

**CITY OF FERNDALE,
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended
June 30, 2009**



CITY OF FERNDALE, MICHIGAN

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferndale, Michigan as of and for the year ended June 30, 2009, 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 Ferndale'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferndale, Michigan as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2009, on our consideration of the City of Ferndale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, and schedules of funding progress, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ferndale's basic financial statements. The combining and individual fund financial statements and schedules and the accompanying schedule of expenditures of federal awards are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining and individual fund financial statements and schedules and the accompanying schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 23, 2009

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

As management of the *City of Ferndale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2009.

Financial Highlights

- The total net assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$35,573,648. Of this amount, \$20,580,129 is invested in capital assets, \$4,238,672 is restricted for specific purposes such as debt proceeds for capital assets, debt service payments and other purposes, and \$10,754,847 may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's combined net assets in Primary Government activities increased \$1,485,727 as a result of this year's operations. Net assets of our Governmental activities increased by \$1,201,683 and net assets of our Business-type activities increased by \$284,044.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$16,410,782 for a decrease of \$137,976 as compared with the prior year. Approximately 47% of this amount, or \$7,734,336, is available for spending at the government's discretion (*unreserved, undesignated fund balance*).
- At the end of the current fiscal year, the unreserved and undesignated fund balance for the General Fund was \$4,654,954 or 26% of total General Fund expenditures.
- The City's total long-term debt decreased by \$846,337 during the current fiscal year.
- The City Council adopted a comprehensive Financial Policy Manual in May 2009. The manual formalized operating procedures of City staff, and established sound financial practices and guidance in maintaining long-term financial stability. Adoption of formal policies is also one of the determining factors that rating agencies (Standard and Poor's, Moody's, and Fitch) use to evaluate the overall financial health of a municipality, which these policies specifically address.
- The City Council adopted a Capital Improvement Program (CIP) proposed by staff after holding meetings with Department Heads from CDS, DPW, Recreation, and other stakeholders. The CIP will be used as a planning guide when considering needed capital improvements and the related funding for those improvements.
- The City maintained its A+ credit rating by Standard & Poor's based on our solid financial position. This rating was upgraded in 2008 from its previous BBB+ rating.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and public grounds, community development, and operation of the Municipal Library and Kulick Community Center. The business-type activities of the City include water distribution, sanitary sewer operations and the municipal parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate authorities - the Downtown Development Authority and the Brownfield Redevelopment Authority - for which the City is financially accountable. Financial information for the *component units* are reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on

CITY OF FERNDALE, MICHIGAN Management's Discussion and Analysis

near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service, and Library Renovation funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

2. **Proprietary funds** account for activities that operate similar to a business. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer system, which is considered to be a major fund of the City, and the Auto Parking fund, which is considered a non-major enterprise fund of the City.
 - a) **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for both its water distribution and sanitary sewer operations, and its municipal parking system.
 - b) **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motorized vehicle and general maintenance equipment, and for costs related to workers' compensation, unemployment, and other employment-related costs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

3. **Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual for the General fund and schedules concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees and to this Management Discussion and Analysis.

The combining and individual fund statements referred to earlier in connection with non-major governmental, internal service, pension and component unit funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Ferndale, assets exceeded liabilities by \$35,573,648 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, \$20,580,129 or (58%), reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF FERNDALE, MICHIGAN
Management's Discussion and Analysis

City of Ferndale's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 21,276,782	\$ 22,085,220	\$ 4,824,585	\$ 5,029,804	\$ 26,101,367	\$ 27,115,024
Capital assets, net	19,191,176	19,961,426	38,365,264	36,987,959	57,556,440	56,949,385
Total assets	<u>40,467,958</u>	<u>42,046,646</u>	<u>43,189,849</u>	<u>42,017,763</u>	<u>83,657,807</u>	<u>84,064,409</u>
Current liabilities	6,325,195	6,162,240	1,493,518	2,161,594	7,818,713	8,323,834
Noncurrent liabilities	23,531,412	26,474,738	16,734,034	15,177,916	40,265,446	41,652,654
Total liabilities	<u>29,856,607</u>	<u>32,636,978</u>	<u>18,227,552</u>	<u>17,339,510</u>	<u>48,084,159</u>	<u>49,976,488</u>
Net assets:						
Invested in capital assets, net of related debt	(150,788)	(1,105,341)	20,730,917	21,036,634	20,580,129	19,931,293
Restricted assets	4,238,672	3,391,154	-	-	4,238,672	3,391,154
Unrestricted	6,523,467	7,123,855	4,231,380	3,641,619	10,754,847	10,765,474
Total net assets	<u>\$ 10,611,351</u>	<u>\$ 9,409,668</u>	<u>\$ 24,962,297</u>	<u>\$ 24,678,253</u>	<u>\$ 35,573,648</u>	<u>\$ 34,087,921</u>

An additional portion of the City's net assets, \$4,238,672 or (12%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$10,754,847 or (30%) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets in Primary Government activities increased \$1,485,727 during the current fiscal year. Governmental activities account for an increase of \$1,201,683, and business-type activities account for an increase of \$284,044 for the year ended.

CITY OF FERNDALE, MICHIGAN
Management's Discussion and Analysis

City of Ferndale's Changes in Net Assets

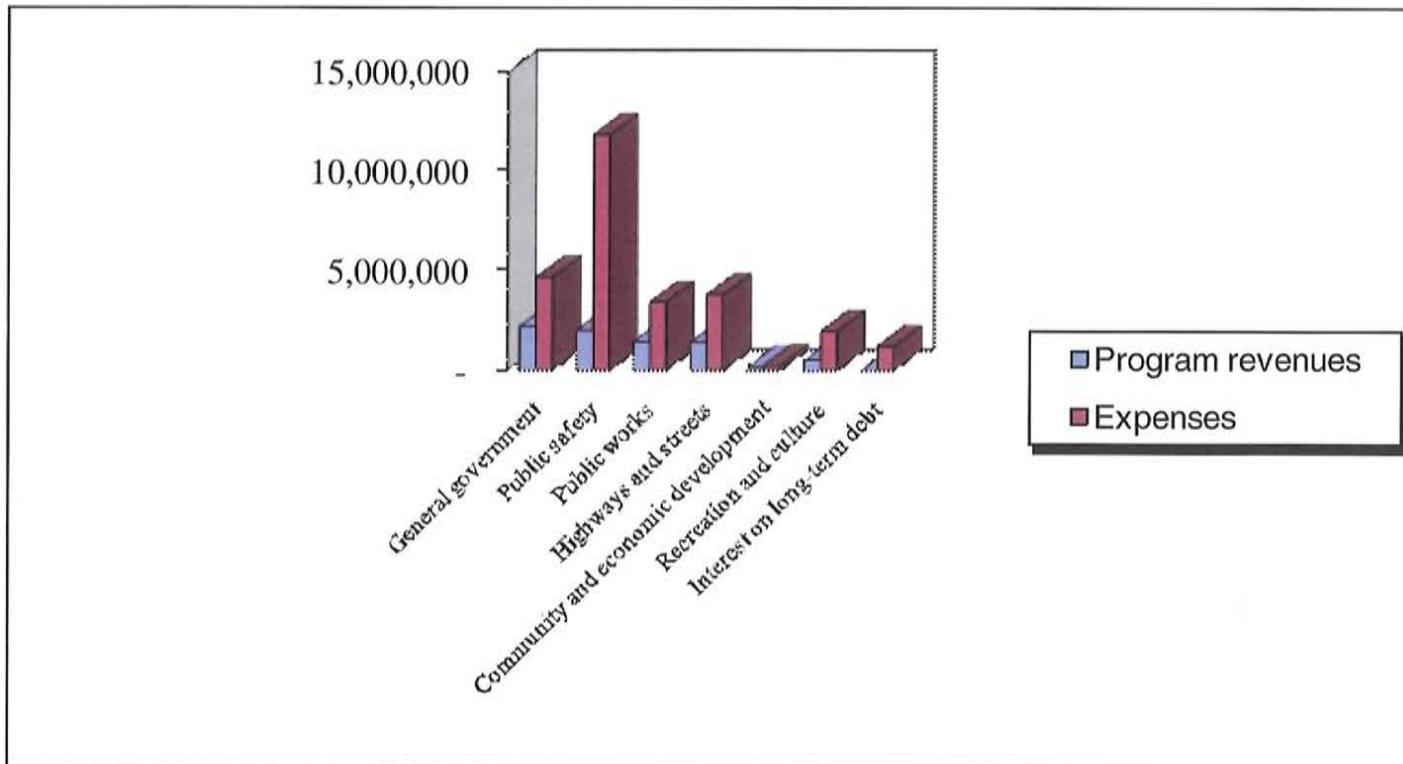
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenue:						
Program revenues:						
Charges for services	\$ 5,832,374	\$ 5,927,014	\$ 7,524,601	\$ 7,445,343	\$ 13,356,975	\$ 13,372,357
Operating grants and contributions	1,786,428	2,171,985	4,485	7,474	1,790,913	2,179,459
Capital grants and contributions	57,836	2,936	-	-	57,836	2,936
General revenues:						
Property taxes	15,991,349	15,112,403	-	-	15,991,349	15,112,403
State shared revenue	2,996,316	3,083,675	-	-	2,996,316	3,083,675
Grants and contributions not restricted to specific programs	392,515	50,910	-	-	392,515	50,910
Other	1,196,642	1,070,060	25,050	178,427	1,221,692	1,248,487
Total revenues	28,253,460	27,418,983	7,554,136	7,631,244	35,807,596	35,050,227
Expenses:						
General government	4,679,321	4,203,087	-	-	4,679,321	4,203,087
Public safety	11,837,134	10,874,258	-	-	11,837,134	10,874,258
Public works	3,412,243	3,367,281	-	-	3,412,243	3,367,281
Highways and streets	3,798,219	3,597,963	-	-	3,798,219	3,597,963
Community and economic development	230,809	158,357	-	-	230,809	158,357
Recreation and culture	1,959,505	1,790,527	-	-	1,959,505	1,790,527
Interest on long-term debt	1,218,586	914,329	-	-	1,218,586	914,329
Water and sewer	-	-	6,790,494	7,308,569	6,790,494	7,308,569
Auto parking	-	-	395,558	320,423	395,558	320,423
Total expenses	27,135,817	24,905,802	7,186,052	7,628,992	34,321,869	32,534,794
Increase in net assets before transfers	1,117,643	2,513,181	368,084	2,252	1,485,727	2,515,433
Transfers	84,040	80,860	(84,040)	(80,860)	-	-
Increase (decrease) in net assets	1,201,683	2,594,041	284,044	(78,608)	1,485,727	2,515,433
Net assets-beginning, as restated	9,409,668	6,815,627	24,678,253	24,756,861	34,087,921	31,572,488
Net assets-ending	\$ 10,611,351	\$ 9,409,668	\$ 24,962,297	\$ 24,678,253	\$ 35,573,648	\$ 34,087,921

CITY OF FERNDALE, MICHIGAN
Management's Discussion and Analysis

Governmental activities increased the City's net assets by \$1,201,683, accounting for the City's total increase in net assets. Key elements of this change are as follows:

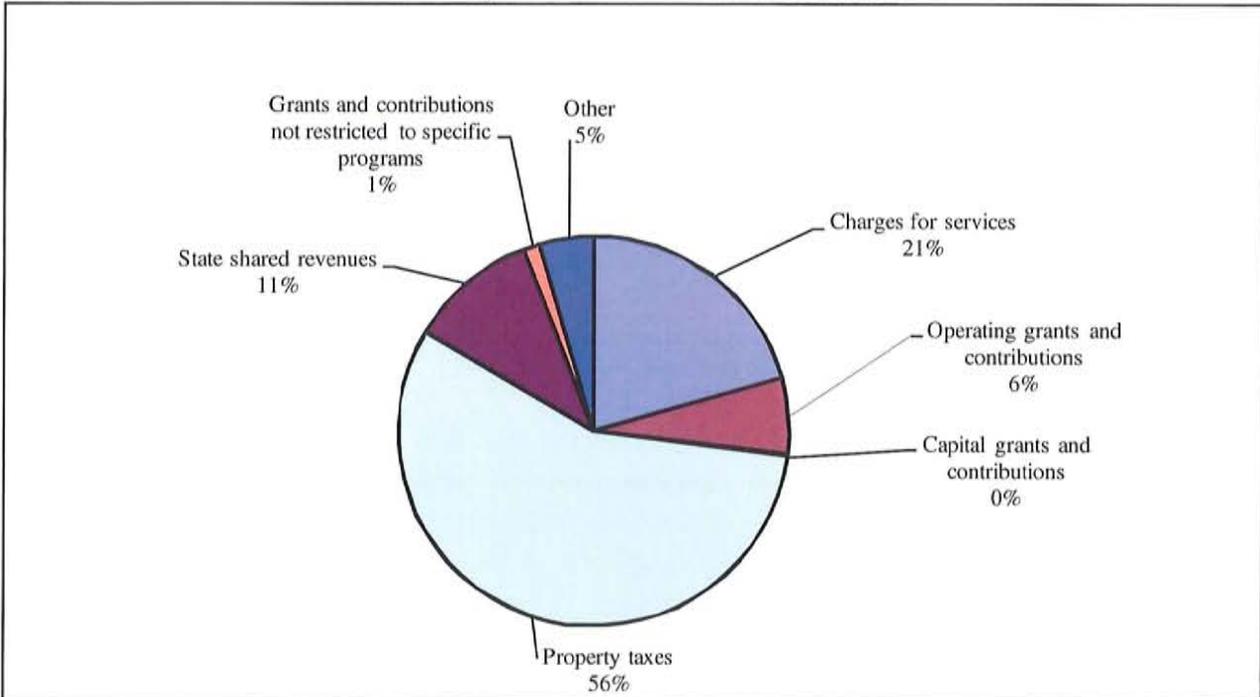
- An increase in property tax revenues of \$879,000 due to new construction, inflationary changes in valuations, and housing sales and transfers with uncap individual taxable value.
- An increase to grants and contributions not restricted to a specific program of \$342,000 mostly due to the refund of prior years' contributions to the Michigan Municipal Risk Management Authority's insurance pool for general liability and property damage coverage.
- An increase in Other revenues of \$126,000 mostly due to an increase in the gain on sale of capital assets.

Expenses and Program Revenues – Governmental Activities



CITY OF FERNDALE, MICHIGAN
Management's Discussion and Analysis

Revenues by Source – Governmental Activities

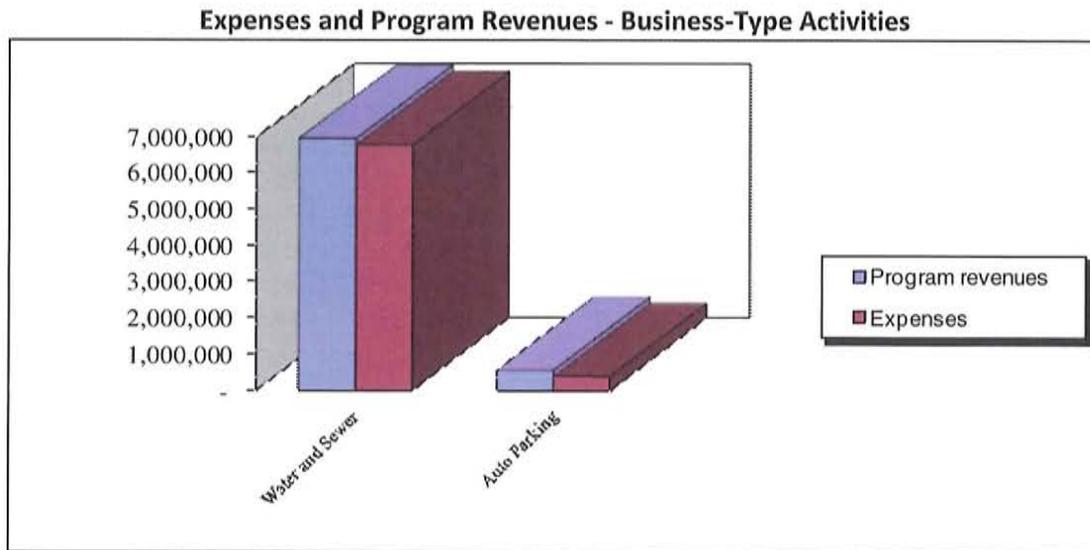


Business-type Activities. Business-type activities increased the City's net assets by \$284,044, accounting for the City's total increase in net assets. The key elements of this decrease are as follows:

- A modest increase in charge for services revenue in the amount of \$80,000, due to an almost 7.7% increase in water/sewer rates effective July 1, 2008.
 - A notable decrease of \$485,000 in the costs of the Water/Sewer Fund, mostly due to the reduction in water purchases from the City of Detroit and the sewage disposal charges paid through Oakland County based on an almost 7% reduction in actual water/sewer sales to expected sales.
-

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$16,410,782, a decrease of \$137,976 in comparison with the prior year. Approximately 47% of this total amount, or \$7,734,336, constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Approximately 9% or \$1,558,577 is *unreserved, designated*. The remainder of fund balance, or \$7,186,180, is *reserved* to indicate that it is not available for new spending as it has already been committed for other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved and undesignated* fund balance of the general fund was \$4,654,954, while total fund balance was \$5,554,021. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 29% of total general fund expenditures, while total fund balance represents 30% of the same amount.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

The total fund balance of the City's General Fund decreased by \$227,610 during the current fiscal year. Notable changes decreasing the expected balance include the following:

After notable positive variances in 2009 revenues were identified during the 2010 Budget process, a recommendation was approved to make a sizable transfer to the Public Improvement Fund (\$1.4M). The notable revenue variances which were available to offset the transfer were: Property Taxes (\$160,000), State Shared Revenue (\$135,000), Investment earnings (\$428,000), and Other Income (\$477,000) including a one-time refund of MMRMA contributions (\$275,000) and a one-time insurance settlement from a former pavement contractor (\$103,000).

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$3,567,200 representing an increase in total net assets of \$443,235. This unexpected increase in net assets occurred despite a 20% reduction in water/sewer sales, from a budgeted projection of 93,000 MCFs to 73,000 MCFs sold. The increase is mainly attributed to a 7.7% increase in water/sewer rates, a planned contingency of \$250,000, and capitalization of interest expense for work-in-progress on the booster station, main replacements, and other projects funded through the Drinking Water Revolving Fund.

The system continues to struggle to keep up with its expenses due primarily to the costs related to maintaining an aging infrastructure. The debt service costs on maintaining the system include the \$144M GWKuhn project (of which the City's portion is approximately 10%, or \$14M), the \$8M SRF-funded water main and booster station projects, and the \$3M sewer cleaning and videotaping project.

General Fund Budgetary Highlights

The difference between the original revenue budget and the amended revenue budget was a decrease of \$466,726. The difference is due primarily to amendments for charge for services (\$250,000), fines and forfeitures (\$133,000), and investment earnings (\$100,000) based on activity reflected at the mid-year point of the fiscal year.

The difference between the original expenditure budget and amended expenditure budget was a decrease of \$868,841. The difference is due primarily to amendments to the original budget to reflect cost saving programs implemented by the City in general government (\$257,000), public safety (\$130,000), the sidewalk program (\$233,000), and general liability coverage and other central services (\$159,000).

Actual revenues were greater than budgeted revenues by \$1,110,373. This positive variance is primarily due to positive results on housing value adjustments and the related taxes (\$160,000), less state shared revenue reductions than anticipated (\$136,000), investment earnings greater than anticipated (\$428,000), and other revenues from one-time sources such as MMRMA refunds (\$275,000), and court settlements (\$103,000).

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Actual expenditures were comparable to budgeted expenditures with nominal variance.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2009, amounted to \$57,556,440 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$607,055 or 1%. This represents a decrease from governmental activities of \$770,250 or 3.8%; and an increase from business-type activities of \$1,377,305 or 3.7%.

Major capital asset events during the current fiscal year included the following:

- Adoption of a revised process for identifying old, stale, and obsolete equipment, and either marketing it for sale through on-line sources or direct resale vendors, or scrapping and writing the equipment off. The result was the sale or write-off of: DPW equipment (\$187,000) and vehicles (969,000), Library books (\$293,000), Public Safety equipment (\$106,000), General Government equipment (\$115,000), and special use vehicles (\$136,000).
- Purchase of new DPW operating equipment (\$80,000), Public Safety equipment (\$71,000), and Library books (\$47,000),
- Purchase of various heavy equipment vehicles including a Street Sweeper (\$157,000), three Dump Trucks (\$245,000), and a Caterpillar Loader (\$147,000),
- Purchase of a replacement chassis for an ambulance (\$70,000) and a fire truck/pumper (\$345,000),
- Installation of a 20-yard Compactor to service the businesses east of Woodward between 9 Mile and Troy (\$75,000),
- Installation of Mast-Arm traffic signals at Woodward Heights and Hilton (\$129,000),
- Renovations to the Fire Stations including both air quality improvements and roof repairs (\$169,000),
- Purchase of the American Legion building at 9 Mile and Livernois (\$126,000),
- Infrastructure improvements in-process to the sewage disposal system (\$420,000), and
- Renovation, improvements, and expansion of the Municipal Library in-process (\$470,000).

CITY OF FERNDALE, MICHIGAN
Management's Discussion and Analysis

City of Ferndale's Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 745,693	\$ 637,878	\$ 454,903	\$ 454,903	\$ 1,200,596	\$ 1,092,781
Construction in progress	1,208,612	318,608	8,671,542	5,654,136	9,880,154	5,972,744
Buildings	3,537,510	3,706,286	70,980	76,050	3,608,490	3,782,336
Equipment	1,119,920	1,099,752	22,136	32,560	1,142,056	1,132,312
Vehicles	1,788,323	1,188,193	23,357	31,744	1,811,680	1,219,937
Infrastructure	10,791,118	13,010,709	29,122,346	30,738,566	39,913,464	43,749,275
Total	\$ 19,191,176	\$ 19,961,426	\$ 38,365,264	\$ 36,987,959	\$ 57,556,440	\$ 56,949,385

Additional information regarding the City's capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$43,594,400, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$25,960,053) and business-type activities (\$17,634,347) at year end.

City of Ferndale's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Public improvement bonds	\$ 554,152	\$ 654,152	\$ -	\$ -	\$ 554,152	\$ 654,152
Library facility bonds	4,625,000	4,700,000	-	-	4,625,000	4,700,000
Refunding bonds, 2003	10,030,000	11,145,000	-	-	10,030,000	11,145,000
Refunding bonds, 2005	8,050,000	9,100,000	-	-	8,050,000	9,100,000
Infrastructure bonds, 2007	2,800,000	3,000,000	-	-	2,800,000	3,000,000
GW Kuhn drain project	-	-	10,469,347	10,146,325	10,469,347	10,146,325
State DWRF loans	-	-	7,165,000	5,805,000	7,165,000	5,805,000
Premiums/(Discounts), net	(99,099)	(101,881)	-	-	(99,099)	(101,881)
	\$ 25,960,053	\$ 28,497,271	\$ 17,634,347	\$ 15,951,325	\$ 43,594,400	\$ 44,448,596

The City increased debt obligations by issuing \$2,528,642 of new debt for business-type activities through the GW Kuhn drain project and the State DWRF loans. The City decreased debt obligations by \$3,382,838 from payments on principal and the amortization of debt premiums and discounts.

Additional information regarding the City's long-term debt can be found in the notes to the financial statements.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2009-10 fiscal year and will continue to be an ongoing concern as the City moves forward in future budget years.

- The general economic climate in Michigan – particularly metro Detroit – as the automotive companies struggle to hold on to their eroding market share against foreign competitors. The negative impact of this environment is seen in the decline in the housing starts, housing sales, and housing values, and the struggle the State has in keeping its fiscal commitment to the City as its own situation teeters at the precipice.
- The combined impact of Headlee and Prop A – which has cut **in half** Ferndale's ability to collect tax revenues based on the City's authorized millage and the fair market value of its real and personal property.
- The funding of "Legacy" costs, i.e. current and future retiree health care and benefit costs, in times of double-digit medical inflation. Ferndale's estimated unfunded liability for retiree health care costs as of June 30, 2008 was \$37M, for which approximately \$6.8M to date has been set aside defray those costs.
- Although the City continued to hold on to its A+ rating this year, it is tenuous given the challenges that face the City for 2010 and beyond, including the continued erosion of taxable values, and the related property taxes which comprise about 50% of General Fund operating income.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 300 East Nine Mile Road, Ferndale, Michigan 48220.

***BASIC FINANCIAL
STATEMENTS***

CITY OF FERNDALE, MICHIGAN
Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
Assets				
Cash and investments	\$ 18,986,279	\$ 2,978,470	\$ 21,964,749	\$ 414,656
Receivables (net)	1,944,152	1,732,458	3,676,610	24,655
Internal balances	(102,768)	102,768	-	-
Due from primary government	-	-	-	4,938
Prepaid items and other assets	449,119	10,889	460,008	-
Non-depreciable capital assets	1,954,305	9,126,445	11,080,750	-
Depreciable capital assets, net	17,236,871	29,238,819	46,475,690	454,951
Total assets	<u>40,467,958</u>	<u>43,189,849</u>	<u>83,657,807</u>	<u>899,200</u>
Liabilities				
Accounts payable	1,589,481	430,696	2,020,177	199,128
Due to component unit	4,938	-	4,938	-
Accrued liabilities	1,788,578	162,509	1,951,087	3,461
Unearned revenue	39,980	-	39,980	-
Noncurrent liabilities:				
Due within one year	2,902,218	900,313	3,802,531	-
Due in more than one year	23,531,412	16,734,034	40,265,446	-
Total liabilities	<u>29,856,607</u>	<u>18,227,552</u>	<u>48,084,159</u>	<u>202,589</u>
Net assets				
Invested in capital assets, net of related debt	(150,788)	20,730,917	20,580,129	454,951
Restricted for:				
Highways and streets	48,779	-	48,779	-
Public safety	262,476	-	262,476	-
Public works	3,051,443	-	3,051,443	-
Community and economic development	675,035	-	675,035	-
Debt service	200,939	-	200,939	-
Unrestricted	6,523,467	4,231,380	10,754,847	241,660
Total net assets	<u>\$ 10,611,351</u>	<u>\$ 24,962,297</u>	<u>\$ 35,573,648</u>	<u>\$ 696,611</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Statement of Activities
For the Year Ended June 30, 2009

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 4,679,321	\$ 2,108,760	\$ 70,029	\$ -	\$ (2,500,532)
Public safety	11,837,134	1,711,328	289,663	-	(9,836,143)
Public works	3,412,243	1,415,629	950	-	(1,995,664)
Highways and streets	3,798,219	152,442	1,178,980	57,836	(2,408,961)
Community and economic development	230,809	15,940	150,063	-	(64,806)
Recreation and culture	1,959,505	428,275	96,743	-	(1,434,487)
Interest on long-term debt	1,218,586	-	-	-	(1,218,586)
Total governmental activities	27,135,817	5,832,374	1,786,428	57,836	(19,459,179)
Business-type activities:					
Water and sewer	6,790,494	6,960,595	4,485	-	174,586
Auto parking	395,558	564,006	-	-	168,448
Total business-type activities	7,186,052	7,524,601	4,485	-	343,034
Total primary government	\$ 34,321,869	\$ 13,356,975	\$ 1,790,913	\$ 57,836	\$ (19,116,145)
Component unit:					
Downtown Development Authority	\$ 549,741	\$ -	\$ 48,101	\$ -	\$ (501,640)
Brownfield Redevelopment Authy.	139,260	4,234	-	-	(135,026)
Total component units	\$ 689,001	\$ 4,234	\$ 48,101	\$ -	\$ (636,666)

continued...

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended June 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (19,459,179)	\$ 343,034	\$ (19,116,145)	\$ (636,666)
General revenues:				
Property taxes	15,991,349	-	15,991,349	719,922
State shared revenue	2,996,316	-	2,996,316	-
Grants and contributions not restricted to specific programs	392,515	-	392,515	-
Unrestricted investment earnings	900,263	25,050	925,313	1,464
Gain on sale of capital assets	296,379	-	296,379	-
Transfers - internal activities	84,040	(84,040)	-	-
Total general revenues and transfers	20,660,862	(58,990)	20,601,872	721,386
Change in net assets	1,201,683	284,044	1,485,727	84,720
Net assets, beginning of year, as restated	9,409,668	24,678,253	34,087,921	611,891
Net assets, end of year	\$ 10,611,351	\$ 24,962,297	\$ 35,573,648	\$ 696,611

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Balance Sheet
Governmental Funds
June 30, 2009

	General	Debt Service	Capital Project Library Renovation	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$6,597,217	\$ 203,940	\$ 4,522,438	\$ 6,319,439	\$ 17,643,034
Inventory	767	-	-	-	767
Receivables:					
Accounts receivable	480,208	-	-	5,000	485,208
Taxes-delinquent	151,322	53,583	-	30,207	235,112
Less: allowance for doubtful accounts	(97,839)	(38,126)	-	(18,996)	(154,961)
Interest and dividends	78,725	-	-	-	78,725
Due from other funds	67,320	-	-	-	67,320
Due from other governments	942,321	-	-	349,391	1,291,712
Prepaid expenditures	268,745	-	-	-	268,745
Total assets	\$8,488,786	\$ 219,397	\$ 4,522,438	\$ 6,685,041	\$ 19,915,662
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 902,136	\$ 3,000	\$ 78,276	\$ 279,466	\$ 1,262,878
Accrued liabilities	1,432,986	-	-	67,670	1,500,656
Due to other funds	-	-	-	67,320	67,320
Deferred revenue	599,643	15,458	-	58,925	674,026
Total liabilities	2,934,765	18,458	78,276	473,381	3,504,880
Fund balances:					
Reserved for:					
Debt service	-	200,939	-	-	200,939
Capital projects	-	-	4,444,162	2,173,927	6,618,089
Inventory	767	-	-	-	767
Prepays	268,745	-	-	-	268,745
Other purposes	29,329	-	-	-	29,329
Unreserved, designated	600,226	-	-	958,351	1,558,577
Unreserved, undesignated for:					
General fund	4,654,954	-	-	-	4,654,954
Special revenue funds	-	-	-	3,079,382	3,079,382
Total fund balances	5,554,021	200,939	4,444,162	6,211,660	16,410,782
Total liabilities and fund balances	\$8,488,786	\$ 219,397	\$ 4,522,438	\$ 6,685,041	\$ 19,915,662

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2009

Fund balances - total governmental funds **\$ 16,410,782**

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 therefore are not reported in the funds.

Add: capital assets	51,944,939
Deduct: accumulated depreciation	(34,972,993)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	634,046
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Internal service funds are used by management to charge the costs of certain equipment usage and employee benefits to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service funds	3,416,300
Deduct: amount due to business-type activities	(102,768)
Deduct: amount due to component units	(4,938)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(25,960,053)
Deduct: compensated absences	(473,577)
Deduct: accrued interest on bonds payable	(280,387)

Net assets of governmental activities **\$ 10,611,351**

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General	Debt Service	Capital Project Library Renovation	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 9,925,758	\$ 3,373,078	\$ -	\$ 2,615,533	\$ 15,914,369
Licenses and permits	338,290	-	-	-	338,290
Intergovernmental	4,234,734	-	-	1,744,678	5,979,412
Charges for services	1,042,730	-	-	1,087,646	2,130,376
Fines and forfeitures	1,633,962	-	-	52,179	1,686,141
Investment earnings	778,193	244	51,130	54,261	883,828
Other	1,026,761	-	-	44,129	1,070,890
Total revenues	18,980,428	3,373,322	51,130	5,598,426	28,003,306
Expenditures					
Current:					
General government	3,211,269	-	-	83,402	3,294,671
Public safety	11,737,494	-	-	8,104	11,745,598
Public works	837,959	-	-	2,350,276	3,188,235
Highways and streets	-	-	-	1,677,757	1,677,757
Community and economic development	-	-	-	124,112	124,112
Recreation and culture	939,327	-	-	825,739	1,765,066
Other functions	1,175,265	6,621	-	-	1,181,886
Debt service					
Principal	-	2,365,000	-	175,000	2,540,000
Interest and fees	-	1,061,633	-	216,975	1,278,608
Capital outlay	70,551	-	470,349	994,966	1,535,866
Total expenditures	17,971,865	3,433,254	470,349	6,456,331	28,331,799
Revenues over (under) expenditures	1,008,563	(59,932)	(419,219)	(857,905)	(328,493)
Other financing sources (uses)					
Transfers in	269,285	-	-	1,855,000	2,124,285
Transfers out	(1,766,104)	-	-	(430,941)	(2,197,045)
Proceeds from sale of capital assets	260,646	-	-	2,631	263,277
Total other financing sources (uses)	(1,236,173)	-	-	1,426,690	190,517
Net change in fund balances	(227,610)	(59,932)	(419,219)	568,785	(137,976)
Fund balances, beginning, restated	5,781,631	260,871	4,863,381	5,642,875	16,548,758
Fund balances, end of year	\$ 5,554,021	\$ 200,939	\$ 4,444,162	\$ 6,211,660	\$ 16,410,782

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2009

Net change in fund balances - total governmental funds **\$ (137,976)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,535,865
Deduct: depreciation expense	(2,891,600)
Deduct: basis in sale of capital assets	(70,540)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenue	(113,730)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	2,540,000
Add: amortization of bond premiums and accrued interest	60,022

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add: net operating income from governmental activities in the internal service fund	48,702
Add: change in amount charged to business-type activities	239,089
Deduct: change in amount charged to component units	(291)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	(7,858)
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Change in net assets of governmental activities	\$ 1,201,683
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The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Statement of Net Assets
Proprietary Funds
June 30, 2009

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>NonMajor</u>		<u>Total</u>	<u>Internal Service Funds</u>
	<u>Major Fund</u>	<u>Fund</u>		
	<u>Water/ Sewer</u>	<u>Auto Parking</u>		
Assets				
Current assets:				
Cash and investments	\$ 2,406,485	\$ 571,985	\$ 2,978,470	\$ 1,343,245
Accounts receivable	1,721,229	6,744	1,727,973	8,356
Intergovernmental receivable	4,485	-	4,485	-
Inventories	10,889	-	10,889	155,107
Prepaid expenses	-	-	-	24,500
Total current assets	<u>4,143,088</u>	<u>578,729</u>	<u>4,721,817</u>	<u>1,531,208</u>
Noncurrent assets:				
Capital assets	54,659,950	1,456,752	56,116,702	5,499,950
Less accumulated depreciation	(17,317,453)	(433,985)	(17,751,438)	(3,280,720)
Total noncurrent assets	<u>37,342,497</u>	<u>1,022,767</u>	<u>38,365,264</u>	<u>2,219,230</u>
Total assets	<u>41,485,585</u>	<u>1,601,496</u>	<u>43,087,081</u>	<u>3,750,438</u>
Liabilities				
Current liabilities:				
Accounts payable	417,691	13,005	430,696	326,603
Accrued liabilities	157,347	4,312	161,659	7,535
Customer deposits	850	-	850	-
Current portion of long-term debt	900,313	-	900,313	-
Total current liabilities	<u>1,476,201</u>	<u>17,317</u>	<u>1,493,518</u>	<u>334,138</u>
Noncurrent liabilities:				
Long term debt	16,734,034	-	16,734,034	-
Total liabilities	<u>18,210,235</u>	<u>17,317</u>	<u>18,227,552</u>	<u>334,138</u>
Net Assets				
Investment in capital assets, net of related debt	19,708,150	1,022,767	20,730,917	2,219,230
Unrestricted	3,567,200	561,412	4,128,612	1,197,070
Total net assets	<u>\$ 23,275,350</u>	<u>\$ 1,584,179</u>	24,859,529	<u>\$ 3,416,300</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			102,768	
Net assets of business type activities			<u>\$ 24,962,297</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	NonMajor Fund	Total	Internal Service Funds
	Water/ Sewer	Auto Parking		
Operating revenues				
Charges for services	\$ 6,114,697	\$ -	\$ 6,114,697	\$ 1,599,925
Parking meter receipts	-	560,266	560,266	-
Water penalties	364,243	-	364,243	-
Water meter repairs	267,418	-	267,418	-
Miscellaneous income	218,722	3,740	222,462	29,183
Total operating revenues	6,965,080	564,006	7,529,086	1,629,108
Operating expenses				
Personal services	1,082,788	130,476	1,213,264	213,932
General and administrative	83,065	60,368	143,433	805,315
Utilities	58,988	19,251	78,239	-
Rental expense	156,905	68,795	225,700	-
Contractual services	124,068	40,052	164,120	-
Water and sewer expense	2,926,233	-	2,926,233	-
Maintenance expense	355,235	23,733	378,968	-
Depreciation	1,578,882	62,600	1,641,482	500,424
Medical and benefit payments	-	-	-	337,613
Total operating expenses	6,366,164	405,275	6,771,439	1,857,284
Operating income (loss)	598,916	158,731	757,647	(228,176)
Non-operating revenues (expenses)				
Interest income	19,843	5,207	25,050	16,435
Interest expense	(175,524)	-	(175,524)	-
Gain on sale of capital assets	-	-	-	103,643
Total non-operating revenues (expenses)	(155,681)	5,207	(150,474)	120,078
Income before capital contributions and transfers	443,235	163,938	607,173	(108,098)
Transfers in	-	-	-	156,800
Transfers out	-	(84,040)	(84,040)	-
Change in net assets	443,235	79,898	523,133	48,702
Net assets, beginning of year	22,832,115	1,504,281		3,367,598
Net assets, end of year	\$ 23,275,350	\$ 1,584,179		\$ 3,416,300
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(239,089)	
Change in net assets of business-type activities			\$ 284,044	

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2009

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Major Fund</u>	<u>NonMajor Fund</u>		
	<u>Water/ Sewer</u>	<u>Auto Parking</u>	<u>Total</u>	<u>Internal Service Funds</u>
Cash flows from operating activities				
Cash received from customers and others	\$ 8,085,714	\$ 559,342	\$ 8,645,056	\$ -
Cash received from interfund services	-	-	-	1,645,680
Cash payments to employees	(1,387,941)	(130,208)	(1,518,149)	(211,779)
Cash payments to suppliers for goods and services	(4,016,769)	(131,123)	(4,147,892)	(962,037)
Cash payments for interfund services	(185,138)	(70,566)	(255,704)	-
Net cash provided by operating activities	2,495,866	227,445	2,723,311	471,864
Cash flows from investing activities				
Investment income	19,843	5,207	25,050	16,435
Cash flows from capital and related financing activities				
Purchase of capital assets	(3,018,787)	-	(3,018,787)	(1,156,449)
Proceeds from sale of capital assets	-	-	-	103,644
Bond/note principal payments	(845,620)	-	(845,620)	-
Bond/note interest payments	(175,524)	-	(175,524)	-
Proceeds from debt issuance	2,528,642	-	2,528,642	-
Net cash provided by (used in) capital and related financing activities	(1,511,289)	-	(1,511,289)	(1,052,805)
Cash flows from non-capital financing activities				
Transfers	-	(84,040)	(84,040)	156,800
Net increase (decrease) in cash and cash equivalents	1,004,420	148,612	1,153,032	(407,706)
Cash and cash equivalents, beginning of year	1,402,065	423,373	1,825,438	1,750,951
Cash and cash equivalents, end of year	\$ 2,406,485	\$ 571,985	\$ 2,978,470	\$ 1,343,245

Continued...

CITY OF FERNDALE, MICHIGAN
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended June 30, 2009

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	NonMajor Fund	Total	Internal Service Funds
	Water/ Sewer	Auto Parking		
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 598,916	\$ 158,731	\$ 757,647	\$ (228,176)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,578,882	62,600	1,641,482	500,424
Changes in assets and liabilities:				
Accounts receivable - customers	1,125,119	(4,664)	1,120,455	-
Due from other governments	(4,485)	-	(4,485)	-
Accounts receivable - other	-	-	-	16,572
Inventories	3,192	-	3,192	12,889
Prepaid items	-	-	-	(4,500)
Accounts payable	(500,607)	10,510	(490,097)	172,502
Accrued liabilities	(305,151)	268	(304,883)	2,153
Net cash provided by operating activities	<u>\$ 2,495,866</u>	<u>\$ 227,445</u>	<u>\$ 2,723,311</u>	<u>\$ 471,864</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2009

	<u>Pension and Other Employee Benefit Trusts</u>	<u>Agency</u>
Assets		
Cash and cash equivalents	\$ 1,681,098	\$ 249,630
Accrued interest receivable	251,107	-
Investments		
Debt securities	22,488,635	-
Equity securities	21,713,395	-
Mutual funds	4,120,602	-
Real estate investment trust	2,305,720	-
Total investments	<u>50,628,352</u>	<u>-</u>
Total assets	<u>52,560,557</u>	<u>\$ 249,630</u>
 LIABILITIES		
Liabilities		
Accounts payable	25,993	\$ -
Other liabilities	-	249,630
Total liabilities	<u>25,993</u>	<u>\$ 249,630</u>
 Net Assets		
Held in trust for pension benefits and other purposes	<u>\$ 52,534,564</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
Statement of Changes in Fiduciary Net Assets
Retirement Systems
For the Year Ended June 30, 2009

	Pension and Other Employee Benefit Trusts
Additions	
Contributions	
Employer contributions	\$ 1,293,805
Plan member contributions	149,864
	1,443,669
Investment income (loss)	
Net depreciation in fair value	(10,665,297)
Interest	1,185,064
Dividends	681,445
	(8,798,788)
Less investment expense	(341,536)
	(9,140,324)
Total reductions	(7,696,655)
Deductions	
Benefits	3,454,930
Administrative expenses	28,824
	3,483,754
Net (decrease) in plan net assets	(11,180,409)
Net assets held in trust for pension benefits - beginning of year	63,714,973
Net assets held in trust for pension benefits - end of year	\$ 52,534,564

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

Combining Statement of Net Assets - Component Units June 30, 2009

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
Assets			
Cash and investments	\$ 137,001	\$ 277,655	\$ 414,656
Receivables, net	20,623	4,032	24,655
Due from primary government	4,938	-	4,938
Capital assets:			
Depreciable, net	<u>454,951</u>	<u>-</u>	<u>454,951</u>
Total assets	<u>617,513</u>	<u>281,687</u>	<u>899,200</u>
Liabilities			
Accounts payable	42,812	156,316	199,128
Accrued liabilities	<u>3,461</u>	<u>-</u>	<u>3,461</u>
Total liabilities	<u>46,273</u>	<u>156,316</u>	<u>202,589</u>
Net assets			
Invested in capital assets, net	454,951	-	454,951
Unrestricted	<u>116,289</u>	<u>125,371</u>	<u>241,660</u>
Total net assets	<u>\$ 571,240</u>	<u>\$ 125,371</u>	<u>\$ 696,611</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

Combining Statement of Activities - Component Units June 30, 2009

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
Expenses			
Community and economic development	\$ 550,194	\$ 139,260	\$ 689,454
Program revenues			
Charges for services	-	4,234	4,234
General revenues			
Property taxes	497,142	222,780	719,922
Contributions from city general fund	20,000	-	20,000
Other contributions	28,101	-	28,101
Unrestricted investment earnings	-	1,917	1,917
Total revenues	<u>545,243</u>	<u>228,931</u>	<u>774,174</u>
Change in net assets	(4,951)	89,671	84,720
Net assets, beginning of year	<u>576,191</u>	<u>35,700</u>	<u>611,891</u>
Net assets, end of year	<u>\$ 571,240</u>	<u>\$ 125,371</u>	<u>\$ 696,611</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of the City of Ferndale, Michigan (the "City" or "government") and its component units, which are legally separate organizations for which the City is financially accountable. The component units each have a June 30 year-end.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown City, encourages historical preservation and promotes economic growth within the City	City Council appoints and may remove DDA board and approves DDA budget	Not prepared
Brownfield Redevelopment Authority; provide assistance for the redevelopment of abandoned, idled, or under-utilized industrial or commercial properties which are complicated by real or perceived environmental contamination	City Council appoints the governing body and approves the budget.	Not prepared

B. Basis of Presentation

Government-Wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General fund. This 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.

Debt service fund. This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Library Renovation (Capital project). This fund accounts for the use of bond proceeds received on the general obligation debt issuance for the renovation of the City Library.

The City reports the following major enterprise fund:

Water and sewer fund. This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Capital project funds. These funds account for revenue sources and uses related to major capital project initiatives by the City.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes vehicles and equipment maintenance and workers' compensation self-insurance.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Pension trust funds. These funds account for the activities of the Employees Retirement System as well as the Policemen and Firemen Retirement System, which accumulates resources for retirement benefits and post-retirement health care payments to qualified employees.

Agency funds. These funds account for assets held for other governments in an agency capacity.

C. Measurement Focus/Basis of Accounting

Government-Wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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 revenue of the City's enterprise funds and internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year end. Property taxes, franchise taxes, intergovernmental revenues, licenses, and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Assets, Liabilities and Equity

Deposits and Investments

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "cash and investments". The cash and investment resources of the Employees Retirement System, Policemen and Firemen Retirement System as well as the Post Retirement Health Care Fund are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value is recognized each year.

Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Generally, inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Actual historical cost was used as available. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10 - 20
Buildings and building improvements	5 - 40
Public domain infrastructure	15 - 40
Water and wastewater system infrastructure	25 - 40
Vehicles	2 - 20
Office equipment	3 - 10
Machinery and equipment	5 - 10

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned amounts and all unused leave hours are accrued in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term Obligations

In the government-wide financial statements, and 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

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, 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 a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the functional level for the general fund and the fund level for special revenue funds.

The City Council requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2009, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public safety	\$ 11,604,426	\$11,737,494	\$133,068
Public works	791,202	837,959	46,757
Transfers out	1,730,000	1,766,104	36,104
Special Revenue:			
Major streets	1,154,384	1,207,804	53,420
Local streets	513,037	683,120	170,083
Sanitation	2,614,168	2,619,756	5,588
Library operating	1,121,452	1,135,746	14,294
SMART taxi subsidy	79,059	83,402	4,343

3. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES

A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2009:

<u>Cash and Investments</u>	<u>Deposits</u>	<u>Investments</u>	<u>Other</u>	<u>Total</u>
Government-Wide				
Cash and cash equivalents	\$ 2,569,005	\$ 2,759,327	\$ 3,050	\$ 5,331,382
Investments	3,250,000	13,383,367	-	16,633,367
Fiduciary Funds				
Cash and cash equivalents	250,013	1,680,715	-	1,930,728
Investments	-	50,628,352	-	50,628,352
Component Units				
Cash and cash equivalents	414,656	-	-	414,656
Total	\$ 6,483,674	\$ 68,451,761	\$ 3,050	\$ 74,938,485

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Statutory Authority

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities for the City's investments are included in the investment schedule below.

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2009 the City had the following investments:

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Investment Type	Interest Rate Risk - Time Segment Distribution Schedule					Total
	Less Than 1 Year	1-5	6-10	More Than 10 Years	Not Applicable	
Pooled investments	\$ -	\$ -	\$ -	\$ -	\$ 2,759,327	\$ 2,759,327
U.S. Government	2,153,470	10,848,993	3,257,769	6,793,701	-	23,053,933
Corporate bonds	95,384	7,175,801	2,876,410	2,325,963	-	12,473,558
Foreign bonds	-	748,731	466,294	27,020	-	1,242,045
Stocks	-	-	-	-	21,713,395	21,713,395
Mutual funds	-	-	-	-	4,120,602	4,120,602
REIT	-	-	-	-	2,305,720	2,305,720
Other	-	-	-	-	783,181	783,181
Total	\$ 2,248,854	\$ 18,773,525	\$ 6,600,473	\$ 9,146,684	\$ 31,682,225	\$ 68,451,761

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. In compliance with State law, the City's investments policy limits investments to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not have specific limits in excess of state law on investment credit risk. As of June 30, 2009, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

Investment Type	Credit Risk - S&P Quality Fair Values							Not Rated	Total
	AAA	AA	A	BBB	BB	B	CCC and Below		
Pooled investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,759,327	\$ 2,759,327
U.S. Government	20,745,077	-	-	30,649	-	-	-	2,278,210	23,053,936
Corporate bonds	1,554,746	808,523	4,108,082	4,849,209	502,474	333,175	166,148	151,199	12,473,556
Foreign bonds	-	316,490	569,182	356,372	-	-	-	-	1,242,044
Stocks	-	-	-	-	-	-	-	21,713,395	21,713,395
Mutual funds	-	-	-	-	-	-	-	4,120,602	4,120,602
REIT	-	-	-	-	-	-	-	2,305,720	2,305,720
Other	-	-	-	-	-	-	-	783,181	783,181
Total	\$ 22,299,823	\$ 1,125,013	\$ 4,677,264	\$ 5,236,230	\$ 502,474	\$ 333,175	\$ 166,148	\$ 34,111,634	\$ 68,451,761

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end \$2,939,997 of the City's bank balance of \$6,692,771 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

either uninsured, unregistered and held by a counterparty in the City's name or are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

B. Receivables

Receivables in the governmental activities are approximately 66 percent due from other governments, 30 percent accounts receivables, and 4 percent taxes and special assessments. Business-type activities receivables are 100 percent due from customers.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Primary Government			Component Unit
	Unearned	Unavailable	Total	Unavailable
Personal property taxes not yet received	\$ -	\$ 80,152	\$ 80,152	\$ 10,623
Special assessments	-	47,715	47,715	-
State shared revenue not received within 60 days	-	506,179	506,179	-
Unearned fire service revenue	39,980	-	39,980	-
Total	\$ 39,980	\$ 634,046	\$ 674,026	\$ 10,623

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary government

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities					
Capital assets, not depreciated					
Land	\$ 637,878	\$ 107,815	\$ -	\$ -	\$ 745,693
Construction in process	318,608	890,004	-	-	1,208,612
Total capital assets, not depreciated	956,486	997,819	-	-	1,954,305
Capital assets, depreciated					
Infrastructure	39,469,158	127,333	-	-	39,596,491
Buildings	7,145,622	187,297	(33,964)	-	7,298,955
Equipment	3,998,155	303,076	(667,010)	-	3,634,221
Vehicles	4,989,653	1,076,789	(1,105,525)	-	4,960,917
Total capital assets, depreciated	55,602,588	1,694,495	(1,806,499)	-	55,490,584
Less accumulated depreciation					
Infrastructure	26,458,449	2,346,924	-	-	28,805,373
Buildings	3,439,336	334,336	(12,227)	-	3,761,445
Equipment	2,898,403	236,259	(620,361)	-	2,514,301
Vehicles	3,801,460	474,505	(1,103,371)	-	3,172,594
Total accumulated depreciation	36,597,648	3,392,024	(1,735,959)	-	38,253,713
Total capital assets depreciated, net	19,004,940	(1,697,529)	(70,540)	-	17,236,871
Total governmental activities, net	\$ 19,961,426	\$ (699,710)	\$ (70,540)	\$ -	\$ 19,191,176

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Primary government - continued

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-type activities:					
Capital assets, not depreciated					
Land	\$ 454,903	\$ -	\$ -	\$ -	\$ 454,903
Construction in process	5,654,136	3,017,406	-	-	8,671,542
Total capital assets, not depreciated	6,109,039	3,017,406	-	-	9,126,445
Capital assets, depreciated					
Infrastructure	44,768,964	-	-	-	44,768,964
Buildings	1,085,091	-	-	-	1,085,091
Equipment	1,006,694	1,381	-	-	1,008,075
Vehicles	128,127	-	-	-	128,127
Total capital assets, depreciated	46,988,876	1,381	-	-	46,990,257
Less accumulated depreciation					
Infrastructure	14,030,398	1,616,220	-	-	15,646,618
Buildings	1,009,041	5,070	-	-	1,014,111
Equipment	974,134	11,805	-	-	985,939
Vehicles	96,383	8,387	-	-	104,770
Total accumulated depreciation	16,109,956	1,641,482	-	-	17,751,438
Total capital assets depreciated, net	30,878,920	(1,640,101)	-	-	29,238,819
Total business-type activities, net	\$36,987,959	\$ 1,377,305	\$ -	\$ -	\$38,365,264

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

Governmental activities	
General government	\$ 106,924
Public safety	138,848
Public works	281,558
Highways and streets	2,145,662
Community and economic development	6,385
Recreation and culture	212,223
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	500,424
Total depreciation expense - governmental activities	<u>\$ 3,392,024</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Primary government – continued

Business-type activities

Water and sewer	\$ 1,578,882
Auto parking	<u>62,600</u>

Total depreciation expense - business-type activities **\$ 1,641,482**

Capitalized interest for business-type activities amounted to \$241,254 for the year ended June 30, 2009.

Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 20, 2009, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, depreciated					
Infrastructure	\$ 1,398,397	\$ -	\$ -	\$ -	\$ 1,398,397
Equipment	68,015	-	-	-	68,015
Vehicles	37,103	-	-	-	37,103
Total capital assets, depreciated	<u>1,503,515</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,503,515</u>
Less accumulated depreciation					
Infrastructure	870,395	96,131	-	-	966,526
Equipment	51,815	1,459	-	-	53,274
Vehicles	25,054	3,710	-	-	28,764
Total accumulated depreciation	<u>947,264</u>	<u>101,300</u>	<u>-</u>	<u>-</u>	<u>1,048,564</u>
Total capital assets depreciated, net	<u>\$ 556,251</u>	<u>\$ (101,300)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 454,951</u>

D. Interfund Receivables, Payables and Transfers

Interfund balances are a result of routine and temporary time lags in cash flows between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

As of June 30, 2009 nonmajor special revenue funds had an amount due to the general fund of \$67,320.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Funds. As a result, governmental activities had an amount due to business-type activities in the amount of \$102,768 at June 30, 2009.

For the year then ended, interfund transfers consisted of the following:

Transfers Out	Transfers In			Total
	General Fund	NonMajor Governmental	Internal Service	
General fund	\$ -	\$ 1,766,104	\$ -	\$ 1,766,104
NonMajor governmental funds	185,245	88,896	156,800	430,941
NonMajor enterprise funds	84,040	-	-	84,040
Total	\$ 269,285	\$ 1,855,000	\$ 156,800	\$ 2,281,085

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Operating Leases

The City leases vehicles and other equipment under noncancelable operating leases. Total costs for such leases were \$29,225 for the year ended June 30, 2009. The future minimum lease payments for these leases are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 41,632
2011	41,632
2012	41,632
2013	41,632
2014	12,407
Total minimum lease payments	\$ 178,935

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

F. Long-Term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities and business type activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government were \$46,624,457 to finance the repair and/or reconstruction of water, sewer and street infrastructure, \$4,700,000 for library renovations and \$933,152 to finance the City's boiler and HVAC improvements.

During the current fiscal year, the City made debt repayments against its General Obligation Bonds totaling \$2,540,000. No new General Obligation debt was issued in the current fiscal year.

George W. Kuhn project bonds and revolving fund obligations The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission, and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, Federal and State of Michigan grants and contributions from Oakland County, Michigan. The City along with thirteen other local community's are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's total obligation at the end of construction will be approximately \$13,228,411 or 9.77% of the projects total cost of \$135,398,270. Due to the current construction of the project, the sale of bonds are being incurred on an as needed basis. Accordingly, the following schedule of debt service requirements for Business-type activities is based on current estimates.

State revolving fund. The City has obtained \$7,615,000 in state revolving fund loans to finance the cost of water mains and sewer lining expenditures incurred since 2007. This includes \$1,670,000 incurred during the current fiscal year. The loan acts like a line-of-credit to the City. Repayment of this loan began in fiscal year 2008.

Purpose	Interest Rate	Amount
Governmental activities		
Public improvement bonds	4.3% - 4.4%	\$ 554,152
Library facility bonds	3.0% - 4.0%	4,625,000
2003 refunding bonds	2.0% - 5.0%	10,030,000
2005 refunding bonds	2.5% - 4.0%	8,050,000
2007 infrastructure bonds	4.3% - 4.4%	2,800,000
Total governmental activities		\$ 26,059,152

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Business-type activities		
George W. Kuhn drain project	2.0% - 5.0%	\$ 10,469,347
State revolving fund	2.125%	<u>7,165,000</u>
Total business-type activities		<u>\$ 17,634,347</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest and Premium</u>
2010	\$ 2,905,000	\$ 1,121,549
2011	2,960,000	999,399
2012	3,240,000	875,199
2013	3,350,000	731,099
2014	3,359,152	583,674
2015 – 2019	7,545,000	1,105,300
2020 – 2024	1,555,000	423,200
2025 – 2027	<u>1,145,000</u>	<u>92,400</u>
	<u>\$ 26,059,152</u>	<u>\$ 5,931,820</u>

Estimated annual debt service requirements to maturity for business-type activities are as follows:

	<u>Business-Type Activities – (estimated)</u>	
	<u>Principal</u>	<u>Interest and Premium</u>
2010	\$ 900,313	\$ 419,978
2011	920,813	416,242
2012	940,797	392,891
2013	963,785	368,979
2014	989,268	344,574
2015 – 2019	5,340,751	1,333,481
2020 – 2024	5,692,015	624,218
2025 – 2029	<u>1,886,605</u>	<u>95,582</u>
	<u>\$ 17,634,347</u>	<u>\$ 3,995,945</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Advance and Current Refundings

The City has issued refunding bonds in previous years to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$25,000,000 of refunded debt. As a result, the refunded bonds are considered to be defeased. On June 30, 2008, the City had total defeased debt outstanding of approximately \$18,450,000.

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Public improvement bonds	\$ 654,152	\$ -	\$ (100,000)	\$ 554,152	\$ 100,000
Library facilities bonds	4,700,000	-	(75,000)	4,625,000	125,000
Refunding bonds, 2003	11,145,000	-	(1,115,000)	10,030,000	1,340,000
Refunding bonds, 2005	9,100,000	-	(1,050,000)	8,050,000	1,040,000
Infrastructure bonds, series 2007	3,000,000	-	(200,000)	2,800,000	300,000
Total general obligation debt	<u>28,599,152</u>	<u>-</u>	<u>(2,540,000)</u>	<u>26,059,152</u>	<u>2,905,000</u>
Premium on refunding bonds	259,524	-	(32,440)	227,084	32,440
Discount/issuance - refunding bonds	(223,860)	-	27,983	(195,877)	(27,983)
Discount/issuance - library bonds	(137,545)	-	7,239	(130,306)	(7,239)
Accrued compensated absences	465,718	473,577	(465,718)	473,577	-
Total governmental activities	<u>28,962,989</u>	<u>473,577</u>	<u>(3,002,936)</u>	<u>26,433,630</u>	<u>2,902,218</u>
Business-type activities:					
George W. Kuhn drain	10,146,325	858,642	(535,620)	10,469,347	580,313
State revolving fund	5,805,000	1,670,000	(310,000)	7,165,000	320,000
Total business-type activities	<u>15,951,325</u>	<u>2,528,642</u>	<u>(845,620)</u>	<u>17,634,347</u>	<u>900,313</u>
Total primary government	<u>\$ 44,914,314</u>	<u>\$ 3,002,219</u>	<u>\$ (3,848,556)</u>	<u>\$ 44,067,977</u>	<u>\$ 3,802,531</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

G. Segment Information – Enterprise Funds

The Water and Sewer Fund, is an individual fund that accounts entirely for the government's water and wastewater activities. This fund is a segment and is reported as a major fund in the fund financial statements; therefore, segment disclosures herein are not required.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

H. Reserves, Designations and Restrictions of Fund Balance and Net Assets

Reserves Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes on City financial resource.

Designations Designated fund balances are restrictions imposed by the City on the use of fund balance for specific purposes.

Restricted Net Assets Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

The schedule of other reserved and designated fund balances is as follows:

	Other Reserved Fund Balance	Designated Fund Balance
	<u>Balance</u>	<u>Balance</u>
General fund		
Police in-service training	\$ 17,746	\$ -
Senior memorial	11,583	-
Fire equipment	-	126,649
Compensated absences	-	473,577
Nonmajor governmental funds		
Court renovation	-	946,080
Women's club	-	5,986
Heldt memorial	-	6,285
	<u>\$ 29,329</u>	<u>\$ 1,558,577</u>

4. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City maintains an Internal Service Fund to account for and finance its risks of loss for workers' compensation claims. Workers' compensation is provided through purchased commercial insurance. For workers' compensation claims, the policy covers the City's claims up to \$350,000 per occurrence. The City is self-insured for the following risks

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

up to the maximum amount per claim as follows: general liability - \$150,000, and property - \$16,000. The City is insured for those automobile claims that consist of employee injuries and City vehicle damage. There have been no significant reductions in insurance coverage from the prior year.

The City participates in the Michigan Municipal Risk Management Authority (MMRMA), a self-insured, public-entity risk pool organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to Michigan cities, counties, townships and special purpose governments. The City covers the first \$150,000, and the risk pool covers the next \$850,000. Excess commercial insurance is provided through the pool up to an additional \$14,000,000. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, there will be a reduction in the City's future contribution to the pool. Settled claims have not exceeded this commercial coverage in any of the past four years.

B. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by July 31st or if elected by the taxpayer, paid using an eight monthly installment method from July through February. As of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Oakland County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2008 levy, including industrial facilities was \$650,809,480. The City's operating tax rate was 14.5448 mills for the same year with additional millages of 5.3, 1.9601, .080 and 2.1815 levied to fund various types of debt service costs, library, public recreation, and refuse removal and disposal, respectively.

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing City.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

D. Retirement System and Plan

Ferndale Employees Retirement System

Plan Description

The Ferndale Employees Retirement System ("FERS") is a single-employer defined benefit pension plan administered by the City that covers all full-time municipal employees. Effective July 1, 1996, FERS was closed to new hires and existing members were permitted to transfer to the new Defined Contribution Plan. FERS provides retirement, disability, and death benefits to plan members. The requirements of the State Constitution and Chapter XIXA of the City Charter assign the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

Summary of Significant Accounting Policies

The Ferndale Employees Retirement System financial statements are prepared using the accrual basis of accounting. 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.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Contributions

There are no active members of the plan for the purposes of employee contributions. (See the amendment to the Plan below.) The City is not required to make a contribution. Per Chapter XIXA of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FERS are financed through investment earnings.

The following Plan provisions have been reflected in the June 30, 2008 valuation:

- Providing Medicare Part B reimbursement to active employees hired prior to July 1, 1991.
- Providing disability benefits to all active General employees of the City of Ferndale. (Thus active plan member in the valuation for purposes of disability are sixty-two, and for purposes of pension benefits is zero – closed plan.)

Membership of the FERS consisted of the following at June 30, 2008, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	81
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>69</u>
Total	<u>153</u>

Annual Pension Cost

For the year ended June 30, 2009, the City had no annual pension cost or required or actual contributions.

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ -	100%	\$ -
June 30, 2008	-	100%	-
June 30, 2009	-	100%	-

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Ferndale Policeman and Fireman Retirement System

Plan Description

The Ferndale Policeman and Fireman Retirement System (FPFRS) is a single-employer defined benefit pension plan administered by Comerica Bank Corporation that covers all full-time municipal police and firemen. Effective July 1, 1996, FPFRS was closed to new hires and existing members were permitted to transfer to the new Defined Contribution Plan. FPFRS provides retirement, disability and death benefits to plan members. The requirements of the State Constitution and Chapter XIXB of the City Charter assigns the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

Summary of Significant Accounting Policies

The Ferndale Policeman and Fireman Retirement System financial statements are prepared using the accrual basis of accounting. 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.

Contributions

Plan members are required to contribute between 1.6% and 5.35% of their annual covered salary. The City was not required to make a contribution for the year ended June 30, 2009, according to the latest valuation received for the year ended June 30, 2008. Per Chapter XIXB of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FPFRS are financed through investment earnings.

Membership of the FPFRS consisted of the following at June 30, 2008, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	89
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>42</u>
Total	<u>132</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended June 30, 2009, the City had no annual pension cost or required or actual contributions.

Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 88,709	0%	\$ 88,709
June 30, 2008	88,709	100%	-
June 30, 2009	-	100%	-

The Plans do not issue a separate financial report.

The funded status of the Ferndale Employees Retirement System ("FERS") and the Ferndale Policemen and Firemen Retirement System ("FPFRS") as of June 30, 2008, the most recent actuarial valuation date, is as follows.

<u>Actuarial Valuation June 30, 2008</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>(Overfunded) Unfunded (UAAL) (b-a)</u>	<u>Funded Ratio % (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll ((b-a) / c)</u>
FERS	\$19,389,860	\$11,325,326	\$(8,064,534)	171.2%	\$3,242,529	-%
FPFRS	41,388,619	37,775,851	(3,612,768)	109.6	3,076,765	-

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	Employees' Retirement System Fund	Policemen and Firemen Retirement System Fund
Assets		
Cash and cash equivalents	\$ 60,584	\$ 319,755
Accrued interest receivable	76,352	154,633
Investments		
Debt securities	5,604,693	11,425,969
Equity securities	7,054,733	14,658,662
Mutual funds	1,307,896	2,812,706
Real estate investment trust	<u>786,727</u>	<u>1,518,993</u>
Total investments	<u>14,754,049</u>	<u>30,416,330</u>
Total assets	<u>14,890,985</u>	<u>30,890,718</u>
Liabilities		
Accounts payable	<u>9,579</u>	<u>16,414</u>
Net Assets		
Held in trust for pension benefits (equal to total net assets)	<u>\$14,881,406</u>	<u>\$30,874,304</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Statement of Changes in Fund Net Assets

	<u>Employees' Retirement System Fund</u>	<u>Policemen and Firemen Retirement System Fund</u>
Additions		
Contributions		
Employer contributions	\$ -	\$ -
Plan member contributions	-	<u>149,864</u>
Total contributions	<u>-</u>	<u>149,864</u>
Investment income		
Net depreciation in fair value	(3,182,015)	(7,393,466)
Interest	382,904	749,886
Dividends	<u>213,161</u>	<u>468,284</u>
Total investment loss	(2,585,950)	(6,175,296)
Less investment expense	<u>(214,282)</u>	<u>(193,968)</u>
Net investment loss	<u>(2,800,232)</u>	<u>(6,369,264)</u>
Total reductions	<u>(2,800,232)</u>	<u>(6,219,400)</u>
Deductions		
Benefits	1,127,007	2,327,923
Administrative expenses	<u>8,552</u>	<u>17,772</u>
Total deductions	<u>1,135,559</u>	<u>2,345,695</u>
Net (decrease) in plan assets	<u>(3,935,791)</u>	<u>(8,565,095)</u>
Net assets held in trust for pension benefits – beginning of year	<u>18,817,197</u>	<u>39,439,399</u>
Net assets held in trust for pension benefits – end of year	<u>\$14,881,406</u>	<u>\$30,874,304</u>

Defined Contribution Pension Plan

The City of Ferndale Defined Contribution Pension Plan is held in trust and covers approximately 110 employees of the City. The plan is available to employees upon their first day of employment and benefits are fully vested upon the fifth year of service. The third party administrator for this plan is International City Manager's Association Retirement Corporation ("ICMARC"), which qualifies under the Internal Revenue Code Section 401(a).

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City contributions. Assets of the plan are valued at \$14,713,621, of which \$389,192 were loans to members.

The City's payroll for employees covered by the Plan for the year ended June 30, 2009, was approximately \$6,141,500, and the City's total payroll was approximately \$9,860,600. The required contributions were \$389,887 by employees and \$610,382 by the City, representing 6.3% and 9.9% of covered payroll, respectively.

The City's contribution rate structure is as follows:

		City and Admin hire prior to <u>7/16/96</u>	City hire subsequent to <u>7/16/96</u>	Admin hire subsequent to <u>7/16/96</u>	City <u>Manager</u>
	<u>Police</u>				
City Contribution	9%	6%	5%	5%	6%
Employee Contribution	0%	0%	0%	0%	0%
or					
City Contribution	12%	9%	5%	7%	10%
Employee Contribution	3%	3%	3%	3%	3%

43rd City Court Profit Sharing Pension Plan

The 43rd City Court Profit Sharing Pension Plan is held in trust and covers 14 employees (13 current and 1 former) of the City Court. The plan is available to employees upon their first day of employment and benefits are fully vested upon the seventh year of service. The third party administrator for this plan is Watkins, Ross & Company. In a profit sharing pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The profit sharing pension cost to the 43rd District Court for the fiscal year ending June 30, 2009 was \$90,821. The defined contribution pension cost to the employees was \$0. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City Court contributions. Assets of the plan are valued at \$1,390,962.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

E. Postemployment Benefits – Retiree Health Care Trust Fund

Overview

The City has adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 45 *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*. The Statement essentially requires the City to account for other postemployment benefits other than pensions on an actuarially determined basis similar to the City’s defined pension plans. The City has adopted the provisions of GASB Statement No. 45 on a prospective basis beginning on July 1, 2008.

Plan Description

The City provides certain healthcare benefits for retired employees in accordance with the bargaining group agreements and other requirements. Substantially all of the City’s full-time employees may become eligible for those benefits if they reach normal retirement age while working for the City. The City’s contribution for future healthcare benefits is accounted for in the Retiree Health Care Trust Fund. Current healthcare premiums are paid directly from the general fund. During the current year, healthcare benefits paid for 164 retirees.

This is a single-employer defined benefit plan administered by the City. The Plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

Funding Policy

The City provides 100% of the contributions for Retiree healthcare. Retiree healthcare costs are recognized when paid by the City. For the fiscal year ended June 30, 2008, the City made payments for postemployment health benefit premiums of approximately \$2,186,186 paid out of the General fund and \$1,293,805 paid to the Retiree Health Care Trust fund for future health care benefits. This represents approximately 44.8% of covered payroll.

The Plan is a non-contributory defined benefit plan that covers substantially all employees of the City as defined above. The funding progress of the Plan as of June 30, 2008, the most recent valuation date, is as follows:

Actuarial value of assets	\$ 5,458,377
Actuarial value of liabilities (“AAL”)	\$ 42,468,935
Unfunded AAL (“UAAL”)	\$ 37,010,558
Funded ratio	12.9%
Annual covered payroll	\$ 7,633,000
Ratio of UAAL to covered payroll	79.4%

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Actuarial Methods and Assumptions

Actuarial valuations require the use of estimates relating to the value of reported amounts and assumptions about the probability of an occurrence of an event many years into the future. This includes assumptions about employment, mortality and health care cost trends. Funded status amounts of the plan and employer required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The benefits projection is based on the plan as understood by the employer and the plan members (the substantive plan) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include an annual healthcare cost trend of 10% initially, reduced by decrements to an ultimate rate of 4.5% after nine years. The UAAL is being amortized as a level percent of payroll for payroll and a level dollar amount for General and Police employees. The remaining amortization period as of June 30, 2008 was 30 years.

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2008. Significant actuarial assumptions used in determining the Plan's unfunded accrued liability included (a) a rate of return on the investment (net of investment expense) of 7.5% per year compounded annually, (b) projected salary increases of 4.5% per year, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.4% per year, depending on age, attributable to seniority/merit, (d) future life expectancy, based on age and sex, (e) rate of retirement, (f) rate of separation from active membership, and (g) marital status.

The schedules of funding progress, presented as required supplementary information ("RSI") following the notes to the financial statements, present multi-year information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Statement of Net Assets

	Retiree Health Care Trust Fund
Assets	
Cash and cash equivalents	\$ 1,300,759
Accrued interest receivable	20,122
Investments – debt securities	<u>5,457,973</u>
Total assets	<u>6,778,854</u>
Net Assets	
Held in trust for postemployment healthcare benefits (equal to total net assets)	<u>\$ 6,778,854</u>

Statement of Changes in Fund Net Assets

	Retiree Health Care Trust Fund
Additions	
Contributions	
Employer contributions	\$ 1,293,805
Investment income – interest	<u>29,172</u>
Total additions	1,322,977
Deductions	
Administrative expenses	<u>2,500</u>
Net increase in plan assets	1,320,477
Net assets held in trust for postemployment benefits – beginning of year	<u>5,458,377</u>
Net assets held in trust for postemployment benefits – end of year	<u>\$ 6,778,854</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

F. Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of 14 municipalities in Oakland County and provides refuse collection and disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2009 (the most recent data available), the Authority reported an increase in net assets in the amount of \$582,843 resulting in ending net assets in the amount of \$2,773,848. During the year ended June 30, 2009, the City expended \$1,490,184 in payments made to the Authority. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

G. Prior Period Adjustment

The City has recognized deferred revenue in the amount of \$54,531 for the Local Streets fund due to special assessments for road repairs recognized as revenues in prior years that did not meet the availability criteria for revenue recognition under the modified accrual basis of accounting. The effects of this restatement are as follows:

	NonMajor Governmental Funds	Governmental Activities
Ending Fund Balance/Net Assets, previously stated	\$ 5,697,406	\$ 9,464,199
Adjustment	(54,531)	(54,531)
Beginning Fund Balance/Net Assets, as restated	<u>\$ 5,642,875</u>	<u>\$ 9,409,668</u>

* * * * *

***REQUIRED SUPPLEMENTARY
INFORMATION***

CITY OF FERNDALE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Property taxes	\$ 9,787,000	\$ 9,765,435	\$ 9,925,758	\$ 160,323
Licenses and permits	379,500	359,500	338,290	(21,210)
Intergovernmental:				
Federal grants	23,100	23,100	18,569	(4,531)
State grants	72,324	82,144	88,128	5,984
State shared revenue	3,000,000	3,000,000	3,135,956	135,956
Local reimbursements	986,811	986,811	992,081	5,270
Charges for services	1,387,295	1,137,532	1,042,730	(94,802)
Fines and forfeitures	1,749,500	1,616,500	1,633,962	17,462
Investment earnings	450,000	350,000	778,193	428,193
Other	501,251	549,033	1,026,761	477,728
Total revenues	18,336,781	17,870,055	18,980,428	1,110,373
Expenditures				
General government:				
Council	67,690	60,736	54,768	(5,968)
District court	1,311,713	1,301,213	1,310,559	9,346
Manager	320,859	320,859	327,894	7,035
Finance	434,174	395,119	361,144	(33,975)
Clerk	307,128	300,394	319,734	19,340
Assessor/Treasurer	359,055	370,630	396,658	26,028
Elections	57,050	53,450	45,774	(7,676)
Attorney	320,000	300,000	274,606	(25,394)
Cable television	112,490	122,540	120,132	(2,408)
Total general government	3,290,159	3,224,941	3,211,269	(13,672)
Public safety:				
Police	6,774,828	6,743,007	6,780,647	37,640
Fire	4,119,872	3,972,374	4,082,185	109,811
Inspection	736,259	785,587	775,132	(10,455)
Animal control and shelter	103,458	103,458	99,530	(3,928)
Total public safety	11,734,417	11,604,426	11,737,494	133,068

Continued.....

CITY OF FERNDALE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Concluded.....				
Public works:				
Department of public works	\$ 585,570	\$ 584,539	\$ 611,376	\$ 26,837
Refuse and weed control	26,663	26,663	26,051	(612)
Sidewalk program	413,200	180,000	200,532	20,532
Total public works	1,025,433	791,202	837,959	46,757
Recreation and culture:				
Dream cruise car show	100,750	109,696	107,473	(2,223)
Kulick Community Center	700,802	690,833	774,801	83,968
Recreation	174,077	151,062	-	(151,062)
Martin Road Youth Center	55,701	55,701	57,053	1,352
Total recreation and culture	1,031,330	1,007,292	939,327	(67,965)
Other functions:				
Liability insurance	550,000	460,000	509,374	49,374
Utilities	507,000	507,000	479,629	(27,371)
Other	305,560	226,000	186,262	(39,738)
Total other functions	1,362,560	1,193,000	1,175,265	(17,735)
Capital Outlay	404,463	147,825	70,551	(77,274)
Total expenditures	18,848,362	17,968,686	17,971,865	3,179
Revenues over (under)				
 expenditures	(511,581)	(98,631)	1,008,563	1,107,194
Other financing sources (uses)				
Transfers in	263,245	263,245	269,285	6,040
Transfers out	(440,000)	(1,730,000)	(1,766,104)	(36,104)
Proceeds from sale of capital assets	45,000	45,000	260,646	215,646
Total other financing (uses)	(131,755)	(1,421,755)	(1,236,173)	185,582
Net change in fund balances	(643,336)	(1,520,386)	(227,610)	1,292,776
Fund balance, beginning of year	5,781,631	5,781,631	5,781,631	-
Fund balance, end of year	\$ 5,138,295	\$ 4,261,245	\$ 5,554,021	\$ 1,292,776

CITY OF FERNDALE, MICHIGAN

Required Supplementary Information (Unaudited)

Defined Benefit Pension Trust - Ferndale Employees Retirement System

Schedule of Funding Progress						
Actuarial Valuation Date <u>June 30</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Attained Age# <u>(b)</u>	(Overfunded) Unfunded (AAL) (UAAL) <u>(b-a)</u>	Funded Ratio % <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as % of Covered Payroll <u>((b-a) / c)</u>
2004	\$ 18,202,445	\$ 12,582,349	\$ (5,620,096)	144.7%	\$ 2,750,539	-%
2005	18,066,625	12,828,481	(5,238,144)	140.8	2,767,899	-
2006	18,423,039	11,891,917	(6,531,122)	154.9	3,117,728	-
2007	19,139,718	11,592,792	(7,546,926)	140.8	3,182,522	-
2008	19,389,860	11,325,326	(8,064,534)	171.2	3,242,529	-

Schedule of Employer Contributions				
Fiscal Year Ended <u>June 30</u>	Contribution Rates as Percents of Valuation Payroll <u>Payroll</u>	Computed Dollar Contribution Based on Projected Payroll <u>Payroll</u>	Actual Annual Contributions <u>Contributions</u>	Percent of Required Contributions <u>Contributions</u>
2005	\$ -	\$ -	\$ -	100%
2006	-	-	-	100
2007	-	-	-	100
2008	-	-	-	100
2009	-	-	-	100

CITY OF FERNDALE, MICHIGAN

**Required Supplementary Information
(Unaudited)**

Defined Benefit Pension Trust - Ferndale Policeman and Fireman Retirement System

Schedule of Funding Progress						
Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Attained Age# (b)	(Overfunded) Unfunded (AAL) (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a) / c)
2004	\$ 36,862,319	\$ 32,860,203	\$ (4,002,116)	112.2%	\$ 2,727,170	- %
2005	37,465,032	34,311,824	(3,153,208)	109.2	2,880,620	-
2006	38,544,837	33,722,210	(4,822,627)	114.3	3,073,865	-
2007	40,554,657	34,970,161	(5,584,496)	116.0	2,994,676	-
2008	41,388,619	37,775,851	(3,612,768)	109.6	3,076,765	-

Schedule of Employer Contributions				
Fiscal Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contributions
2005	- %	\$ -	\$ -	100%
2006	-	-	-	100
2007	2.82	88,709	-	-
2008	-	-	88,709	100
2009	-	-	-	100

CITY OF FERNDALE, MICHIGAN

**Required Supplementary Information
(Unaudited)**

Other Postemployment Benefits

Actuarial Valuation Date <u>June 30,</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Attained Age# <u>(b)</u>	(Overfunded) Unfunded (AAL) (UAAL) <u>(b-a)</u>	Funded Ratio % <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as % of Covered Payroll <u>((b-a) / c)</u>
2008	\$ 5,458,377	\$ 42,468,935	\$ 37,010,558	12.9%	\$ 7,633,000	79.4%

***COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES***

CITY OF FERNDALE, MICHIGAN
Combining Balance Sheet
NonMajor Governmental Funds
June 30, 2009

	<u>Special Revenue</u>			
	<u>Major Street</u>	<u>Local Street</u>	<u>Sanitation</u>	<u>Public Improvement</u>
Assets				
Cash and investments	\$ -	\$ -	\$ 654,722	\$ 2,552,141
Receivables:				
Accounts receivable	-	-	-	5,000
Taxes-delinquent	-	-	21,889	-
Less: allowance for doubtful accounts	-	-	(14,865)	-
Interest receivable	-	-	-	-
Due from other governments	152,376	100,307	-	-
Total assets	<u>\$ 152,376</u>	<u>\$ 100,307</u>	<u>\$ 661,746</u>	<u>\$ 2,557,141</u>
Liabilities				
Accounts payable	\$ 60,617	\$ 15	\$ 133,389	\$ 8,966
Accrued liabilities	16,032	12,206	18,064	-
Due to other funds	30,468	36,852	-	-
Deferred revenue	-	47,714	7,025	-
Total liabilities	<u>107,117</u>	<u>96,787</u>	<u>158,478</u>	<u>8,966</u>
Fund balance:				
Reserved for capital projects	-	-	-	-
Unreserved:				
Designated	-	-	-	946,080
Undesignated	45,259	3,520	503,268	1,602,095
Total fund balance	<u>45,259</u>	<u>3,520</u>	<u>503,268</u>	<u>2,548,175</u>
Total liabilities and fund balance	<u>\$ 152,376</u>	<u>\$ 100,307</u>	<u>\$ 661,746</u>	<u>\$ 2,557,141</u>

				Capital Project		
Drug Forfeiture	Library	Community Development Block Grant	SMART Taxi Subsidy	Infrastructure	Total Nonmajor Governmental Funds	
\$ 262,476	\$ 513,991	\$ 67,084	\$ 26,787	\$ 2,242,238	\$ 6,319,439	
-	-	-	-	-	5,000	
-	8,318	-	-	-	30,207	
-	(4,131)	-	-	-	(18,996)	
-	-	-	-	-	-	
-	53,876	7,305	35,527	-	349,391	
\$ 262,476	\$ 572,054	\$ 74,389	\$ 62,314	\$ 2,242,238	\$ 6,685,041	
\$ -	\$ 8,168	\$ -	\$ -	\$ 68,311	\$ 279,466	
-	18,554	-	2,814	-	67,670	
-	-	-	-	-	67,320	
-	4,186	-	-	-	58,925	
-	30,908	-	2,814	68,311	473,381	
-	-	-	-	2,173,927	2,173,927	
-	12,271	-	-	-	958,351	
262,476	528,875	74,389	59,500	-	3,079,382	
262,476	541,146	74,389	59,500	2,173,927	6,211,660	
\$ 262,476	\$ 572,054	\$ 74,389	\$ 62,314	\$ 2,242,238	\$ 6,685,041	

CITY OF FERNDALE, MICHIGAN
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
NonMajor Governmental Funds
For the Year Ended June 30, 2009

	Special Revenue			
	Major Street	Local Street	Sanitation	Public Improvement
Revenues				
Property taxes	\$ -	\$ -	\$ 1,377,679	\$ -
Intergovernmental				
Federal	-	-	-	-
State	1,055,291	325,681	-	-
Charges for services	-	-	1,081,706	-
Fines and forfeitures	-	-	-	-
Investment earnings	1,515	2,177	2,993	15,727
Other	-	8,286	5,961	10,000
Total revenues	1,056,806	336,144	2,468,339	25,727
Expenditures				
General government	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	2,350,276	-
Highways and streets	994,637	683,120	-	-
Community and economic development	-	-	-	111,395
Recreation and culture	-	-	-	-
Debt service				
Principal	-	-	-	100,000
Interest and fees	-	-	-	29,437
Capital outlay	124,271	-	87,680	295,112
Total expenditures	1,118,908	683,120	2,437,956	535,944
Revenues over (under) expenditures	(62,102)	(346,976)	30,383	(510,217)
Other financing sources (uses)				
Transfers in	-	325,000	-	1,530,000
Transfers out	(88,896)	-	(181,800)	-
Proceeds from the sale of capital assets	1,800	-	-	-
Total other financing sources (uses)	(87,096)	325,000	(181,800)	1,530,000
Net change in fund balances	(149,198)	(21,976)	(151,417)	1,019,783
Fund balances, beginning of year, restated	194,457	25,496	654,685	1,528,392
Fund balances, end of year	\$ 45,259	\$ 3,520	\$ 503,268	\$ 2,548,175

				Capital Project	
Drug Forfeiture	Library	Community Development Block Grant	SMART Taxi Subsidy	Infrastructure	Total Nonmajor Governmental Funds
\$ -	\$ 1,237,854	\$ -	\$ -	\$ -	\$ 2,615,533
199,757	-	74,291	-	-	274,048
-	13,886	-	75,772	-	1,470,630
-	-	-	5,940	-	1,087,646
10,338	41,841	-	-	-	52,179
2,209	2,471	588	123	26,458	54,261
-	19,882	-	-	-	44,129
212,304	1,315,934	74,879	81,835	26,458	5,598,426
-	-	-	83,402	-	83,402
8,104	-	-	-	-	8,104
-	-	-	-	-	2,350,276
-	-	-	-	-	1,677,757
-	-	12,717	-	-	124,112
-	825,739	-	-	-	825,739
-	75,000	-	-	-	175,000
-	187,538	-	-	-	216,975
20,780	47,469	-	-	419,654	994,966
28,884	1,135,746	12,717	83,402	419,654	6,456,331
183,420	180,188	62,162	(1,567)	(393,196)	(857,905)
-	-	-	-	-	1,855,000
(98,245)	-	(62,000)	-	-	(430,941)
-	831	-	-	-	2,631
(98,245)	831	(62,000)	-	-	1,426,690
85,175	181,019	162	(1,567)	(393,196)	568,785
177,301	360,127	74,227	61,067	2,567,123	5,642,875
\$ 262,476	\$ 541,146	\$ 74,389	\$ 59,500	\$ 2,173,927	\$ 6,211,660

CITY OF FERNDALE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
Revenues				
State gas & weight tax	\$ 1,041,039	\$ 997,619	\$ 1,055,291	\$ 57,672
Investment earnings	4,600	3,000	1,515	(1,485)
Total revenues	<u>1,045,639</u>	<u>1,000,619</u>	<u>1,056,806</u>	<u>56,187</u>
Expenditures				
Construction	6,000	6,000	124,271	118,271
Routine maintenance	906,640	945,884	724,041	(221,843)
Winter maintenance	88,500	88,500	190,983	102,483
Traffic service	14,000	14,000	79,613	65,613
Total expenditures	<u>1,015,140</u>	<u>1,054,384</u>	<u>1,118,908</u>	<u>64,524</u>
Revenues over (under) expenditures	30,499	(53,765)	(62,102)	(8,337)
Other financing sources (uses)				
Transfers out	-	(100,000)	(88,896)	11,104
Proceeds from sale of capital assets	-	-	1,800	1,800
Total other financing sources (uses)	<u>-</u>	<u>(100,000)</u>	<u>(87,096)</u>	<u>12,904</u>
Net change in fund balance	30,499	(153,765)	(149,198)	4,567
Fund balance, beginning of year	194,457	194,457	194,457	-
Fund balance, end of year	<u>\$ 224,956</u>	<u>\$ 40,692</u>	<u>\$ 45,259</u>	<u>\$ 4,567</u>

CITY OF FERNDALE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Streets
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
State gas & weight tax	\$ 339,004	\$ 322,376	\$ 325,681	\$ 3,305
Investment earnings	-	-	2,177	2,177
Other revenue	-	-	8,286	8,286
Total revenues	339,004	322,376	336,144	13,768
Expenditures				
Routine maintenance	433,500	451,837	541,168	89,331
Winter maintenance	52,000	52,000	110,927	58,927
Traffic service	9,200	9,200	31,025	21,825
Total expenditures	494,700	513,037	683,120	170,083
Revenues under expenditures	(155,696)	(190,661)	(346,976)	(156,315)
Other financing sources				
Transfers in	-	300,000	325,000	25,000
Net change in fund balance	(155,696)	109,339	(21,976)	(131,315)
Fund balance, beginning of year, restated	25,496	25,496	25,496	-
Fund balance, end of year	\$ (130,200)	\$ 134,835	\$ 3,520	\$ (131,315)

CITY OF FERNDALE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Sanitation
For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Property taxes	\$ 1,365,000	\$ 1,363,908	\$ 1,377,679	\$ 13,771
Charges for services	1,073,475	1,073,475	1,081,706	8,231
Investment earnings	10,800	10,800	2,993	(7,807)
Other	3,000	3,000	5,961	2,961
Total revenues	2,452,275	2,451,183	2,468,339	17,156
Expenditures				
Operating	2,103,438	2,108,438	2,013,283	(95,155)
Personal	319,702	323,930	336,993	13,063
Capital outlay	-	-	87,680	87,680
Total expenditures	2,423,140	2,432,368	2,437,956	5,588
Revenues over expenditures	29,135	18,815	30,383	11,568
Other financing (uses)				
Transfers out	(175,000)	(181,800)	(181,800)	-
Net change in fund balance	(145,865)	(162,985)	(151,417)	11,568
Fund balance, beginning of year	654,685	654,685	654,685	-
Fund balance, end of year	\$ 508,820	\$ 491,700	\$ 503,268	\$ 11,568

CITY OF FERNDALE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Public Improvement
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
Revenues				
Investment earnings	\$ 13,000	\$ 15,000	\$ 15,727	\$ 727
Other revenue	10,000	12,000	10,000	(2,000)
Total revenues	23,000	27,000	25,727	(1,273)
Expenditures				
Operating expenditures	75,740	75,740	111,395	35,655
Principal	100,000	100,000	100,000	-
Interest	29,437	29,437	29,437	-
Capital outlay	390,000	390,000	295,112	(94,888)
Total expenditures	595,177	595,177	535,944	(59,233)
Revenue (under) expenditures	(572,177)	(568,177)	(510,217)	57,960
Other financing sources				
Transfers in	440,000	1,390,000	1,530,000	140,000
Net change in fund balance	(132,177)	821,823	1,019,783	197,960
Fund balance, beginning of year	1,528,392	1,528,392	1,528,392	-
Fund balance, end of year	\$ 1,396,215	\$ 2,350,215	\$ 2,548,175	\$ 197,960

CITY OF FERNDALE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Drug Forfeiture
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
Intergovernmental				
Federal	\$ -	\$ -	\$ 199,757	\$ 199,757
Fines and forfeitures	95,000	95,000	10,338	(84,662)
Investment earnings	2,680	2,680	2,209	(471)
Total revenues	97,680	97,680	212,304	114,624
Expenditures				
Operating expenditures	18,500	24,750	8,104	(16,646)
Capital outlay	20,000	30,980	20,780	(10,200)
Total expenditures	38,500	55,730	28,884	(26,846)
Revenues over expenditures	59,180	41,950	183,420	141,470
Other financing (uses)				
Transfers out	(98,245)	(98,245)	(98,245)	-
Net change in fund balance	(39,065)	(56,295)	85,175	141,470
Fund balance, beginning of year	177,301	177,301	177,301	-
Fund balance, end of year	\$ 138,236	\$ 121,006	\$ 262,476	\$ 141,470

CITY OF FERNDALE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Library
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
Revenues				
Property taxes	\$ 1,227,000	\$ 1,223,426	\$ 1,237,854	\$ 14,428
Intergovernmental:				
State	15,000	15,000	13,886	(1,114)
Fines and forfeitures	39,900	39,900	41,841	1,941
Investment earnings	6,566	6,566	2,471	(4,095)
Other	1,200	1,200	19,882	18,682
Total revenues	<u>1,289,666</u>	<u>1,286,092</u>	<u>1,315,934</u>	<u>29,842</u>
Expenditures				
Personal services	550,199	403,798	410,505	6,707
Operating expenditures	229,116	375,116	415,234	40,118
Debt service				
Principal	75,000	75,000	75,000	-
Interest	187,538	187,538	187,538	-
Capital outlay	-	80,000	47,469	(32,531)
Total expenditures	<u>1,041,853</u>	<u>1,121,452</u>	<u>1,135,746</u>	<u>14,294</u>
Revenues over expenditures	<u>247,813</u>	<u>164,640</u>	<u>180,188</u>	<u>15,548</u>
Other financing sources				
Proceeds from the sale of capital assets	600	600	831	231
Total other financing sources	<u>600</u>	<u>600</u>	<u>831</u>	<u>231</u>
Net change in fund balance	<u>248,413</u>	<u>165,240</u>	<u>181,019</u>	<u>15,779</u>
Fund balance, beginning of year	360,127	360,127	360,127	-
Fund balance, end of year	<u><u>\$ 608,540</u></u>	<u><u>\$ 525,367</u></u>	<u><u>\$ 541,146</u></u>	<u><u>\$ 15,779</u></u>

CITY OF FERNDALE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Community Development Block Grant
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
Intergovernmental:				
Federal	\$ 82,749	\$ 82,749	\$ 74,291	\$ (8,458)
Investment earnings	1,460	1,460	588	(872)
Total revenues	84,209	84,209	74,879	(9,330)
Expenditures				
Operating expenditures	22,209	22,209	12,717	(9,492)
Revenues over expenditures	62,000	62,000	62,162	162
Other financing (uses)				
Transfers out	(62,000)	(62,000)	(62,000)	-
Net change in fund balance	-	-	162	162
Fund balance, beginning of year	74,227	74,227	74,227	-
Fund balance, end of year	\$ 74,227	\$ 74,227	\$ 74,389	\$ 162

CITY OF FERNDALE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
SMART Tax Subsidy
For the Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
Revenues				
Intergovernmental:				
State	\$ 72,466	\$ 72,466	\$ 75,772	\$ 3,306
Charges for services	8,076	8,076	5,940	(2,136)
Investment earnings	1,200	1,200	123	(1,077)
Total revenues	<u>81,742</u>	<u>81,742</u>	<u>81,835</u>	<u>93</u>
Expenditures				
Personal services	58,659	58,659	62,591	3,932
Operating expenditures	20,400	20,400	20,811	411
Total expenditures	<u>79,059</u>	<u>79,059</u>	<u>83,402</u>	<u>4,343</u>
Net change in fund balance	2,683	2,683	(1,567)	(4,250)
Fund balance, beginning of year	<u>61,067</u>	<u>61,067</u>	<u>61,067</u>	<u>-</u>
Fund balance, end of year	<u>\$ 63,750</u>	<u>\$ 63,750</u>	<u>\$ 59,500</u>	<u>\$ (4,250)</u>

CITY OF FERNDALE, MICHIGAN
Combining Statement of Net Assets
Internal Service Funds
June 30, 2009

	<u>Vehicle and Equipment Maintenance</u>	<u>Worker's Compensation</u>	<u>Total</u>
Assets			
Current assets:			
Cash and investments	\$ 834,160	\$ 509,085	\$ 1,343,245
Accounts receivable	8,356	-	8,356
Inventory	155,107	-	155,107
Prepaid expenses	-	24,500	24,500
Total current assets	<u>997,623</u>	<u>533,585</u>	<u>1,531,208</u>
Noncurrent assets:			
Capital assets	5,499,950	-	5,499,950
Less accumulated depreciation	(3,280,720)	-	(3,280,720)
Total noncurrent assets	<u>2,219,230</u>	<u>-</u>	<u>2,219,230</u>
Total assets	<u>3,216,853</u>	<u>533,585</u>	<u>3,750,438</u>
Liabilities			
Current liabilities:			
Accounts payable	60,944	265,659	326,603
Accrued liabilities	7,535	-	7,535
Total current liabilities	<u>68,479</u>	<u>265,659</u>	<u>334,138</u>
Net Assets			
Investment in capital assets	2,219,230	-	2,219,230
Unrestricted	929,144	267,926	1,197,070
Total net assets	<u>\$ 3,148,374</u>	<u>\$ 267,926</u>	<u>\$ 3,416,300</u>

CITY OF FERNDALE, MICHIGAN
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2009

	<u>Vehicle and Equipment Maintenance</u>	<u>Worker's Compensation</u>	<u>Total</u>
Operating revenues			
Charges for services	\$ 1,376,123	\$ 223,802	\$ 1,599,925
Miscellaneous fees	29,183	-	29,183
Total operating revenues	<u>1,405,306</u>	<u>223,802</u>	<u>1,629,108</u>
Operating expenses			
Personal services	213,932	-	213,932
General and administrative	759,795	45,520	805,315
Depreciation	500,424	-	500,424
Benefit and medical payments	-	337,613	337,613
Total operating expenses	<u>1,474,151</u>	<u>383,133</u>	<u>1,857,284</u>
Operating income (loss)	<u>(68,845)</u>	<u>(159,331)</u>	<u>(228,176)</u>
Non-operating revenues			
Investment earnings	12,035	4,400	16,435
Gain on sale of capital assets	103,643	-	103,643
Total non-operating revenues	<u>115,678</u>	<u>4,400</u>	<u>120,078</u>
Income (loss) before transfers	<u>46,833</u>	<u>(154,931)</u>	<u>(108,098)</u>
Transfers in	156,800	-	156,800
Change in net assets	<u>203,633</u>	<u>(154,931)</u>	<u>48,702</u>
Net assets, beginning of year	2,944,741	422,857	3,367,598
Net assets, end of year	<u>\$ 3,148,374</u>	<u>\$ 267,926</u>	<u>\$ 3,416,300</u>

CITY OF FERNDALE, MICHIGAN
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2009

	<u>Vehicle and Equipment Maintenance</u>	<u>Worker's Compensation</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from interfund services	\$ 1,421,878	\$ 223,802	\$ 1,645,680
Cash payments to employees	(211,779)	-	(211,779)
Cash payments to suppliers for goods and services	(754,271)	(207,766)	(962,037)
Net cash provided by operating activities	<u>455,828</u>	<u>16,036</u>	<u>471,864</u>
Cash flows from investing activities			
Investment income	12,035	4,400	16,435
Cash flows from capital and related financing activities			
Purchase of capital assets	(1,156,449)	-	(1,156,449)
Proceeds from sale of capital assets	103,644	-	103,644
Net cash used in capital and related financing activities	<u>(1,052,805)</u>	<u>-</u>	<u>(1,052,805)</u>
Cash flows from non-capital financing activities			
Transfers	156,800	-	156,800
Net increase (decrease) in cash and cash equivalents	<u>(428,142)</u>	<u>20,436</u>	<u>(407,706)</u>
Cash and cash equivalents, beginning of year	1,262,302	488,649	1,750,951
Cash and cash equivalents, end of year	<u><u>\$ 834,160</u></u>	<u><u>\$ 509,085</u></u>	<u><u>\$ 1,343,245</u></u>
Reconciliation of operating (loss) to net cash provided by operating activities			
Operating loss	\$ (68,845)	\$ (159,331)	\$ (228,176)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	500,424	-	500,424
Changes in assets and liabilities:			
Accounts receivable	16,572	-	16,572
Inventories	12,889	-	12,889
Prepaid items	-	(4,500)	(4,500)
Accounts payable	(7,365)	179,867	172,502
Accrued liabilities	2,153	-	2,153
Net cash provided by operating activities	<u><u>\$ 455,828</u></u>	<u><u>\$ 16,036</u></u>	<u><u>\$ 471,864</u></u>

CITY OF FERNDALE, MICHIGAN
Combining Statement of Net Assets
Pension and Other Employee Benefit Trust Funds
June 30, 2009

	Employees' Retirement System Fund	Policemen and Firemen Retirement System Fund	Post- Retirement Healthcare Fund	Total
Assets				
Cash and cash equivalents	\$ 60,584	\$ 319,755	\$ 1,300,759	\$ 1,681,098
Accrued interest receivable	76,352	154,633	20,122	251,107
Investments				
Debt securities	5,604,693	11,425,969	5,457,973	22,488,635
Equity securities	7,054,733	14,658,662	-	21,713,395
Mutual funds	1,307,896	2,812,706	-	4,120,602
Real estate investment trust	786,727	1,518,993	-	2,305,720
Total investments	<u>14,754,049</u>	<u>30,416,330</u>	<u>5,457,973</u>	<u>50,628,352</u>
Total assets	<u>14,890,985</u>	<u>30,890,718</u>	<u>6,778,854</u>	<u>52,560,557</u>
Liabilities				
Accounts payable	<u>9,579</u>	<u>16,414</u>	<u>-</u>	<u>25,993</u>
Net Assets				
Held in trust for pension benefits and other purposes	<u>\$ 14,881,406</u>	<u>\$ 30,874,304</u>	<u>\$ 6,778,854</u>	<u>\$ 52,534,564</u>

CITY OF FERNDALE, MICHIGAN

Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds For the Year Ended June 30, 2009

	Employees' Retirement System Fund	Policemen and Firemen Retirement System Fund	Post- Retirement Healthcare Fund	Total
Additions				
Contributions				
Employer contributions	\$ -	\$ -	\$ 1,293,805	\$ 1,293,805
Plan member contributions	-	149,864	-	149,864
Total contributions	-	149,864	1,293,805	1,443,669
Investment income (loss)				
Net (depreciation) in fair value	(3,248,729)	(7,393,466)	(23,102)	(10,665,297)
Interest	382,904	749,886	52,274	1,185,064
Dividends	213,161	468,284	-	681,445
Total investment income (loss)	(2,652,664)	(6,175,296)	29,172	(8,798,788)
Less investment expense	(147,568)	(193,968)	-	(341,536)
Net investment income (loss)	(2,800,232)	(6,369,264)	29,172	(9,140,324)
Total additions (reductions)	(2,800,232)	(6,219,400)	1,322,977	(7,696,655)
Deductions				
Benefits	1,127,007	2,327,923	-	3,454,930
Administrative expenses	8,552	17,772	2,500	28,824
Total deductions	1,135,559	2,345,695	2,500	3,483,754
Net increase (decrease) in plan net assets	(3,935,791)	(8,565,095)	1,320,477	(11,180,409)
Net assets held in trust for pension benefits - beginning of year	18,817,197	39,439,399	5,458,377	63,714,973
Net assets held in trust for pension benefits - end of year	\$ 14,881,406	\$ 30,874,304	\$ 6,778,854	\$ 52,534,564

CITY OF FERNDALE, MICHIGAN

Combining Balance Sheet

Agency Funds

June 30, 2009

	<u>43rd District Court</u>	<u>Other</u>	<u>Total</u>
Assets			
Cash and cash equivalents	<u>\$ 248,310</u>	<u>\$ 1,320</u>	<u>\$ 249,630</u>
Liabilities			
Other liabilities	<u>\$ 248,310</u>	<u>\$ 1,320</u>	<u>\$ 249,630</u>

CITY OF FERNDALE, MICHIGAN
Downtown Development Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2009

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and investments	\$ 137,001	\$ -	\$ 137,001
Accounts receivable	10,000	-	10,000
Taxes receivable	54,803	-	54,803
Less allowance for uncollectables	(44,180)	-	(44,180)
Due from primary government	-	4,938	4,938
Capital assets:			
Equipment	-	68,015	68,015
Vehicles	-	37,103	37,103
Infrastructure	-	1,398,397	1,398,397
Less: accumulated depreciation	-	(1,048,564)	(1,048,564)
Total assets	<u>\$ 157,624</u>	<u>459,889</u>	<u>617,513</u>
Liabilities			
Accounts payable	\$ 42,812	-	42,812
Accrued liabilities	3,461	-	3,461
Deferred revenue	10,623	(10,623)	-
Total liabilities	56,896	(10,623)	46,273
Fund Balance:			
Undesignated (deficit)	100,728	(100,728)	-
Total liabilities and fund balance	<u>\$ 157,624</u>		
Net Assets:			
Invested in capital assets,		454,951	454,951
Unrestricted		116,289	116,289
Total net assets		<u>\$ 571,240</u>	<u>\$ 571,240</u>

CITY OF FERNDALE, MICHIGAN
Downtown Development Authority
Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Assets
June 30, 2009

Fund balance - Downtown Development Authority	\$	100,728
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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 therefore are not reported in the funds.

Add: capital assets		1,503,515
Deduct: accumulated depreciation		(1,048,564)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues		10,623
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the

Add: net assets of governmental activities accounted for in the internal service fund		4,938
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Net assets of component unit	\$	<u>571,240</u>
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CITY OF FERNDALE, MICHIGAN
Downtown Development Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2009

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 492,268	\$ 4,874	\$ 497,142
Intergovernmental:			
State grant	10,000	-	10,000
City general fund	20,000	-	20,000
Other contributions	18,101	-	18,101
Total revenues	<u>540,369</u>	<u>4,874</u>	<u>545,243</u>
Expenditures			
Personal services	97,749	-	97,749
Operating services	350,984	(292)	350,692
Capital outlay	-	-	-
Interest expense	453	-	453
Depreciation expense	-	101,300	101,300
Total expenditures	<u>449,186</u>	<u>101,008</u>	<u>550,194</u>
Net change in fund balance/ net assets	91,183	(96,134)	(4,951)
Beginning fund balance/net assets	9,545	566,646	576,191
Ending fund balance/net assets	<u><u>\$ 100,728</u></u>	<u><u>\$ 470,512</u></u>	<u><u>\$ 571,240</u></u>

CITY OF FERNDALE, MICHIGAN
Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balance
to the Statement of Activities
For the Year Ended June 30, 2009

Net change in fund balance - Downtown Development Authority **\$ 91,183**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Deduct: depreciation expense (101,300)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add: net operating income from component unit activities in the internal service fund 292

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: net difference in deferred revenues 4,874

Change in net assets of governmental activities **\$ (4,951)**

CITY OF FERNDAL, MICHIGAN
Brownfield Redevelopment Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2009

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and investments	\$ 277,655	\$ -	\$ 277,655
Accounts receivable	4,032	-	4,032
Total assets	<u><u>\$ 281,687</u></u>	<u>-</u>	<u><u>281,687</u></u>
Liabilities			
Accounts payable	\$ 156,316	-	156,316
Fund Balance:			
Undesignated (deficit)	125,371	(125,371)	-
Total liabilities and fund balance	<u><u>\$ 281,687</u></u>		
Net Assets:			
Unrestricted		<u><u>\$ 125,371</u></u>	<u><u>\$ 125,371</u></u>

CITY OF FERNDALE, MICHIGAN
Brownfield Redevelopment Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
June 30, 2009

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 222,780	\$ -	\$ 222,780
Charges for services	4,234	-	4,234
Investment earnings	1,917	-	1,917
Total revenues	228,931	-	228,931
Expenditures			
Operating expenditures	139,260	-	139,260
Revenues over expenditures	89,671	-	89,671
Net change in fund balance/ net assets	89,671	-	89,671
Beginning fund balance/net assets	35,700	-	35,700
Ending fund balance/net assets	\$ 125,371	\$ -	\$ 125,371

SINGLE AUDIT

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the City of Ferndale, Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to the major federal program for the year ended June 30, 2009. The City of Ferndale's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the City of Ferndale's management. Our responsibility is to express an opinion on the City of Ferndale's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ferndale's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Ferndale's compliance with those requirements.

In our opinion, the City of Ferndale complied, in all material respects, with the requirements referred to above that are applicable to the major federal program for the year ending June 30, 2009.

Internal Control Over Compliance

The management of the City of Ferndale is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ferndale's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the City of Ferndale's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ferndale's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management and City Council of the City of Ferndale, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 23, 2009

City of Ferndale, Michigan

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Justice		
<i>Direct funding:</i>		
Bureau of Justice Assistance (BJA)		
Bulletproof Vest Partnership	16.607	\$ 885
<i>Passed through Oakland County, Michigan:</i>		
Organized Crime Drug Enforcement Task Forces (OCDETF)	16.738	18,569
Asset Forfeiture and Money Laundering Section	16.580	198,872
Total U.S. Department of Justice		<u>218,326</u>
U.S. Department of Housing and Urban Development		
<i>Passed through Oakland County, Michigan:</i>		
Community Development Block Grant	14.218	74,291
Environmental Protection Agency, Ofc. Of Ground & Drinking Water		
<i>Passed through Michigan Department of Environmental Quality:</i>		
Safe Drinking Water State Revolving Fund	66.468	973,052
Total Expenditures of Federal Awards		<u>\$ 1,265,669</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2009

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ferndale, Michigan (the "City") and is presented on the same basis of accounting as the basic financial statements.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

* * * * *

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferndale, Michigan as of and for the year ended June 30, 2009, and have issued our report thereon dated November 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ferndale's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ferndale's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ferndale's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ferndale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as 2009-1.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and City Council of the City of Ferndale, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 23, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

2009-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City's compliance with the budgeting act, we noted that the expenditures exceeded the amounts appropriated in the General Fund and several of the City's Special Revenue funds as noted in the notes to the financial statements.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires the City Council to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined".

Effect: The City has not maintained adequate control over budgetary compliance in accordance with State law.

City of Ferndale

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

Section II - Financial Statement Findings - continued

2009-1 UNFAVORABLE BUDGET VARIANCES - CONTINUED

Recommendation: We recommend the City Council monitor budgeted expenditures against actual expenditures on a more frequent basis and amend the original adopted budget to alleviate future unfavorable budget variances in a timely manner.

Corrective Action Response: Based on the City's current general ledger software, more closely monitoring budget to actual results is not an effective or efficient use of staff time. The City is currently reviewing options for a new software system to replace its current one, with a planned implementation in calendar 2010. In each case of an expenditure overrun, there was sufficient fund balance in each Fund to absorb the overrun, and in most cases the overrun was not material to the Fund's budget or fund balance. For the Local Streets Fund, the cost overrun was covered by a planned transfer in from the General Fund. A cost reduction plan for the Local Streets Fund has been put in place for fiscal 2010.

Section III - Federal Award Findings and Questioned Costs

None

City of Ferndale

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2009

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls Over the Financial Statements

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2008-1 VALUATION FOR DEFINED PENSION TRUSTS

Condition: The City was unable to provide the most recent actuarial valuation for disclosures in the financial statements.

Resolution: During the year the City had an actuarial valuation conducted and that study was used for financial statement note disclosure. We consider this issue to be resolved.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

2008-2 REPORTING – EDI SPECIAL PROJECTS PROGRAM

Condition: During the course of the audit it was noted that the City had not complied with the grant agreement and did not submit semi-annual progress reports to their Grant Officer for the 2006 EDI Special Project Grant Agreement

Resolution: The City did not receive this grant again in the current year. In discussions with management it was noted that these semi-annual progress reports were completed and submitted subsequent to the issuance of the City's audited financial statements for the year ended June 30, 2008. We consider this issue to be resolved.