year. If this does not occur, the public employer would then have to follow the hard cap requirement.