

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Harper Woods, Michigan	County Wayne
Audit Date December 31, 2003	Opinion Date April 30, 2004	Date Accountant Report Submitted To State: June 25, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State MI	ZIP 48043-7903
Accountant Signature <i>Plante & Moran, PLLC</i>			

City of Harper Woods, Michigan

Financial Report with Supplemental Information December 31, 2003

City of Harper Woods, Michigan

Mayor and City Council

Mayor
Mayor Pro Tem

Kenneth A. Poynter
John M. Szymanski

Council Member
Council Member
Council Member
Council Member
Council Member

Vivian M. Sawicki
Michael P. Monaghan
Cheryl A. Costantino
Hugh Marshall
Daniel S. Palmer

City Administration

City Manager

James E. Leidlein

City Clerk

Mickey D. Todd

City Treasurer

Enid L. Pierson

Finance Director

Laura Stowell

City Auditors

Plante & Moran, PLLC

City of Harper Woods, Michigan

General Comments

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

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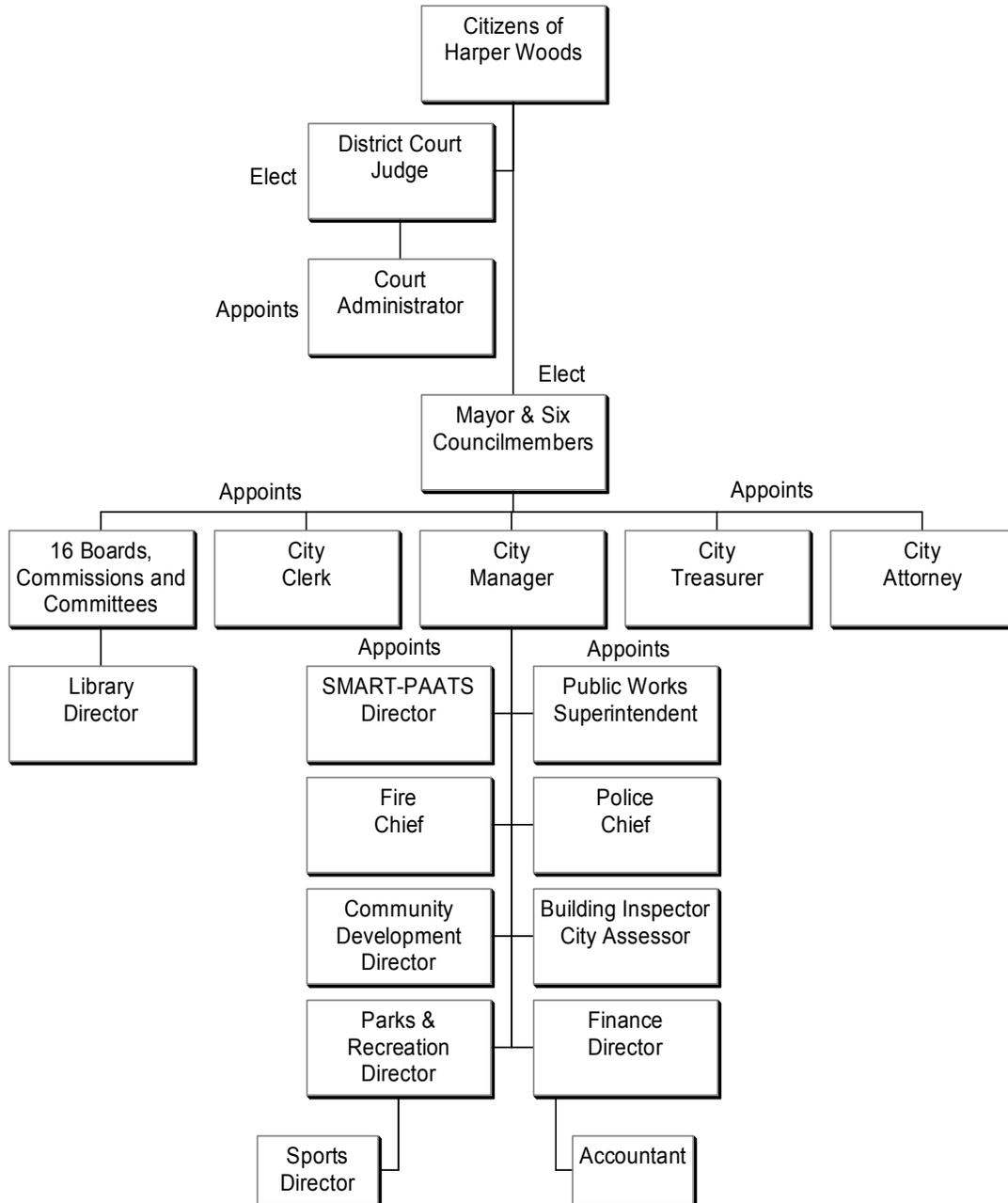
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Introductory Section

City of Harper Woods, Michigan

CITY OF HARPER WOODS ADMINISTRATIVE ORGANIZATION CHART



Financial Section

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Harper Woods, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, each major fund, and the aggregate remaining fund information of the City of Harper Woods, Michigan as of December 31, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and the Employees' Retirement System schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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

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 accompanying other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2003.

Plante & Moran, PLLC

April 30, 2004

City of Harper Woods, Michigan

Management's Discussion and Analysis

This section of the annual financial report for the City of Harper Woods, Michigan is our discussion and analysis of the City's performance for the fiscal year ended December 31, 2003. Please read it in conjunction with City's financial statements which follow.

Using this Annual Report

This annual report includes a series of financial statements. There are two kinds of statements that follow that present different views of the City. The statement of net assets 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 and 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 is 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 assets as of December 31, 2003 compared to the prior year (in thousands of dollars):

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current assets	\$ 24,822	\$ 25,943	\$ 308	\$ 769	\$ 25,130	\$ 26,712
Noncurrent assets -						
Capital assets	<u>23,968</u>	<u>23,902</u>	<u>3,515</u>	<u>3,644</u>	<u>27,483</u>	<u>27,546</u>
Total assets	48,790	49,845	3,823	4,413	52,613	54,258
Liabilities						
Current liabilities	11,057	11,157	315	426	11,372	11,583
Long-term liabilities	<u>17,184</u>	<u>18,294</u>	-	-	<u>17,184</u>	<u>18,294</u>
Total liabilities	<u>28,241</u>	<u>29,451</u>	<u>315</u>	<u>426</u>	<u>28,556</u>	<u>29,877</u>
Net Assets						
Invested in capital assets -						
Net of related debt	8,485	7,250	3,515	3,644	12,000	10,894
Restricted	5,935	6,289	-	-	5,935	6,289
Unrestricted net assets (deficit)	<u>6,129</u>	<u>6,855</u>	<u>(7)</u>	<u>343</u>	<u>6,122</u>	<u>7,198</u>
Total net assets	<u>\$ 20,549</u>	<u>\$ 20,394</u>	<u>\$ 3,508</u>	<u>\$ 3,987</u>	<u>\$ 24,057</u>	<u>\$ 24,381</u>

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

The City's combined net assets decreased 1.3 percent from a year ago - from \$24,380,000 to \$24,057,000. The governmental activities increased by a small margin, 0.8 percent. The business-type activities net assets decreased by 12 percent as a result of the operating loss incurred in the Water and Sewer Fund.

The following table shows the change in net assets for the year ended December 31, 2003 (in thousands of dollars):

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 1,836	\$ 2,528	\$ 4,364
Operating grants and contributions	1,050	-	1,050
General revenue:			
Property taxes	9,738	-	9,738
State-shared revenues	1,712	-	1,712
Interest	165	19	184
Franchise fees	139	-	139
Miscellaneous	173	-	173
Total revenue	14,813	2,547	17,360
Program Expenses			
General government	3,376	-	3,376
Public safety	5,972	-	5,972
Public works	3,765	-	3,765
Recreation and culture	1,017	-	1,017
Interest on long-term debt	528	-	528
Water and sewer	-	3,026	3,026
Total program expenses	14,658	3,026	17,684
Net Change in Net Assets	155	(479)	(324)
Net Assets - Beginning of year	20,394	3,987	24,381
Net Assets - End of year	<u>\$ 20,549</u>	<u>\$ 3,508</u>	<u>\$ 24,057</u>

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Total revenues for the City's governmental activities were \$14,813,000 for 2003. The City experienced an approximate 33 percent decrease in State-shared revenues and declining interest income for the year.

Expenses for the City's governmental activities totaled \$14,658,000 for 2003. Total expenses decreased by approximately 9 percent with general government activities showing the largest decrease. The other activities which provide direct City services (e.g., public safety, public works, etc.) are showing small decreases or have increased over the last year.

The following represents the most significant financial highlights for the year ended December 31, 2003:

The City's diligence to curb spending was able to offset the large reduction in revenue, mainly caused by State-shared revenue cuts. The City did not make reductions in City service areas, but instead maintained or increased spending in the service areas. Capital outlays were reduced. There were several long-term employees who left or retired whose payouts resulted in higher wages reported than expected.

Interest income continued to decline as a result of reductions in market interest rates. The City continues to look at its investing policy to find the best opportunities for good rates of return.

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 not positive, as the City of Detroit's Water and Sewer Department increased our rates. We did not increase our water and sewer rates until January 2004; therefore, there was not an offset to the City of Detroit's increases.

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, Refuse Fund, Municipal Improvements Fund, General Obligation Bonds Fund, Storm Drain Fund, and the Water and Sewer Fund.

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$6,100,000 in 2003. The General Fund is supported primarily by property taxes and state shared revenue.

The Refuse Fund maintains the City's recycling and refuse pick-up services, and is supported primarily by property taxes and secondly by charges for special services. 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 General Obligation Bonds Fund records activity for the street bonds. The Municipal Improvements Fund is held for special improvements and was funded by cable proceeds when the City sold its interest in Grosse Pointe Cable several years ago. It is the policy of the City that the principal of the Municipal Improvements Fund be held for major capital improvements only. The interest earnings have been utilized for major equipment outlays.

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 budget amendments made during 2003. Significant revenue budget variances were due to planned federal grants not being received during the year, and declining State-shared revenue payments and interest rates on invested cash. Significant expenditure variances were due to higher than expected health care expenditures.

Capital Asset and Debt Administration

At the end of fiscal year 2003, the City had \$27.5 million invested in capital assets (land, buildings, equipment, vehicles, and water, sewer, and storm lines). In addition, for the first time, the City is reporting governmental infrastructure assets, which include roads and sidewalks, as well as assets previously reported in the General Fixed Assets Account Group, as assets, net of depreciation, on the statement of net assets.

Debt reported in these financial statements is related to the three general obligation street bonds issued in 1995, 1999, and 2001, the Milk River-County Drain Bonds, and smaller debt issues related to the police radio system purchase. The street bonds have a maturity in 2014, the Milk River various bonds have final maturity in 2012, and radio system debt matures in 2006.

Economic Factors and Next Year's Budgets and Rates

The City will continue to face challenges with the cuts in State-shared revenue, the impact of Proposal A, and the reduction in interest revenues we experienced in the past. The City will need to watch the budget closely and consider amendments as necessary.

City of Harper Woods, Michigan

Management's Discussion and Analysis (Continued)

On the expense side of the equation, medical insurance continues to be a rising cost and a rising concern. The City has researched alternative plans and will propose a new plan to employees during union negotiations. Water rates will be increased in 2004, but because of the rates imposed by the City of Detroit, we will need to monitor the budget in the Water and Sewer Fund closely, and again, 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 Assets December 31, 2003

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 3)	\$ 15,575,439	\$ 1,499,468	\$ 17,074,907
Receivables:			
Taxes	5,369,083	-	5,369,083
Customers	-	727,902	727,902
Interest and other	111,783	-	111,783
Service fee	899,151	-	899,151
Other governmental units	623,317	-	623,317
Internal balances (Note 5)	1,923,025	(1,923,025)	-
Inventories and prepaid expenses	181,642	3,229	184,871
Investment in joint venture (Note 9)	137,260	-	137,260
Capital assets (Note 4):			
Assets not being depreciated	760,575	-	760,575
Assets being depreciated - Net	<u>23,207,745</u>	<u>3,515,168</u>	<u>26,722,913</u>
Total assets	<u>48,789,020</u>	<u>3,822,742</u>	<u>52,611,762</u>
Liabilities			
Accounts payable	252,627	248,680	501,307
Accrued and other liabilities	535,878	65,497	601,375
Rehabilitation escrow	287,092	-	287,092
Deferred revenue	9,981,186	-	9,981,186
Noncurrent liabilities (Note 6):			
Due within one year	1,453,101	-	1,453,101
Due in more than one year	<u>15,730,480</u>	<u>-</u>	<u>15,730,480</u>
Total liabilities	<u>28,240,364</u>	<u>314,177</u>	<u>28,554,541</u>
Net Assets			
Invested in capital assets - Net of related debt	8,485,285	3,515,168	12,000,453
Restricted:			
Streets and highways	1,377,713	-	1,377,713
Debt service	2,359,524	-	2,359,524
Refuse	1,675,188	-	1,675,188
Drug enforcement	112,938	-	112,938
Library	408,715	-	408,715
Unrestricted net assets (deficit)	<u>6,129,293</u>	<u>(6,603)</u>	<u>6,122,690</u>
Total net assets	<u>\$ 20,548,656</u>	<u>\$ 3,508,565</u>	<u>\$ 24,057,221</u>

City of Harper Woods, Michigan

Functions/Programs	Program Revenues			Expenses
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:				
General government	\$ 3,375,900	\$ 1,193,849	\$ 102,846	\$ -
Public safety	5,972,589	335,623	84,509	-
Public works	3,764,843	194,360	851,305	-
Recreation and culture	1,017,162	111,718	11,832	-
Interest on long-term debt	528,706	-	-	-
Total governmental activities	14,659,200	1,835,550	1,050,492	-
Business-type activities - Water and sewer	3,025,884	2,527,580	-	-
Total	\$ 17,685,084	\$ 4,363,130	\$ 1,050,492	\$ -

General revenues:

Property taxes
 State-shared revenues
 Interest
 Cable franchise fees
 Miscellaneous

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

City of Harper Woods, Michigan

Statement of Activities Year Ended December 31, 2003

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (2,079,205)	\$ -	\$ (2,079,205)
(5,552,457)	-	(5,552,457)
(2,719,178)	-	(2,719,178)
(893,612)	-	(893,612)
(528,706)	-	(528,706)
(11,773,158)	-	(11,773,158)
-	(498,304)	(498,304)
(11,773,158)	(498,304)	(12,271,462)
9,738,294	-	9,738,294
1,712,327	-	1,712,327
165,178	19,789	184,967
139,179	-	139,179
173,217	-	173,217
11,928,195	19,789	11,947,984
155,037	(478,515)	(323,478)
20,393,619	3,987,080	24,380,699
<u>\$ 20,548,656</u>	<u>\$ 3,508,565</u>	<u>\$ 24,057,221</u>

City of Harper Woods, Michigan

	Major Funds		
	Special Revenue Funds		
	General Fund	Refuse Fund	Municipal Improvements Fund
Assets			
Cash and investments (Note 3)	\$ 2,835,617	\$ 2,777,961	\$ 3,095,373
Receivables:			
Taxes	4,091,341	474,538	-
Interest and other	41,713	1,318	11,679
Service fee	-	-	-
Other governmental units	437,206	-	-
Inventories and prepaid expenses	174,799	-	-
Due from other funds (Note 5)	4,434,616	1,215	270
	<u>4,434,616</u>	<u>1,215</u>	<u>270</u>
Total assets	<u>\$ 12,015,292</u>	<u>\$ 3,255,032</u>	<u>\$ 3,107,322</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 133,846	\$ 44,454	\$ -
Accrued and other liabilities	375,911	15,057	-
Due to other funds	2,630,988	769,960	74,380
Rehabilitation escrow	-	-	-
Deferred revenue	6,550,408	750,373	-
	<u>6,550,408</u>	<u>750,373</u>	<u>-</u>
Total liabilities	9,691,153	1,579,844	74,380
Fund Balances			
Reserved:			
Inventories and prepaid expenses	174,799	-	-
Drug law enforcement	-	-	-
Unreserved:			
Designated (Note 12)	331,000	191,000	3,032,942
Undesignated	1,818,340	1,484,188	-
Unreserved - Reported in Nonmajor			
Special Revenue Funds:			
Designated (Note 12)	-	-	-
Undesignated	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	2,324,139	1,675,188	3,032,942
	<u>2,324,139</u>	<u>1,675,188</u>	<u>3,032,942</u>
Total liabilities and fund balances	<u>\$ 12,015,292</u>	<u>\$ 3,255,032</u>	<u>\$ 3,107,322</u>

**Governmental Funds
Balance Sheet
December 31, 2003**

Debt Service Funds			
General			
Obligation		Other Nonmajor	Total
Bonds	Storm Drain	Governmental	Governmental
Fund	Fund	Funds	Funds
\$ 2,165,794	\$ 3,089,629	\$ 1,599,183	\$ 15,563,557
585,147	-	218,057	5,369,083
3,674	-	53,399	111,783
-	899,151	-	899,151
-	-	186,111	623,317
-	-	6,843	181,642
-	-	3,929,278	8,365,379
<u>\$ 2,754,615</u>	<u>\$ 3,988,780</u>	<u>\$ 5,992,871</u>	<u>\$ 31,113,912</u>
\$ -	\$ -	\$ 68,522	\$ 246,822
10,549	-	31,270	432,787
1,578,368	469,023	2,172,147	7,694,866
-	-	287,092	287,092
937,973	1,387,958	354,474	9,981,186
2,526,890	1,856,981	2,913,505	18,642,753
-	-	6,843	181,642
-	-	112,938	112,938
-	125,000	-	3,679,942
227,725	2,006,799	-	5,537,052
-	-	1,796,755	1,796,755
-	-	1,162,830	1,162,830
227,725	2,131,799	3,079,366	12,471,159
<u>\$ 2,754,615</u>	<u>\$ 3,988,780</u>	<u>\$ 5,992,871</u>	<u>\$ 31,113,912</u>

City of Harper Woods, Michigan

Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets Year Ended December 31, 2003

Fund Balance - Total Governmental Funds	\$ 12,471,159
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds	23,486,189
Investments in joint ventures are not reported in the funds	137,260
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(15,483,035)
Accrued interest payable	(96,723)
Compensated absences	(1,700,546)
Internal Service Funds are included as part of governmental activities	<u>1,734,352</u>
Net Assets - Governmental Activities	<u><u>\$ 20,548,656</u></u>

City of Harper Woods, Michigan

	Major Funds		
	Special Revenue Funds		
	General Fund	Refuse Fund	Municipal Improvements Fund
Revenue			
Property taxes	\$ 6,254,651	\$ 701,782	\$ -
Federal sources	913	-	-
State sources	1,752,365	-	-
Charges for services	1,570,867	92,200	-
Interest	39,397	35,077	41,055
Service fees	-	-	-
Licenses and permits	122,701	-	-
Miscellaneous revenue	298,619	-	-
Total revenue	10,039,513	829,059	41,055
Expenditures			
Current:			
General government	3,154,208	3,600	-
Public safety	6,146,402	-	-
Public works	554,304	850,847	-
Recreation and culture	617,861	-	-
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	10,472,775	854,447	-
Excess of Revenue Over (Under) Expenditures	(433,262)	(25,388)	41,055
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net Change in Fund Balances	(433,262)	(25,388)	41,055
Fund Balances - Beginning of year	2,757,401	1,700,576	2,991,887
Fund Balances - End of year	<u>\$ 2,324,139</u>	<u>\$ 1,675,188</u>	<u>\$ 3,032,942</u>

**Governmental Funds
Statement of Revenue, Expenditures, and
Changes in Fund Balances
Year Ended December 31, 2003**

Debt Service Funds			
General Obligation Bonds Fund	Storm Drain Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 882,744	\$ -	\$ 335,048	\$ 8,174,225
-	-	119,760	120,673
-	-	764,772	2,517,137
-	-	-	1,663,067
17,901	26,181	5,481	165,092
-	1,564,069	-	1,564,069
-	-	-	122,701
-	-	99,815	398,434
<u>900,645</u>	<u>1,590,250</u>	<u>1,324,876</u>	<u>14,725,398</u>
-	-	101,168	3,258,976
-	-	759	6,147,161
-	617,327	1,329,767	3,352,245
-	-	379,903	997,764
400,000	551,189	-	951,189
<u>449,735</u>	<u>168,517</u>	<u>-</u>	<u>618,252</u>
<u>849,735</u>	<u>1,337,033</u>	<u>1,811,597</u>	<u>15,325,587</u>
50,910	253,217	(486,721)	(600,189)
-	-	75,000	75,000
-	-	(75,000)	(75,000)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
50,910	253,217	(486,721)	(600,189)
<u>176,815</u>	<u>1,878,582</u>	<u>3,566,087</u>	<u>13,071,348</u>
<u>\$ 227,725</u>	<u>\$ 2,131,799</u>	<u>\$ 3,079,366</u>	<u>\$ 12,471,159</u>

City of Harper Woods, Michigan

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, 2003

Net Change in Fund Balances of Governmental Funds \$ (600,189)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay expenditures	986,995
Depreciation expense	(1,165,540)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities	1,034,195
---	-----------

Interest expense is recorded when incurred in the statement of activities	6,540
---	-------

Increase in the investment in joint ventures is not recorded in the funds	88,753
---	--------

Compensated absence liabilities are recorded when earned in the statement of activities	75,931
---	--------

Internal Service Funds are included as part of governmental activities	<u>(271,648)</u>
--	------------------

Change in Net Assets of Governmental Activities \$ 155,037

City of Harper Woods, Michigan

Proprietary Funds Statement of Net Assets December 31, 2003

	Business-type Activities	Governmental Activities
	Enterprise - Water and Sewer	Internal Service Funds
Assets		
Current assets:		
Cash and investments (Note 3)	\$ 1,499,468	\$ 11,882
Customers receivables	727,902	-
Due from other funds (Note 5)	97,280	2,248,819
Inventories	3,229	-
	<u>2,327,879</u>	<u>2,260,701</u>
Total current assets		
Noncurrent assets - Capital assets being depreciated - Net (Note 4)	<u>3,515,168</u>	<u>482,130</u>
Total assets	5,843,047	2,742,831
Current Liabilities		
Accounts payable	248,680	5,805
Accrued and other liabilities	65,497	6,367
Due to other funds	<u>2,020,305</u>	<u>996,307</u>
Total current liabilities	<u>2,334,482</u>	<u>1,008,479</u>
Net Assets		
Investment in capital assets - Net of related debt	3,515,168	482,130
Unrestricted net assets (deficit)	<u>(6,603)</u>	<u>1,252,222</u>
Total net assets	<u>\$ 3,508,565</u>	<u>\$ 1,734,352</u>

City of Harper Woods, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2003

	Business-type Activities	Governmental Activities
	Water and Sewer Funds	Internal Service Funds
Operating Revenue		
Customer billings	\$ 2,482,078	\$ -
Billings to other funds	-	180,463
Other revenue	45,502	-
Total operating revenue	2,527,580	180,463
Operating Expenses		
Cost of materials	-	64,183
Water supply and sewage disposal	2,219,968	-
Maintenance and operation	435,272	192,068
General and administrative expenses	241,440	58,100
Depreciation	129,204	137,847
Total operating expenses	3,025,884	452,198
Operating Loss	(498,304)	(271,735)
Nonoperating Revenue - Interest income	19,789	87
Change in Net Assets	(478,515)	(271,648)
Net Assets - Beginning of year	3,987,080	2,006,000
Net Assets - End of year	\$ 3,508,565	\$ 1,734,352

City of Harper Woods, Michigan

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2003

	Business-type Activities	Governmental Activities
	Water and Sewer Fund	Internal Service Funds
Cash Flows from Operating Activities		
Receipts from customers and other funds	\$ 2,429,438	\$ 988,455
Payments to suppliers, employees, and other funds	(3,199,283)	(606,130)
Other receipts	45,502	-
Net cash provided by (used in) operating activities	(724,343)	382,325
Cash Flows from Capital and Related Financing Activities -		
Purchase of capital assets	-	(382,325)
Cash Flows from Investing Activities - Interest received on		
investments	19,789	87
Net Increase (Decrease) in Cash and Cash Equivalents	(704,554)	87
Cash and Cash Equivalents - Beginning of year	2,204,022	11,795
Cash and Cash Equivalents - End of year	\$ 1,499,468	\$ 11,882
Reconciliation of Operating Loss to Net Cash from		
Operating Activities		
Operating loss	\$ (498,304)	\$ (271,735)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	129,204	137,847
Changes in assets and liabilities:		
Receivables	(52,640)	-
Due from other funds	212,688	807,994
Inventories	2,981	-
Accounts payable	(78,580)	(3,759)
Due to other funds	(406,166)	(288,549)
Accrued and other liabilities	(33,526)	527
Net cash provided by (used in) operating activities	\$ (724,343)	\$ 382,325

City of Harper Woods, Michigan

Fiduciary Funds Statement of Net Assets December 31, 2003

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System	Agency Funds
Assets		
Cash	\$ 103	\$ 58,294
Investments:		-
Mutual funds	4,480,880	-
U.S. government securities	4,427,284	-
Corporate bonds	8,426,476	-
Common stocks	20,228,890	-
Accrued interest and dividends receivable	192,454	-
	37,756,087	\$ 58,294
Liabilities		
Accounts payable	46,432	-
Tax collections distributable	-	15,737
Bond deposits	-	24,696
Due to other governmental units	158,054	17,861
	204,486	\$ 58,294
Net Assets - Held in trust for pension benefits	\$ 37,551,601	

City of Harper Woods, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended December 31, 2003

	Pension and Other Employee Benefit Trust Fund - Employees' Retirement System
Additions	
Investment income:	
Interest and dividends	\$ 1,185,121
Net appreciation in fair value of investments	5,027,828
Less investment expenses	<u>(220,647)</u>
Net investment income	5,992,302
Employee contributions	<u>384,788</u>
Total additions	6,377,090
Deductions	
Benefit payments	1,654,882
Refunds to employees	2,216
General and administrative expenses	<u>7,426</u>
Total deductions	<u>1,664,524</u>
Net Increase in Net Assets	4,712,566
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>32,839,035</u>
End of year	<u><u>\$ 37,551,601</u></u>

Note I - 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 is governed by an elected seven-member council. As required by generally accepted accounting principles, these general purpose financial statements present the City of Harper Woods, Michigan and its component units. The individual component units discussed below are included in the City’s reporting entity because of the significance of their operational or financial relationships with the City.

The District Court, although legally separate from the City, is included as an Agency Fund since the City has a fiduciary responsibility for funds received at the District Court. The City has also established a Brownfield Redevelopment Authority; however, there was no financial activity during the year.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function (governmental activities) or identifiable activity (business-type activities) is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note I - Summary of Significant Accounting Policies (Continued)

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.

The City reports the following major funds:

Governmental Funds

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Refuse Fund accounts for the City's solid waste disposal and recycling activities. Financing is provided through a tax levy and charges to customers.
- The Municipal Improvements Fund accounts for resources that have been earmarked for future capital projects within the City.
- The General Obligation Bonds Fund accounts for the annual payment of principal and interest on outstanding unlimited tax general obligation bond issues. Financing is provided through a tax levy.
- 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.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major Enterprise Fund:

The Water and Sewer Fund accounts for the results of operations that provide water and sewer services to citizens and is financed by a user charge for the provision of those services.

Additionally, the City reports the following fund types:

- Internal Service Funds are used to account for the financing of services by one department to other departments of the City primarily on a cost-reimbursement basis.
- The Pension and Other Employee Benefit Trust Fund accounts for the activities of the Employees' Retirement System that accumulates resources for pension payments to qualified employees.
- The Agency Funds account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, or other governments.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include property taxes, intergovernmental sources, and interest. All other revenue items are considered available only when the cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's on-going operations. Operating expenses include the cost of providing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Fund.

Assets, Liabilities, and Net Assets or Equity

Cash 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.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Properties are assessed as of December 31 and the related taxes become a lien at that time. The taxes are billed on December 1 of the following year. These taxes are due on February 14 with a final collection date of February 28 before they are added to the county tax rolls.

The 2002 taxable valuation of the City totaled \$362,490,000, on which ad valorem taxes levied consisted of 17.68 mills for the City's operating purposes, 2.50 mills for debt service, 0.95 mills for the library, and 2.00 mills for rubbish removal. The ad valorem taxes raised \$6,550,000 for general operations, \$938,000 for debt service, \$353,000 for the library, and \$750,000 for rubbish removal. These amounts are recorded in their respective funds as tax revenue.

Deferred Revenue - Property taxes billed during the month of December 2003 will be used to finance 2004 operations. As such, these taxes are recorded as deferred revenue in the respective funds at December 31, 2003.

Note I - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Items - Inventories in the governmental funds are recorded at cost; fund balance has been reserved in an equal amount. Certain payments, such as insurance premiums, reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, buildings, equipment, 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.

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

Infrastructure:

Roads	25 years
Sidewalks	20 years
Storm drains	40 years
Land improvements	15-20 years
Buildings and improvements	25-50 years
Vehicles	5-15 years
Office furnishings	10-20 years
Machinery and equipment	5-20 years
Water and sewer system	50 years

Compensated Absences - 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 comes due for payment, generally when time is taken off or employees terminate.

Note I - Summary of Significant Accounting Policies (Continued)

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 assets. Bond premiums and discounts, as well as issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting and Reporting Change

Effective January 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City has applied the provisions of this statement in the accompanying financial statements, including notes to financial statements. The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statements include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been presented.
- Government-wide financial statements prepared using a full accrual accounting for all of the City's activities have been provided.
- Fund financial statements now focus on major funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets not previously accounted for by the City as well as assets totaling \$4,882,000 that would have previously been recorded in the General Fixed Assets Account Group.
- Noncurrent liabilities in the governmental activities column includes bonds and other long-term obligations totaling \$18,294,00 previously reported in the General Long-term Debt Account Group.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are also approved by the City Council. Unexpended appropriations lapse at year-end and encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2003 has not been calculated. During the current year, the budget was not amended for any fund.

The budget has been prepared in accordance with generally accepted accounting principles. 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 is 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 the major Special Revenue Funds is presented as required supplemental information following the notes to the financial statements.

Excess of Expenditures Over Appropriations in Budgeted Funds

General Government - Other expenditures in the General Fund were approximately \$126,000 higher than the appropriation as a result of actual health care expenditures being higher than the amount anticipated. There were no other significant budget variances.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 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 City is also 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 485 of 1996 to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

At December 31, 2003, the City's cash and investments are classified by GASB Statement No. 3 in the following categories:

	Primary Government	Fiduciary Funds
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 7,413,462	\$ 58,397
Investments in securities, mutual funds, and similar vehicles	9,659,015	37,563,530
Petty cash or cash on hand	2,430	-
Total	<u>\$ 17,074,907</u>	<u>\$ 37,621,927</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not cleared or of deposits in transit) at \$8,037,000 for the primary government and \$67,000 for the fiduciary funds. All deposits are held in the name of the City of Harper Woods and approximately \$5,000,000 of the deposits was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

City of Harper Woods

Notes to Financial Statements December 31, 2003

Note 3 - Deposits and Investments (Continued)

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The City's investments are categorized below to give an indication of the level of risk assumed by the City at December 31, 2003.

Risk Category 1 - Insured or registered, or securities held by the City or its agent in the City's name;

Risk Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Risk Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At December 31, 2003, the City's investment balances were categorized as follows:

	Category			Not Categorized	Reported Amount (Fair Value)
	1	2	3		
Primary government:					
U.S. government agency securities	\$ 900,000	\$ -	\$ -	\$ -	\$ 900,000
Investments not subject to categorization:					
Bank investment pool funds	-	-	-	7,717,275	7,717,275
Interlocal agreement investment pools	-	-	-	13,336	13,336
Mutual funds	-	-	-	1,028,404	1,028,404
Total primary government	<u>\$ 900,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,759,015</u>	<u>\$ 9,659,015</u>
Fiduciary funds:					
Corporate bonds	\$ -	\$ 8,426,476	\$ -	\$ -	\$ 8,426,476
U.S. government and agency securities	-	4,427,284	-	-	4,427,284
Corporate stock	-	20,228,890	-	-	20,228,890
Investments not subject to categorization - Mutual funds	-	-	-	4,480,880	4,480,880
Total fiduciary funds	<u>\$ -</u>	<u>\$ 33,082,650</u>	<u>\$ -</u>	<u>\$ 4,480,880</u>	<u>\$ 37,563,530</u>

Note 3 - Deposits and Investments (Continued)

Investments not subject to categorization are not evidenced by securities that exist in physical or book entry form. The bank investment pools and mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. Investments under the interlocal agreement are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares. Management believes that the investments in the funds comply with the City's investment policy and State law.

Note 4 - Capital Assets

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

	Balance January 1, 2003	Additions	Disposals and Adjustments	Balance December 31, 2003
Governmental Activities				
Capital assets not being depreciated - Land	\$ 760,575	\$ -	\$ -	\$ 760,575
Capital assets being depreciated:				
Infrastructure:				
Roads	13,789,563	686,996	-	14,476,559
Sidewalks	1,119,044	-	-	1,119,044
Storm drains	10,890,938	-	-	10,890,938
Land improvements	16,502	-	-	16,502
Buildings and improvements	1,096,526	-	-	1,096,526
Vehicles	2,263,198	571,815	-	2,835,013
Office furnishings	28,486	2,990	-	31,476
Machinery and equipment	2,102,378	107,519	-	2,209,897
Subtotal	31,306,635	1,369,320	-	32,675,955
Accumulated depreciation:				
Infrastructure:				
Roads	1,920,460	565,322	-	2,485,782
Sidewalks	507,530	55,952	-	563,482
Storm drains	2,931,557	272,273	-	3,203,830
Land improvements	4,030	908	-	4,938
Buildings and improvements	602,015	21,844	-	623,859
Vehicles	1,502,317	263,745	-	1,766,062
Office furnishings	5,132	1,568	-	6,700
Machinery and equipment	691,782	121,775	-	813,557
Subtotal	8,164,823	1,303,387	-	9,468,210
Net capital assets being depreciated	23,141,812	65,933	-	23,207,745
Net capital assets	\$ 23,902,387	\$ 65,933	\$ -	\$ 23,968,320

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance January 1, 2003	Additions	Disposals and Adjustments	Balance December 31, 2003
Capital assets being depreciated:				
Water system	\$ 5,110,535	\$ -	\$ -	\$ 5,110,535
Sewer system	1,240,998	-	-	1,240,998
Machinery and equipment	<u>62,132</u>	<u>-</u>	<u>-</u>	<u>62,132</u>
Subtotal	6,413,665	-	-	6,413,665
Accumulated depreciation:				
Water system	1,800,551	107,904	-	1,908,455
Sewer system	906,610	21,300	-	927,910
Machinery and equipment	<u>62,132</u>	<u>-</u>	<u>-</u>	<u>62,132</u>
Subtotal	<u>2,769,293</u>	<u>129,204</u>	<u>-</u>	<u>2,898,497</u>
Net capital assets being depreciated	<u>\$ 3,644,372</u>	<u>\$ (129,204)</u>	<u>\$ -</u>	<u>\$ 3,515,168</u>

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

Governmental activities:	
General government	\$ 23,961
Public safety	175,035
Public works	1,035,116
Recreation and culture	<u>69,275</u>
Total governmental activities	<u>\$ 1,303,387</u>
Business-type activity - Water and Sewer	<u>\$ 129,204</u>

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2003

Note 5 - Interfund Receivables, Payables, and Transfers

Below are the interfund receivables of the City at December 31, 2003:

Receivable Fund	Payable Fund	Amount
General Fund	Refuse Fund	\$ 672,131
	Storm Drain Fund	97,034
	Water and Sewer Fund	1,490,729
	Nonmajor governmental funds	1,178,415
	Internal Service Funds	996,307
Total General Fund		4,434,616
Refuse Fund	Municipal Improvements Fund	858
	Nonmajor governmental funds	357
Total Refuse Fund		1,215
Municipal Improvements Fund	General Obligations Bonds Fund	270
Nonmajor Governmental Funds	General Fund	1,205,988
	General Obligations Bonds Fund	1,578,098
	Storm Drain Fund	274,709
	Water and Sewer Fund	137,057
	Nonmajor governmental funds	733,426
Total nonmajor governmental funds		3,929,278
Internal Service Funds	General Fund	1,425,000
	Refuse Fund	97,829
	Municipal Improvements Fund	73,522
	Water and Sewer Fund	392,519
	Nonmajor governmental funds	259,949
Total Internal Service Funds		2,248,819
Water and Sewer Fund	Storm Drain Fund	97,280
Total interfund receivables		<u>\$ 10,711,478</u>

Interfund 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 during the year ended December 31, 2003 consisted of a transfer of \$75,000 from the Major Streets nonmajor governmental fund to the Local Streets nonmajor governmental fund.

Note 6 - Long-term Debt

Long-term obligation activity is summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Governmental Activities						
Unlimited Tax General Obligation Bonds:						
1995 General Obligation Road Bonds:						
Amount of issue - \$5,000,000	4.00% -	\$300,000 -				
Maturing through 2011	5.40%	\$500,000	\$ 3,625,000	\$ (300,000)	\$ 3,325,000	\$ 350,000
1999 General Obligation Road Bonds:						
Amount of issue - \$5,000,000	4.125% -	\$50,000 -				
Maturing through 2014	5.00%	\$1,000,000	4,850,000	(50,000)	4,800,000	100,000
2001 General Obligation Road Bonds:						
Amount of issue - \$1,500,000	4.00% -	\$50,000 -				
Maturing through 2014	5.00%	\$250,000	1,450,000	(50,000)	1,400,000	50,000
Total General Obligation Bonds			9,925,000	(400,000)	9,525,000	500,000
County Drain Obligations - Milk River Drain						
	2.00% -	\$565,232 -				
	4.65%	\$688,108	6,229,872	(551,189)	5,678,683	565,232
Intallment purchase obligations:						
Amount of issues - \$440,770	5.83% -					
Maturing through 2006	5.91%		362,358	(83,006)	279,352	87,869
Accumulated employee benefits			1,776,478	(75,932)	1,700,546	300,000
Total governmental activities			\$ 18,293,708	\$ (1,110,127)	\$ 17,183,581	\$ 1,453,101

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 bonds issues with an original face value of approximately \$31,750,000 and an outstanding balance of approximately \$18,225,000 at December 31, 2003.

Note 6 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the governmental bond and installment purchase obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2004	\$ 1,153,101	\$ 592,957	\$ 1,746,058
2005	1,224,047	546,262	1,770,309
2006	1,295,295	499,712	1,795,007
2007	1,314,382	446,947	1,761,329
2008	1,433,692	392,884	1,826,576
2009-2013	7,812,518	1,049,040	8,861,558
2014-2018	1,250,000	26,249	1,276,249
Total	<u>\$ 15,483,035</u>	<u>\$ 3,554,051</u>	<u>\$ 19,037,086</u>

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 general liability and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

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

Note 7 - Risk Management (Continued)

The City is also exposed to risk of loss as a result of flood damage to resident properties caused by sewage overflows. Previously, 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 now could be liable for flood damages due to sewage overflows. Public Act 222 of 2001 has tempered this court ruling by requiring affected customers to prove that an action by the City was more than 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, 2003 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 - Retirement System

Plan Description

The City of Harper Woods Employees’ Retirement System (the “System”) is the administrator of a single-employer defined benefit pension plan (the “Plan”) that covers all full-time employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2002, the date of the most recent actuarial valuation, membership consisted of 83 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 102 current active employees. The Plan does not issue a separate financial report.

Contributions

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

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

Note 8 - Retirement System (Continued)

Annual Pension Cost

For the year ended December 31, 2003, the City was not required to contribute to the Plan. The annual required contribution is determined as part of an actuarial valuation at December 31, 2002, using the entry age cost method. Significant actuarial assumptions used include (a) a 7.5 percent investment rate of return, (b) projected salary increases of 5.5 percent to 9.3 percent per year, and (c) no cost of living adjustments. Both (a) and (b) include an inflation component of 5.5 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 10 years.

Reserves

As of December 31, 2003, the Plan's required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 7,233,248
Reserve for retired benefit payments	15,239,327

Three-year Trend Information

	Year Ended December 31		
	2003	2002	2001
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	\$ -	\$ -	\$ -

Note 9 - Joint Venture

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

Note 9 - Joint Venture (Continued)

The City's interest in the net assets of the Authority totaled \$137,260 at December 31, 2003 and is reported as part of the governmental activities in the statement of net assets. The Authority is expected to sell real estate assets and settle an overfunded pension plan 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 their administrative offices at 27941 Harper Avenue, Suite 106, St. Clair Shores, MI 48081.

Note 10 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 81 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$731,000.

Note 11 - Construction Code Fees

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

Cumulative shortfall - January 1, 2003		\$ (159,361)
2003 construction code revenue		114,871
2003 construction code expenditures:		
Direct costs	\$ 135,991	
Estimated indirect costs	<u>13,599</u>	
Total construction code expenditures		<u>149,590</u>
Excess of expenditures over revenue		<u>(34,719)</u>
Cumulative shortfall - December 31, 2003		<u><u>\$ (194,080)</u></u>

City of Harper Woods, Michigan

Notes to Financial Statements December 31, 2003

Note 12 - Designated Fund Balance

Designated fund balance in the governmental funds at December 31, 2003 is as follows:

	General Fund	Refuse Fund	Municipal Improvements Fund	Storm Drain Fund	Other Nonmajor Governmental Funds
Subsequent year's budget	\$ 331,000	\$ 191,000	\$ -	\$ 125,000	\$ 523,000
Separation pay	-	-	-	-	1,180,000
Municipal improvement	-	-	3,032,942	-	-
Capital projects	-	-	-	-	93,755
Total	<u>\$ 331,000</u>	<u>\$ 191,000</u>	<u>\$ 3,032,942</u>	<u>\$ 125,000</u>	<u>\$ 1,796,755</u>

Required Supplemental Information

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2003

	Original and Final Amended Budget	Actual	Variance with Budget
Revenue			
Property taxes	\$ 6,365,000	\$ 6,254,651	\$ (110,349)
Federal sources	168,000	913	(167,087)
State sources	1,946,200	1,752,365	(193,835)
Charges for services	1,520,000	1,570,867	50,867
Interest	235,000	39,397	(195,603)
Licenses and permits	110,150	122,701	12,551
Other	223,500	298,619	75,119
	<u>10,567,850</u>	<u>10,039,513</u>	<u>(528,337)</u>
Total revenue			
Expenditures - Current			
General government:			
City Council	25,500	30,288	(4,788)
District Court	607,700	610,158	(2,458)
City Manager	223,550	203,430	20,120
City Clerk/Elections	221,150	203,183	17,967
General services administration	822,600	706,857	115,743
Public transit	277,400	265,899	11,501
Other	1,117,750	1,134,393	(16,643)
Public safety:			
Law enforcement	4,330,300	4,226,734	103,566
Fire coverage	1,868,715	1,783,679	85,036
Other	156,700	135,989	20,711
Public works	582,050	554,304	27,746
Recreation and culture	670,350	617,861	52,489
	<u>10,903,765</u>	<u>10,472,775</u>	<u>430,990</u>
Total expenditures			
Excess of Expenditures over Revenue	(335,915)	(433,262)	(97,347)
Fund Balance - January 1, 2003	<u>2,757,401</u>	<u>2,757,401</u>	<u>-</u>
Fund Balance - December 31, 2003	<u>\$ 2,421,486</u>	<u>\$ 2,324,139</u>	<u>\$ (97,347)</u>

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Refuse Fund Year Ended December 31, 2003

	Original and Final Amended Budget	Actual	Variance with Budget
Revenue			
Property taxes	\$ 719,000	\$ 701,782	\$ (17,218)
Charges for services	65,000	92,200	27,200
Interest	25,500	35,077	9,577
Total revenue	809,500	829,059	19,559
Expenditures			
General government	3,600	3,600	-
Public works	1,065,450	850,847	214,603
Total expenditures	1,069,050	854,447	214,603
Excess of Expenditures over Revenue	(259,550)	(25,388)	234,162
Fund Balance - January 1, 2003	1,700,576	1,700,576	-
Fund Balance - December 31, 2003	<u>\$ 1,441,026</u>	<u>\$ 1,675,188</u>	<u>\$ 234,162</u>

City of Harper Woods, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Municipal Improvements Fund Year Ended December 31, 2003

	Original and Final Amended Budget	Actual	Variance with Budget
Revenue - Interest income	\$ 95,500	\$ 41,055	\$ (54,445)
Other Financing Uses - Transfers out	300,000	-	300,000
Excess of Revenue Over (Under) Other Uses	(204,500)	41,055	245,555
Fund Balance - January 1, 2003	2,991,887	2,991,887	-
Fund Balance - December 31, 2003	<u>\$ 2,787,387</u>	<u>\$ 3,032,942</u>	<u>\$ 245,555</u>

City of Harper Woods, Michigan

Required Supplemental Information Employees' Retirement System Schedule of Funding Progress December 31, 2003

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (a-b)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/97	\$ 30,722,686	\$ 26,158,951	\$ (4,563,735)	117.4	\$ 4,792,679	(95.2)
12/31/98	34,914,381	28,603,097	(6,311,284)	122.1	4,873,335	(129.5)
12/31/99	39,346,905	30,659,575	(8,687,330)	128.3	5,178,301	(167.8)
12/31/00	42,068,214	31,082,713	(10,985,501)	135.3	5,400,958	(203.4)
12/31/01	43,635,585	34,855,217	(8,780,368)	125.2	5,433,995	(161.6)
12/31/02	42,319,742	36,049,125	(6,270,617)	117.4	5,619,098	(111.6)

City of Harper Woods, Michigan

Required Supplemental Information Employees' Retirement System Schedule of Employer Contributions December 31, 2003

Year Ended December 31	Annual Required Contribution	Percentage Contributed
1998	\$ 295,238	100
1999	268,564	100
2000	-	N/A
2001	-	N/A
2002	-	N/A
2003	-	N/A

The information presented above was determined as part of the actuarial valuations at the dates indicated.

Additional information as of December 31, 2002, the date of the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Amortization period (perpetual)	10 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	5.5%-9.3%
*Includes inflation at	5.5%
Cost of living adjustments	None

Other Supplemental Information

City of Harper Woods, Michigan

	Nonmajor Special			
	Major Streets	Local Streets	Community Development	
			Block Grant	Loan Revolving
Assets				
Cash and investments	\$ 557,550	\$ 14,887	\$ -	\$ 344,098
Receivables:				
Taxes	-	-	-	-
Interest and other	-	8	-	52,789
Other governmental units	83,848	35,594	66,669	-
Inventories and prepaid expenses	6,843	-	-	-
Due from other funds	971,938	1,695,530	62,047	-
Total assets	<u>\$ 1,620,179</u>	<u>\$ 1,746,019</u>	<u>\$ 128,716</u>	<u>\$ 396,887</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 7,788	\$ 46,491	\$ -	\$ -
Accrued and other liabilities	7,436	6,772	-	-
Due to other funds	679,708	1,240,290	126,821	109,795
Rehabilitation escrow	-	-	-	287,092
Deferred revenue	-	-	1,895	-
Total liabilities	694,932	1,293,553	128,716	396,887
Fund Balances				
Reserved:				
Inventories and prepaid expenses	6,843	-	-	-
Drug law enforcement	-	-	-	-
Unreserved:				
Designated:				
Subsequent year's budget	241,000	252,000	-	-
Capital improvements	-	-	-	-
Separation pay	-	-	-	-
Undesignated	677,404	200,466	-	-
Total fund balances	<u>925,247</u>	<u>452,466</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 1,620,179</u>	<u>\$ 1,746,019</u>	<u>\$ 128,716</u>	<u>\$ 396,887</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2003**

Revenue Funds			Total Nonmajor Governmental Funds
Drug Law Enforcement	Library	Separation Pay	
\$ 127,633	\$ 555,015	\$ -	\$ 1,599,183
-	218,057	-	218,057
138	464	-	53,399
-	-	-	186,111
-	-	-	6,843
-	19,763	1,180,000	3,929,278
<u>\$ 127,771</u>	<u>\$ 793,299</u>	<u>\$ 1,180,000</u>	<u>\$ 5,992,871</u>
\$ -	\$ 14,243	\$ -	\$ 68,522
-	17,062	-	31,270
14,833	700	-	2,172,147
-	-	-	287,092
-	352,579	-	354,474
14,833	384,584	-	2,913,505
-	-	-	6,843
112,938	-	-	112,938
-	30,000	-	523,000
-	93,755	-	93,755
-	-	1,180,000	1,180,000
-	284,960	-	1,162,830
112,938	408,715	1,180,000	3,079,366
<u>\$ 127,771</u>	<u>\$ 793,299</u>	<u>\$ 1,180,000</u>	<u>\$ 5,992,871</u>

City of Harper Woods, Michigan

	Nonmajor Special			
	Major Streets	Local Streets	Community Development Block Grant	Loan Revolving
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ -
Federal sources	-	-	119,760	-
State sources	528,625	224,315	-	-
Interest	2,493	146	-	102
Miscellaneous revenue	5,464	6,809	-	5,215
Total revenue	536,582	231,270	119,760	5,317
Expenditures - Current				
General government	33,343	27,750	36,375	-
Public safety	-	-	-	-
Public works	422,820	818,245	83,385	5,317
Recreation and culture	-	-	-	-
Total expenditures	456,163	845,995	119,760	5,317
Excess of Revenue Over (Under) Expenditures	80,419	(614,725)	-	-
Other Financing Sources (Uses)				
Transfers in	-	75,000	-	-
Transfers out	(75,000)	-	-	-
Total other financing sources (uses)	(75,000)	75,000	-	-
Net Change in Fund Balances	5,419	(539,725)	-	-
Fund Balances - Beginning of year	919,828	992,191	-	-
Fund Balances - End of year	\$ 925,247	\$ 452,466	\$ -	\$ -

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2003

Revenue Funds			Total
Drug Law Enforcement	Library	Separation Pay	Nonmajor Governmental Funds
\$ -	\$ 335,048	\$ -	\$ 335,048
-	-	-	119,760
-	11,832	-	764,772
618	2,122	-	5,481
46,771	35,556	-	99,815
47,389	384,558	-	1,324,876
-	3,700	-	101,168
759	-	-	759
-	-	-	1,329,767
-	379,903	-	379,903
759	383,603	-	1,811,597
46,630	955	-	(486,721)
-	-	-	75,000
-	-	-	(75,000)
-	-	-	-
46,630	955	-	(486,721)
66,308	407,760	1,180,000	3,566,087
\$ 112,938	\$ 408,715	\$ 1,180,000	\$ 3,079,366

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds - Agency Funds December 31, 2003

	<u>Tax Collection</u>	<u>District Court</u>	<u>Total</u>
Assets - Cash	<u>\$ 15,737</u>	<u>\$ 42,557</u>	<u>\$ 58,294</u>
Liabilities			
Tax collections distributable	\$ 15,737	\$ -	\$ 15,737
Bond deposits	-	24,696	24,696
Due to other governmental units	-	17,861	17,861
Total liabilities	<u>\$ 15,737</u>	<u>\$ 42,557</u>	<u>\$ 58,294</u>

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds December 31, 2003

	Equipment	Self-insurance	Total
Assets			
Current assets:			
Cash and investments	\$ 11,882	\$ -	\$ 11,882
Due from other funds	823,819	1,425,000	2,248,819
Total current assets	835,701	1,425,000	2,260,701
Noncurrent assets - Capital assets being depreciated - Net	482,130	-	482,130
Total assets	1,317,831	1,425,000	2,742,831
Current Liabilities			
Accounts payable	5,805	-	5,805
Accrued and other liabilities	6,367	-	6,367
Due to other funds	996,307	-	996,307
Total current liabilities	1,008,479	-	1,008,479
Net Assets			
Invested in capital assets	482,130	-	482,130
Unrestricted net assets (deficit)	(172,778)	1,425,000	1,252,222
Total net assets	\$ 309,352	\$ 1,425,000	\$ 1,734,352

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended December 31, 2003

	Equipment	Self-insurance	Total
Operating Revenue - Billings to other funds	\$ 180,463	\$ -	\$ 180,463
Operating Expenses			
Cost of materials	64,183	-	64,183
Maintenance and operation	192,068	-	192,068
General and administrative expenses	58,100	-	58,100
Depreciation	137,847	-	137,847
Total operating expenses	452,198	-	452,198
Operating Loss	(271,735)	-	(271,735)
Nonoperating Revenue - Interest income	87	-	87
Change in Net Assets	(271,648)	-	(271,648)
Net Assets - Beginning of year	581,000	1,425,000	2,006,000
Net Assets - End of year	\$ 309,352	\$ 1,425,000	\$ 1,734,352

City of Harper Woods, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended December 31, 2003

	Equipment	Self-insurance	Total
Cash Flows from Operating Activities			
Receipts from other funds	\$ 988,455	\$ -	\$ 988,455
Payments to suppliers, employees, and other funds	(606,130)	-	(606,130)
Net cash provided by operating activities	382,325	-	382,325
Cash Flows from Capital and Related Financing Activities - Purchase of capital assets			
	(382,325)	-	(382,325)
Cash Flows from Investing Activities - Interest received on investments			
	87	-	87
Net Increase in Cash and Cash Equivalents	87	-	87
Cash and Cash Equivalents - Beginning of year	11,795	-	11,795
Cash and Cash Equivalents - End of year	\$ 11,882	\$ -	\$ 11,882
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (271,735)	\$ -	\$ (271,735)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	137,847	-	137,847
Changes in assets and liabilities:			
Due from other funds	807,994	-	807,994
Due to other funds	(288,549)	-	(288,549)
Accounts payable	(3,759)	-	(3,759)
Accrued and other liabilities	527	-	527
Net cash provided by operating activities	\$ 382,325	\$ -	\$ 382,325

April 30, 2004

Honorable Mayor and Members
of the City Council
City of Harper Woods
19617 Harper Avenue
Harper Woods, MI 48225

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Harper Woods for the year ended December 31, 2003. In addition to our audit report, we offer the following comments and recommendations for your consideration:

NEW FINANCIAL STATEMENT FORMAT (GASB 34)

As you are aware, Governmental Accounting Standards Board (GASB) Statement No. 34 was implemented for the City's 2003 fiscal year. GASB 34 has dramatically changed the look and feel of the financial statements. While the financial statements retain an element of familiarity with the continued reporting of fund based information, there are several additions and changes that provide information never before presented in the City's annual financial report. A brief summary of the changes are as follows:

- Management Discussion and Analysis (MD&A): The MD&A provides a high-level overview of the City's financial position and results of operations, with a focus on the government-wide financial statements.
- Government-Wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format (similar to for-profit commercial enterprises). This allows a financial statement reader to see the City from a longer term, economic perspective (i.e., are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long term debt as part of the City's overall financial picture.
- Focus on Major Funds: The fund based financial statements now focus on the City's most significant funds (major funds). For 2003 the City's major governmental funds are the General Fund, Refuse Fund, Municipal Improvements Fund, General Obligation Bonds Fund and the Storm Drain Fund; the City's major enterprise fund is the Water and Sewer Fund.

- Budget Comparison: A financial statement reader will now be able to view not only the actual revenues and expenditures for the City's major funds as compared to the current budget, but also as compared to the original budget.

INTERNAL CONTROL AND FRAUD PREVENTION

Designing and maintaining a sound system of internal controls over City assets, as well as fraud prevention and detection, are on the forefront in today's business environment. As part of our audit of the City's 2003 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit", the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with key members of the administration and other employees throughout the organization; a retrospective review of accounting estimates; a detailed review of all journal entries; and other related procedures. We are pleased to report that no significant fraud risk factors or instances of fraud were identified as a result of our procedures.

As part of the City's process of continuous improvement, we noted the following item that the City may wish to consider. It is our understanding that the City does not require employees to sign conflict of interest statements. It is our recommendation that the City consider requiring employees, in particular those that have direct contact with vendors and have purchasing responsibilities, to sign a conflict of interest statement. A conflict of interest statement will benefit both the City and the employee by clearly communicating the City's intentions and expectations in advance and will help minimize or avoid conflict scenarios.

OVERVIEW OF THE CITY'S FINANCIAL CONDITION

During the year ended December 31, 2003, General Fund expenditures exceeded revenues by approximately \$433,000. Fund balance at December 31, 2003, totaled approximately \$2,324,000. Of this amount, \$506,000 is reserved and designated for specific purposes and \$1,818,000 is undesignated. The undesignated portion represents approximately 17 percent of budgeted 2004 expenditures. This percentage is consistent with prior years and within the range typically expected by rating agencies.

The City continues to be faced with budgetary challenges. Many challenges, including further reductions in State shared revenue, are a direct result of the difficult economic period that has been experienced in the State of Michigan. Other challenges, such as limited ability to experience growth in property tax revenue, future capital equipment and infrastructure needs, and currently unfunded post-employment benefit obligations, are characteristics of the City and its physical framework. We encourage the City Council and administration to continue to closely monitor the budget to ensure that fund balance reserves are adequate. The maintenance of an adequate level of working capital is paramount to the City's ability to meet financial challenges without affecting the level of services provided to citizens or the ability to fund future obligations.

REVENUE SHARING

The City has continued to feel the effects of the sluggish State economy. Reduced sales tax collections and significant budget shortfalls at the State of Michigan negatively impact the City as a result of reduced revenue sharing payments. As you are aware, revenue sharing payments are funded solely through sales tax collections. Budget cuts to the statutory portion of revenue sharing made by the State have further compounded the effect of reduced sales tax collections. State shared revenue payments, which totaled approximately 16 percent of the 2003 General Fund Budget, decreased from the payments received in 2002 by approximately \$109,000, or 6 percent. Based on the current projections provided by the State of Michigan, revenue sharing payments are expected to be reduced by an additional 7.5 percent in 2004.

It is uncertain at this point in time whether sales tax collections will rebound in 2004 or whether the State will make future accommodations to replace revenue lost as a result of budget cuts. As such, we recommend that the City continually monitor the impact of changes to projected revenue sharing payments on the General Fund budget. In addition to the periodic updates that we provide to the City, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697.

INTER-FUND BALANCES

Inter-fund receivables and payables are used as a matter of convenience in circumstances where a fund of the City will incur an expenditure on behalf of another fund and to allocate revenue and expenditures between funds without the actual transfer of cash. However, as you are aware, many of the City's resources are restricted or earmarked for specific purposes and any interest earnings on these funds must also be restricted for the same purposes. Accordingly, it is important for the City to settle inter-fund receivables and payables on a timely basis to avoid situations where interest earnings are allocated to the incorrect account or fund. In addition, significant inter-fund balances can distort financial statements by overstating assets and liabilities and hinder financial analysis. We recommend that the City implement procedures to ensure that inter-fund balances are addressed on a periodic basis.

CONDITION OF ACCOUNTING RECORDS

We would like to compliment the City Council and administration for the continued positive improvement made in the condition of the City's financial records and related documentation for the year ended December 31, 2003. Our testing has indicated that the City's finance and treasury departments have maintained and improved internal control over cash collection, cash disbursement and payroll functions. We encourage the administration to commit to a plan of continuous improvement in the timeliness and accuracy of the financial reporting system, subject to cost/benefit constraints. Such improvements will increase control over the City's assets and provide the best information possible to the City Council and administration for analysis and decision making.

Honorable Mayor and Members
of the City Council
City of Harper Woods

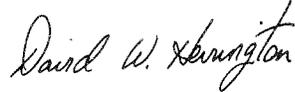
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April 30, 2004

We would like to thank the Mayor and City Council for the opportunity to serve as auditors for the City. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. As always, we are pleased to discuss these comments, information presented in the financial statements or any other matters with you at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



David W. Herrington



David V. Grubb