

**City of Ferndale
Oakland County, Michigan**

**WATER & SEWER FUND
TEN-YEAR DATA ANALYSIS AND
FIVE-YEAR FINANCIAL FORECAST**

March 2013

DRAFT

City of Ferndale
Oakland County, Michigan

WATER & SEWER FUND
TEN-YEAR DATA ANALYSIS AND
FIVE-YEAR FINANCIAL FORECAST

Table of Contents

	<u>Page</u>
Introduction	1
Report Letter	2
Ten-Year Financial Summary for Costs per Full-Time Equivalent	3
Five-Year Financial Forecast for Costs per Full-Time Equivalent	4
Costs per Full-Time Equivalent Summary Graph	5
Ten-Year Financial Summary for Costs per MCF	6
Five-Year Financial Forecast for Costs per MCF	7
Costs per MCF Summary Graph	8
Ten-Year Financial Summary for Revenue and Expenses	9
Five-Year Financial Forecast for Revenue and Expenses	10
Revenue and Expense Summary Graph	11
Ten-Year Financial Summary for Fixed Costs, Operating Costs, and Revenue	12
Fixed Cost Comparison Graph	13
Ten-Year Financial Summary of Net Assets Classifications	14
Net Assets Summary Graph	15
Water Usage (in MCFs) Compared to Occupancy Rates	16
Water Usage (in MCFs) & Property Occupied Summary Graphs	17
Notes to the Report	18-21

City of Ferndale
Water & Sewer Fund
Five-Year Financial Plan
Introduction

Ferndale City Council:

The City of Ferndale's five-year financial plan has been created to provide a forecast model of the City's Water & Sewer Fund financial activity. The five-year plan is intended to develop annual operating statements as well as specific data which are used as indicators to discover trends in such areas as fund operating surpluses/deficits and dependence on tax revenues.

Predicting and analyzing current and future proposed financial actions solidify the City's requirement as a well-managed organization. Further, the importance of future budgetary actions must be realized now to prevent future strain on the Water & Sewer Fund.

The importance of long-term financial planning has never been more necessary than now. The City will be experiencing unforeseen expenditure impacts as a result of the worsening infrastructure assets and uncertainty surrounding the future of the water and sewage treatment costs.

April Lynch
City Manager

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WATER & SEWER FUND
TEN-YEAR DATA ANALYSIS AND
FIVE-YEAR FINANCIAL FORECAST REPORT

To the Honorable Mayor and
Members of the City Council
City of Ferndale, Michigan

We have compiled the accompanying five-year financial forecast of the City of Ferndale's (the "City") Water & Sewer Fund for the years ending June 30, 2013 through June 30, 2017, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The five-year financial forecast, presented on pages 3-11, does not present all significant financial measures that would be presented in a complete set of financial statements (statement of net assets, statement of revenues, expenses, and changes in net assets, and statement of cash flows). The forecast is based on ten years of actual data for the years ended June 30, 2003 through 2012. Accordingly, this forecast is not designed for those who are not informed about the City's financial position and results of operations.

A compilation is limited to presenting, in the form of a forecast, information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statement or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecast and this report are intended solely for the information and use of the Council and management of the City and are not intended to be and should not be used by anyone other than these specified parties.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 4, 2013

City of Ferndale Water & Sewer Fund

Ten-Year Financial Summary for Costs per Full-Time Equivalent

Years Ended June 30, 2003 through June 30, 2012

	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012
Full time personnel expense	\$ 518,014.97	\$ 558,274.38	\$ 544,633.91	\$ 568,697.89	\$ 576,113.49	\$ 597,024.56	\$ 549,872.47	\$ 565,617.76	\$ 526,911.38	\$ 551,660.79
Part time personnel expense	7,484.10	-	-	-	-	-	-	-	-	-
Overtime expense	88,507.85	69,624.38	60,330.64	70,007.98	67,660.14	71,581.43	67,658.35	41,879.24	70,521.13	61,623.91
Fringe benefits expense	368,578.59	419,903.49	391,487.00	426,861.80	463,175.28	420,595.80	465,260.14	532,527.97	585,812.57	486,006.46
Personnel costs	982,585.51	1,047,802.25	996,451.55	1,065,567.67	1,106,948.91	1,089,201.79	1,082,790.96	1,140,024.97	1,183,245.08	1,099,291.16
Operating costs	5,209,956.87	6,127,404.61	6,136,487.11	6,382,511.08	8,724,928.98	7,275,104.67	6,541,687.62	7,359,298.05	8,408,059.76	8,633,334.58
Full-time equivalents	15.76	15.76	14.95	14.95	15.00	15.00	15.00	15.00	13.75	13.75
Personnel costs per FTE	\$ 62,346.80	\$ 66,484.91	\$ 66,652.28	\$ 71,275.43	\$ 73,796.59	\$ 72,613.45	\$ 72,186.06	\$ 76,001.66	\$ 86,054.19	\$ 79,948.45
Operating costs per FTE	330,581.02	388,794.71	410,467.37	426,923.82	581,661.93	485,006.98	436,112.51	490,619.87	611,495.26	627,878.88

City of Ferndale Water & Sewer Fund

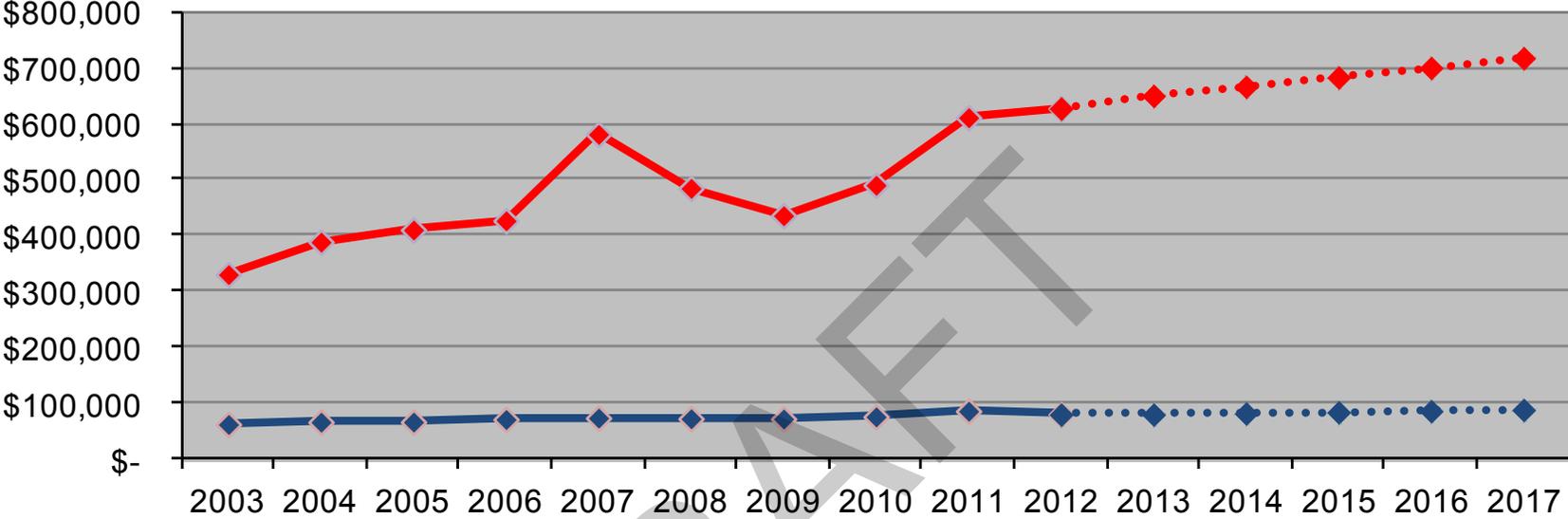
Five-Year Financial Forecast for Costs per Full-Time Equivalent

Years Ending June 30, 2013 through June 30, 2017

	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
Personnel costs	\$ 939,394.26	\$ 962,879.12	\$ 986,951.10	\$ 1,011,624.88	\$ 1,036,915.50
Operating costs	7,643,496.94	7,834,584.36	8,030,448.97	8,231,210.19	8,436,990.45
Full-time equivalents	11.75	11.75	11.75	11.75	11.75
Personnel costs per FTE	\$ 79,948.45	\$ 81,947.16	\$ 83,995.84	\$ 86,095.73	\$ 88,248.13
Operating costs per FTE	650,510.38	666,773.14	683,442.47	700,528.53	718,041.74

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City of Ferndale Water & Sewer Fund
Costs Per Full-Time Equivalent
 Fiscal Years Ending June 30,



City of Ferndale Water & Sewer Fund
 Ten-Year Financial Summary for Costs per MCF
 Years Ended June 30, 2003 through June 30, 2012

	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012
Sewage treatment expense	\$ 2,217,354.08	\$ 2,334,984.51	\$ 2,179,095.16	\$ 2,249,602.45	\$ 2,301,503.32	\$ 2,614,341.97	\$ 2,400,393.55	\$ 2,681,793.40	\$ 3,147,738.74	\$ 3,573,838.36
Wholesale water	561,243.42	662,935.34	776,687.45	642,338.09	732,708.71	864,784.06	525,838.61	605,839.92	671,234.02	711,324.26
Total cost of water and sewage	2,778,597.50	2,997,919.85	2,955,782.61	2,891,940.54	3,034,212.03	3,479,126.03	2,926,232.16	3,287,633.32	3,818,972.76	4,285,162.62
Water usage (in MCFs)	106,180.10	120,328.30	121,821.80	100,788.00	93,309.00	105,509.60	69,592.70	72,438.10	74,025.60	72,577.00
Cost per MCF*	\$ 26.17	\$ 24.91	\$ 24.26	\$ 28.69	\$ 32.52	\$ 32.97	\$ 42.05	\$ 45.39	\$ 51.59	\$ 59.04

*One MCF equals one thousand (1,000) cubic feet or approximately 7,481 gallons.

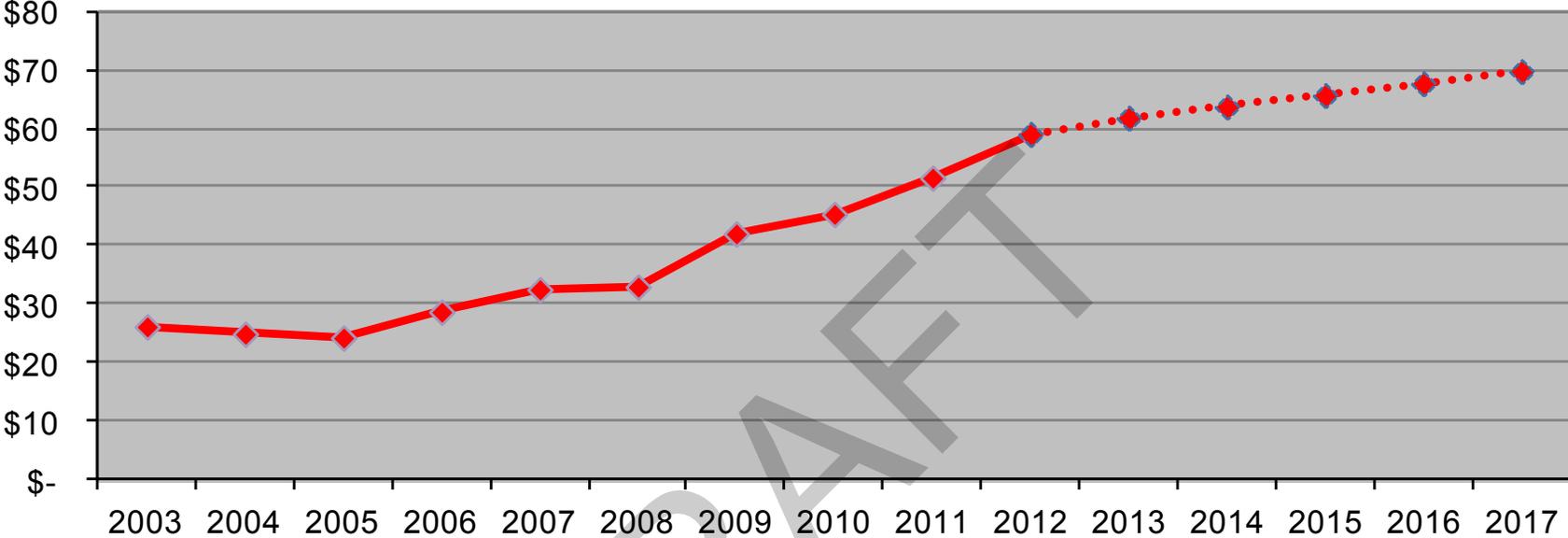
City of Ferndale Water & Sewer Fund
 Five-Year Financial Forecast for Costs per MCF
 Years Ending June 30, 2013 through June 30, 2017

	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
Total cost of water and sewage	\$ 4,460,854.29	\$ 4,643,749.31	\$ 4,834,143.04	\$ 5,032,342.90	\$ 5,238,668.96
Water usage (in MCFs)	72,158.35	72,879.93	73,608.73	74,344.82	75,088.27
Cost per MCF*	\$ 61.82	\$ 63.72	\$ 65.67	\$ 67.69	\$ 69.77

**One MCF equals one thousand (1,000) cubic feet or approximately 7,481 gallons.*

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City of Ferndale Water & Sewer Fund
Costs Per MCF Summary
Fiscal Years Ending June 30,



—◆— Cost per MCF* ···◆··· Cost per MCF (Projected)

City of Ferndale Water & Sewer Fund
 Ten-Year Financial Summary for Revenue and Expenses
 Years Ended June 30, 2003 through June 30, 2012

	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012
Total revenue	\$ 6,024,144.02	\$ 4,973,317.38	\$ 5,028,933.38	\$ 6,026,316.44	\$ 6,562,911.44	\$ 7,050,911.41	\$ 6,984,922.33	\$ 7,803,254.26	\$ 8,876,521.71	\$ 8,627,474.30
Total operating costs	5,209,956.87	6,127,404.61	6,136,487.11	6,382,511.08	8,724,928.98	7,275,104.67	6,541,687.62	7,359,298.05	8,408,059.76	8,633,334.58
Total cost of water and sewage	2,778,597.50	2,997,919.85	2,955,782.61	2,891,940.54	3,034,212.03	3,479,126.03	2,926,232.16	3,287,633.32	3,818,972.76	4,285,162.62

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City of Ferndale Water & Sewer Fund

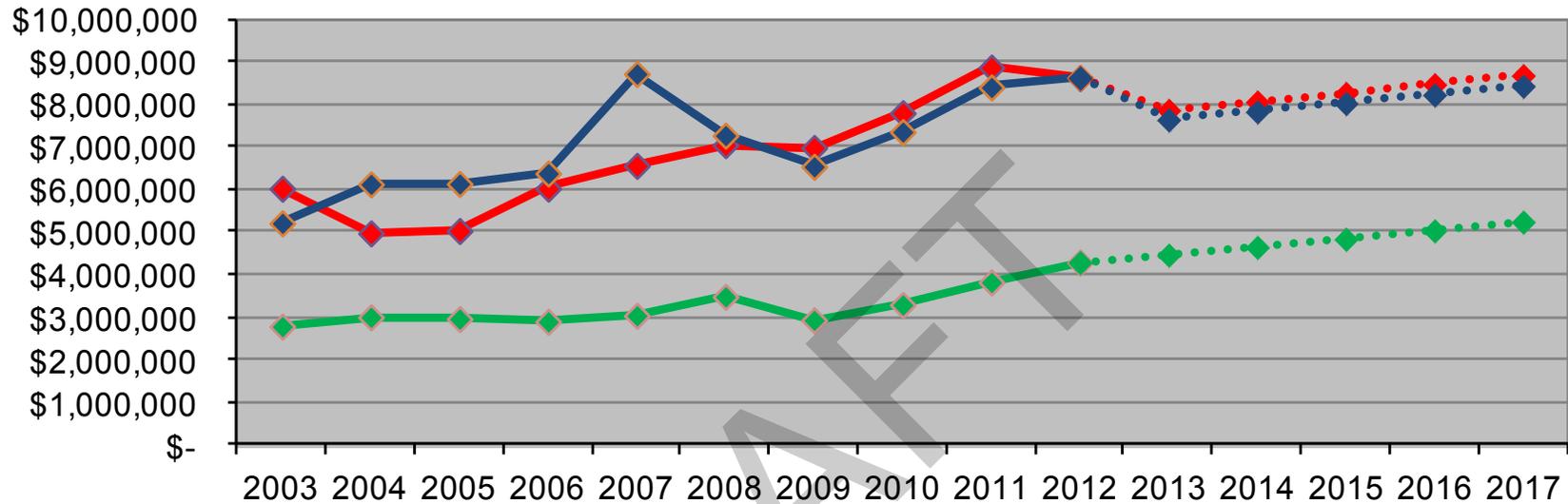
Five-Year Financial Forecast for Revenue and Expenses

Years Ending June 30, 2013 through June 30, 2017

	Projected 2013	Projected 2014	Projected 2015	Projected 2016	Projected 2017
Total revenue	\$ 7,868,616.80	\$ 8,065,332.22	\$ 8,266,965.53	\$ 8,473,639.67	\$ 8,685,480.66
Total operating costs	7,643,496.94	7,834,584.36	8,030,448.97	8,231,210.19	8,436,990.45
Total cost of water and sewage	4,460,854.29	4,643,749.31	4,834,143.04	5,032,342.90	5,238,668.96

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**City of Ferndale Water & Sewer Fund
Revenue and Expense Summary
Fiscal Years Ending June 30,**



City of Ferndale Water & Sewer Fund

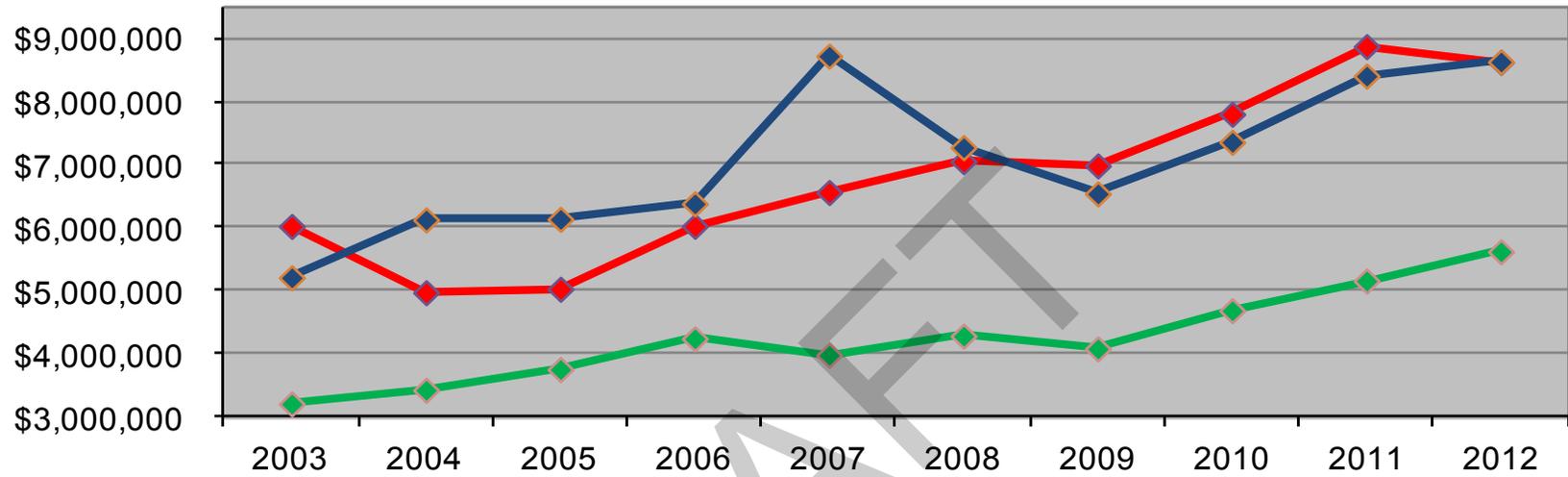
Ten-Year Financial Summary of Fixed Costs, Total Operating Costs, and Revenue

Years Ended June 30, 2003 through June 30, 2012

	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012
Total cost of water and sewage	\$ 2,778,597.50	\$ 2,997,919.85	\$ 2,955,782.61	\$ 2,891,940.54	\$ 3,034,212.03	\$ 3,479,126.03	\$ 2,926,232.16	\$ 3,287,633.32	\$ 3,818,972.76	\$ 4,285,162.62
Total cost of debt service	429,380.00	428,181.00	798,900.00	1,350,848.00	946,212.00	805,465.00	1,155,703.00	1,400,003.00	1,339,700.00	1,336,225.00
Total fixed costs	3,207,977.50	3,426,100.85	3,754,682.61	4,242,788.54	3,980,424.03	4,284,591.03	4,081,935.16	4,687,636.32	5,158,672.76	5,621,387.62
Total operating costs	5,209,956.87	6,127,404.61	6,136,487.11	6,382,511.08	8,724,928.98	7,275,104.67	6,541,687.62	7,359,298.05	8,408,059.76	8,633,334.58
Total revenue	6,024,144.02	4,973,317.38	5,028,933.38	6,026,316.44	6,562,911.44	7,050,911.41	6,984,922.33	7,803,254.26	8,876,521.71	8,627,474.30

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City of Ferndale Water & Sewer Fund
Fixed Cost Comparison
Fiscal Years Ending June 30,



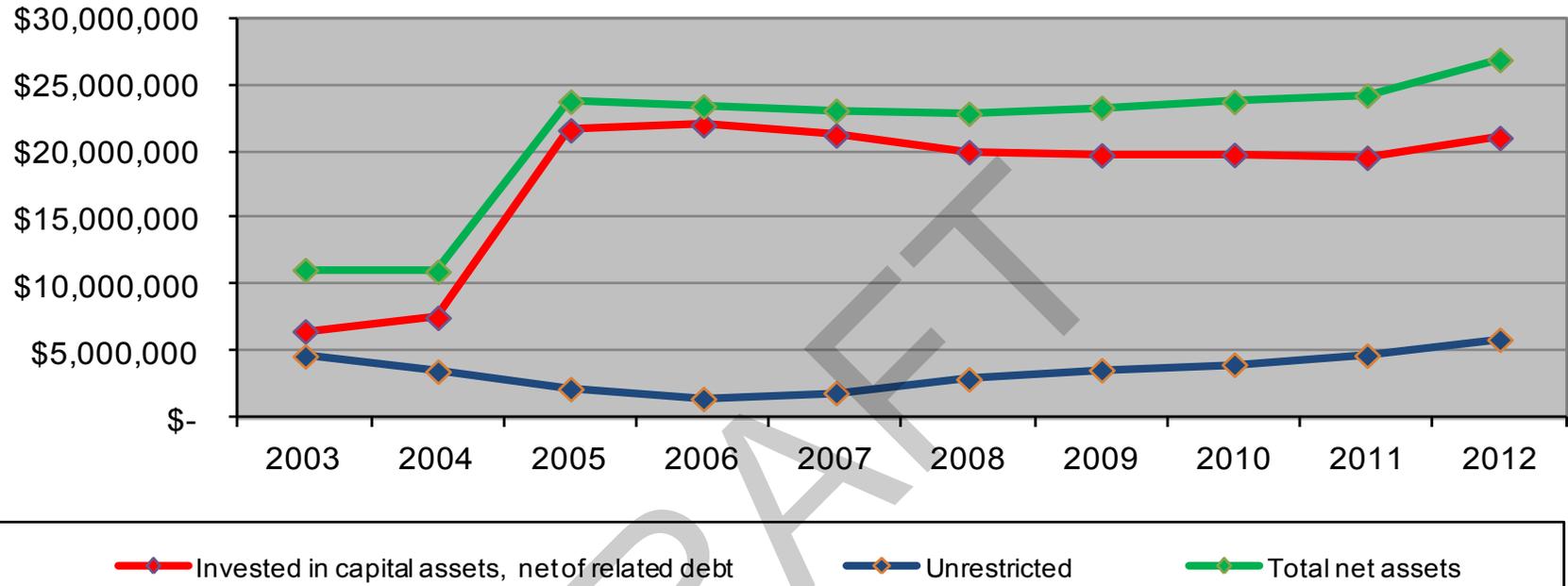
—◆— Total revenue —◆— Total operating costs —◆— Total fixed costs

City of Ferndale Water & Sewer Fund
 Ten-Year Financial Summary of Net Assets Classifications
 Years Ended June 30, 2003 through June 30, 2012

	Actual 2003	Actual 2004	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012
Invested in capital assets, net of related debt	\$ 6,479,866	\$ 7,503,127	\$ 21,586,553	\$ 21,972,684	\$ 21,205,672	\$ 19,951,267	\$ 19,708,150	\$ 19,738,155	\$ 19,524,599	\$ 21,012,509
Unrestricted	4,608,003	3,460,641	2,150,071	1,407,746	1,850,635	2,880,848	3,567,200	3,981,151	4,663,170	5,854,560
Total net assets	11,087,869	10,963,768	23,736,624	23,380,430	23,056,307	22,832,115	23,275,350	23,719,306	24,187,769	26,867,069

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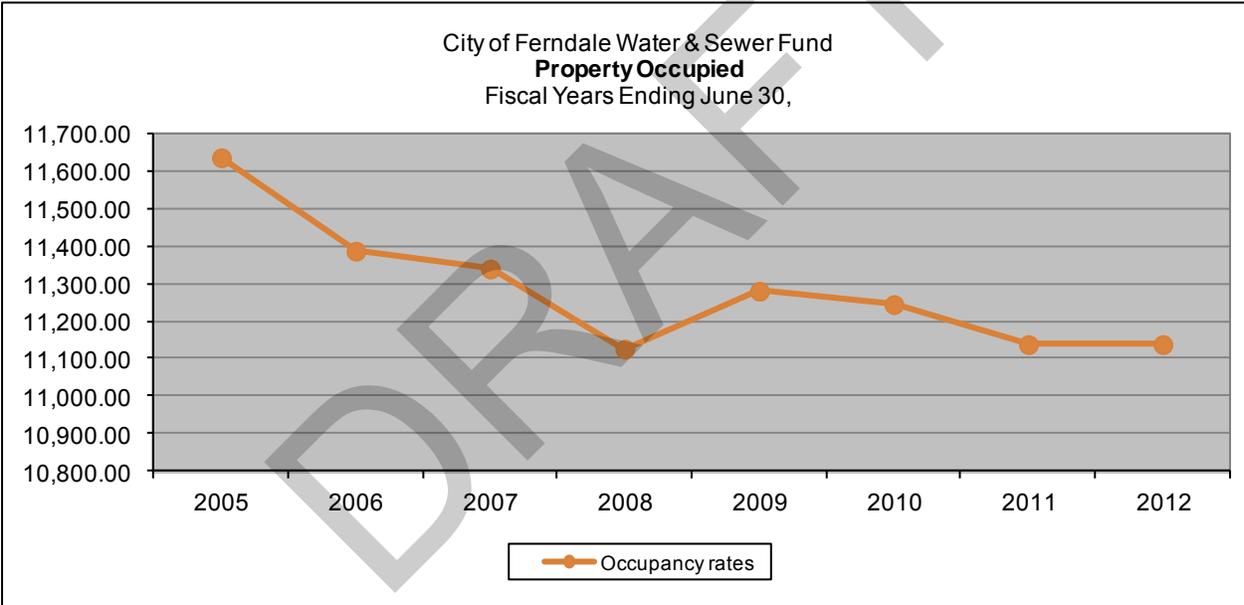
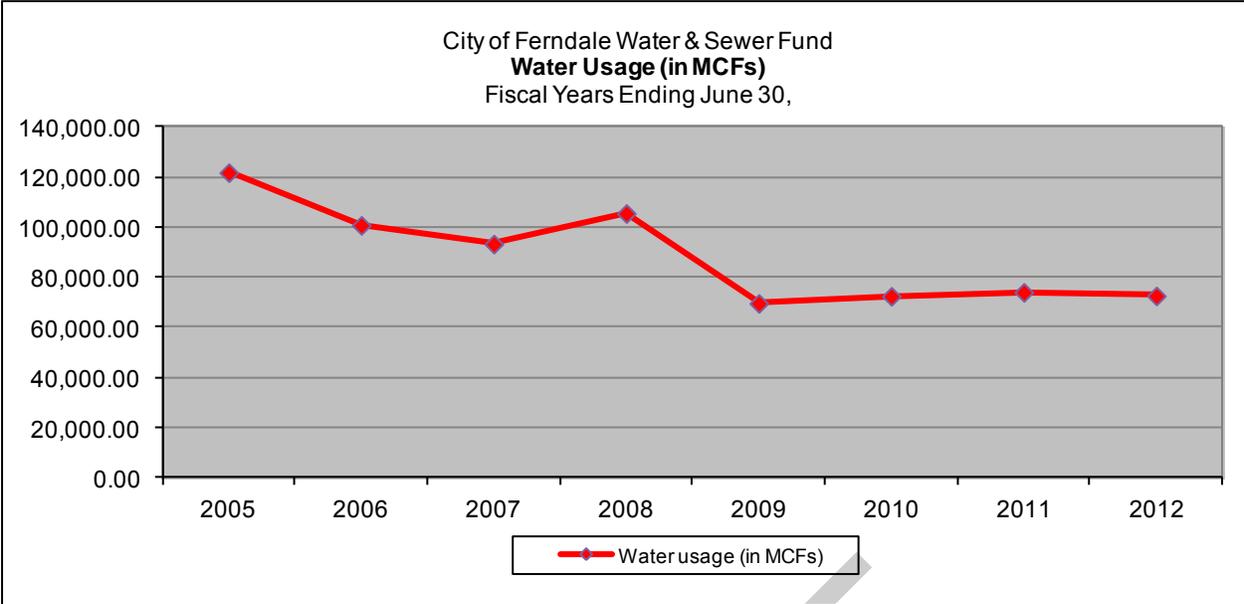
City of Ferndale Water & Sewer Fund
Net Assets Summary
Fiscal Years Ending June 30,



City of Ferndale Water & Sewer Fund
 Water Usage (in MCFs) Compared to Occupancy Rates
 Years Ended June 30, 2005 through 2012

	Actual 2005	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012
Water usage (in MCFs)	121,822	100,788	93,309	105,510	69,593	72,438	74,026	72,577
Occupancy rates	11,637	11,387	11,340	11,126	11,280	11,245	11,138	11,138

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NOTES TO TEN-YEAR DATA ANALYSIS AND FIVE-YEAR FINANCIAL FORECAST

Years Ending June 30, 2013 through June 30, 2017

NOTE A: PURPOSE OF FORECAST

The purpose of this forecast is to develop a five-year financial forecast for the Water and Sewer Fund of the City of Ferndale (the "City") to provide the following:

- In-depth estimation of future financial conditions
- Financial "framework" from which to evaluate the ongoing financial condition of the City's Water & Sewer Fund
- A rational basis for identifying areas of greatest concern and devising fiscal strategy
- An automated tool to facilitate the analysis of financial and operational objectives

The forecast has been developed using the best available information concerning financial trends and conditions as of the date of this report. Based upon a review of the above information and discussions with the City Manager and Assistant City Manager, the forecast was developed using certain key assumptions and should not be evaluated without a thorough understanding of the assumptions. The assumptions and the accompanying rationale are documented in Note C to the financial forecast. These assumptions provide a basis for estimating the Water & Sewer Fund's future years' revenues and expenses.

Changes in economic conditions and regulatory provisions could have a significant impact on the forecast. The underlying assumptions used in the estimations are likely to change and the costs projected are likely to differ from actual amounts.

NOTE B: SIGNIFICANT ACCOUNTING POLICIES

Water and Sewer Fund - The Water and Sewer Fund is used to account for the operations required to provide sewer services to the general public, the costs of which (expenses, including depreciation) are financed or recovered primarily through user charges. The fund also accounts for the activities of the government's water distribution and treatment system, the costs of which (expenses, including depreciation) are financed or recovered primarily through user charges.

Measurement Focus - The proprietary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations.

Basis of Accounting - Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. All proprietary funds are accounted for using the accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Proprietary funds distinguish operating revenues and expenses from non-operating 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 enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO TEN-YEAR DATA ANALYSIS AND FIVE-YEAR FINANCIAL FORECAST - CONTINUED

Years Ending June 30, 2013 through June 30, 2017

NOTE C: SIGNIFICANT ASSUMPTIONS

Historical data have been compiled from the City's budget-based financial reports. Estimates for fiscal year 2013 are based on the City's adopted budget for the fiscal year with adjustments for other known items based on current financial information. The following are general assumptions, which were determined by management for the preparation of this report. These assumptions are not all-inclusive and are based on management's judgment at the time the forecasted financial statements were prepared.

Costs per Full-Time Equivalent - The budgeted full-time equivalents (FTEs) for the Water & Sewer Department for fiscal year 2012 were 11.75 when the budget was approved and adopted in June 2011. However, the FTEs were gradually reduced throughout fiscal year 2012 as opposed to being automatically reduced at July 1, 2011; therefore, the actual FTEs for fiscal year 2012 was closer to 13.75 as opposed to the budgeted amount of 11.75 FTEs.

The budgeted FTEs for the Water & Sewer Department were used for the fiscal year 2013 at 11.75. There are currently no plans for hiring to occur within the Department; therefore, the amount of 11.75 FTEs was used for the other projected years within the forecast as well.

The future personnel costs for fiscal year 2013 were projected by multiplying the personnel costs per FTE for fiscal year 2012 of approximately \$80,000 by the FTEs for 2013 of 11.75. A rate of increase of 2.5% was used for each of the projected years that follow for inflation increases offset by more households becoming "green" and using less water due to more efficient appliances and plumbing fixtures being purchased and installed in residential and commercial properties.¹

The total operating costs for fiscal year 2013 were projected by averaging the previous five (5) years. The previous ten (10) years' average was not used because there were significant differences in costs and revenue between the first five (5) years of analysis (fiscal years ended June 30, 2003 through 2007) and the last five (5) years of analysis (fiscal years ended June 30, 2008 through 2012) due to the decline in the housing market due to the downturn in the economy in fiscal years 2008 and 2009.

Also, the City completed a project in fiscal year 2012 whereby approximately \$3 million of infrastructure assets were capitalized so the expenses for the future relating to the areas where this project took place will likely decrease. A rate of increase of 2.5% was used for each of the projected years that follow for inflation increases offset by more households becoming "green" and using less water due to more efficient appliances and plumbing fixtures being purchased and installed in residential and commercial properties.

Future projects are being planned to replace existing infrastructure assets and a ten-year plan was provided to the City of Ferndale in order for the City to be able to budget for and allocate sufficient funds to reconstruct the City's water distribution system. Estimated costs of the ten-year project total approximately \$4.3 million.²

Costs per MCF - Water usage is measured per MCF which is the equivalent of one thousand (1,000) cubic feet. We analyzed the total water usage in MCFs for the years ended June 30, 2003 through 2012 and noted a sharp decrease in the water usage beginning for fiscal year 2009 as compared to fiscal year 2008. The decrease can be attributed to the downturn in the economy. We compared the occupied residential and commercial properties with the total water usage below to further substantiate the claim that the increase in vacant properties has led to a decrease in water usage (see pages 16 and 17).

The water usage for fiscal year 2013 was projected by using the average of the previous four (4) years since there was such a great disparity between the usages for fiscal years ended June 30, 2003 through 2008 as compared to fiscal years ended June 30, 2009 through 2012. A usage increase of 1% was applied for each of the projected years that follow due to consumers being more energy and environmentally conscious through water conservation and the use of more efficient appliances and plumbing fixtures. This is also offset by an assumption that there will not be a tremendous increase in occupancy for the City over the next five years.

¹ *Opflow*, May 2011, published by the American Water Works Association

² According to the March 13, 2012 report provided by Giffels-Webster Engineers

City of Ferndale Water & Sewer Fund

NOTES TO TEN-YEAR DATA ANALYSIS AND FIVE-YEAR FINANCIAL FORECAST - CONTINUED

Years Ending June 30, 2013 through June 30, 2017

NOTE C: SIGNIFICANT ASSUMPTIONS - CONTINUED

Costs per MCF - continued

The total water and sewage costs for fiscal year 2013 were projected by increasing the amount for fiscal year 2012 by 4.1% based on the actual cost increases by the Detroit Water and Sewerage Department and the Oakland County Water Resources Commissioner. The same rate of increase was used for each of the years following fiscal year 2013.

The rates charged for water and sewer costs were as follows:

Years ended June 30,	Water		Sewer	
	Rate per MCF	Fixed rate (annualized)	Rate per MCF	Fixed rate (annualized)
2003	\$ 5.28	\$ -	\$ 8.76	\$ 1,169,035.92
2004	5.67	-	9.30	1,227,207.00
2005	6.19	-	9.64	1,163,222.16
2006	6.45	-	10.15	1,219,701.60
2007	7.66	-	10.49	1,339,515.72
2008	8.25	-	10.75	1,530,572.88
2009	7.62	-	11.52	1,625,640.96
2010	8.33	-	11.83	1,841,684.04
2011	7.64	100,356.00	14.38	2,139,719.04
2012	6.27	256,872.00	15.92	2,494,376.76

Revenue and Expenses - Revenues were compared to the operating costs and the gross costs of water and sewer in order to relate the total revenues and amounts billed to residential and commercial properties to their relative expenses. The revenue for fiscal year 2012 appeared to be approximately \$2.6 million greater than the prior year and upon further investigation the difference was due primarily to contributed capital of approximately \$2.685 million. The contributed capital was the accumulated amount of the construction in progress for the infrastructure assets from prior years that was moved in fiscal year 2012 from the General Fund to the Water & Sewer Fund. Because this was not operating revenue, the contributed capital was deducted from the total revenue for fiscal year 2012 for purposes of this analysis.

The projected revenue amount for fiscal year 2013 was calculated based on the average of the previous five (5) years. As mentioned above for the projected operating costs, the previous ten (10) years' average was not used because there were significant differences in revenue between the first five (5) years of analysis (fiscal years ended June 30, 2003 through 2007) and the last five (5) years of analysis (fiscal years ended June 30, 2008 through 2012) due to the decline in the housing market due to the downturn in the economy in fiscal years 2008 and 2009. As with the operating costs, a rate of increase of 2.5% was used for each of the projected years that follow for inflation increases offset by more households becoming "green" and using less water due to more efficient appliances and plumbing fixtures being purchased and installed in residential and commercial properties.

Fixed Cost Comparison - Fixed costs were compared to the total operating costs and the revenue in order to relate the total revenues in relation to the operating costs and the fixed costs that are not flexible. The fixed costs are a combination of the gross costs of water and sewer and debt principal and interest payments for the water and sewer infrastructure bonds. The debt principal is not reflected as an expense in the operating expenses since the operating expenses are derived from the general ledger detail and the debt principal when paid offsets the liability as opposed to being recorded as an expense, which is the proper accounting practice.

NOTES TO TEN-YEAR DATA ANALYSIS AND FIVE-YEAR FINANCIAL FORECAST - CONTINUED

Years Ending June 30, 2013 through June 30, 2017

NOTE C: SIGNIFICANT ASSUMPTIONS - CONTINUED

Net Assets - We analyzed the changes in the net assets by classification, invested in capital assets, net of related debt, and unrestricted, and noted a sharp increase in the invested in capital assets, net of related debt, classification between 2004 and 2005 which was a result of the capital infrastructure improvement projects that were fully completed and placed into service in 2005. Another slight increase was noted between 2011 and 2012 for the capital infrastructure improvement project that was completed during fiscal year 2012 and placed into service of approximately \$3 million. Between fiscal year 2006 and 2012, the unrestricted fund balance has increased steadily between 2% and 5% per year as a percentage of the total fund balance. This is consistent with our understanding that a 3% cushion is included in the amounts billed. The 3% cushion or markup is based on management's estimate of future events such as catastrophes, repairs and maintenance, etc.

Water Usage (in MCFs) and Property Occupied - The occupied residential and commercial properties were compared with the total water usage for the years ended June 30, 2005 through 2012. Data for the occupancy was not available for the years ended June 30, 2003 and 2004. The comparison further substantiated the claim that the increase in vacant properties has led to a decrease in total water usage. The exception to the data was for fiscal year 2008 which was an anomaly due primarily to the economic collapse.

NOTE D: RESULTS OF TESTING

In addition to the analysis performed, we also conducted procedures to determine if the billing rates that were being charged to residents were accurate over the past few years. We made 75 selections, 25 selections from each of the fiscal years 2010 through 2012, of customer accounts and performed the following procedures:

- 1) We recalculated the billings to ensure that the total usage multiplied by the approved rate by City Council's resolution equaled the amount charged on the bill.
- 2) We compared the approved rate by City Council's resolution to the amount used in the calculation of the monthly revenues and billings per the water & sewer fund sales spreadsheet maintained by the Assistant City Manager/Finance Director/Treasurer.

We did not note any exceptions while performing our testing.

Based on our discussion with the Assistant City Manager/Finance Director/Treasurer, we noted that the billing rate once approved by the City Council on an annual basis, is entered into the billing software by the Account Clerk III once the June billings have been printed and mailed. The billing rate is verified in the software by the Assistant City Manager/Finance Director/Treasurer. When the first bills of July are being built, the Assistant City Manager/Finance Director/Treasurer also verifies the amounts on a few bills are being calculated properly based on the new approved rate that was entered.

Based on our discussions with management, the development of the proposed rate each year is expense driven and is based on the last three (3) years and the current year. The rates that are being charged by the Detroit Water and Sewerage Department and the Oakland County Water Resources Commissioner are based on the purchases and flow. The City of Ferndale tries to project over the next five (5) years what the pressure and flows are going to be to manage the flows. The sewer charges are also greater than some of the suburban cities because the City of Ferndale has combined storm water and sanitary water sewers which have greater costs associated with them for the water treatment based on Federal regulations.