City of Harper Woods, Michigan

Financial Report
with Supplemental Information
December 31, 2014

Mayor and City Council

Mayor	Kenneth A. Poynter
Council Member	Vivian M. Sawicki
Council Member	Hugh R. Marshall
Council Member	Valeria Kindle
Council Member	Cheryl A. Costantino
Council Member	Charles Flanagan
Council Member	Veronica Paiz

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

Introductory Section

Administrative Organization Chart 1

Financial Section

Report Letter 2-4

Management's Discussion and Analysis 5-8

Basic Financial Statements

Government-wide Financial Statements:
- Statement of Net Position 9
- Statement of Activities 10-11

Fund Financial Statements:
- Governmental Funds:
  - Balance Sheet 12
  - Reconciliation of the Balance Sheet to the Statement of Net Position 13
  - Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) 14
  - Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 15
- Proprietary Funds:
  - Statement of Net Position 16
  - Statement of Revenue, Expenses, and Changes in Net Position 17
  - Statement of Cash Flows 18
- Fiduciary Funds:
  - Statement of Fiduciary Net Position 19
  - Statement of Changes in Fiduciary Net Position 20

Notes to Financial Statements 21-48

Contents (Continued)

Required Supplemental Information 49

Budgetary Comparison Schedule - General Fund 50

Budgetary Comparison Schedule - Major Special Revenue Funds 51

Employees' Retirement and Police and Fire Pension System Schedule of Funding Progress 52

Schedule of Changes in the City Net Pension Liability and Related Ratios 53

Schedule of Contributions - Last Ten Fiscal Years 54

Schedule of Investment Returns 55

OPEB System Schedule of Funding Progress 56

Other Supplemental Information 57

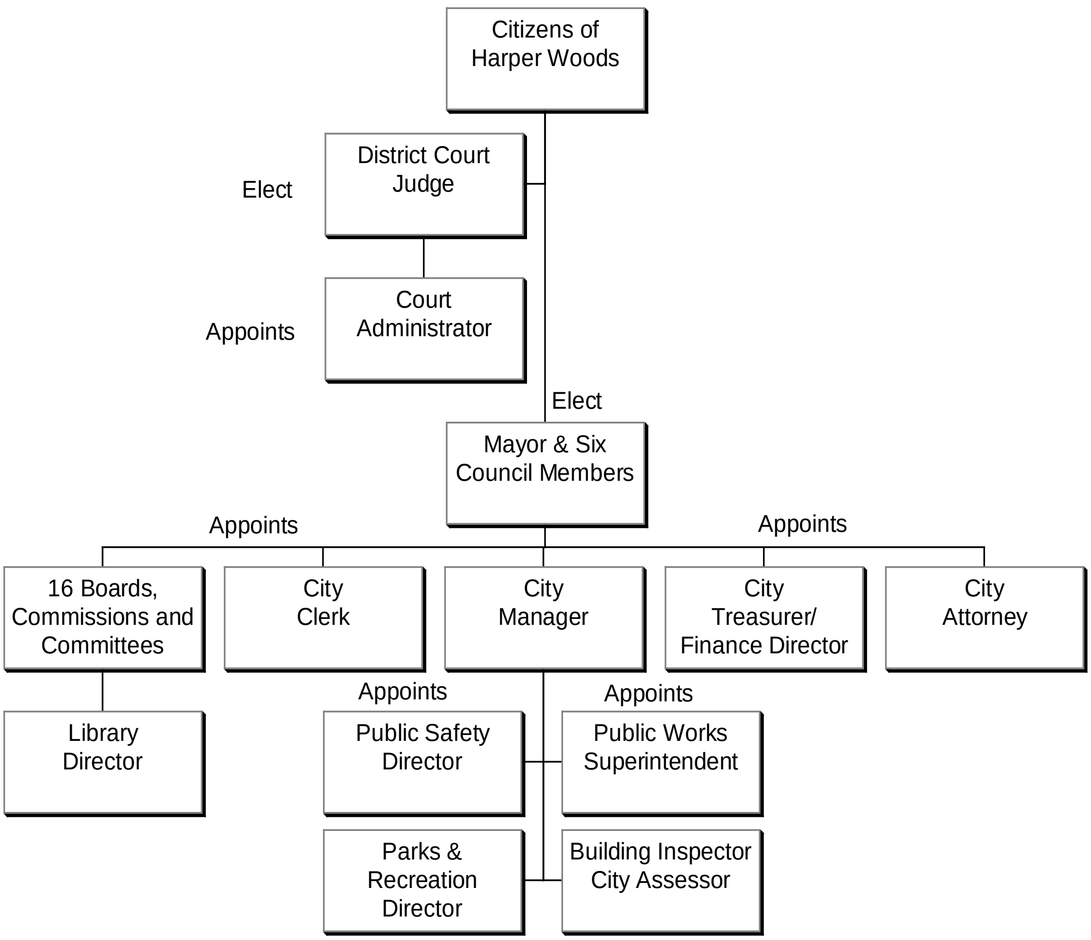
Nonmajor Governmental Funds:
Combining Balance Sheet 58
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances 59

Nonmajor Enterprise Funds:
Combining Statement of Net Position 60
Combining Statement of Revenue, Expenses, and Changes in Net Position 61
Combining Statement of Cash Flows 62

Agency Funds - Combining Statement of Assets and Liabilities 63

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, 2014, and the related notes to the financial statements, which collectively comprise the City of Harper Woods, Michigan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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 opinions.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Harper Woods, Michigan as of December 31, 2014, 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 13 to the basic financial statements, net position as of January 1, 2014 of the business-type activities and the Water and Sewer Fund has been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As discussed in Note 12 to the basic financial statements, the City of Harper Woods adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. Adopting GASB 67 resulted in significant changes to defined benefit related footnote disclosures as well as required supplemental information schedules. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

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

Other Information

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

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 25, 2015 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 25, 2015

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, 2014. 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, 2014 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets						
Current assets	$ 11,887	$ 12,995	$ 1,096	$ 1,061	$ 12,983	$ 14,056
Noncurrent assets -						
Capital assets	17,646	18,108	4,907	3,590	22,553	21,698
Total assets	29,533	31,103	6,003	4,651	35,536	35,754
Liabilities						
Current liabilities	2,848	4,475	720	653	3,568	5,128
Long-term liabilities	20,145	17,656	3,063	1,449	23,208	19,105
Total liabilities	22,993	22,131	3,783	2,102	26,776	24,233
Deferred Inflows of Resources	7,450	8,072	-	-	7,450	8,072
Net Position						
Net investment in capital assets	15,323	14,363	2,308	2,516	17,631	16,879
Restricted	1,202	769	-	-	1,202	769
Unrestricted	(17,435)	(14,232)	(88)	33	(17,523)	(14,199)
Total net position	**$ (910)**	**$ 900**	**$ 2,220**	**$ 2,549**	**$ 1,310**	**$ 3,449**

The City's combined net position decreased by 62.0 percent from a year ago - from $3.4 million to $1.3 million. The governmental activities net position decreased from net position of $900 thousand to a deficit of $910 thousand. This is a result of the major and nonmajor funds incurring losses this year. The business-type activities net position decreased by 12.9 percent as a result of the operating and nonoperating loss in the Water and Sewer Fund.

The following table shows the change in net position for the year ended December 31, 2014 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue						
Program revenue:						
Charges for services	$ 4,396	$ 4,269	$ 3,382	$ 3,437	$ 7,778	$ 7,706
Operating grants and contributions	1,120	1,112	-	292	1,120	1,404
Capital grants and contributions	335	-	-	-	335	-
General revenue:						
Property taxes	8,965	8,823	-	-	8,965	8,823
State-shared revenue	1,324	1,386	-	-	1,324	1,386
Interest	(7)	3	-	-	(7)	3
Miscellaneous	553	446	-	-	553	446
Total revenue	16,686	16,039	3,382	3,729	20,068	19,768
Program Expenses						
General government	8,401	8,895	-	-	8,401	8,895
Public safety	4,602	4,692	-	-	4,602	4,692
Public works	4,539	4,992	-	-	4,539	4,992
Recreation and culture	884	877	-	-	884	877
Interest on long-term debt	70	157	-	-	70	157
Water and sewer	-	-	3,290	2,874	3,290	2,874
Total program expenses	18,496	19,613	3,290	2,874	21,786	22,487
Change in Net Position	(1,810)	(3,574)	92	855	(1,718)	(2,719)
Net Position - Beginning of year (as restated)	900	4,474	2,128	1,694	3,028	6,168
Net Position - End of year	**$ (910)**	**$ 900**	**$ 2,220**	**$ 2,549**	**$ 1,310**	**$ 3,449**

Governmental Activities

Total revenue for the City's governmental activities was $16.7 million for the year ended December 31, 2014. 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.

Expenses for the City's governmental activities totaled $18.5 million for the year ended December 31, 2014, which was a decrease of approximately 5.7 percent, with general government and public works showing the largest decrease. All other activities are showing slight increases or decreases over the last year.

The following represents the most significant financial highlights for the year ended December 31, 2014:

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 $4.8 million in 2014. 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 were no amendments made in 2014. 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 $5.8 million.

Capital Asset and Debt Administration

At the end of fiscal year 2014, the City had $22.6 million invested in capital assets (land, buildings, equipment, vehicles, and water, sewer, and storm lines).

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

Economic Factors and Next Year's Budgets and Rates

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

On the expense side of the equation, medical insurance continues to be a concern. The City has made changes to both active and retiree plans, which was possible once we contracted with Cornerstone Municipal. Water rates 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, 2014

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and investments (Note 3)	$ 3,943,008	$ -	$ 3,943,008	$ -
Receivables:				
Taxes	5,366,690	-	5,366,690	-
Customers	-	1,325,054	1,325,054	-
Other receivables	221,099	-	221,099	-
Due from other governmental units	790,140	-	790,140	-
Service fee	1,075,564	-	1,075,564	-
Due from component units	30,288	-	30,288	-
Due from primary government	-	-	-	45,840
Internal balances (Note 5)	259,348	(259,348)	-	-
Inventories and prepaid items	176,790	30,767	207,557	-
Investment in joint venture (Note 8)	23,362	-	23,362	-
Capital assets (Note 4):				
Assets not subject to depreciation	737,949	2,785,135	3,523,084	-
Assets subject to depreciation - Net	16,908,325	2,121,427	19,029,752	-
Total assets	29,532,563	6,003,035	35,535,598	45,840
Liabilities				
Accounts payable	367,341	522,692	890,033	-
Due to tax collection fund	662,606	-	662,606	-
Due to component units	45,840	-	45,840	-
Due to primary government	-	-	-	30,288
Accrued liabilities and other	947,712	40,418	988,130	-
Rehabilitation escrow	325,951	-	325,951	-
Noncurrent liabilities:				
Due within one year (Note 6)	498,793	156,335	655,128	-
Due in more than one year:				
Accumulated employee benefits	522,513	-	522,513	-
Net pension obligation (Note 9)	5,610,717	190,194	5,800,911	-
Net other postemployment benefit obligations	11,886,795	409,890	12,296,685	-
Long-term debt - Net of current portion	2,125,000	2,463,262	4,588,262	-
Total liabilities	22,993,268	3,782,791	26,776,059	30,288
Deferred Inflows of Resources -				
Property taxes levied for the following year	7,449,934	-	7,449,934	15,552
Net Position				
Net investment in capital assets	15,322,481	2,308,300	17,630,781	-
Restricted for:				
Streets and highways	181,057	-	181,057	-
Debt service	519,594	-	519,594	-
Library	141,648	-	141,648	-
Drug enforcement	89,574	-	89,574	-
Grants	13,912	-	13,912	-
Construction	256,249	-	256,249	-
Unrestricted	(17,435,154)	(88,056)	(17,523,210)	-
Total net position	**$ (910,639)**	**$ 2,220,244**	**$ 1,309,605**	**$ -**

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	$ 8,401,449	$ 2,001,406	$ -	$ 3,976
Public safety	4,602,562	78,587	327,575	331,180
Public works	4,538,759	1,998,904	784,309	-
Recreation and culture	884,011	316,839	8,391	-
Interest on long-term debt	70,282	-	-	-
Total governmental activities	18,497,063	4,395,736	1,120,275	335,156
Business-type activities - Water and Sewer Fund	3,290,397	3,382,149	-	-
Total primary government	**$ 21,787,460**	**$ 7,777,885**	**$ 1,120,275**	**$ 335,156**
Component unit - Brownfield Redevelopment Center	**$ 50,283**	**$ -**	**$ -**	**$ -**

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

Total general revenues

Change in Net Position

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

Net Position - End of year

Statement of Activities
Year Ended December 31, 2014

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
$ (6,396,067)	$ -	$ (6,396,067)	$ -
(3,865,220)	-	(3,865,220)	-
(1,755,546)	-	(1,755,546)	-
(558,781)	-	(558,781)	-
(70,282)	-	(70,282)	-
(12,645,896)	-	(12,645,896)	-
-	91,752	91,752	-
(12,645,896)	91,752	(12,554,144)	-
-	-	-	(50,283)
8,965,053	-	8,965,053	50,283
1,323,668	-	1,323,668	-
553,572	-	553,572	-
(7,149)	-	(7,149)	-
10,835,144	-	10,835,144	50,283
(1,810,752)	91,752	(1,719,000)	-
900,113	2,128,492	3,028,605	-
$ (910,639)	**$ 2,220,244**	**$ 1,309,605**	**$ -**

City of Harper Woods, Michigan

Governmental Funds
Balance Sheet
December 31, 2014

	General Fund	Storm Drain Fund	Refuse	Nonmajor Funds	Total
Assets					
Cash and investments (Note 3)	$ 1,265,446	$ 1,214,771	$ -	$ 1,192,506	$ 3,672,723
Receivables:					
Taxes	4,398,505	-	386,532	581,653	5,366,690
Other receivables	128,245	89,235	3,619	-	221,099
Due from other governmental units	643,938	-	-	146,202	790,140
Service fee	-	1,075,564	-	-	1,075,564
Due from component units	30,288	-	-	-	30,288
Due from other funds (Note 5)	467,288	-	18,163	5,907	491,358
Inventories and prepaid items	165,001	-	-	11,789	176,790
Total assets	**$ 7,098,711**	**$ 2,379,570**	**$ 408,314**	**$ 1,938,057**	**$ 11,824,652**
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 151,028	$ -	$ 171,601	$ 34,538	$ 357,167
Due to tax collection fund	662,606	-	-	-	662,606
Due to component units	-	-	24,986	20,854	45,840
Due to other funds (Note 5)	-	-	74,556	5,907	80,463
Accrued liabilities and other	754,631	70,398	49,153	56,095	930,277
Rehabilitation escrow	-	-	-	325,951	325,951
Total liabilities	1,568,265	70,398	320,296	443,345	2,402,304
Deferred Inflows of Resources					
Property taxes levied for the following year	4,272,244	1,789,596	544,610	843,484	7,449,934
Unavailable revenue - Not collected within the period of availability	354,631	-	-	-	354,631
Total deferred inflows of resources	4,626,875	1,789,596	544,610	843,484	7,804,565
Fund Balances					
Nonspendable:					
Inventory	3,536	-	-	11,789	15,325
Prepaids	161,465	-	-	-	161,465
Restricted:					
Roads	-	-	-	181,057	181,057
Debt service	-	519,576	-	18	519,594
Grants	-	-	-	13,912	13,912
Library	-	-	-	141,648	141,648
Drug enforcement	-	-	-	89,574	89,574
Construction	256,249	-	-	-	256,249
Assigned:					
Subsequent year's budget	67,799	-	-	-	67,799
Roads	-	-	-	212,509	212,509
Library	-	-	-	721	721
Unassigned	414,522	-	(456,592)	-	(42,070)
Total fund balances	903,571	519,576	(456,592)	651,228	1,617,783
Total liabilities, deferred inflows of resources, and fund balances	**$ 7,098,711**	**$ 2,379,570**	**$ 408,314**	**$ 1,938,057**	**$ 11,824,652**

Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
December 31, 2014

Fund Balance Reported in Governmental Funds	$	1,617,783
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		17,353,894
Investments in joint ventures are not financial resources and are not reported in the funds		23,362
Net pension obligation is not due and payable in the current period and is not reported in the funds		(5,610,717)
Net OPEB obligation is not due and payable in the current period and is not reported in the funds		(11,886,795)
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		354,631
Bonds payable and capital lease obligations are not due and payable in the current period and are not reported in the funds		(2,323,793)
Accrued interest is not due and payable in the current period and is not reported in the funds		(15,562)
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		(822,513)
Internal Service Funds are included as part of governmental activities		399,071
Net Position Deficit of Governmental Activities	**$**	**(910,639)**

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)
Year Ended December 31, 2014

	General Fund	Storm Drain Fund	Refuse	Nonmajor Funds	Total
Revenue					
Property taxes	$ 7,134,101	$ -	$ 528,702	$ 1,302,250	$ 8,965,053
Licenses and permits	290,816	-	-	-	290,816
Federal sources	546,608	-	-	-	546,608
State sources	1,465,725	-	-	792,700	2,258,425
Charges for services	2,106,264	-	286,925	-	2,393,189
Service fees	-	1,786,979	-	-	1,786,979
Miscellaneous revenue	348,149	-	-	187,202	535,351
Total revenue	11,891,663	1,786,979	815,627	2,282,152	16,776,421
Expenditures					
Current:					
General government	5,958,335	-	7,000	72,000	6,037,335
Public safety	4,799,459	-	-	38,186	4,837,645
Public works	634,182	1,488,385	807,154	708,572	3,638,293
Recreation and culture	304,285	-	-	468,414	772,699
Capital outlay	76,142	365	-	15,851	92,358
Debt service:					
Principal retirement	-	-	-	1,375,000	1,375,000
Interest and fiscal charges	-	-	-	125,538	125,538
Total expenditures	11,772,403	1,488,750	814,154	2,803,561	16,878,868
Excess of Revenue Over (Under) Expenditures	119,260	298,229	1,473	(521,409)	(102,447)
Other Financing Sources (Uses)					
Transfers in (Note 5)	-	-	-	743,150	743,150
Transfers out (Note 5)	(618,150)	-	-	(125,000)	(743,150)
Total other financing (uses) sources	(618,150)	-	-	618,150	-
Net Change in Fund Balances	(498,890)	298,229	1,473	96,741	(102,447)
Fund Balances (Deficit) - Beginning of year	1,402,461	221,347	(458,065)	554,487	1,720,230
Fund Balances (Deficit) - End of year	**$ 903,571**	**$ 519,576**	**$ (456,592)**	**$ 651,228**	**$ 1,617,783**

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

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, 2014

Net Change in Fund Balances - Total Governmental Funds	$ (102,447)
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	566,884
Depreciation expense	(1,263,700)
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	(7,961)
Loss from joint venture	(7,149)
Net pension obligation is not due and payable in the current period and is not reported in the funds	(531,721)
Net OPEB obligation is not due and payable in the current period and is not reported in the funds	(2,176,652)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	1,421,031
Change in accrued interest payable and other	9,225
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	20,960
Internal Service Funds are included as part of governmental activities	260,778
Change in Net Position of Governmental Activities	**$ (1,810,752)**

Proprietary Funds
Statement of Net Position
December 31, 2014

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Funds
Assets		
Current assets:		
Cash and cash equivalents (Note 3)	$ -	$ 270,285
Receivables - Customer receivables	1,325,054	-
Due from other funds (Note 5)	-	148,453
Prepaid expenses and other assets	30,767	-
Total current assets	1,355,821	418,738
Noncurrent assets - Capital assets:		
Assets not subject to depreciation (Note 4)	2,785,135	-
Assets subject to depreciation - Net (Note 4)	2,121,427	292,380
Total assets	6,262,383	711,118
Liabilities		
Current liabilities:		
Accounts payable	522,692	10,174
Due to other funds (Note 5)	259,348	300,000
Accrued liabilities and other	40,418	1,873
Current portion of compensated absences (Note 6)	21,335	-
Current portion of long-term debt (Note 6)	135,000	-
Total current liabilities	978,793	312,047
Noncurrent liabilities:		
Net pension obligation (Note 9)	190,194	-
Net other postemployment benefit obligation (Note 10)	409,890	-
Long-term debt (Note 6)	2,463,262	-
Total noncurrent liabilities	3,063,346	-
Total liabilities	4,042,139	312,047
Net Position		
Net investment in capital assets	2,308,300	292,380
Unrestricted (deficit)	(88,056)	106,691
Total net position	**$ 2,220,244**	**$ 399,071**

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Position
Year Ended December 31, 2014

	Business-type Activities	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Operating Revenue		
Customer billings	$ 3,348,612	$ -
Other operating revenue	33,537	-
Billings to other funds	-	272,265
Total operating revenue	3,382,149	272,265
Operating Expenses		
Cost of materials	-	56,150
Water supply and sewage disposal	2,096,668	-
Operating and maintenance costs	534,308	129,817
General and administrative	558,392	60,500
Depreciation	101,029	12,380
Total operating expenses	3,290,397	258,847
Operating Income	91,752	13,418
Capital Contributions - Capital grants	-	247,360
Change in Net Position	91,752	260,778
Net Position - Beginning of year (as restated) (Note 13)	2,128,492	138,293
Net Position - End of year	**$ 2,220,244**	**$ 399,071**

Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2014

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers	$ 3,218,968	$ -
Receipts from interfund services and reimbursements	209,695	242,597
Payments to suppliers	(2,715,725)	(170,169)
Payments to employees	(465,084)	(74,564)
Net cash provided by (used in) operating activities	247,854	(2,136)
Cash Flows from Noncapital Financing Activities -		
Repayments of loans from other funds	(397,829)	-
Cash Flows from Capital and Related Financing Activities		
Receipt of capital grants	-	247,360
Purchase of capital assets	(1,417,939)	(247,360)
Proceeds from (interest and principal paid) on capital debt	1,533,627	-
Net cash provided by capital and related financing activities	115,688	-
Net (Decrease) Increase in Cash and Cash Equivalents	(34,287)	(2,136)
Cash and Cash Equivalents - Beginning of year	34,287	272,421
Cash and Cash Equivalents - End of year	**$ -**	**$ 270,285**
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	$ 91,752	$ 13,418
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	101,029	12,380
Changes in assets and liabilities:		
Receivables	(163,181)	-
Due from other funds	209,695	(29,668)
Prepaid and other assets	(4,689)	-
Accounts payable	(2,236)	1,142
Accrued and other liabilities	15,484	592
Net cash provided by (used in) operating activities	**$ 247,854**	**$ (2,136)**

Fiduciary Funds
Statement of Fiduciary Net Position
December 31, 2014

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System	Agency Funds
Assets		
Cash	$ 1,027,801	$ 95,435
Investments:		
Stocks	10,270,291	-
Mutual funds	13,407,873	-
Receivables:		
Property taxes receivable	118,597	-
Accrued interest receivable	22,500	-
Due from primary government	-	662,606
Total assets	24,847,062	**$ 758,041**
Liabilities		
Due to pension trust fund	322,201	$ 74,157
Refundable deposits, bonds, etc.	-	21,278
Tax collections distributable	-	662,606
Total liabilities	322,201	**$ 758,041**
Net Position Held in Trust for Pension and Other Employee Benefits	**$ 24,524,861**	

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

Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Year Ended December 31, 2014

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System
Additions	
Investment income:	
Interest and dividends	$ 931,236
Net appreciation in fair value of investments	513,843
Less investment expenses	(211,326)
Net investment income	1,233,753
Contributions:	
Employer	1,500,000
Employee	279,161
Total contributions	1,779,161
Total additions	3,012,914
Deductions	
Benefit payments	4,066,945
Refunds to employees	50,755
Administrative expenses	11,000
Total deductions	4,128,700
Net Decrease in Net Position Held in Trust	(1,115,786)
Net Position Held in Trust for Pension and Other Employee Benefits - Beginning of year	25,640,647
Net Position Held in Trust for Pension and Other Employee Benefits - End of year	**$ 24,524,861**

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 healthcare related costs, or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

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 fund as a "major" enterprise fund:

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

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

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

- 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, $44,668 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 and so will not be recognized as an outflow of resources (expense/expenditure) until then. During 2014, 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 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 and become a lien on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Note 1 - Summary of Significant Accounting Policies (Continued)

The City's 2013 tax is levied and collectible on December 1, 2013 and is recognized as revenue in the year ended December 31, 2014, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2013 taxable valuation of the City totaled $221,100,460, 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 2.5517 mills for rubbish removal. This resulted in approximately $4,415,000 for operating purposes, $882,000 for debt service, $421,000 for the library, and $563,000 for rubbish removal. These amounts are recognized in their respective funds as tax revenue. Pursuant to Public Act 33 of 1951, the City levied 4.000 mills on July 1, 2014 and 8.500 mills on December 1, 2014 for the payment of public safety expenditures. The taxes levied during 2014 as a result of the Public Act 33 millage resulted in approximately $2,505,000 recognized in the General Fund as tax revenue for the year ended December 31, 2014.

Property taxes billed during the month of December 2014, with the exception of the Public Act 33 millage, will be used to finance 2015 operations. As such, these taxes are unavailable and are recorded as deferred inflows of resources in the respective funds at December 31, 2014.

Pension and Other Postemployment Benefit Costs - The City offers both pension and retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, 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. The pension and net OPEB obligations have generally been liquidated from the General Fund and Water and Sewer Fund.

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

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, 2014 have not been calculated. During the current year, no amendments were made to the budget.

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

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

Excess of Expenditures Over Appropriations in Budgeted Funds

General Government - General government expenditures in the General Fund were approximately $701,000 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 were approximately $14,000 higher than the appropriation as a result of overtime expenditures being higher than the amount anticipated.

Capital Outlay - Capital outlay expenditures in the General Fund were approximately $76,000 higher than the appropriation as a result of capital expenditures being higher than the amount anticipated.

Law Enforcement - Law enforcement expenditures in the General Fund were approximately $66,000 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:

Surplus at January 1, 2014		$ 141,180
Current year permit revenue		274,183
Related expenses:		
Direct costs	$ 144,649	
Estimated indirect costs	14,465	159,114
Current year surplus		115,069
Cumulative surplus at December 31, 2014		$ 256,249

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 9, the City did not fully fund the recommended pension contribution as determined by the actuary, which violates Article 9 of the Michigan Constitution.

During 2015, the Pension System filed a lawsuit against the City for failure to fully fund the plan based on the recommended contribution as determined by the actuary.

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 $3.6 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
Mutual funds	$ 13,407,873	Counterparty
Equity securities	10,270,291	Counterparty
Total uninsured and unregistered	$ 23,678,164	

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	$ 3,873,435	$ 3,873,435	$ -	$ -
Employees' Retirement System				
Bond mutual funds	7,398,586	1,381,960	6,016,626	-

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 rating of the bank investment pool is as follows:

Investment	Fair Value	Rating	Rating Organization
iShares Barclays Aggregate Bond	$ 6,016,626	BB to AAA	Standard & Poor's
Templeton Global Bond Fund	1,381,960	B - to AAA	Standard & Poor's
Bank investment pool	3,873,435	Not rated	Not rated

Concentration of Credit Risk - The City and the City's pension fund do not limit investments in any one issuer. At December 31, 2014, the City's pension fund maintained investments in the iShares Barclays Aggregate Bond Fund and Templeton Global Bond Fund totaling approximately 25.4 percent and 5.8 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, 2014	Additions	Disposals	Balance December 31, 2014
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	50,265	-	4,307,994
Machinery and equipment	3,402,293	104,595	-	3,506,888
Vehicles	3,397,731	659,384	-	4,057,115
Office furnishings	277,979	-	-	277,979
Land improvements	503,194	-	-	503,194
Subtotal	39,842,403	814,244	-	40,656,647
Accumulated depreciation:				
Roads	8,809,683	639,740	-	9,449,423
Sidewalks	1,116,683	546	-	1,117,229
Storm drains	5,926,560	272,273	-	6,198,833
Buildings and improvements	1,205,435	83,880	-	1,289,315
Machinery and equipment	2,025,903	125,856	-	2,151,759
Vehicles	3,115,919	115,157	-	3,231,076
Office furnishings	114,489	12,921	-	127,410
Land improvements	157,570	25,707	-	183,277
Subtotal	22,472,242	1,276,080	-	23,748,322
Net capital assets being depreciated	17,370,161	(461,836)	-	16,908,325
Net capital assets	$ 18,108,110	$ (461,836)	$ -	$ 17,646,274

Note 4 - Capital Assets (Continued)

	Balance January 1, 2014	Additions	Disposals	Balance December 31, 2014
Business-type Activities				
Capital assets not being depreciated - Construction in progress	$ 1,367,196	$ 1,417,939	$ -	$ 2,785,135
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	2,988,167	79,729	-	3,067,896
Sewer system	1,140,910	21,300	-	1,162,210
Machinery and equipment	62,133	-	-	62,133
Subtotal	4,191,210	101,029	-	4,292,239
Net capital assets being depreciated	2,222,456	(101,029)	-	2,121,427
Net capital assets	$ 3,589,652	$ 1,316,910	$ -	$ 4,906,562

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

Governmental activities:	
General government	$ 15,717
Public safety	164,603
Public works	928,784
Recreation and culture	166,976
Total governmental activities	$ 1,276,080
Business-type activities - Water and sewer	$ 101,029

Construction Commitments - The City had begun construction on sewer projects at year end. At year end, the City's commitments with contractors were approximately $474,000.

Note 5 - Interfund Receivables, Payables, and Transfers

Below are interfund receivables of the City at December 31, 2014:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Refuse Fund	$ 47,933
	Water and Sewer Fund	119,355
	Internal service fund	300,000
	Total General Fund	467,288
Nonmajor governmental funds	Nonmajor governmental funds	5,907
Internal service funds	Refuse Fund	26,623
	Water and Sewer Fund	121,830
	Total Internal service funds	148,453
Refuse Fund	Water and Sewer Fund	18,163
	Total	$ 639,811

Receivable Fund	Payable Fund	Amount
Due to/from Primary Government and Component Units		
Brownfield Redevelopment Authority - Component unit	Refuse Fund	$ 24,986
	Nonmajor governmental funds	20,854
	Total Brownfield Redevelopment Authority - Component unit	$ 45,840
General Fund	Brownfield Redevelopment Authority - Component Unit	$ 30,288

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.

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

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

Transfer In	Transfer Out	Amount
Nonmajor governmental funds	General Fund	$ 618,150
	Nonmajor governmental funds	125,000
	Total nonmajor governmental funds	$ 743,150

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

The transfer from the nonmajor governmental funds to the nonmajor governmental funds represents the transfer of discretionary funds for local street construction.

Note 6 - Long-term Debt

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

Description	Amount
Governmental Activities	
Unlimited tax general obligation bonds:	
2004 General Obligation Library Bonds, $3,100,000 original issue, bearing interest from 3.30% to 5.00%, maturing in 2024	$ 2,275,000
Installment purchase obligations - Capital leases, bearing interest at 6.00%, maturing in 2015	48,793
Total governmental activity debt	$ 2,323,793

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	$ 2,598,262

Note 6 - Long-term Debt (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Unlimited tax general obligation bonds	$ 3,650,000	$ -	$ 1,375,000	$ 2,275,000	$ 150,000
Capital lease obligations	94,824	-	46,031	48,793	48,793
Total bonds payable	3,744,824	-	1,421,031	2,323,793	198,793
Accumulated compensated absences	843,473	-	20,960	822,513	300,000
Total governmental activities	$ 4,588,297	$ -	$ 1,441,991	$ 3,146,306	$ 498,793

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-Type Activities					
Limited tax general obligation bonds	$ 1,073,591	$ 1,659,671	$ 135,000	$ 2,598,262	$ 135,000
Total bonds payable	1,073,591	1,659,671	135,000	2,598,262	135,000
Accumulated compensated absences	18,248	3,087	-	21,335	21,335
Total business-type activities	$ 1,091,839	$ 1,662,758	$ 135,000	$ 2,619,597	$ 156,335

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, 2014.

Total interest expense for the year was approximately $131,000. 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
2015	$ 198,793	$ 96,303	$ 295,096	$ 135,000	$ 64,644	$ 199,644
2016	150,000	87,600	237,600	140,000	59,832	199,832
2017	175,000	81,175	256,175	145,000	56,269	201,269
2018	200,000	73,575	273,575	145,000	52,644	197,644
2019	225,000	64,806	289,806	150,000	48,957	198,957
2020-2024	1,375,000	163,295	1,538,295	810,000	185,659	995,659
2025-2028	-	-	-	925,000	77,596	1,002,596
2029	-	-	-	148,262	1,853	150,115
Total	$ 2,323,793	$ 566,754	$ 2,890,547	$ 2,598,262	$ 547,454	$ 3,145,716

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, 2014 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 - 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 $23,362 at December 31, 2014 and is reported as part of the governmental activities in the statement of net position. The Authority is expected to sell real estate assets in future years. It is unknown what benefit the City will realize as a result of these transactions. The City is unaware of any circumstances, including potential environmental remediation, that would cause an additional benefit or burden to the participating municipalities in the near future. Complete financial statements for the Authority can be obtained from its administrative offices at 3664 Nesting Ridge Drive, Rochester Hills, MI 48309.

Note 9 - Defined Benefit Pension Plan

Plan Administration - The Employees Retirement System Board of Trustees (the "Board") administers the City of Harper Woods Employees' Retirement System (the "System") - a single employer defined benefit pension plan that provides pensions for all full-time employees of the City. Benefit terms have been established by contractual agreements between the City and the various employee union representation; amendments are subject to the same process.

Management of the System is vested in the Board, which consists of seven members - four elected by plan members and three appointed by the City.

Plan Membership - At December 31, 2014, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	119
Inactive plan members entitled to but not yet receiving benefits	5
Active plan members	60

Benefits Provided - The Pension Plan provides retirement, disability, and death benefits. Benefit terms are established by contractual agreements and city ordinances between the City and the various union and non-union representations and may be amended by the same process.

Contributions - Article 9, Section 24 of the State of Michigan constitution requires that financial benefits arising on account of employee service rendered in each year be funded during that year. Accordingly, the Pension Board retains an independent actuary to determine the annual contribution. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. Contribution requirements of plan members are established and may be amended by the board of trustees in accordance with the City Charter, union contracts, and plan provisions. For the year ended December 31, 2014, the average active member contribution rate was 5.82 percent of annual pay, and the City's average contribution rate was 31.26 percent of annual payroll.

Note 9 - Defined Benefit Pension Plan (Continued)

Pension Plan Investments - Policy and Rate of Return

Investment Policy - The System's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that manages risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The System's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2014:

Asset Class	Target Allocation
Domestic equity	53
International equity	15
Investment grade U.S. fixed	24
International fixed income	5
Cash	3

Rate of Return - For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 1.44 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Pension Plan Reserves

In accordance with Title 2, Chapter 8 of the Code of Ordinances, the following reserves are required to be set aside within the pension plan:

The retiree reserve is to be computed annually by the actuary as the present value of estimated benefit payments for all current retirees. The amounts reserved may be used solely to pay monthly retiree benefit payments.

The employee reserve is credited as employee contributions are received throughout the year; the plan maintains a record of the amount contributed by each employee, and credits interest annually at a rate of 4.1 percent. For any employee who terminates before vesting in the pension plan, their balance is returned to them; for those who stay until retirement, the balance is transferred into the retiree reserve.

The employer reserve account is used to account for the residual net position balance in the pension plan after funding the above two reserves.

	Required Reserve	Amount Funded
Retiree reserve	$ 37,238,412	$ 11,125,601
Employee reserve	13,399,155	13,399,155

Note 9 - Defined Benefit Pension Plan (Continued)

Net Pension Liability of the City

The City reports pension expense based on funding requirements, as directed by GASB 27. Beginning next year, the City will adopt GASB 68 which will require the measurement of pension expense as it is earned, rather than as it is funded. The net pension liability of the City has been measured as of December 31, 2014 and is composed of the following:

Total pension liability	$ 59,924,481
Plan fiduciary net position	(23,649,791)
City's net position liability	$ 36,274,690
Plan fiduciary net position as a percentage of the total pension liability	39.5 %

Actuarial Assumptions - The total pension liability was determined by an actuarial valuation as of December 31, 2014. The valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 %	(price inflation), 4.50% (wage inflation)
Salary increases	50-8.30 %	average, including inflation
Investment rate of return	7.75 %	net of pension plan investment expense, including inflation

Mortality rates were based on the 1984 Group Annuity Mortality Table.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate.

Projected Cash Flows

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

Note 9 - Defined Benefit Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return as of December 31, 2014 for each major asset class included in the pension plan's target asset allocation, as disclosed in the investment footnote, are summarized in the following table.

Asset Class	Long-term Expected Real Rate of Return
Domestic equity	7.3
International equity	7.2
Investment grade U.S. fixed	1.8
International fixed income	2.0
Cash	0.2

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the City, calculated using the discount rate of 7.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75 percent) or 1 percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net pension liability of the City	$ 43,214,326	$ 36,274,690	$ 30,440,077

Pension Cost

The pension plan does not issue a separate financial report.

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost and Net Pension Obligation

Annual required contribution	$ 1,917,203
Interest on net pension obligation	407,195
Adjustment to annual required contribution	(277,621)
Annual pension cost (APC)	2,046,777
Contributions made	(1,500,000)
Increase in net pension obligation	546,777
Net pension obligation - Beginning of year	5,254,134
Net pension obligation - End of year	$ 5,800,911

Annual Pension Cost - For the year ended December 31, 2014, the City's annual pension cost of $2,046,777 for the plan was more than the City's actual contribution. The pension cost for the three most recent years is as follows:

	Fiscal Year Ended December 31		
	2014	2013	2012
Annual pension cost (APC)	$ 2,046,777	$ 1,944,206	$ 1,681,908
Percentage of APC contributed	73.3 %	- %	82.7 %
Net pension obligation	$ 5,800,911	$ 5,254,134	$ 3,309,928

Funding Status and Funding Progress - As of December 31, 2013, the most recent actuarial valuation date, the plan was 48.5 percent funded. The actuarial accrued liability for benefits was $54,752,583, and the actuarial value of assets was $26,556,998, resulting in an unfunded actuarial accrued liability of $28,195,585. The covered payroll (annual payroll to active employees covered by the plan) was $4,592,370, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 614.0 percent.

The schedule of funding progress, presented as RSI 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.

Note 9 - Defined Benefit Pension Plan (Continued)

Actuarial Methods and Assumptions - The annual required contribution was determined as part of an actuarial valuation at December 31, 2013, 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 27 years.

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 dependents. At December 31, 2013, the date of the most recent actuarial valuation, membership consisted of 113 retirees currently receiving benefits, three terminated employees entitled to benefits but not yet receiving them, and 62 current active employees. At December 31, 2014, 120 retirees were eligible.

Funding Policy - The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis). As shown below, the City has made no contributions to advance-fund these benefits as of December 31, 2014.

Note 10 - Other Postemployment Benefits (Continued)

Funding Progress - For the year ended December 31, 2014, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of December 31, 2013. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual required contribution (recommended)	$ 3,030,343
Interest on the prior year's net OPEB obligation	401,799
Less adjustment to the annual required contribution	(183,819)
Annual OPEB cost	3,248,323
Amounts contributed:	
Payments of current premiums	(996,613)
Advance funding	-
Increase in net OPEB obligation	2,251,710
OPEB obligation - Beginning of year	10,044,975
OPEB obligation - End of year	$ 12,296,685

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
12/31/14	$ 3,248,323	30.6 %	$ 12,296,685
12/31/13	3,699,193	43.5	10,044,975
12/31/12	3,499,732	42.8	7,956,210

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
12/31/13	$ -	$ 47,780,322	$ 47,780,322	- %	$ 3,929,586	1,215.9 %
12/31/10	-	54,633,594	54,633,594	-	6,229,056	877.1
12/31/08	-	35,500,009	35,500,009	-	6,521,118	544.4

Note 10 - Other Postemployment Benefits (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented above, presents 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.

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

Note 11 - Contingent Liabilities

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

Note 12 - Change in Accounting

During the current year, the City adopted GASB Statement Number 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension footnote have changed considerably along with the related schedules in the required supplementary information.

Note 13 - Reporting Change (Prior Period Adjustments)

Net position of the business-type activities and the Water and Sewer Fund as of January 1, 2014 has been restated to adjust for an understatement of accounts payable and expense and to adjust for an overstatement of accounts receivable and revenue.

The effect of these corrections was to decrease net position by $420,574 as of January 1, 2014 and reduce the change in net position for the year ended December 31, 2013 in the Water and Sewer Fund and business-type activities by the same amount.

The effect of these changes are as follows:

	Business-type Activities	Water and Sewer Fund
Net position - December 31, 2013 - As previously reported	$ 2,549,066	$ 2,549,066
Adjustment for understatement of accounts payable and expense	(134,174)	(134,174)
Adjustment for overstatement of accounts receivable and revenue	(286,400)	(286,400)
Net position - December 31, 2013 - As restated	$ 2,128,492	$ 2,128,492

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

	Business-type Activities	Water and Sewer Fund
Change in net position - December 31, 2013 - As previously reported	$ 512,326	$ 512,326
Adjustment for understatement of accounts payable and expense	(134,174)	(134,174)
Adjustment for overstatement of accounts receivable and revenue	(286,400)	(286,400)
Change in net position - December 31, 2013 - As restated	$ 91,752	$ 91,752

Note 14 - Upcoming Accounting Pronouncements

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.

In February 2015, the Governmental Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and acceptable valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB Statement No. 72 is required to be adopted for years beginning after June 15, 2015. The City is currently evaluating the impact this standard will have on the financial statements when adopted, during the City's 2016 fiscal year.

In June 2015, the GASB issued two new standards addressing accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, addresses reporting by OPEB plans whereas GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses accounting and reporting by employer governments that provide OPEB benefits to their employees. Along with the currently required statement of fiduciary net position and statement of changes in fiduciary net position, OPEB plans will now be required to include in the financial statement more extensive footnote disclosures and required supplemental information related to the measurement of the OPEB liabilities for which assets have been accumulated. In addition, the City will, after adoption of GASB 75, recognize on the face of the financial statements its net OPEB liability. The City is currently evaluating the impact these standards will have on the financial statements when adopted. GASB 74 is effective for fiscal years beginning after June 15, 2016, whereas GASB 75 is effective one year later.

Required Supplemental Information

Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	$ 4,315,079	$ 4,315,079	$ 7,134,101	$ 2,819,022
Police-fire assessment	2,815,674	2,815,674	-	(2,815,674)
Licenses and permits	176,000	176,000	290,816	114,816
Federal sources	761,305	761,305	546,608	(214,697)
State sources	1,536,000	1,536,000	1,465,725	(70,275)
Charges for services	1,347,300	1,347,300	2,106,264	758,964
Miscellaneous revenue	557,300	557,300	348,149	(209,151)
Total revenue	11,508,658	11,508,658	11,891,663	383,005
Expenditures - Current				
General government:				
City council	28,500	28,500	25,712	2,788
City manager	113,900	113,900	112,082	1,818
General services administration	756,800	756,800	557,321	199,479
Clerk/Elections	141,650	141,650	148,897	(7,247)
District Court	465,500	465,500	542,445	(76,945)
Dial-A-Ride/PAATS	-	-	239,181	(239,181)
Insurance and other functions	3,750,500	3,750,500	4,332,697	(582,197)
Total general government	5,256,850	5,256,850	5,958,335	(701,485)
Law enforcement:				
Law enforcement	3,490,500	3,490,500	3,430,538	59,962
Fire and EMS	1,151,345	1,151,345	1,225,934	(74,589)
Other	92,000	92,000	142,987	(50,987)
Total law enforcement	4,733,845	4,733,845	4,799,459	(65,614)
Public works	619,800	619,800	634,182	(14,382)
Recreation and culture	321,270	321,270	304,285	16,985
Capital outlay	-	-	76,142	(76,142)
Total expenditures	10,931,765	10,931,765	11,772,403	(840,638)
Excess of Revenue Over Expenditures	576,893	576,893	119,260	(457,633)
Other Financing Sources (Uses)				
Transfers in	75,000	75,000	-	(75,000)
Transfers out	(623,800)	(623,800)	(618,150)	5,650
Total other financing uses	(548,800)	(548,800)	(618,150)	(69,350)
Net Change in Fund Balance	28,093	28,093	(498,890)	(526,983)
Fund Balance - Beginning of year	1,402,461	1,402,461	1,402,461	-
Fund Balance - End of year	**$ 1,430,554**	**$ 1,430,554**	**$ 903,571**	**$ (526,983)**

City of Harper Woods, Michigan

Required Supplemental Information
Budgetary Comparison Schedule - Major Special Revenue Funds
Refuse Fund
Year Ended December 31, 2014

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	$ 650,762	$ 650,762	$ 528,702	$ (122,060)
Charges for services	197,300	197,300	286,925	89,625
Other revenue	225,000	225,000	-	(225,000)
Total revenue	1,073,062	1,073,062	815,627	(257,435)
Expenditures - Current				
General government	7,000	7,000	7,000	-
Public works - Rubbish disposal	870,500	870,500	807,154	63,346
Total expenditures	877,500	877,500	814,154	63,346
Net Change in Fund Balance	195,562	195,562	1,473	(194,089)
Fund Balance (Deficit) - Beginning of year	(458,065)	(458,065)	(458,065)	-
Fund Balance (Deficit) - End of year	**$ (262,503)**	**$ (262,503)**	**$ (456,592)**	**$ (194,089)**

Required Supplemental Information
Employees' Retirement and Police and Fire Pension System
Schedule of Funding Progress
Year Ended December 31, 2014

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
12/31/08	$ 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
12/31/13	26,556,998	54,752,583	28,195,585	48.5	4,592,370	614.0

The schedule of employer contributions is as follows:

Fiscal Year Ending	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
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	82.7
12/31/13	12/31/12	1,858,968	-
12/31/14	12/31/13	1,917,203	73.3

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

Actuarial cost method	Individual entry age
Amortization method	Level of payroll, closed
Amortization period (perpetual)	27 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
Schedule of Changes in the City Net Pension Liability and Related Ratios
Year Ended December 31, 2014

	2014
Total Pension Liability	
Service cost	$ 847,028
Interest	4,116,587
Changes in assumptions	4,325,983
Benefit payments, including refunds	(4,117,700)
Net Change in Total Pension Liability	5,171,898
Total Pension Liability - Beginning of year	54,752,583
Total Pension Liability - End of year	**$ 59,924,481**
Plan Fiduciary Net Position	
Contributions - Employer	$ 1,500,000
Contributions - Members	279,160
Net investment income	362,145
Administrative expenses	(11,000)
Benefit payments, including refunds	(4,117,700)
Other	(3,461)
Net Change in Plan Fiduciary Net Position	(1,990,856)
Plan Fiduciary Net Position - Beginning of year	25,640,647
Plan Fiduciary Net Position - End of year	**$ 23,649,791**
City's Net Pension Liability - Ending	**$ 36,274,690**
Plan Fiduciary Net Position as a % of Total Pension Liability	39.47 %
Covered Employee Payroll	$ 4,799,027
City's Net Pension Liability as a % of Covered Employee Payroll	755.9 %

Required Supplemental Information
Schedule of City Contributions
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	$ 1,917,203	$ 1,858,968	$ 1,447,960	$ 1,139,769	$ 902,340	$ 699,704	$ 652,491	$ 502,015	$ 556,939	$ 149,082
Contributions in relation to the actuarially determined contribution	1,500,000	-	1,390,661	150,000	-	-	500,000	500,000	360,000	149,082
Contribution deficiency	$ 417,203	$ 1,858,968	$ 57,299	$ 989,769	$ 902,340	$ 699,704	$ 152,491	$ 2,015	$ 196,939	$ -
Covered employee payroll	$ 4,799,027	$ 4,719,273	$ 5,389,968	$ 6,229,056	$ 6,733,424	$ 6,521,118	$ 6,270,323	$ 5,872,496	$ 5,888,821	$ -
Contributions as a percentage of covered employee payroll	31.3 %	- %	25.8 %	2.4 %	- %	- %	8.0 %	8.5 %	6.1 %	DIV/0 %

Notes to Schedule of City Contributions

Actuarial valuation information relative to the determination of contributions:

Valuation date	Actuarially determined contribution rates are calculated as of December 31 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry-age normal
Amortization method	Level percent-of-payroll, closed period
Remaining amortization period	27 years
Asset valuation method	5-year smoothed market
Inflation	4.50 percent; no explicit price inflation is used in the valuation
Salary increases	4.50 percent to 8.30 percent, including inflation
Investment rate of return	7.75 percent
Retirement age	Age-based table of rates that are specific to the type of eligibility condition.
Mortality	1984 Group Annuity Mortality Table

Required Supplemental Information
Schedule of Investment Returns
Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Annual money-weighted rate of return, net of investment expense	1.40 %	- %	- %	- %	- %	- %	- %	- %	- %	- %

Required Supplemental Information
OPEB System Schedule of Funding Progress
Year Ended December 31, 2014

The schedule of funding progress is as follows:

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

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution *	Percentage Contributed
12/31/14	12/31/13	$ 3,030,343	32.9
12/31/13	12/31/10	3,478,241	46.3
12/31/12	12/31/10	3,328,460	45.0

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

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

Amortization method	Level percent
Amortization period (perpetual)	27-year closed
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	4.0%
*Includes inflation at	2.5%
Cost of living adjustments	None

Other Supplemental Information

City of Harper Woods, Michigan

Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2014

	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	$ 356,183	$ 98,162	$ -	$ 322,234	$ 18,676	$ 270,839	$ 126,412	$ 1,192,506
Receivables:								
Taxes	274,121	-	-	-	-	-	307,532	581,653
Other governmental units	-	-	7,802	17,629	35,744	85,027	-	146,202
Due from other funds	-	-	-	-	5,907	-	-	5,907
Inventories and prepaid	-	-	-	-	-	11,789	-	11,789
Total assets	**$ 630,304**	**$ 98,162**	**$ 7,802**	**$ 339,863**	**$ 60,327**	**$ 367,655**	**$ 433,944**	**$ 1,938,057**
Liabilities, Deferred Inflows of Resources, and Fund Balances								
Liabilities								
Accounts payable	$ 12,420	$ 8,588	$ -	$ -	$ 731	$ 12,799	$ -	$ 34,538
Due to component units	20,854	-	-	-	-	-	-	20,854
Due to other funds	-	-	5,907	-	-	-	-	5,907
Accrued liabilities and other	46,998	-	-	-	4,246	4,851	-	56,095
Rehabilitation escrow	-	-	-	325,951	-	-	-	325,951
Total liabilities	80,272	8,588	5,907	325,951	4,977	17,650	-	443,345
Deferred Inflows of Resources - Property taxes levied for the following year	407,663	-	1,895	-	-	-	433,926	843,484
Fund Balances								
Nonspendable - Inventory	-	-	-	-	-	11,789	-	11,789
Restricted:								
Roads	-	-	-	-	22,414	158,643	-	181,057
Debt service	-	-	-	-	-	-	18	18
Grants	-	-	-	13,912	-	-	-	13,912
Library	141,648	-	-	-	-	-	-	141,648
Drug enforcement	-	89,574	-	-	-	-	-	89,574
Assigned	721	-	-	-	32,936	179,573	-	213,230
Total fund balances	142,369	89,574	-	13,912	55,350	350,005	18	651,228
Total liabilities, deferred inflows of resources, and fund balances	**$ 630,304**	**$ 98,162**	**$ 7,802**	**$ 339,863**	**$ 60,327**	**$ 367,655**	**$ 433,944**	**$ 1,938,057**

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, 2014

	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	$ 419,844	$ -	$ -	$ -	$ -	$ -	$ 882,406	$ 1,302,250
State-shared revenue and grants	8,391	-	-	-	231,697	552,612	-	792,700
Other revenue	35,282	51,928	-	-	24,769	75,223	-	187,202
Total revenue	463,517	51,928	-	-	256,466	627,835	882,406	2,282,152
Expenditures								
Current:								
General government	-	-	-	-	26,500	45,500	-	72,000
Public safety	-	38,186	-	-	-	-	-	38,186
Public works	-	-	-	-	392,094	316,478	-	708,572
Recreation and culture	468,414	-	-	-	-	-	-	468,414
Capital outlay	-	15,851	-	-	-	-	-	15,851
Debt service	-	-	-	-	-	-	1,500,538	1,500,538
Total expenditures	468,414	54,037	-	-	418,594	361,978	1,500,538	2,803,561
Excess of Revenue (Under) Over Expenditures	(4,897)	(2,109)	-	-	(162,128)	265,857	(618,132)	(521,409)
Other Financing Sources (Uses)								
Transfers in	-	-	-	-	125,000	-	618,150	743,150
Transfers out	-	-	-	-	-	(125,000)	-	(125,000)
Total other financing sources (uses)	-	-	-	-	125,000	(125,000)	618,150	618,150
Net Change in Fund Balances	(4,897)	(2,109)	-	-	(37,128)	140,857	18	96,741
Fund Balances - Beginning of year	147,266	91,683	-	13,912	92,478	209,148	-	554,487
Fund Balances - End of year	**$ 142,369**	**$ 89,574**	**$ -**	**$ 13,912**	**$ 55,350**	**$ 350,005**	**$ 18**	**$ 651,228**

Other Supplemental Information
Combining Statement of Net Position
Internal Service Funds
December 31, 2014

	Equipment Fund	Self-insurance Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	$ -	$ 270,285	$ 270,285
Due from other funds	148,453	-	148,453
Total current assets	148,453	270,285	418,738
Noncurrent assets - Capital assets	292,380	-	292,380
Total assets	440,833	270,285	711,118
Liabilities - Current liabilities			
Accounts payable	10,174	-	10,174
Due to other funds	300,000	-	300,000
Accrued liabilities and other	1,873	-	1,873
Total liabilities	312,047	-	312,047
Net Position			
Net investment in capital assets	292,380	-	292,380
Unrestricted (deficit)	(163,594)	270,285	106,691
Total net position	**$ 128,786**	**$ 270,285**	**$ 399,071**

Other Supplemental Information
Combining Statement of Revenue, Expenses, and Changes in Net Position
Internal Service Funds
Year Ended December 31, 2014

	Equipment Fund	Self-insurance Fund	Total
Operating Revenue - Billings to other funds	$ 272,265	$ -	$ 272,265
Operating Expenses			
Cost of materials	56,150	-	56,150
Other operating and maintenance costs	127,681	2,136	129,817
General and administrative	60,500	-	60,500
Depreciation	12,380	-	12,380
Total operating expenses	256,711	2,136	258,847
Operating Income (Loss)	15,554	(2,136)	13,418
Capital Contributions - Capital grants	247,360	-	247,360
Change in Net Position	262,914	(2,136)	260,778
Net Position - Beginning of year	(134,128)	272,421	138,293
Net Position - End of year	**$ 128,786**	**$ 270,285**	**$ 399,071**

Other Supplemental Information
Combining Statement of Cash Flows
Internal Service Funds
Year Ended December 31, 2014

	Equipment Fund	Self-insurance Fund	Total
Cash Flows from Operating Activities			
Receipts from interfund services and reimbursements	$ 242,597	$ -	$ 242,597
Payments to suppliers	(168,033)	(2,136)	(170,169)
Payments to employees	(74,564)	-	(74,564)
Net Change in Cash and Cash Equivalents			
Net cash used in operating activities	-	(2,136)	(2,136)
Receipt of capital grants	247,360	-	247,360
Purchase of capital assets	(247,360)	-	(247,360)
Net Decrease in Cash and Cash Equivalents	-	(2,136)	(2,136)
Cash and Cash Equivalents - Beginning of year	-	272,421	272,421
Cash and Cash Equivalents - End of year	**$ -**	**$ 270,285**	**$ 270,285**
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	$ 15,554	$ (2,136)	$ 13,418
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	12,380	-	12,380
Changes in assets and liabilities:			
Due from others	(29,668)	-	(29,668)
Accounts payable	1,142	-	1,142
Accrued and other liabilities	592	-	592
Net cash used in operating activities	**$ -**	**$ (2,136)**	**$ (2,136)**

Other Supplemental Information
Combining Statement of Assets and Liabilities
Agency Funds
December 31, 2014

	Agency Funds		
	Tax Collection	District Court	Total Agency Funds
Assets			
Cash and cash equivalents	$ -	$ 95,435	$ 95,435
Due from primary government	662,606	-	662,606
Total assets	**$ 662,606**	**$ 95,435**	**$ 758,041**
Liabilities			
Due to pension trust fund	$ -	$ 74,157	$ 74,157
Refundable deposits, bonds, etc.	-	21,278	21,278
Tax collections distributable	662,606	-	662,606
Total liabilities	**$ 662,606**	**$ 95,435**	**$ 758,041**

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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 the 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, 2014, and related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 City'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 2014-001, 2014-002, and 2014-003 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Finding 2014-004.

City of Harper Woods, Michigan's Response to Findings

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

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

June 25, 2015

Section II - Financial Statement Audit Findings

Reference Number	Finding
2014-001	**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 - Instances of non-GAAP accounting methods were identified during the course of the financial statement audit, including appropriate capitalization of costs and recognition of debt related to the SRF Sewer Bond, revenue, accounts receivable, deferred inflow recognition for state shared revenue, Act 51 monies and property taxes, appropriate reconciliation and clearing of interfund balances, proper recording of investment gains and losses, as well as recognition of expenditures and liabilities when incurred.

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 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 - We recommend that the City finance department personnel review accounting principles applied to significant transaction cycles to ensure that they are in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions - The City has determined that enlisting the assistance of the auditors in identifying certain 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
2014-002	**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, 2014. Reimbursements of expenditures via the Michigan State Revolving Loan Fund (SRF) should be recognized as a liability of the City in the period the reimbursement was received.

Condition - The City did not properly adjust 2013 accounts payable for material items that related to 2013 and were paid in 2014. Additionally, the City recognized a material amount of revenue in 2013 for an anticipated SRF reimbursement that was not received by the City until 2014.

Context - In the Water and Sewer Fund, beginning net position was overstated by $134,174 due to the misstatement in accounts payable and was overstated by $286,400 due to the misstatement in revenue for a total overstatement of net position of $420,574.

Cause - A comprehensive review of disbursements made subsequent to year end and the related journal entries was not performed to identify the items that relate to the previous fiscal year, determine whether relief of accounts payable at the time of disbursement is appropriate. Related to the adjustment for anticipated SRF reimbursement, there was no review of journal entries associated with SRF activity that would identify non-compliance with GAAP.

Effect - Prior to adjustments to the financial records, net position in the Water and Sewer Fund was materially misstated.

Recommendation - A review should be performed of all disbursements subsequent to year end, as well as the related to journal entries, to identify any items that relate to the previous fiscal year and ensure the recording and relief of accounts payable are appropriate. The City should also implement a process of review of all journal entries associated SRF activity to ensure accurate and proper recording of the activity in the financial records.

Views of Responsible Officials and Planned Corrective Actions - The City will perform a comprehensive review of subsequent disbursements to identify any unrecorded liabilities, as well as journal entries associated with such subsequent disbursements and journal entries associated with SRF activity.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-003	**Finding Type -** Material Weakness

Criteria - Bank reconciliations should be prepared timely.

Condition - The December 2014 bank reconciliation was not completed until May 2015, which is not considered timely.

Context - No audit adjustments were identified and cash was reconciled; however, lack of timeliness can create risk of misappropriation of assets to the City that would not be detected timely. Bank reconciliations help safeguard cash by detecting errors on the part of the bank and/or the City. They help create stronger internal control, whereby accountability over cash assets is enhanced. They also help ensure that account balances are accurately reflected in the financial records.

Cause - A lack of appropriate oversight over the bank reconciliation process.

Effect - Cash balances may be misstated due to misappropriation of assets or inaccurate financial reporting, which would not be detected timely.

Recommendation - Bank and cash reconciliations should be performed within 45 days of month end.

Views of Responsible Officials and Planned Corrective Actions - Bank and cash reconciliations will be performed monthly by the City's finance department.

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2014-004	**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 $1,917,203 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 recommnedations 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.

Plante & Moran, PLLC
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June 25, 2015

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, 2014 and have issued our report thereon dated June 25, 2015. 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 25, 2015

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
Partner

Ali Hijazi

Ali Hijazi
Manager

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

June 25, 2015

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 April 20, 2015, 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 control 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.

We have noted the following instance of noncompliance with laws and regulations during the course of our audit. In accordance with Article 9 of the Michigan Constitution, the City did not fully fund the recommended pension contribution as determined by the actuary. This issue of noncompliance has been disclosed within the notes to the financial statements.

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 25, 2015 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 May 7, 2015.

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

June 25, 2015

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 2014, except for the adoption of GASB Statement No. 67, 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 postemployment benefit valuation amount and disclosures and potential property tax refunds. Management's estimate of the pension and OPEB liabilities is based on the annual recommended 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, intergovernmental revenue, 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 our 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 25, 2015.

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 25, 2015

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.

Additionally, the State imposes requirements in order for the City to receive its full state shared revenue. This includes filing of reports, maintaining the performance dashboard and citizens guide, and submitting a deficit elimination plan when required. During the year, the City did not submit a deficit elimination plan which resulted in forfeited state shared revenue of approximately $90,000.

New Pension Standards

Beginning with the City's December 31, 2015 year end, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* significantly revises the employer's accounting and reporting requirements for pensions.

Employers providing defined benefit pensions to their employees will begin to recognize their unfunded pension obligation as a liability for the first time, and must begin to measure the costs of pension benefits as the employees' service is rendered, rather than as the employer funds the benefit. As a result, the City's net pension obligation (currently reported as $6,000,000) will be replaced by a net pension liability of approximately $28,000,000. In addition, we expect that in three years the retiree healthcare liability will also be required to be reported in this same way. A proforma of how this is expected to impact the City's government-wide net position is shown below:

	As Currently Reported	Unfunded Pension	Unfunded Health Care
Net position:			
Net investment in capital assets	$ 17,600,000	$ 17,600,000	$ 17,600,000
Restricted	1,200,000	1,200,000	1,200,000
Unrestricted	(15,200,000)	(37,399,089)	(82,354,113)
Total net position	$ 3,600,000	$ (18,599,089)	$ (63,554,113)

This pro-forma indicates that City will likely have a negative total net position and a significant negative unrestricted net position. This generally means that the City has not funded the total cost of government services provided to date. The fact that the unrestricted portion is negative indicates that legacy costs earned to date have not been funded.

The accounting entries to implement GASB 68 and allocate these costs to the various proprietary funds and governmental functions are complex. We are happy to work with the City and its actuarial firm over the next year to ensure smooth implementation of this new standard. We would also encourage City personnel to view the free webinars available on Plante & Moran, PLLC's website, if you have not already done so.

Revenue Sharing

In 2014, the City received $1.5 million in constitutional revenue sharing and $228,300 in statutory (EVIP) payments. The State of Michigan's 2014-2015 budget eliminated the Economic Vitality Incentive Program (EVIP) and replaced it with what is now called "City, Village, and Township Revenue Sharing" (CVTRS).

This new revenue-sharing model eliminates two of the three EVIP requirements, but it retains the requirement to publish a citizen's guide and performance dashboard, along with some enhancements related to debt service requirements and future budgets. The City has already met these requirements.

Personal Property Tax

In August 2014, Michigan voters put the last piece of personal property tax reform in place. As a result, personal property taxes will be reduced in two respects:

1. Small taxpayers with total personal property within a taxing unit valued at less than $80,000 will be able to sign an affidavit exempting this personal property from taxation. This exemption began with the 2014 tax billings.

2. Personal property used in a manufacturing process that is purchased after December 31, 2012 will be exempt. This exemption will begin in the 2016 tax billings.

The legislation is generally intended to fully reimburse local units of government for revenue losses that result from this exempt property. The changes include creation of a new Local Community Stabilization Authority (LCSA) that will receive money from two sources:

- Use Tax: The legislation includes specific amounts of the use tax that will be diverted from the State's General Fund to the new LCSA; and

- Essential Services Assessment: Manufacturers will pay a "local community essential services assessment" to the LCSA based on the value of their exempt manufacturing property. 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.

The losses described by the bill are to be paid in order of this priority:

a) School debt;
b) Intermediate School District losses;
c) School operations;
d) Government essential services (police, fire, ambulance, and jail);
e) Debt and TIFA forgone increases; and
f) 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 it expects 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 then in existence.

Determining the Amount of Community Loss

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 $80,000 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.

New Rules Governing Management of Federal Programs

The Office of Management and Budget (OMB) has issued significant reforms to the compliance requirements that must be followed by non-federal entities receiving federal funding. All entities receiving federal dollars will need to understand the changes made as a result of these reforms and may be required to make changes to internal procedures, processes, and controls.

These reforms impact three key areas of federal grants management:

1. **Audit Requirements** - For fiscal years beginning on or after January 1, 2015, the threshold for obtaining a federal awards audit will increase from the current threshold of $500,000 of annual federal spending to $750,000. There will also be significant changes to the criteria for qualifying as a low-risk auditee and a reduction in the number of major programs required to be tested for some clients.

   However, from time to time, depending upon the level of federal spending, the City may still be subject to an audit requirement even at the new higher $750,000 threshold.

2. **Cost Principles** - Effective for all federal awards received on or after December 26, 2014, the grant reforms related to cost principles go into effect. Not only were certain changes made to allowable costs under this new guidance, but there were significant changes in the area of time and effort reporting and indirect costs.

3. **Administrative Requirements** - Also effective for all federal awards received on or after December 26, 2014, non-federal entities receiving federal funding must adhere to new rules related to administering federal awards. Most notably, these requirements may impact the City's procurement systems, including maintaining written conflict of interest policies and disclosures.

These revisions are clearly the most significant changes to occur to federal grants management in recent history. Entities receiving federal funding will need to carefully digest these changes. Plante & Moran, PLLC (Plante Moran) has been on the cutting edge of these reforms, offering our clients free webinars, implementation checklists, and other tools to aid in implementation. The City will need to ensure that the implementation of the new regulations occurs in a timely and complete manner. Plante Moran has many experts in this area and welcomes any questions or needs you may have in this area.

<u>New Freedom of Information Act (FOIA) Regulations</u>

The Governor signed PA 563 of 2014 (the “Act”) into effect in January 2015. This new Act is effective beginning July 1, 2015 and will change the regulations on how governmental entities charge for FOIA requests. Under the new law, public bodies will need to establish and make publicly available written procedures and guidelines for FOIA requests. This can be done by providing paper copies or a link on the government’s website. The written procedures and guidelines, which must be provided free of charge upon request, must include certain items, including fee calculations and procedures for submitting written requests and to appeal denials.

The new Act has numerous other very specific requirements and guidelines that will require a significant change in practice. We advise strongly advise you to read the entire Act to ensure understanding with all the related provisions. Written documentation and appropriate tracking mechanisms will need to be put in place to ensure compliance by July 1, 2015.

<u>Retro-Pay Prohibition</u>

Public Act 54 of 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.

PA 301 of 2014 provides for exceptions to the retro-pay prohibition for public safety personnel that are subject to compulsory arbitration of labor disputes under PA 312 of 1969. In addition, these employees would only be required to pay increases in insurance benefits after a collective bargaining agreement expired and before a new agreement is in place that would not exceed the amount of the employee's share under the Publicly Funded Health Insurance Contribution Act.

EVIP-like Requirements Tied to Act 51 Monies (Public Act 301 of 2014)

PA 301 of 2014 became effective October 9, 2014. This Act creates EVIP-like requirements for those who pay employees with Act 51 monies. For the purposes of this Act, "transportation employee" means an employee paid in whole or in part through Act 51 revenues or who is engaged in work funded through Act 51 revenues.

The Act requires local units receiving Act 51 money for the construction or maintenance of roads to comply with **one of the following** conditions by September 30, 2015:

1. Develop and publicize a transportation employee compensation plan that the local agency intends to implement with any new, modified, or extended employment contracts or agreements. This compensation plan must include certain limitations on employer contribution toward retirement plans and health insurance as well as limitations on factors that determine pension benefits.

2. Comply with Public Act 152 of 2011, which requires public employers to place hard caps on the amounts they contribute toward healthcare costs with an option to elect an 80 percent contribution cap rather than a hard cap. These hard caps are adjusted annually for inflation.

3. Certify that the local road agency does not offer medical benefits to its transportation employees or elected public officials.

If a local unit receiving Act 51 money does not certify that it complies with one of the above criteria by September 30 of each year, the Department of Transportation may withhold Act 51 distributions until compliance is established. Act 301 also requires local road agencies to maintain a searchable website (accessible to the public) that includes the current budget, the number of active transportation employees by job classification and wage rate, a financial performance dashboard, the names and contact information of the governing body, and a copy of the annual certification provided to MDOT.

For communities that are already complying with the requirements of Public Act 152 of 2011, we do not expect this new legislation to have a significant impact on operations since it essentially just creates a new reporting requirement; however, please contact your audit team if you would like to talk through the details of the Act and the City's compliance.

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

June 25, 2015

PA 298 of 2012 - Act 51 Performance Audits

Public Act 298 of 2012 allows the Michigan Department of Transportation (MDOT) to conduct performance audits and make investigations of the disposition of all Act 51 state funds received by county road commissions, cities, and villages. The Act states that these audits will be conducted by either an independent CPA or an employee of MDOT; however, recent communications sent to all cities, villages, and road commissions from MDOT indicate that you will need to have your CPA conduct the performance audit.

Based on this communication, the City will need a performance audit for its fiscal year ending December 31, 2016 (the year that begins after October 1, 2015). These procedures will be focused on evaluating the procedures the City puts in place to ensure it complies with the requirements of Public Act 51, and we will issue a separate report for this engagement. We are currently in the process of writing programs to address the key compliance areas. It is not clear to us whether this will be an annual requirement, but we will keep you apprised as additional information is provided by the State.

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.