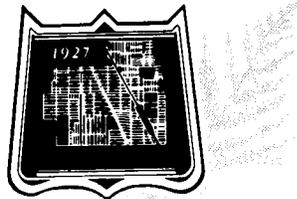


**CITY OF FERNDALE,
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended
June 30, 2011**



*"GOOD
NEIGHBORS"*

City of Ferndale

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City of Ferndale

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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, 2011, 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, 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, 2011, 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 December 14, 2011, 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, General Fund budgetary comparison information, and schedules of funding progress and employer contributions, 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 are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the 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.

As discussed in Note 1 (D) and Note 3 (G), during the year the City of Ferndale implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result of this implementation, fund balance classifications in the governmental fund financial statements have been changed to reflect the new classifications under GASB Statement No. 54, as applicable.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 14, 2011

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

City of Ferndale 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, 2011.

Financial Highlights

- The total net assets of the City exceeded its liabilities at the close of the fiscal year by \$38,656,741. Of this amount, \$22,732,609 is invested in capital assets (net of related debt), \$2,176,912 is restricted for specific purposes such as public safety, highways and streets, debt service payments and other purposes, and \$13,747,220 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 \$2,070,974 as a result of this year's operations. Net assets of our Governmental activities increased by \$1,296,608 and net assets of our Business-type activities increased by \$774,366.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$9,383,656 for a decrease of \$1,547,866 as compared with the prior year. Approximately 48% of this amount, or \$4,465,251, is available for appropriation at the government's discretion (*unassigned fund balance*).
- General fund revenues decreased by \$1,170,000 or 6.4% primarily due to the decrease in property taxes, intergovernmental revenues and investment earnings. General fund expenditures decreased approximately \$2,306,664 or 12.2% primarily due to planned staffing reductions resulting in decreases to payroll and related benefits.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,465,251 or 26.2% of total General Fund expenditures and other financing uses.
- The City's total long-term debt decreased by approximately \$3,775,000 during the current fiscal year.
- The City invested over \$4,129,000 in capital improvements for the year including the purchase of a fire truck, renovations of the library, upgrade of water meters and meter reading systems, and renovation of several sewer lines and water mains. These renovations and upgrades were the result of the City's Capital Improvement Program (CIP). The CIP is used as a long and short term planning guide when considering the need for 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

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

City of Ferndale Management's Discussion and Analysis

on *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 thirteen 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 and Debt Service, 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 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.

* * * * *

City of Ferndale Management's Discussion and Analysis

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 \$38,656,741 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, \$22,732,609 or (58.8%), 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's Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Current and other assets | \$ 14,072,850 | \$ 16,065,210 | \$ 6,561,438 | \$ 5,456,917 | \$ 20,634,288 | \$ 21,522,127 |
| Capital assets, net | 21,563,068 | 21,728,038 | 36,295,721 | 37,500,984 | 57,858,789 | 59,229,022 |
| Total assets | 35,635,918 | 37,793,248 | 42,857,159 | 42,957,901 | 78,493,077 | 80,751,149 |
| Current liabilities | 6,011,646 | 6,324,095 | 1,720,586 | 1,660,396 | 7,732,232 | 7,984,491 |
| Noncurrent liabilities | 17,332,239 | 20,473,728 | 14,771,865 | 15,707,163 | 32,104,104 | 36,180,891 |
| Total liabilities | 23,343,885 | 26,797,823 | 16,492,451 | 17,367,559 | 39,836,336 | 44,165,382 |
| Net assets: | | | | | | |
| Invested in capital assets, net of related debt | 2,144,050 | 7,199 | 20,588,559 | 20,877,509 | 22,732,609 | 20,884,708 |
| Restricted assets | 2,176,912 | 2,239,002 | - | - | 2,176,912 | 2,239,002 |
| Unrestricted | 7,971,071 | 8,749,224 | 5,776,149 | 4,712,833 | 13,747,220 | 13,462,057 |
| Total net assets | \$ 12,292,033 | \$ 10,995,425 | \$ 26,364,708 | \$ 25,590,342 | \$ 38,656,741 | \$ 36,585,767 |

An additional portion of the City's net assets, \$2,176,912 or (5.6%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$13,747,220 or (35.6%) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets in Primary Government activities increased \$2,070,974 during the current fiscal year. Governmental activities account for an increase of \$1,296,608, and business-type activities account for an increase of \$774,366 for the year ended June 30, 2011.

City of Ferndale Management's Discussion and Analysis

City of Ferndale's Changes in Net Assets

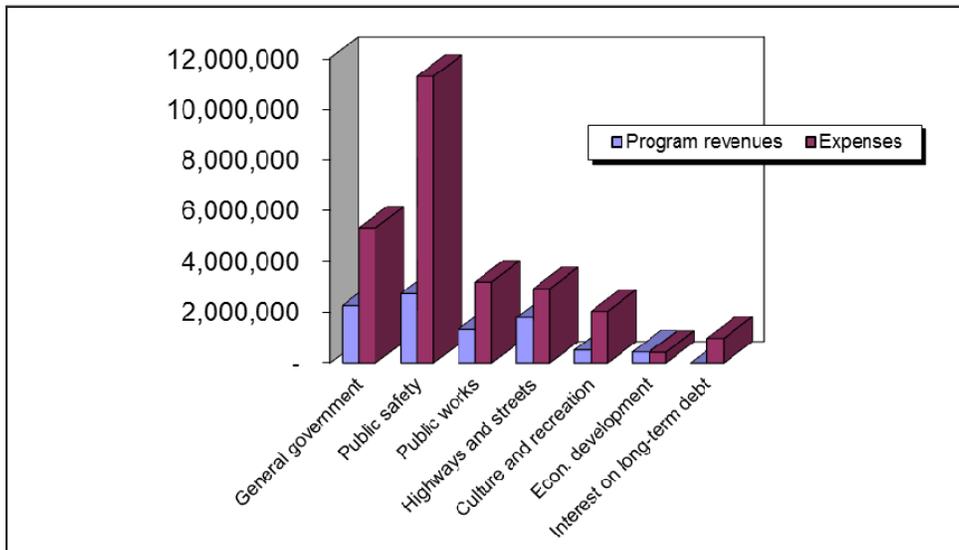
| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Revenue: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 5,647,303 | \$ 5,602,082 | \$ 9,632,752 | \$ 8,517,232 | \$ 15,280,055 | \$ 14,119,314 |
| Operating grants and contributions | 2,719,974 | 2,725,860 | 2,990 | 4,484 | 2,722,964 | 2,730,344 |
| Capital grants and contributions | 675,000 | 59,237 | - | - | 675,000 | 59,237 |
| General revenues: | | | | | | |
| Property taxes | 15,106,394 | 16,100,052 | - | - | 15,106,394 | 16,100,052 |
| State shared revenue | 2,693,992 | 2,635,854 | - | - | 2,693,992 | 2,635,854 |
| Grants and contributions not restricted to specific programs | 356,221 | 672,209 | - | - | 356,221 | 672,209 |
| Other | 246,752 | 689,503 | 9,643 | 5,253 | 256,395 | 694,756 |
| Total revenues | 27,445,636 | 28,484,797 | 9,645,385 | 8,526,969 | 37,091,021 | 37,011,766 |
| Expenses: | | | | | | |
| General government | 5,319,830 | 4,973,747 | - | - | 5,319,830 | 4,973,747 |
| Public safety | 11,287,634 | 12,500,711 | - | - | 11,287,634 | 12,500,711 |
| Public works | 3,192,178 | 3,350,751 | - | - | 3,192,178 | 3,350,751 |
| Highways and streets | 2,921,431 | 3,224,245 | - | - | 2,921,431 | 3,224,245 |
| Community and economic development | 420,670 | 1,079,492 | - | - | 420,670 | 1,079,492 |
| Recreation and culture | 2,036,154 | 1,981,636 | - | - | 2,036,154 | 1,981,636 |
| Interest on long-term debt | 971,131 | 1,093,797 | - | - | 971,131 | 1,093,797 |
| Water and sewer | - | - | 8,479,550 | 7,386,133 | 8,479,550 | 7,386,133 |
| Auto parking | - | - | 391,469 | 409,135 | 391,469 | 409,135 |
| Total expenses | 26,149,028 | 28,204,379 | 8,871,019 | 7,795,268 | 35,020,047 | 35,999,647 |
| Increase in net assets before transfers | 1,296,608 | 280,418 | 774,366 | 731,701 | 2,070,974 | 1,012,119 |
| Transfers | - | 103,656 | - | (103,656) | - | - |
| Increase in net assets | 1,296,608 | 384,074 | 774,366 | 628,045 | 2,070,974 | 1,012,119 |
| Net assets-beginning | 10,995,425 | 10,611,351 | 25,590,342 | 24,962,297 | 36,585,767 | 35,573,648 |
| Net assets-ending | \$ 12,292,033 | \$ 10,995,425 | \$ 26,364,708 | \$ 25,590,342 | \$ 38,656,741 | \$ 36,585,767 |

City of Ferndale Management's Discussion and Analysis

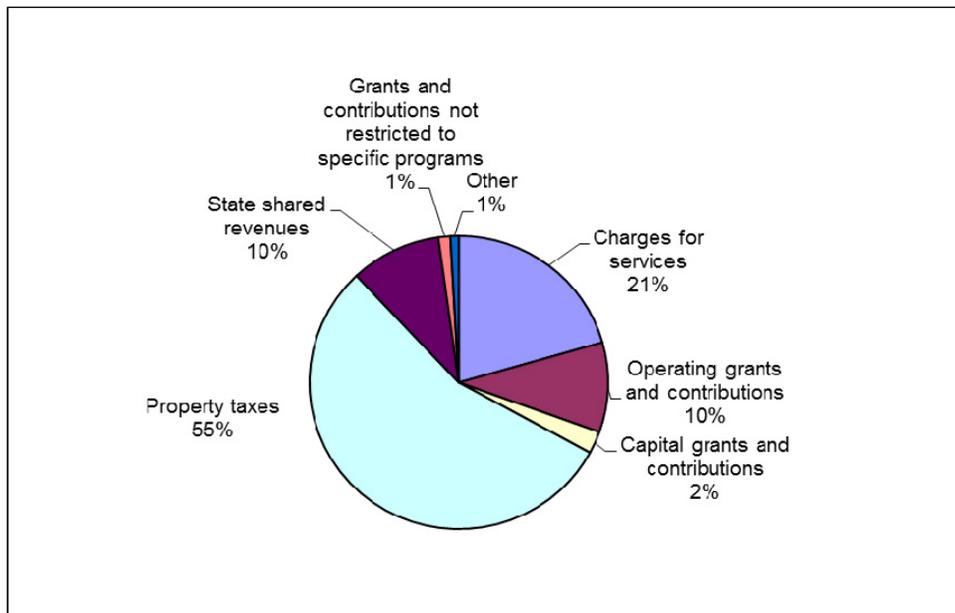
Governmental activities increased the City's net assets by \$1,296,608, accounting for 62.6% of the City's total increase in net assets. Key elements of this change are as follows:

- The City decreased expenses for all functional activities due primarily to decreased wages and related benefits attributable to staff reductions.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities

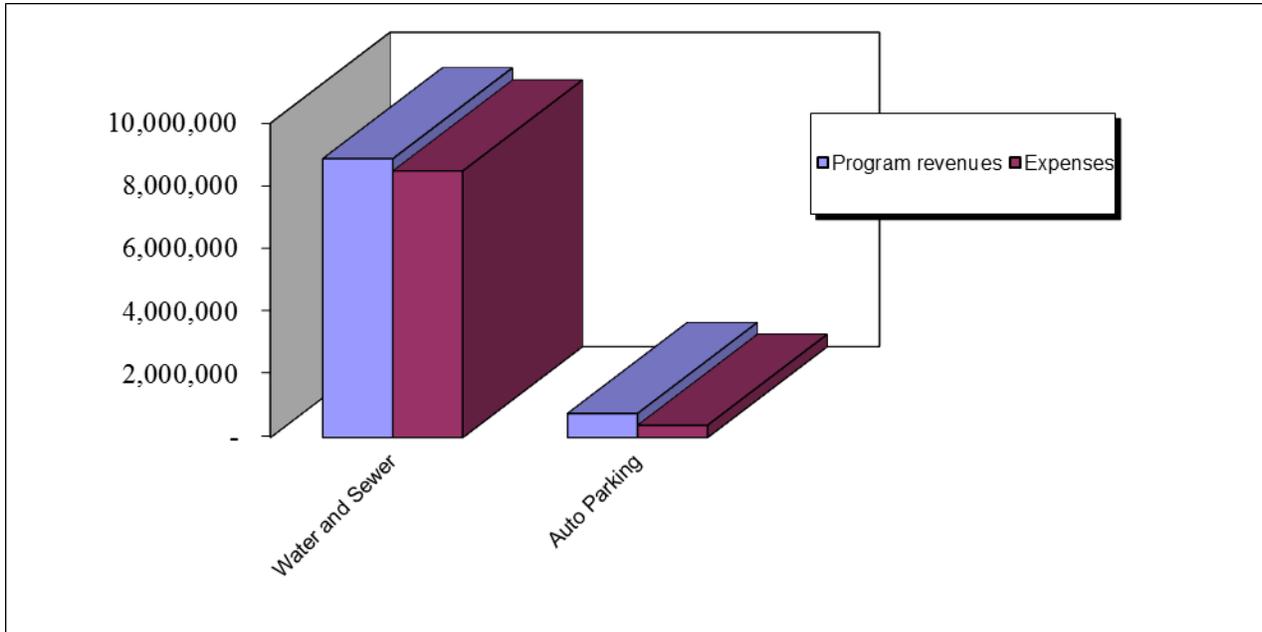


City of Ferndale Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the City's net assets by \$774,366, accounting for 37.4% of the City's total increase in net assets. The key elements of this increase are as follows:

- Water/Sewer revenues and expenses both increased at a proportionate rate of approximately \$1,100,000 due to increased charges to the City by Detroit Water/Sewer charges and offsetting increased fees by the City to consumers. An increase in net assets of approximately \$390,000 was realized from operations net of \$410,000 for interest expense on bonded debt.
 - Auto Parking revenues increased by \$43,000 over the prior year while expenses decreased by \$18,000. An increase in net assets of approximately \$375,000 was realized from operations.
 - Substantially all revenues for the Water/Sewer activities and the Auto Parking activities are derived from charges for services.
-

Expenses and Program Revenues - Business-Type Activities



City of Ferndale

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 fiscal year, the City's governmental funds reported combined ending fund balances of \$9,383,656, a decrease of \$1,547,866 in comparison with the prior year. Approximately 47.6% of this total amount, or \$4,465,251, constitutes *unassigned fund balance*, which is available for appropriation at the government's discretion. The remaining fund balance amounts are either not in a spendable form (i.e. inventories and prepaids), are restricted as to their use by outside 3rd parties or enabling legislation, have been committed to a specific use by City Council or have been assigned by management.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *unassigned* fund balance of the General Fund was \$4,465,251, while total fund balance was \$4,959,342. As a measure of the General Fund's liquidity and financial stability, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 26.2% of total General Fund expenditures, while total fund balance represents 29.1% of the same amount.

Total fund balance of the City's General Fund increased by \$109,760 during the fiscal year. Notable items affecting fund balance include the following:

- Decrease in property tax revenues of \$564,000.
- Decrease in intergovernmental revenue (primarily state shared revenue) of \$269,000.
- Decrease in investment earnings \$392,000
- Decrease in expenditures throughout the City due primarily to payroll and related benefits from staff reductions of \$2,307,000.

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 \$4,663,170 representing an increase in total net assets of \$468,463. This increase was primarily due to an increase in charges for water/sewer charges of approximately \$1,100,000, offset by a corresponding increase by Detroit Water/Sewer for water costs. Operating revenues exceeded operating expenses by \$871,155 before interest expense of \$410,209.

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

City of Ferndale Management's Discussion and Analysis

the \$144M George W. Kuhn 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 slight increase of \$475,000 in other revenue sources. Actual revenues were within \$85,000 of budgeted revenues. A slight increase in actual revenues was realized from fines and forfeitures.

The difference between the original expenditure budget and amended expenditure budget was a decrease of \$421,586. The difference is due primarily to amendments to the original budget to reflect the decreased costs from payroll and related benefits due to staff reductions. Actual expenditures were over budget by only \$64,457.

* * * * *

City of Ferndale Management's Discussion and Analysis

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, 2011, amounted to \$57,858,789 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was \$1,370,233 or 2.3%. This represents a decrease for governmental activities of \$164,970 or 0.8%; and a decrease for business-type activities of \$1,205,263 or 3.2%.

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

- Completion of the Public Library renovation \$233,000.
- Fire truck purchase \$965,000.
- Storm Water system renovations \$346,000.
- Water meter replacement \$753,000.

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

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|----------------------|--------------------------|----------------------|----------------------|----------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Land | \$ 687,878 | \$ 745,693 | \$ 454,903 | \$ 454,903 | \$ 1,142,781 | \$ 1,200,596 |
| Construction in progress | 2,003,562 | 6,496,683 | - | 1,043,718 | 2,003,562 | 7,540,401 |
| Buildings | 7,719,007 | 3,222,620 | 60,840 | 65,910 | 7,779,847 | 3,288,530 |
| Equipment | 1,810,275 | 1,049,206 | 1,720,821 | 17,763 | 3,531,096 | 1,066,969 |
| Vehicles | 2,101,540 | 1,601,242 | 7,783 | 15,570 | 2,109,323 | 1,616,812 |
| Infrastructure | 7,240,806 | 8,612,594 | 34,051,374 | 35,903,120 | 41,292,180 | 44,515,714 |
| Total | \$ 21,563,068 | \$ 21,728,038 | \$ 36,295,721 | \$ 37,500,984 | \$ 57,858,789 | \$ 59,229,022 |

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

City of Ferndale Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$39,681,310, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$23,057,835) and business-type activities (\$16,623,475) at year end.

City of Ferndale's Outstanding Debt

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Public improvement bonds | \$ 349,152 | \$ 454,152 | \$ - | \$ - | \$ 349,152 | \$ 454,152 |
| Library facility bonds | 4,360,000 | 4,500,000 | - | - | 4,360,000 | 4,500,000 |
| Refunding bonds, 2003 | 7,355,000 | 8,690,000 | - | - | 7,355,000 | 8,690,000 |
| Refunding bonds, 2005 | 5,980,000 | 7,010,000 | - | - | 5,980,000 | 7,010,000 |
| Infrastructure bonds, 2007 | 2,150,000 | 2,500,000 | - | - | 2,150,000 | 2,500,000 |
| GW Kuhn drain project | - | - | 9,203,897 | 9,795,209 | 9,203,897 | 9,795,209 |
| State DWRP loans | - | - | 6,503,266 | 6,828,266 | 6,503,266 | 6,828,266 |
| Premiums/(Discounts), net | (93,535) | (96,317) | - | - | (93,535) | (96,317) |
| Total | <u>\$ 20,100,617</u> | <u>\$ 23,057,835</u> | <u>\$ 15,707,163</u> | <u>\$ 16,623,475</u> | <u>\$ 35,807,780</u> | <u>\$ 39,681,310</u> |

The City decreased debt obligations by \$3,873,530 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.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2010-11 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, 2010 was \$43M, for which approximately \$9.1M to date has been set aside to defray those costs.

City of Ferndale Management's Discussion and Analysis

- General fund revenues are expected to increase by approximately \$244,000 to offset the increase in expenditures of the same amount.
- Although the City continued to hold on to its A+ rating this year, it is tenuous given the challenges that face the City for 2012 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
Statement of Net Assets
June 30, 2011

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|----------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total | |
| Assets | | | | |
| Cash and investments | \$ 11,928,190 | \$ 4,546,523 | \$ 16,474,713 | \$ 716,948 |
| Receivables , net | 1,970,716 | 2,005,158 | 3,975,874 | 93,710 |
| Prepaid items and other assets | 173,944 | 9,757 | 183,701 | - |
| Non-depreciable capital assets | 2,691,439 | 454,903 | 3,146,342 | - |
| Depreciable capital assets, net | 18,871,629 | 35,840,818 | 54,712,447 | 327,502 |
| Total assets | 35,635,918 | 42,857,159 | 78,493,077 | 1,138,160 |
| Liabilities | | | | |
| Accounts payable | 1,401,880 | 670,355 | 2,072,235 | 179,565 |
| Accrued liabilities | 1,369,766 | 114,933 | 1,484,699 | 2,021 |
| Non-current liabilities: | | | | |
| Due within one year | 3,237,218 | 935,298 | 4,172,516 | - |
| Due in more than one year | 17,335,021 | 14,771,865 | 32,106,886 | - |
| Total liabilities | 23,343,885 | 16,492,451 | 39,836,336 | 181,586 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 2,144,050 | 20,588,558 | 22,732,608 | 327,502 |
| Restricted: | | | | |
| Public safety | 537,908 | - | 537,908 | - |
| Recreation and culture | 593,586 | - | 593,586 | - |
| Highways and streets | 353,296 | - | 353,296 | - |
| Public works | 1,126,736 | - | 1,126,736 | - |
| Community & economic development | 73,848 | - | 73,848 | 629,072 |
| Debt service | 173,137 | - | 173,137 | - |
| Unrestricted | 7,289,472 | 5,776,150 | 13,065,622 | - |
| Total net assets | \$ 12,292,033 | \$ 26,364,708 | \$ 38,656,741 | \$ 956,574 |

The notes to the financial statements are an integral part of this statement

City of Ferndale
Statement of Activities
For the Year Ended June 30, 2011

| Functions/Programs | Expenses | Program Revenues | | |
|------------------------------------|----------------------|-----------------------------|---|---|
| | | Charges for services | Operating grants and contributions | Capital grants and contributions |
| Primary Government | | | | |
| Governmental activities: | | | | |
| General government | \$ 5,319,830 | \$ 2,205,407 | \$ 58,801 | \$ - |
| Public safety | 11,287,634 | 1,751,581 | 295,663 | 675,000 |
| Public works | 3,192,178 | 1,321,703 | 1,239 | - |
| Highway & streets | 2,921,431 | 10,020 | 1,772,375 | - |
| Recreation & culture | 2,036,154 | 358,592 | 157,020 | - |
| Community & economic development | 420,670 | - | 434,876 | - |
| Interest on long-term debt | 971,131 | - | - | - |
| Total governmental activities | <u>26,149,028</u> | <u>5,647,303</u> | <u>2,719,974</u> | <u>675,000</u> |
| Business-type activities: | | | | |
| Water and sewer | 8,479,550 | 8,866,016 | 2,990 | - |
| Auto parking | 391,469 | 766,736 | - | - |
| Total business-type activities | <u>8,871,019</u> | <u>9,632,752</u> | <u>2,990</u> | <u>-</u> |
| Total primary government | <u>\$ 35,020,047</u> | <u>\$ 15,280,055</u> | <u>\$ 2,722,964</u> | <u>\$ 675,000</u> |
| Component Units | | | | |
| Brownfield Redevelopment Authority | \$ 232,595 | \$ 4,668 | \$ - | \$ - |
| Downtown Development Authority | 658,181 | 532 | 107,542 | - |
| Total component units | <u>\$ 890,776</u> | <u>\$ 5,200</u> | <u>\$ 107,542</u> | <u>\$ -</u> |

continued on next page

City of Ferndale
Statement of Activities (concluded)
For the Year Ended June 30, 2011

| Functions/Programs | Net (Expense) Revenue and Changes in Net Assets | | | |
|---|--|-------------------------------------|----------------------|----------------------------|
| | Primary Government | | | Component Units |
| | Governmental Activities | Business-Type Activities | Total | |
| Primary Government | | | | |
| Governmental activities: | | | | |
| General government | \$ (3,055,622) | \$ - | \$ (3,055,622) | \$ - |
| Public safety | (8,565,390) | - | (8,565,390) | - |
| Public works | (1,869,236) | - | (1,869,236) | - |
| Highway & streets | (1,139,036) | - | (1,139,036) | - |
| Recreation & culture | (1,520,542) | - | (1,520,542) | - |
| Community & economic development | 14,206 | - | 14,206 | - |
| Interest on long-term debt | (971,131) | - | (971,131) | - |
| Total governmental activities | (17,106,751) | - | (17,106,751) | - |
| Business-type activities: | | | | |
| Water and sewer | - | 389,456 | 389,456 | - |
| Auto parking | - | 375,267 | 375,267 | - |
| Total business-type activities | - | 764,723 | 764,723 | - |
| Total primary government | (17,106,751) | 764,723 | (16,342,028) | - |
| Component Units | | | | |
| Brownfield Redevelopment Authority | - | - | - | (227,927) |
| Downtown Development Authority | - | - | - | (550,108) |
| Total component units | - | - | - | (778,035) |
| General revenues: | | | | |
| Property taxes | 15,106,394 | - | 15,106,394 | 874,460 |
| State shared revenue | 2,693,992 | - | 2,693,992 | - |
| Grants and contributions not restricted to specific programs | 356,221 | - | 356,221 | - |
| Unrestricted investment earnings | 209,724 | 9,643 | 219,367 | 1,296 |
| Gain on sale for capital assets | 37,028 | - | 37,028 | - |
| Total general revenues | 18,403,359 | 9,643 | 18,413,002 | 875,756 |
| Change in net assets | 1,296,608 | 774,366 | 2,070,974 | 97,721 |
| Net assets - beginning | 10,995,425 | 25,590,342 | 36,585,767 | 858,853 |
| Net assets - ending | \$ 12,292,033 | \$ 26,364,708 | \$ 38,656,741 | \$ 956,574 |

The notes to the financial statements are an integral part of this statement

**City of Ferndale
Balance Sheet
Governmental Funds
June 30, 2011**

| | <u>General</u> | <u>Debt Service</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------------------|---------------------|---------------------|--|---|
| Assets | | | | |
| Cash and investments | \$ 5,968,520 | \$ 173,137 | \$ 4,133,520 | \$ 10,275,177 |
| Receivables: | | | | |
| Accounts receivable | 589,675 | - | 27,265 | 616,940 |
| Taxes - delinquent | 138,748 | 48,130 | 35,081 | 221,959 |
| Less: allowance for doubtful accounts | (76,618) | (25,066) | (19,005) | (120,689) |
| Interest and dividends | 30,960 | - | - | 30,960 |
| Due from other governments | 699,627 | - | 503,602 | 1,203,229 |
| Prepaid expenditures | 50 | - | - | 50 |
| Total assets | <u>\$ 7,350,962</u> | <u>\$ 196,201</u> | <u>\$ 4,680,463</u> | <u>\$ 12,227,626</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 553,192 | \$ - | \$ 360,363 | \$ 913,555 |
| Accrued liabilities | 1,121,642 | - | 25,582 | 1,147,224 |
| Deferred revenue | 716,786 | 23,064 | 43,341 | 783,191 |
| Total liabilities | <u>2,391,620</u> | <u>23,064</u> | <u>429,286</u> | <u>2,843,970</u> |
| Fund Balances: | | | | |
| Nonspendable | 50 | - | - | 50 |
| Restricted | 12,636 | 173,137 | 2,672,738 | 2,858,511 |
| Committed | 471,622 | - | 1,301,580 | 1,773,202 |
| Assigned | 9,783 | - | 276,859 | 286,642 |
| Unassigned | 4,465,251 | - | - | 4,465,251 |
| Total fund balances | <u>4,959,342</u> | <u>173,137</u> | <u>4,251,177</u> | <u>9,383,656</u> |
| Total liabilities and fund balances | <u>\$ 7,350,962</u> | <u>\$ 196,201</u> | <u>\$ 4,680,463</u> | <u>\$ 12,227,626</u> |

City of Ferndale
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, 2011

| | | |
|---|-----------|------------------|
| Fund balances - total governmental funds | \$ | 9,383,656 |
|---|-----------|------------------|

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 | | 59,327,117 |
| Deduct: accumulated depreciation | | (40,228,071) |

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 | | 783,191 |
|------------------------|--|---------|

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 | | 3,817,179 |
|--|--|-----------|

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 | | (20,100,617) |
| Deduct: compensated absences | | (471,622) |
| Deduct: accrued interest on bonds payable | | (218,800) |

| | | |
|--|-----------|--------------------------|
| Net assets of governmental activities | \$ | <u>12,292,033</u> |
|--|-----------|--------------------------|

City of Ferndale
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the Year Ended June 30, 2011

| | <u>General</u> | <u>Debt Service</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------------|--------------------------|--|---|
| Revenues | | | | |
| Property taxes | \$ 9,253,895 | \$ 3,512,962 | \$ 2,390,914 | \$ 15,157,771 |
| Licenses and permits | 348,004 | - | - | 348,004 |
| Intergovernmental | 3,531,379 | - | 2,460,928 | 5,992,307 |
| Charges for services | 998,831 | - | 1,094,578 | 2,093,409 |
| Fines and forfeitures | 1,929,742 | - | 96,554 | 2,026,296 |
| Investment earnings | 201,945 | 238 | 7,540 | 209,723 |
| Other | 728,748 | - | 98,002 | 826,750 |
| Total revenues | <u>16,992,544</u> | <u>3,513,200</u> | <u>6,148,516</u> | <u>26,654,260</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 4,312,345 | 55,784 | 117,246 | 4,485,375 |
| Public safety | 11,061,575 | - | 7,574 | 11,069,149 |
| Public works | 490,930 | - | 2,544,686 | 3,035,616 |
| Highway & streets | - | - | 1,029,954 | 1,029,954 |
| Recreation and culture | 684,303 | - | 901,657 | 1,585,960 |
| Community & economic development | - | - | 426,508 | 426,508 |
| Debt service: | | | | |
| Principal | - | 2,715,000 | 245,000 | 2,960,000 |
| Interest and fees | - | 808,225 | 191,175 | 999,400 |
| Capital outlay: | | | | |
| Capital outlay | 14,455 | - | 2,272,933 | 2,287,388 |
| Total expenditures | <u>16,563,608</u> | <u>3,579,009</u> | <u>7,736,733</u> | <u>27,879,350</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>428,936</u> | <u>(65,809)</u> | <u>(1,588,217)</u> | <u>(1,225,090)</u> |
| Other financing sources (uses) | | | | |
| Transfers in | 108,799 | - | 200,000 | 308,799 |
| Transfers out | (450,000) | - | (204,799) | (654,799) |
| Proceeds from sale of capital assets | 22,025 | - | 1,199 | 23,224 |
| Total other financing sources (uses) | <u>(319,176)</u> | <u>-</u> | <u>(3,600)</u> | <u>(322,776)</u> |
| Net change in fund balances | <u>109,760</u> | <u>(65,809)</u> | <u>(1,591,817)</u> | <u>(1,547,866)</u> |
| Fund balances - beginning | 4,849,582 | 238,946 | 5,842,994 | 10,931,522 |
| Fund balances - ending | <u>\$ 4,959,342</u> | <u>\$ 173,137</u> | <u>\$ 4,251,177</u> | <u>\$ 9,383,656</u> |

The notes to the financial statements are an integral part of this statement

City of Ferndale
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, 2011

Net change in fund balances - total governmental funds **\$ (1,547,866)**

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 | 2,287,389 |
| Deduct: depreciation expense | (2,915,067) |

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 revenue | 79,348 |
|---|--------|

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 | 2,960,000 |
| Add: amortization of bond premiums/discounts and change in accrued interest | 28,268 |

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 | 425,714 |
| Add: change in amount charged to business-type activities | 71,490 |
| Add: change in amount charged to component units | 5,839 |

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 | (98,507) |
|--|----------|

Change in net assets of governmental activities **\$ 1,296,608**

City of Ferndale
Statement of Net Assets
Proprietary Funds
for the Year Ended June 30, 2011

| | <u>Business-Type Activities - Enterprise Funds</u> | | | <u>Governmental Activities</u> |
|---|--|----------------------------|-----------------------------|--------------------------------|
| | <u>Major Fund</u> | <u>Nonmajor Fund</u> | <u>Total</u> | <u>Internal Service Funds</u> |
| | <u>Water & Sewer</u> | <u>Auto Parking</u> | | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 3,427,430 | \$ 1,119,093 | \$ 4,546,523 | \$ 1,749,530 |
| Accounts receivable | 2,002,168 | - | 2,002,168 | 18,317 |
| Intergovernmental receivable | 2,990 | - | 2,990 | - |
| Inventories | 9,757 | - | 9,757 | 149,391 |
| Prepaid expenses | - | - | - | 24,500 |
| Total current assets | <u>5,442,345</u> | <u>1,119,093</u> | <u>6,561,438</u> | <u>1,941,738</u> |
| Noncurrent assets: | | | | |
| Capital assets | 55,608,676 | 1,648,733 | 57,257,409 | 6,407,233 |
| Less accumulated depreciation | <u>(20,376,914)</u> | <u>(584,774)</u> | <u>(20,961,688)</u> | <u>(3,943,207)</u> |
| Total noncurrent assets | <u>35,231,762</u> | <u>1,063,959</u> | <u>36,295,721</u> | <u>2,464,026</u> |
| Total Assets | <u>40,674,107</u> | <u>2,183,052</u> | <u>42,857,159</u> | <u>4,405,764</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 666,698 | 3,657 | 670,355 | 584,841 |
| Accrued liabilities | 112,477 | 2,456 | 114,933 | 3,744 |
| Current portion of long-term debt | <u>935,298</u> | <u>-</u> | <u>935,298</u> | <u>-</u> |
| Total current liabilities | <u>1,714,473</u> | <u>6,113</u> | <u>1,720,586</u> | <u>588,585</u> |
| Noncurrent Liabilities: | | | | |
| Long-term debt | <u>14,771,865</u> | <u>-</u> | <u>14,771,865</u> | <u>-</u> |
| Total liabilities | <u>16,486,338</u> | <u>6,113</u> | <u>16,492,451</u> | <u>588,585</u> |
| Net assets | | | | |
| Investment in capital assets, net of related debt | 19,524,599 | 1,063,959 | 20,588,558 | 2,464,026 |
| Unrestricted | <u>4,663,170</u> | <u>1,112,980</u> | <u>5,776,150</u> | <u>1,353,153</u> |
| Total net assets | <u>\$ 24,187,769</u> | <u>\$ 2,176,939</u> | <u>\$ 26,364,708</u> | <u>\$ 3,817,179</u> |

City of Ferndale
Statement of Revenues, Expenses,
and Changes in Fund Net Assets
Proprietary Funds
for the Year Ended June 30, 2011

| | Business-Type Activities | | | Governmental Activities |
|---|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Major Fund | Nonmajor Fund | Total | Internal Service Funds |
| | Water & Sewer | Auto Parking | | |
| Operating revenues | | | | |
| Charges for services | \$ 8,073,700 | \$ 60 | \$ 8,073,760 | \$ 1,467,474 |
| Parking meter receipts | - | 733,472 | 733,472 | - |
| Water penalties | 464,458 | - | 464,458 | - |
| Water meter repairs | 3,704 | - | 3,704 | - |
| Miscellaneous income | 327,144 | 33,204 | 360,348 | - |
| Total operating revenues | <u>8,869,006</u> | <u>766,736</u> | <u>9,635,742</u> | <u>1,467,474</u> |
| Operating expenses | | | | |
| Personal services | 1,183,245 | 173,691 | 1,356,936 | 248,211 |
| General and administrative | 403,026 | 29,677 | 432,703 | 523,759 |
| Utilities | 65,838 | 22,231 | 88,069 | 38,095 |
| Rental expense | 145,775 | 62,380 | 208,155 | 43,505 |
| Contractual services | 50,179 | 3,953 | 54,132 | 67,839 |
| Water and sewer expense | 3,818,973 | - | 3,818,973 | - |
| Maintenance expense | 323,504 | 24,143 | 347,647 | 167,906 |
| Depreciation | 2,007,311 | 75,394 | 2,082,705 | 501,803 |
| Medical and benefit payments | - | - | - | 485,446 |
| Total operating expenses | <u>7,997,851</u> | <u>391,469</u> | <u>8,389,320</u> | <u>2,076,564</u> |
| Operating income (loss) | <u>871,155</u> | <u>375,267</u> | <u>1,246,422</u> | <u>(609,090)</u> |
| Nonoperating revenues (expenses) | | | | |
| Interest income | 7,517 | 2,126 | 9,643 | - |
| Interest expense | (410,209) | - | (410,209) | - |
| Gain on sale of capital assets | - | - | - | 13,804 |
| Federal capital grant | - | - | - | 675,000 |
| Total nonoperating revenues (expenses) | <u>(402,692)</u> | <u>2,126</u> | <u>(400,566)</u> | <u>688,804</u> |
| Income (loss) before transfers | 468,463 | 377,393 | 845,856 | 79,714 |
| Transfers in | - | - | - | 346,000 |
| Change in net assets | 468,463 | 377,393 | 845,856 | 425,714 |
| Total net assets - beginning | <u>23,719,306</u> | <u>1,799,546</u> | <u>25,518,852</u> | <u>3,391,465</u> |
| Total net assets - ending | <u>\$ 24,187,769</u> | <u>\$ 2,176,939</u> | <u>\$ 26,364,708</u> | <u>\$ 3,817,179</u> |

The notes to the financial statements are an integral part of this statement

**City of Ferndale
Statement of Cash Flows
Proprietary Funds
for the Year Ended June 30, 2011**

| | Business-type Activities - Enterprise Funds | | | Governmental Activities |
|---|--|----------------------------|----------------------------|------------------------------------|
| | Major Fund | Nonmajor Fund | Total | Internal Service Funds |
| | Water & Sewer | Auto Parking | | |
| Cash flows from operating activities | | | | |
| Cash received from customers and others | \$ 8,646,428 | \$ 780,596 | \$ 9,427,024 | \$ - |
| Cash received from interfund services | - | - | - | 1,449,157 |
| Cash payments to employees | (1,189,633) | (174,086) | (1,363,719) | (247,889) |
| Cash payments to suppliers for goods and services | (4,610,876) | (83,038) | (4,693,914) | (940,733) |
| Cash payments for interfund services | (145,775) | (62,380) | (208,155) | - |
| Net cash provided by operating activities | <u>2,700,144</u> | <u>461,092</u> | <u>3,161,236</u> | <u>260,535</u> |
| Cash flows from investing activities | | | | |
| Investment income | <u>7,516</u> | <u>2,126</u> | <u>9,642</u> | <u>-</u> |
| Cash flows from capital and related financing activities | | | | |
| Purchase of capital assets | (877,442) | - | (877,442) | (964,511) |
| Proceeds from sale of capital assets | - | - | - | 13,804 |
| Bond/note principal payments | (916,312) | - | (916,312) | - |
| Bond/note interest payments | (410,209) | - | (410,209) | - |
| Capital grant | - | - | - | 675,000 |
| Net cash provided by (used in) capital and related financing activities | <u>(2,203,963)</u> | <u>-</u> | <u>(2,203,963)</u> | <u>(275,707)</u> |
| Cash flows from non-capital financing activities | | | | |
| Transfers | <u>-</u> | <u>-</u> | <u>-</u> | <u>346,000</u> |
| Net increase in cash and cash equivalents | 503,697 | 463,218 | 966,915 | 330,828 |
| Cash and cash equivalents, beginning of year | <u>2,923,733</u> | <u>655,875</u> | <u>3,579,608</u> | <u>1,418,702</u> |
| Cash and cash equivalents, end of year | <u>\$ 3,427,430</u> | <u>\$ 1,119,093</u> | <u>\$ 4,546,523</u> | <u>\$ 1,749,530</u> |

Continued on next page

City of Ferndale
Statement of Cash Flows (continued)
Proprietary Funds
for the Year Ended June 30, 2011

| | <u>Business-type Activities - Enterprise Funds</u> | | | <u>Governmental Activities</u> |
|---|--|----------------------|---------------------|--------------------------------|
| | <u>Major Fund</u> | <u>Nonmajor Fund</u> | <u>Total</u> | <u>Internal Service Funds</u> |
| | <u>Water & Sewer</u> | <u>Auto Parking</u> | | |
| Reconciliation of operating income to net cash provided by operating activities | | | | |
| Operating income (loss) | \$ 871,155 | \$ 375,267 | \$ 1,246,422 | \$ (609,090) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation | 2,007,311 | 75,394 | 2,082,705 | 501,803 |
| Changes in assets and liabilities: | | | | |
| Accounts receivable - customers | (224,071) | 13,859 | (210,212) | - |
| Due from other governments | 1,494 | - | 1,494 | - |
| Accounts receivable - other | - | - | - | (18,317) |
| Inventories | (378) | - | (378) | 44,721 |
| Prepaid items | - | - | - | - |
| Accounts payable | 51,021 | (3,033) | 47,988 | 341,096 |
| Accrued liabilities | (6,388) | (395) | (6,783) | 322 |
| Net cash provided by operating activities | \$ 2,700,144 | \$ 461,092 | \$ 3,161,236 | \$ 260,535 |

**City of Ferndale
Statement of Fiduciary Net Assets
Fiduciary Funds
for the Year Ended June 30, 2011**

| | <u>Trust Funds</u> | <u>Agency Fund</u> |
|---|---|--|
| | <u>Pension and Other Post-Employee Benefits</u> | <u>Ferndale Arts and Cultural Commission</u> |
| Assets | | |
| Cash and cash equivalents | \$ 2,310,715 | \$ 1,434 |
| Accrued interest receivable | 224,744 | - |
| Investments: | | |
| Debt securities | 24,351,385 | - |
| Equity securities | 36,061,956 | - |
| Real estate investment trust | 2,620,880 | - |
| Total investments | <u>63,034,221</u> | <u>-</u> |
| Total assets | <u>65,569,680</u> | <u>\$ 1,434</u> |
| Liabilities | | |
| Accounts payable | 1,500 | |
| Other liabilities | - | \$ 1,434 |
| Total liabilities | <u>1,500</u> | <u>\$ 1,434</u> |
| Net assets held in trust for pension benefits and other purposes | <u><u>\$ 65,568,180</u></u> | |

City of Ferndale
Statement of Changes in Fiduciary Net Assets
for the Year Ended June 30, 2011

| | Trust Funds |
|--------------------------------|---|
| | Pension and Other Post-Employee Benefits |
| Additions | |
| Contributions: | |
| Employer contributions | \$ 1,522,897 |
| Plan member contributions | 135,502 |
| Total contributions | 1,658,399 |
| Investment income: | |
| Net appreciation in fair value | 9,575,400 |
| Interest | 1,231,419 |
| Dividends | 645,399 |
| Total investment income | 11,452,218 |
| Less investment expense | (293,725) |
| Net investment expense | 11,158,493 |
| Total Additions: | 12,816,892 |
| Deductions | |
| Benefits | 3,524,008 |
| Administrative expenses | 23,905 |
| Total deductions | 3,547,913 |
| Change in net assets | 9,268,979 |
| Net assets - beginning | 56,299,201 |
| Net assets - ending | \$ 65,568,180 |

City of Ferndale
Combining Statement of Net Assets
Component Units
June 30, 2011

| | Brownfield Redevelopment Authority | Downtown Development Authority | Total Component Units |
|---------------------------------|---|---|----------------------------------|
| Assets | | | |
| Cash and investments | \$ 531,094 | \$ 185,854 | \$ 716,948 |
| Receivables, net | 7,005 | 86,705 | 93,710 |
| Depreciable capital assets, net | - | 327,502 | 327,502 |
| Total assets | 538,099 | 600,061 | 1,138,160 |
| Liabilities | | | |
| Accounts payable | 166,595 | 12,970 | 179,565 |
| Accrued liabilities | - | 2,021 | 2,021 |
| Total liabilities | 166,595 | 14,991 | 181,586 |
| Net Assets | | | |
| Invested in capital assets, net | - | 327,502 | 327,502 |
| Restricted | 371,504 | 257,568 | 629,072 |
| Total net assets | \$ 371,504 | \$ 585,070 | \$ 956,574 |

City of Ferndale
Combining Statement of Activities
Component Units
for the Year Ended June 30, 2011

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | | |
|---|-------------------|-------------------------------------|---|--|---|--------------------------|
| | | <u>Charges for services</u> | <u>Operating grants and contrib- utions</u> | <u>Brownfield Redevelop- ment Authority</u> | <u>Downtown Develop- ment Authority</u> | <u>Total</u> |
| Brownfield Redevelopment Authority Community & economic development | \$ 232,595 | \$ 4,668 | \$ - | \$ (227,927) | \$ - | \$ (227,927) |
| Downtown Development Authority General government | 94,875 | - | - | - | (94,875) | (94,875) |
| Community & economic development | 563,307 | 532 | 107,542 | - | (455,233) | (455,233) |
| Total Downtown Development | <u>658,182</u> | <u>532</u> | <u>107,542</u> | <u>-</u> | <u>(550,108)</u> | <u>(550,108)</u> |
| Total Component Units | <u>\$ 890,777</u> | <u>\$ 5,200</u> | <u>\$ 107,542</u> | <u>(227,927)</u> | <u>(550,108)</u> | <u>(778,035)</u> |
| Property taxes | | | | 349,023 | 525,437 | 874,460 |
| Unrestricted investment earnings | | | | 1,047 | 249 | 1,296 |
| Total general revenues | | | | <u>350,070</u> | <u>525,686</u> | <u>875,756</u> |
| Change in net assets | | | | 122,143 | (24,422) | 97,721 |
| Net assets - beginning | | | | <u>249,361</u> | <u>609,492</u> | <u>858,853</u> |
| Net assets - ending | | | | <u>\$ 371,504</u> | <u>\$ 585,070</u> | <u>\$ 956,574</u> |

The notes to the financial statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

City of Ferndale

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 blight 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; provides assistance for the restoration of abandoned, idled, or under-utilized industrial or commercial properties which are complicated by perceived or real 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 meeting the operational or capital

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

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.

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 by third parties outside the City or enabling legislation 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

NOTES TO FINANCIAL STATEMENTS

Pension trust funds. These funds account for the activities of the Employees Retirement System, the Policemen and Firemen Retirement System, and the Post Retirement Health Care Fund, which accumulates resources for retirement benefits and post-employment 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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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 city's water and sewer function and various other functions of the city. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 city 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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

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 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 uncollectable accounts, 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 land, buildings, 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. As a general rule, the city defines capital assets as assets with an initial, individual cost of more than \$5,000 for land and improvements, \$10,000 for buildings, infrastructure and utility systems along with 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 city chose to include all such items regardless of their acquisition date or amount. The city was able to estimate the historical cost for the initial

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

reporting of these assets through backtrending (i.e. estimating the current replacement 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 city 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 city 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 when 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 | 25 - 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 city'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 reported net of the applicable bond premium or discount.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

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 accordance with Government Accounting Standards Board Statement 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", the City classified governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the City Council and does not lapse at year-end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Used for all governmental funds with the exception of the General Fund any remaining positive amounts not classified as nonspendable, restricted or committed.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit this, such as a grant agreement requiring equal spending between the grantor and the City. Additionally, the City would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City has established a policy to maintain a minimum unassigned fund balance for the General Fund at a level of 12% of annual expenditures. This is to provide sufficient cash flow for City operations and minimize the potential for short term tax anticipation

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

borrowing. Should the level of unassigned fund balance for the General Fund fall below this target level, the City Council must approve and adopt a plan to restore fund balance to this minimum level within 24 months unless this plan would cause undue hardship to the City in which a longer time frame may be established.

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

NOTES TO FINANCIAL STATEMENTS

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, 2011:

| Cash and Investments | Deposits | Investments | Other | Total |
|---------------------------|-------------------|----------------------|-----------------|----------------------|
| Government-Wide | | | | |
| Cash and cash equivalents | \$ (2,420,587) | \$ 9,450,282 | \$ 3,750 | \$ 7,033,445 |
| Investments | 503,142 | 8,938,126 | - | 9,441,268 |
| Fiduciary Funds | | | | |
| Cash and cash equivalents | 1,520,695 | 791,454 | - | 2,312,149 |
| Investments | - | 63,034,221 | - | 63,034,221 |
| Component Units | | | | |
| Cash and cash equivalents | 716,948 | - | - | 716,948 |
| Total | \$ 320,198 | \$ 82,214,083 | \$ 3,750 | \$ 82,538,031 |

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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

- 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, 2011 the City had the following investments:

| Investment Type | Credit Risk - S&P Quality Fair Values | | | | | Total |
|--------------------|--|---------------------|---------------------|-------------------------------|---------------------------|----------------------|
| | Less Than 1 Year | 1-5 | 6-10 | More Than 10 Years | Not Applicable | |
| Pooled investments | \$ - | \$ - | \$ - | \$ - | \$ 9,109,026 | \$ 9,109,026 |
| U.S. Government | 923,662 | 2,191,429 | 2,531,222 | 17,802,253 | - | 23,448,566 |
| Corporate bonds | 294,396 | 3,664,785 | 2,736,053 | 2,226,442 | - | 8,921,676 |
| Foreign bonds | 113,347 | 366,357 | 279,710 | - | - | 759,414 |
| Stocks | - | - | - | - | 23,471,714 | 23,471,714 |
| Mutual funds | - | - | - | - | 12,443,912 | 12,443,912 |
| REIT | - | - | - | - | 2,767,211 | 2,767,211 |
| Other | - | 501,110 | - | - | 791,454 | 1,292,564 |
| Total | \$ 1,331,405 | \$ 6,723,681 | \$ 5,546,985 | \$ 20,028,695 | \$ 48,583,317 | \$ 82,214,083 |

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, 2011, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

| Credit Risk - S&P Quality Fair Values | | | | | | | | Not | Total |
|---------------------------------------|----------------------|-------------------|---------------------|---------------------|-------------------|-------------------|----------------------|----------------------|-------|
| Investment Type | AAA | AA | A | BBB | BB | B | Rated | | |
| Pooled investments | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 9,109,026 | \$ 9,109,026 | |
| U.S. Government | 17,380,697 | 21,624 | - | - | - | - | 6,046,245 | 23,448,566 | |
| Corporate bonds | 1,130,907 | 540,262 | 3,598,594 | 2,691,593 | 489,097 | 160,413 | 310,810 | 8,921,676 | |
| Foreign bonds | - | - | 560,620 | 198,794 | - | - | - | 759,414 | |
| Stocks | - | - | - | - | - | - | 23,471,714 | 23,471,714 | |
| Mutual funds | - | - | - | - | - | - | 12,443,912 | 12,443,912 | |
| REIT | - | - | - | - | - | - | 2,767,211 | 2,767,211 | |
| Other | - | - | - | 501,110 | - | - | 791,454 | 1,292,564 | |
| Total | \$ 18,511,604 | \$ 561,886 | \$ 4,159,214 | \$ 3,391,497 | \$ 489,097 | \$ 160,413 | \$ 54,940,372 | \$ 82,214,083 | |

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 \$33,889 of the City’s bank deposit balance of \$795,969 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 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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

B. Receivables

Receivables in the governmental activities are approximately 61 percent due from other governments, 34 percent accounts receivables, and 5 percent taxes. 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 Unavailable | Component Units Unavailable |
|---|---|--|
| Personal property taxes not yet received | \$ 101,270 | \$ 14,913 |
| Special assessments | 27,265 | - |
| State shared revenue not received within 60 days | 654,656 | - |
| Total | <u>\$ 783,191</u> | <u>\$ 14,913</u> |

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

C. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

| <u>Primary government</u> | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Transfers</u> | <u>Ending Balance</u> |
|--|------------------------------|----------------------------|--------------------|---------------------------|-----------------------------|
| Governmental activities | | | | | |
| Capital assets, not depreciated | | | | | |
| Land | \$ 745,693 | \$ - | \$ - | \$ (57,815) | \$ 687,878 |
| Construction in process | 6,496,683 | 345,790 | - | (4,838,912) | 2,003,561 |
| Total capital assets, not depreciated | <u>7,242,376</u> | <u>345,790</u> | <u>-</u> | <u>(4,896,727)</u> | <u>2,691,439</u> |
| Capital assets, depreciated | | | | | |
| Infrastructure | 39,697,526 | 743,907 | (94,070) | - | 40,347,363 |
| Buildings | 7,304,276 | 571,152 | (148,713) | 4,461,278 | 12,187,993 |
| Equipment | 3,749,329 | 626,539 | (162,290) | 435,449 | 4,649,027 |
| Vehicles | 4,979,846 | 964,512 | (85,830) | - | 5,858,528 |
| Total capital assets, depreciated | <u>55,730,977</u> | <u>2,906,110</u> | <u>(490,903)</u> | <u>4,896,727</u> | <u>63,042,911</u> |
| Less accumulated depreciation | | | | | |
| Infrastructure | 31,084,932 | 2,115,696 | (94,070) | - | 33,106,558 |
| Buildings | 4,081,656 | 536,043 | (148,713) | - | 4,468,986 |
| Equipment | 2,700,123 | 300,917 | (162,290) | - | 2,838,750 |
| Vehicles | 3,378,604 | 464,214 | (85,830) | - | 3,756,988 |
| Total accumulated depreciation | <u>41,245,315</u> | <u>3,416,870</u> | <u>(490,903)</u> | <u>-</u> | <u>44,171,282</u> |
| Total capital assets depreciated, net | <u>14,485,662</u> | <u>(510,760)</u> | <u>-</u> | <u>4,896,727</u> | <u>18,871,629</u> |
| Total governmental activities, net | <u>\$ 21,728,038</u> | <u>\$ (164,970)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 21,563,068</u> |

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

Primary government - continued

| | Beginning Balance | Increases | Decreases | Transfers | Ending Balance |
|--|----------------------|-----------------------|------------------|--------------------|---------------------|
| Business-type activities: | | | | | |
| Capital assets, not depreciated | | | | | |
| Land | \$ 454,903 | \$ - | \$ - | \$ - | \$ 454,903 |
| Construction in process | 1,043,717 | - | - | (1,043,717) | - |
| Total capital assets, not depreciated | 1,498,620 | - | - | (1,043,717) | 454,903 |
| Capital assets, depreciated | | | | | |
| Infrastructure | 53,535,498 | 124,668 | - | - | 53,660,166 |
| Buildings | 1,085,091 | - | - | - | 1,085,091 |
| Equipment | 1,008,075 | 752,774 | (875,444) | 1,043,717 | 1,929,122 |
| Vehicles | 128,127 | - | - | - | 128,127 |
| Total capital assets, depreciated | 55,756,791 | 877,442 | (875,444) | 1,043,717 | 56,802,506 |
| Less accumulated depreciation | | | | | |
| Infrastructure | 17,632,377 | 1,976,415 | - | - | 19,608,792 |
| Buildings | 1,019,181 | 5,070 | - | - | 1,024,251 |
| Equipment | 990,312 | 93,433 | (875,444) | - | 208,301 |
| Vehicles | 112,557 | 7,787 | - | - | 120,344 |
| Total accumulated depreciation | 19,754,427 | 2,082,705 | (875,444) | - | 20,961,688 |
| Total capital assets depreciated, net | 36,002,364 | (1,205,263) | - | 1,043,717 | 35,840,818 |
| Total business-type activities, net | \$ 37,500,984 | \$ (1,205,263) | \$ - | \$ - | \$36,295,721 |

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

| | |
|--|---------------------------|
| Governmental activities | |
| General government | \$ 168,074 |
| Public safety | 116,098 |
| Public works | 791,029 |
| Highways and streets | 1,891,476 |
| Recreation and culture | 450,193 |
| Total depreciation expense – govt. activities | <u>\$3,416,870</u> |

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

Primary government – continued

Business-type activities

| | |
|-----------------|---------------|
| Water and sewer | \$2,007,311 |
| Auto parking | <u>75,394</u> |

Total depreciation expense – bus.-type activities **\$2,082,705**

Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 20, 2011, was as follows:

| | Beginning Balance | Increases | Decreases | Transfers | Ending Balance |
|--|------------------------------|---------------------------|--------------------|--------------------|---------------------------|
| Capital assets, depreciated | | | | | |
| Infrastructure | \$ 1,467,331 | \$ - | \$ - | \$ - | \$ 1,467,331 |
| Equipment | 70,440 | - | - | - | 70,440 |
| Vehicles | 37,103 | - | - | - | 37,103 |
| Total capital assets, depreciated | <u>1,574,874</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,574,874</u> |
| Less accumulated depreciation | | | | | |
| Infrastructure | 1,064,030 | 84,301 | - | - | 1,148,331 |
| Equipment | 61,832 | 2,421 | - | - | 64,253 |
| Vehicles | 32,474 | 2,314 | - | - | 34,788 |
| Total accumulated depreciation | <u>1,158,336</u> | <u>89,036</u> | <u>-</u> | <u>-</u> | <u>1,247,372</u> |
| Total capital assets depreciated, net | <u>\$ 416,538</u> | <u>\$ (89,036)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 327,502</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, 2011 there were no interfund receivables or payables.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

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

| Transfers Out | Transfers In | | | Total |
|-----------------------------|-------------------|--------------------------|---------------------|-------------------|
| | General Fund | Nonmajor Governmental | Internal Service | |
| General fund | \$ - | \$ 150,000 | \$ 300,000 | \$ 450,000 |
| Nonmajor governmental funds | 108,799 | 50,000 | 46,000 | 204,799 |
| Total | \$ 108,799 | \$ 200,000 | \$ 346,000 | \$ 654,799 |

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 \$43,868 for the year ended June 30, 2011. The future minimum lease payments for these leases are as follows:

| <u>Year Ending June 30,</u> | |
|-------------------------------------|------------------|
| 2012 | \$ 37,856 |
| 2013 | 37,856 |
| 2014 | 11,368 |
| Total minimum lease payments | \$ 87,080 |

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

F. Long-Term Debt

General obligation bonds. The city 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 \$2,960,000. 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 \$7,598,266 in state revolving fund loans to finance the cost of water mains and sewer lining expenditures incurred since 2007. There were no new draw downs 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.

| <u>Purpose</u> | <u>Interest Rate</u> | <u>Amount</u> |
|--------------------------------------|----------------------|-----------------------------|
| Governmental activities | | |
| Public improvement bonds | 4.3% - 4.4% | \$ 349,152 |
| Library facility bonds | 3.0% - 4.0% | 4,360,000 |
| 2003 refunding bonds | 2.0% - 5.0% | 7,355,000 |
| 2005 refunding bonds | 2.5% - 4.0% | 5,980,000 |
| 2007 infrastructure bonds | 4.3% - 4.4% | <u>2,150,000</u> |
| Total governmental activities | | <u>\$ 20,194,152</u> |

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

Business-type activities

| | | |
|------------------------------|-------------|------------------|
| George W. Kuhn drain project | 2.0% - 5.0% | \$ 9,203,897 |
| State revolving fund | 2.125% | <u>6,503,266</u> |

Total business-type activities **\$15,707,163**

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> |
| 2012 | \$ 3,240,000 | \$ 875,199 |
| 2013 | 3,350,000 | 731,099 |
| 2014 | 3,359,152 | 583,674 |
| 2015 | 3,380,000 | 435,575 |
| 2016 | 3,430,000 | 286,875 |
| 2017 – 2021 | 1,300,000 | 587,850 |
| 2022 – 2026 | 1,745,000 | 295,000 |
| 2027 | <u>390,000</u> | <u>15,600</u> |
| | <u>\$ 20,194,152</u> | <u>\$ 3,810,272</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> |
| 2012 | \$ 935,298 | \$ 391,281 |
| 2013 | 958,286 | 367,478 |
| 2014 | 983,769 | 343,179 |
| 2015 | 1,009,777 | 318,228 |
| 2016 | 1,033,763 | 292,640 |
| 2017 – 2021 | 5,569,630 | 1,054,937 |
| 2022 – 2026 | 4,375,361 | 354,922 |
| 2027 – 2029 | <u>841,279</u> | <u>24,232</u> |
| | <u>\$ 15,707,163</u> | <u>\$ 3,146,897</u> |

City of Ferndale

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, 2011, the City had total defeased debt outstanding of approximately \$13,750,000.

Changes in Long-Term Debt.

Long-term liability activity for the year ended June 30, 2011, 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 | \$ 454,152 | \$ - | \$ (105,000) | \$ 349,152 | \$ 110,000 |
| Library facilities bonds | 4,500,000 | - | (140,000) | 4,360,000 | 155,000 |
| Refunding bonds, 2003 | 8,690,000 | - | (1,335,000) | 7,355,000 | 1,550,000 |
| Refunding bonds, 2005 | 7,010,000 | - | (1,030,000) | 5,980,000 | 1,025,000 |
| Infrastructure bonds, series 2007 | 2,500,000 | - | (350,000) | 2,150,000 | 400,000 |
| Total general obligation debt | <u>23,154,152</u> | <u>-</u> | <u>(2,960,000)</u> | <u>20,194,152</u> | <u>3,240,000</u> |
| Premium on refunding bonds | 194,644 | - | (32,440) | 162,204 | 32,440 |
| Discount/issuance-refunding bonds | (167,894) | - | 27,983 | (139,911) | (27,983) |
| Discount/issuance-library bonds | (123,067) | - | 7,239 | (115,828) | (7,239) |
| Accrued compensated absences | 373,111 | 471,622 | (373,111) | 471,622 | - |
| Total governmental activities | <u>23,430,946</u> | <u>471,622</u> | <u>(3,330,329)</u> | <u>20,572,239</u> | <u>3,237,218</u> |
| Business-type activities: | | | | | |
| George W. Kuhn drain | 9,795,209 | - | (591,312) | 9,203,897 | 605,298 |
| State revolving fund | 6,828,266 | - | (325,000) | 6,503,266 | 330,000 |
| Total business-type activities | <u>16,623,475</u> | <u>-</u> | <u>(916,312)</u> | <u>15,707,163</u> | <u>935,298</u> |
| Total primary government | <u>\$ 40,054,421</u> | <u>\$ 471,622</u> | <u>\$ (4,246,641)</u> | <u>\$ 36,279,402</u> | <u>\$ 4,172,516</u> |

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

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

G. Fund Balance Detail for Nonspendable, Restricted, Committed and Assigned Amounts

As previously discussed in Section 1 (D) *Significant Accounting Policies for Assets, Liabilities and Fund Equity*, the City reports constraints on fund balance in four different categories; Nonspendable, Restricted, Committed and Assigned. The following schedule provides the detail related to these classifications:

| | <u>Nonspendable</u> | <u>Restricted</u> | <u>Committed</u> | <u>Assigned</u> |
|------------------------------------|---------------------|---------------------|---------------------|-------------------|
| General Fund: | | | | |
| Prepays and inventory | \$ 50 | \$ - | \$ - | \$ - |
| Police in service training | - | 12,636 | - | - |
| Employee benefits | - | - | 471,622 | - |
| Senior memorial | - | - | - | 9,783 |
| Debt Service Fund: | | | | |
| Principal and interest | - | 173,137 | - | - |
| Nonmajor Funds: | | | | |
| Highways and streets | - | 353,296 | - | - |
| Sanitation | - | 445,137 | - | - |
| Public safety | - | 525,272 | - | - |
| Recreation and culture | - | 593,586 | - | - |
| Community and economic development | - | 73,848 | - | - |
| Capital projects | - | 681,599 | 1,301,580 | 276,859 |
| Total | \$ 50 | \$ 2,858,511 | \$ 1,773,202 | \$ 286,642 |

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 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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

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 City'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 County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied. The original Ad Valorem taxable value of real and personal property in the City for the 2010 levy was \$598,997,910. The adjusted Ad Valorem taxable value ended at \$598,423,362, resulting in the following revenues:

| Taxing Authority | Millage | Total per Taxing Authority |
|---|---------|----------------------------|
| General Operating | 14.5448 | \$ 8,703,948 |
| Library | 1.9601 | 1,172,970 |
| Refuse | 2.1815 | 1,305,461 |
| Debt Service | 6.0000 | 3,590,540 |
| Public Relations/Advertising | 0.0825 | 49,370 |
| | 24.7689 | 14,822,289 |
| Downtown Development Authority | 1.3794 | 63,670 |
| Total Tax Revenue per AdValorem Warrant | | \$ 14,885,959 |

City of Ferndale

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 city expects such amounts, if any, to be immaterial.

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

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

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, 2010 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, 2010, the date of the latest actuarial valuation:

| | |
|--|-------------------|
| Retirees and beneficiaries receiving benefits | 80 |
| Terminated plan members entitled to but not yet receiving benefits | 3 |
| Active plan members | <u>47</u> |
| Total | <u>130</u> |

Annual Pension Cost

For the year ended June 30, 2011, 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, 2009 | \$ - | 100% | \$ - |
| June 30, 2010 | - | 100% | - |
| June 30, 2011 | - | 100% | - |

The plan does not issue a separately issued financial report.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

City of Ferndale Policemen and Firemen Retirement System

Plan Description

The City of Ferndale Policemen and Firemen 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 City of Ferndale Policemen and Firemen 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 required to make a contribution of 19.8% of annual covered salary or \$ 673,877 for the year ended June 30, 2011, according to the valuation received for the year ended June 30, 2010. 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, 2010, the date of the latest actuarial valuation:

| | |
|--|--------------------------|
| Retirees and beneficiaries receiving benefits | 92 |
| Terminated plan members entitled to but not yet receiving benefits | 1 |
| Active plan members | <u>35</u> |
| Total | <u><u>128</u></u> |

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended June 30, 2011, the City incurred actual pension costs equal to required 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, 2009 | \$ - | 100% | \$ - |
| June 30, 2010 | 208,650 | 100% | - |
| June 30, 2011 | 673,877 | 100% | - |

The Plan does not issue a separate financial report.

Retirement Systems Funding Progress

The funded status of the Ferndale Employees Retirement System ("FERS") and the City of Ferndale Policemen and Firemen Retirement System ("FPFRS") as of June 30, 2010, the most recent actuarial valuation date, is as follows.

| <u>Actuarial Valuation June 30, 2009</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 % of Covered Payroll ((b-a) / c)</u> |
|--|--------------------------------------|--|---|-----------------------------|----------------------------|--|
| FERS | \$ 17,604,523 | \$ 10,598,838 | \$(7,005,686) | 166.1% | \$2,262,010 | -% |
| FPFRS | 36,064,885 | 39,027,883 | 2,962,498 | 92.4 | 2,746,203 | 108 |

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

NOTES TO FINANCIAL STATEMENTS

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). 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 \$17,645,345, of which \$542,949 were loans to members.

The City's payroll for employees covered by the Plan for the year ended June 30, 2011, was approximately \$4,845,020, and the City's total payroll was approximately \$9,393,575. The required contributions were \$210,376 by employees and \$446,876 by the City, representing 4.3% and 9.2% of covered payroll, respectively.

The City's contribution rate structure is as follows:

| | | City and Admin hire prior to 7/16/96 | City hire subsequent to 7/16/96 | Admin hire subsequent to 7/16/96 | City Manager |
|-----------------------|-----|---|--|---|-------------------------|
| <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 13 employees (12 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, 2011 was \$81,386. The defined contribution pension cost to the employees was \$0. Contributions to the plan

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

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 \$1,177,169.

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 166 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, 2011, the City made payments for postemployment health benefit claims of approximately \$2,167,278 paid out of the General fund and \$830,811 paid to the Retiree Health Care Trust fund for future health care benefits. This was equal to the actuarial required contribution and represents approximately 49.2% 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, 2010, the most recent valuation date, is as follows:

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

| | |
|--|---------------|
| Actuarial value of assets | \$ 8,243,946 |
| Actuarial value of liabilities ("AAL") | \$ 43,243,505 |
| Unfunded AAL ("UAAL") | \$ 34,999,559 |
| Funded ratio | 19.1% |

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, 2010 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include an annual healthcare cost trend of 9% in 2010, reduced by decrements to an ultimate rate of 4.5% after ten years. The UAAL is being amortized as a level dollar amount closed over a 28 year period for all groups except Fire in which a level percent of payroll over an open 30 year method is used.

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2010. 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

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, 2011 the Authority reported a increase in net assets in the amount of \$530,821 resulting in ending net assets in the amount of \$6,516,431. During the year ended June 30, 2011, the City expended \$1,544,133 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.

* * * * *

***REQUIRED SUPPLEMENTARY
INFORMATION***

**City of Ferndale
General Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - |
|---|---------------------|---------------------|---------------------|---------------------------------|
| | Original | Final | | Positive (Negative) |
| Revenues | | | | |
| Property taxes | \$ 9,109,500 | \$ 9,097,000 | \$ 9,253,895 | \$ 156,895 |
| Licenses and permits | 370,050 | 363,050 | 348,004 | (15,046) |
| Intergovernmental | 3,148,253 | 3,496,474 | 3,531,379 | 34,905 |
| Charges for services | 1,244,772 | 1,113,024 | 998,831 | (114,193) |
| Fines and forfeitures | 1,940,056 | 1,865,000 | 1,929,742 | 64,742 |
| Investment earnings | 419,740 | 300,000 | 201,945 | (98,055) |
| Other | 201,500 | 673,917 | 728,748 | 54,831 |
| Total revenues | 16,433,871 | 16,908,465 | 16,992,544 | 84,079 |
| Expenditures | | | | |
| Current: | | | | |
| General government | 4,305,459 | 4,199,895 | 4,312,345 | (112,450) |
| Public safety | 11,108,926 | 10,940,868 | 11,061,575 | (120,707) |
| Public works | 748,800 | 594,970 | 490,930 | 104,040 |
| Recreation and culture | 662,252 | 712,928 | 684,303 | 28,625 |
| Capital outlay | 95,300 | 50,490 | 14,455 | 36,035 |
| Total expenditures | 16,920,737 | 16,499,151 | 16,563,608 | (64,457) |
| Revenues over (under) expenditures | (486,866) | 409,314 | 428,936 | 19,622 |
| Other financing sources (uses) | | | | |
| Transfers in | 390,000 | 115,000 | 108,799 | (6,201) |
| Transfers out | (100,000) | (450,000) | (450,000) | - |
| Proceeds from sale of capital assets | 40,000 | 40,000 | 22,025 | (17,975) |
| Total other financing sources (uses) | 330,000 | (295,000) | (319,176) | (24,176) |
| Net change in fund balance | (156,866) | 114,314 | 109,760 | (4,554) |
| Fund balance - beginning | 4,849,582 | 4,849,582 | 4,849,582 | - |
| Fund balance - ending | \$ 4,692,716 | \$ 4,963,896 | \$ 4,959,342 | \$ (4,554) |

**City of Ferndale
Required Supplementary Information
(Unaudited)**

**Defined Benefit Pension Trust -
Ferndale Employees Retirement System**

Schedule of Funding Progress

| Actuarial Valuation Date June 30 | Actuarial Value of Assets (a) | Actuarial Liability (AAL) Attained Age (b) | Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as % of Covered Payroll ((b-a) / c) |
|--|---------------------------------------|---|---|-------------------------|-----------------------------|---|
| 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) | 165.1% | 3,182,522 | - |
| 2008 | 19,389,860 | 11,325,326 | (8,064,534) | 171.2% | 3,242,529 | - |
| 2009 | 18,478,980 | 11,212,824 | (7,266,156) | 164.8% | 3,244,254 | - |
| 2010 | 17,604,523 | 10,598,838 | (7,005,685) | 166.1% | 2,262,010 | - |

Schedule of Employer Contributions

| Actuarial Valuation Date June 30 | Contribution Rates as Percents of Valuation Payroll | Computed Dollar Contribution Based on Projected Payroll | Actual Annual Contributions | Percent of Required Contributions |
|--|---|--|--------------------------------|---|
| 2006 | - | - | - | 100.0% |
| 2007 | - | - | - | 100.0% |
| 2008 | - | - | - | 100.0% |
| 2009 | - | - | - | 100.0% |
| 2010 | - | - | - | 100.0% |
| 2011 | - | - | - | 100.0% |

**City of Ferndale
Required Supplementary Information
(Unaudited)**

**Defined Benefit Pension Trust -
City of Ferndale Policemen and Firemen Retirement System**

Schedule of Funding Progress

| Actuarial Valuation Date June 30 | Actuarial Value of Assets (a) | Actuarial Liability (AAL) Attained Age (b) | Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as % of Covered Payroll ((b-a) / c) |
|--|---------------------------------------|---|---|-------------------------|-----------------------------|---|
| 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 | - |
| 2009 | 37,049,165 | 38,363,400 | 1,314,235 | 96.6% | 3,116,613 | 42.2% |
| 2010 | 36,064,885 | 39,027,883 | 2,962,998 | 92.4% | 2,746,203 | 107.9% |

Schedule of Employer Contributions

| Actuarial Valuation Date June 30 | Contribution Rates as Percents of Valuation Payroll | Computed Dollar Contribution Based on Projected Payroll | Actual Annual Contributions | Percent of Required Contributions |
|--|---|--|--------------------------------|---|
| 2006 | - | - | - | 100.0% |
| 2007 | 2.82% | \$ 88,709 | - | - |
| 2008 | - | - | \$ 88,709 | 100.0% |
| 2009 | - | - | - | 100.0% |
| 2010 | 6.21% | 208,650 | 208,650 | 100.0% |
| 2011 | 19.80% | 673,877 | 692,086 | 102.7% |

**City of Ferndale
Required Supplementary Information
(Unaudited)**

**Other Postemployment Benefits (OPEB) -
Post Retirement Health Care Fund**

Schedule of Funding Progress

| Actuarial Valuation Date June 30 | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded (Overfunded) Actuarial Liability (UAAL) (b-a) | Funded Ratio (a/b) |
|--|---------------------------------------|--|--|-------------------------|
| 2008 | \$ 5,458,377 | \$ 42,468,935 | \$ 37,010,558 | 12.9% |
| 2010 | 8,243,946 | 43,243,505 | 34,999,559 | 19.1% |

Schedule of Employer Contributions

| Actuarial Valuation Date June 30 | Fiscal Year Ending | Annual Required Contribution (ARC) | Net OPEB Obligation (net of Claims and Premiums) (NOO) | Percentage of Annual OPEB Cost Contributed |
|--|-----------------------|---|--|---|
| 2008 | 6/30/09 | \$ 3,419,452 | \$ 1,293,805 | 100% |
| 2008 | 6/30/10 | 3,573,327 | 1,239,472 | 100% |
| 2010 | 6/30/11 | 3,160,307 | 830,811 | 100% |

City of Ferndale
Notes to Required Supplementary Information
(Unaudited)

Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The legal level of budgetary control is the functional level for the General Fund and the fund level for Special Revenue Funds. During the year ended June 30, 2011, the City incurred expenditures in excess of the amounts appropriated as follows:

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--------------------|---------------------|---------------|-----------------|
| General Fund: | | | |
| General Government | \$ 4,199,895 | \$ 4,312,345 | \$ (112,450) |
| Public Safety | 10,940,868 | 11,061,575 | (120,707) |
| Local Streets | 391,869 | 403,996 | (12,127) |

Total General Fund expenditures were over budget by \$64,457, however, the net budget to actual variance was under \$5,000. The General Fund balance, which was projected to increase by \$114,000, experienced an actual increase of \$109,000.

Total Local Streets Fund expenditures were over budget by \$12,127, however, the net change in fund balance increased by \$4,893 due to an increase in revenues of \$17,019 over budget.

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

**City of Ferndale
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

Special Revenue Funds

| | Major Streets | Local Streets | Sanitation | Drug Forfeiture | Library |
|--|--------------------------|--------------------------|-------------------|----------------------------|-------------------|
| Assets | | | | | |
| Cash and investments | \$ 84,889 | \$ 107,533 | \$ 541,304 | \$ 525,272 | \$ 533,850 |
| Receivables: | | | | | |
| Accounts receivable | - | 27,265 | - | - | - |
| Taxes - delinquent | - | - | 18,911 | - | 16,170 |
| Less: allowance for doubtful accounts | - | - | (10,443) | - | (8,562) |
| Due from other governments | 143,091 | 52,411 | - | - | 27,116 |
| Total assets | \$ 227,980 | \$ 187,209 | \$ 549,772 | \$ 525,272 | \$ 568,574 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 20,006 | \$ 7,403 | \$ 87,321 | \$ - | \$ 25,232 |
| Accrued liabilities | 3,725 | 3,494 | 8,846 | - | 7,749 |
| Deferred revenue | - | 27,265 | 8,468 | - | 7,608 |
| Total liabilities | 23,731 | 38,162 | 104,635 | - | 40,589 |
| Fund balances: | | | | | |
| Restricted | 204,249 | 149,047 | 445,137 | 525,272 | 527,985 |
| Committed | - | - | - | - | - |
| Assigned | - | - | - | - | - |
| Total fund balances | 204,249 | 149,047 | 445,137 | 525,272 | 527,985 |
| Total liabilities and fund balances | \$ 227,980 | \$ 187,209 | \$ 549,772 | \$ 525,272 | \$ 568,574 |

Capital Projects Funds

| Community Development Block Grant | SMART Trans- portation | Neighborhood Stabilization Grant | Infra- structure | Public Improvement | Library Renov- ation | Total Nonmajor Governmental Funds |
|--|---------------------------------------|---|-----------------------------|-------------------------------|-------------------------------------|--|
| \$ 54,526 | \$ 12,607 | \$ - | \$ 695,100 | \$ 1,578,439 | \$ - | \$ 4,133,520 |
| - | - | - | - | - | - | 27,265 |
| - | - | - | - | - | - | 35,081 |
| - | - | - | - | - | - | (19,005) |
| 19,322 | 54,897 | 206,765 | - | - | - | 503,602 |
| <u>\$ 73,848</u> | <u>\$ 67,504</u> | <u>\$ 206,765</u> | <u>\$ 695,100</u> | <u>\$ 1,578,439</u> | <u>\$ -</u> | <u>\$ 4,680,463</u> |
| | | | | | | |
| \$ - | \$ 135 | \$ 206,765 | \$ 13,501 | \$ - | \$ - | \$ 360,363 |
| - | 1,768 | - | - | - | - | 25,582 |
| - | - | - | - | - | - | 43,341 |
| <u>-</u> | <u>1,903</u> | <u>206,765</u> | <u>13,501</u> | <u>-</u> | <u>-</u> | <u>429,286</u> |
| | | | | | | |
| 73,848 | 65,601 | - | 681,599 | - | - | 2,672,738 |
| - | - | - | - | 1,301,580 | - | 1,301,580 |
| - | - | - | - | 276,859 | - | 276,859 |
| <u>73,848</u> | <u>65,601</u> | <u>-</u> | <u>681,599</u> | <u>1,578,439</u> | <u>-</u> | <u>4,251,177</u> |
| <u>\$ 73,848</u> | <u>\$ 67,504</u> | <u>\$ 206,765</u> | <u>\$ 695,100</u> | <u>\$ 1,578,439</u> | <u>\$ -</u> | <u>\$ 4,680,463</u> |

City of Ferndale
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

Special Revenue Funds

| | Major Streets | Local Streets | Sanitation | Drug Forfeiture | Library |
|---|--------------------------|--------------------------|-------------------|----------------------------|-------------------|
| Revenues | | | | | |
| Property taxes | \$ - | \$ - | \$ 1,261,427 | \$ - | \$ 1,129,487 |
| Intergovernmental | 1,447,539 | 324,836 | 32,736 | 134,781 | 10,738 |
| Charges for services | - | - | 1,074,993 | - | 12,941 |
| Fines and forfeitures | - | - | - | 61,701 | 34,853 |
| Investment earnings | 98 | 314 | 807 | 1,088 | 1,044 |
| Other | - | 10,019 | 81,232 | - | 5,851 |
| Total Revenues | 1,447,637 | 335,169 | 2,451,195 | 197,570 | 1,194,914 |
| Expenditures | | | | | |
| Current: | | | | | |
| General Government | - | - | - | - | - |
| Public Safety | - | - | - | 7,574 | - |
| Public Works | - | - | 2,544,686 | - | - |
| Highway & Streets | 625,959 | 403,995 | - | - | - |
| Recreation and culture | - | - | - | - | 796,455 |
| Community & Economic Development | - | - | - | - | - |
| Debt service | | | | | |
| Principal | - | - | - | - | 140,000 |
| Interest and fees | - | - | - | - | 170,738 |
| Capital outlay | 743,907 | - | - | - | 103,534 |
| Total Expenditures | 1,369,866 | 403,995 | 2,544,686 | 7,574 | 1,210,727 |
| Revenues over (under) expenditures | 77,771 | (68,826) | (93,491) | 189,996 | (15,813) |
| Other financing sources (uses) | | | | | |
| Transfers in | - | 90,000 | - | - | - |
| Transfers out | (40,000) | - | (46,000) | (100,000) | (10,000) |
| Proceeds from sale of capital assets | - | - | - | - | 1,199 |
| Total other financing sources (uses) | (40,000) | 90,000 | (46,000) | (100,000) | (8,801) |
| Net change in fund balances | 37,771 | 21,174 | (139,491) | 89,996 | (24,614) |
| Fund balances - beginning | 166,478 | 127,873 | 584,628 | 435,276 | 552,599 |
| Fund balances - ending | \$ 204,249 | \$ 149,047 | \$ 445,137 | \$ 525,272 | \$ 527,985 |

Capital Projects Funds

| Community Development Block Grant | SMART Transportation | Neighborhood Stabilization Grant | Infrastructure | Public Improvement | Library Renovation | Total Nonmajor Governmental Funds |
|--|-----------------------------|---|-----------------------|---------------------------|---------------------------|--|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 2,390,914 |
| 84,655 | 75,422 | 350,221 | - | - | - | 2,460,928 |
| - | 6,644 | - | - | - | - | 1,094,578 |
| - | - | - | - | - | - | 96,554 |
| - | 35 | - | 2,015 | 1,577 | 562 | 7,540 |
| - | - | - | - | 900 | - | 98,002 |
| 84,655 | 82,101 | 350,221 | 2,015 | 2,477 | 562 | 6,148,516 |
| - | - | - | 78,659 | 38,587 | - | 117,246 |
| - | - | - | - | - | - | 7,574 |
| - | - | - | - | - | - | 2,544,686 |
| - | - | - | - | - | - | 1,029,954 |
| - | 75,423 | - | - | - | 29,779 | 901,657 |
| 85,086 | - | 341,422 | - | - | - | 426,508 |
| - | - | - | - | 105,000 | - | 245,000 |
| - | - | - | - | 20,437 | - | 191,175 |
| - | - | - | 345,791 | 875,956 | 203,745 | 2,272,933 |
| 85,086 | 75,423 | 341,422 | 424,450 | 1,039,980 | 233,524 | 7,736,733 |
| (431) | 6,678 | 8,799 | (422,435) | (1,037,503) | (232,962) | (1,588,217) |
| - | - | - | - | 110,000 | - | 200,000 |
| - | - | (8,799) | - | - | - | (204,799) |
| - | - | - | - | - | - | 1,199 |
| - | - | (8,799) | - | 110,000 | - | (3,600) |
| (431) | 6,678 | - | (422,435) | (927,503) | (232,962) | (1,591,817) |
| 74,279 | 58,923 | - | 1,104,034 | 2,505,942 | 232,962 | 5,842,994 |
| \$ 73,848 | \$ 65,601 | \$ - | \$ 681,599 | \$ 1,578,439 | \$ - | \$ 4,251,177 |

City of Ferndale
Major Streets
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---------------------------------------|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 1,971,100 | \$ 1,971,100 | \$ 1,447,539 | \$ (523,561) |
| Investment earnings | 500 | 500 | 98 | (402) |
| Total revenues | 1,971,600 | 1,971,600 | 1,447,637 | (523,963) |
| Expenditures | | | | |
| Current: | | | | |
| Highway & streets | 733,921 | 724,619 | 625,959 | 98,660 |
| Capital outlay | 1,088,000 | 1,207,446 | 743,907 | 463,539 |
| Total expenditures | 1,821,921 | 1,932,065 | 1,369,866 | 562,199 |
| Revenues over (under) expenditures | 149,679 | 39,535 | 77,771 | 38,236 |
| Other financing sources (uses) | | | | |
| Transfers out | (40,000) | (40,000) | (40,000) | - |
| Net change in fund balance | 109,679 | (465) | 37,771 | 38,236 |
| Fund balance - beginning | 166,478 | 166,478 | 166,478 | - |
| Fund balance - ending | \$ 276,157 | \$ 166,013 | \$ 204,249 | \$ 38,236 |

City of Ferndale
Local Streets
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 318,150 | \$ 318,150 | \$ 324,836 | \$ 6,686 |
| Investment earnings | - | - | 314 | 314 |
| Other | - | - | 10,019 | 10,019 |
| Total revenues | 318,150 | 318,150 | 335,169 | 17,019 |
| Expenditures | | | | |
| Current: | | | | |
| Highway & streets | 382,232 | 391,869 | 403,995 | (12,126) |
| Revenues over (under) expenditures | (64,082) | (73,719) | (68,826) | 4,893 |
| Other financing sources (uses) | | | | |
| Transfers in | 40,000 | 90,000 | 90,000 | - |
| Net change in fund balance | (24,082) | 16,281 | 21,174 | 4,893 |
| Fund balance - beginning | 127,873 | 127,873 | 127,873 | - |
| Fund balance - ending | \$ 103,791 | \$ 144,154 | \$ 149,047 | \$ 4,893 |

**City of Ferndale
Sanitation
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---------------------------------------|--------------------------|--------------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Property taxes | \$ 1,271,000 | \$ 1,257,000 | \$ 1,261,427 | \$ 4,427 |
| Intergovernmental | 30,000 | 30,000 | 32,736 | 2,736 |
| Charges for services | 1,075,000 | 988,000 | 1,074,993 | 86,993 |
| Investment earnings | 3,000 | 3,000 | 807 | (2,193) |
| Other | 84,732 | 3,500 | 81,232 | 77,732 |
| Total revenues | <u>2,463,732</u> | <u>2,281,500</u> | <u>2,451,195</u> | <u>169,695</u> |
| Expenditures | | | | |
| Current: | | | | |
| Public works | 2,705,263 | 2,600,468 | 2,544,686 | 55,782 |
| Capital outlay | 30,000 | - | - | - |
| Total expenditures | <u>2,735,263</u> | <u>2,600,468</u> | <u>2,544,686</u> | <u>55,782</u> |
| Revenues over (under) expenditures | (271,531) | (318,968) | (93,491) | 225,477 |
| Other financing sources (uses) | | | | |
| Transfers out | (71,000) | (46,000) | (46,000) | - |
| Net change in fund balance | (342,531) | (364,968) | (139,491) | 225,477 |
| Fund balance - beginning | 584,628 | 584,628 | 584,628 | - |
| Fund balance - ending | <u>\$ 242,097</u> | <u>\$ 219,660</u> | <u>\$ 445,137</u> | <u>\$ 225,477</u> |

**City of Ferndale
Drug Forfeiture
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 50,000 | \$ 50,000 | \$ 134,781 | \$ 84,781 |
| Fines and forfeitures | 65,000 | 75,000 | 61,701 | (13,299) |
| Investment earnings | 2,000 | 400 | 1,088 | 688 |
| Total revenues | 117,000 | 125,400 | 197,570 | 72,170 |
| Expenditures | | | | |
| Current: | | | | |
| Public safety | 18,500 | 18,500 | 7,574 | 10,926 |
| Revenues over (under) expenditures | 98,500 | 106,900 | 189,996 | 83,096 |
| Other financing sources (uses) | | | | |
| Transfers out | (350,000) | (100,000) | (100,000) | - |
| Net change in fund balance | (251,500) | 6,900 | 89,996 | 83,096 |
| Fund balance - beginning | 435,276 | 435,276 | 435,276 | - |
| Fund balance - ending | \$ 183,776 | \$ 442,176 | \$ 525,272 | \$ 83,096 |

**City of Ferndale
Library
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|-------------------|-------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property taxes | \$ 1,142,000 | \$ 1,129,000 | \$ 1,129,487 | \$ 487 |
| Intergovernmental | 8,600 | 8,600 | 10,738 | 2,138 |
| Charges for services | 6,000 | 6,000 | 12,941 | 6,941 |
| Fines and forfeitures | 33,500 | 33,500 | 34,853 | 1,353 |
| Investment earnings | 2,500 | - | 1,044 | 1,044 |
| Other | 15,000 | 15,000 | 5,851 | (9,149) |
| Total revenues | 1,207,600 | 1,192,100 | 1,194,914 | 2,814 |
| Expenditures | | | | |
| Current: | | | | |
| Recreation and culture | 856,790 | 850,417 | 796,455 | 53,962 |
| Debt service: | | | | |
| Principal | 140,000 | 140,000 | 140,000 | - |
| Interest and fees | 171,000 | 171,000 | 170,738 | 262 |
| Capital outlay | 80,000 | 180,000 | 103,534 | 76,466 |
| Total expenditures | 1,247,790 | 1,341,417 | 1,210,727 | 130,690 |
| Revenues over (under) expenditures | (40,190) | (149,317) | (15,813) | 133,504 |
| Other financing sources (uses) | | | | |
| Transfers out | - | - | (10,000) | (10,000) |
| Proceeds from sale of capital assets | 500 | 500 | 1,199 | 699 |
| Total other financing sources (uses) | 500 | 500 | (8,801) | (9,301) |
| Net change in fund balance | (39,690) | (148,817) | (24,614) | 124,203 |
| Fund balance - beginning | 552,599 | 552,599 | 552,599 | - |
| Fund balance - ending | \$ 512,909 | \$ 403,782 | \$ 527,985 | \$ 124,203 |

City of Ferndale
Community Development Block Grant
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|------------------------------------|------------------|------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 88,172 | \$ 91,324 | \$ 84,655 | \$ (6,669) |
| Investment earnings | 600 | 100 | - | (100) |
| Total revenues | 88,772 | 91,424 | 84,655 | (6,769) |
| Expenditures | | | | |
| Current: | | | | |
| Community & economic development | 88,772 | 91,424 | 85,086 | 6,338 |
| Revenues over (under) expenditures | - | - | (431) | (431) |
| Net change in fund balance | - | - | (431) | (431) |
| Fund balance - beginning | 74,279 | 74,279 | 74,279 | - |
| Fund balance - ending | \$ 74,279 | \$ 74,279 | \$ 73,848 | \$ (431) |

City of Ferndale
SMART Transportation
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|------------------------------------|------------------|------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 72,466 | \$ 72,466 | \$ 75,422 | \$ 2,956 |
| Charges for services | 8,500 | 6,500 | 6,644 | 144 |
| Investment earnings | - | - | 35 | 35 |
| Total revenues | 80,966 | 78,966 | 82,101 | 3,135 |
| Expenditures | | | | |
| Current: | | | | |
| Recreation and culture | 95,376 | 80,461 | 75,423 | 5,038 |
| Revenues over (under) expenditures | (14,410) | (1,495) | 6,678 | 8,173 |
| Net change in fund balance | (14,410) | (1,495) | 6,678 | 8,173 |
| Fund balance - beginning | 58,923 | 58,923 | 58,923 | - |
| Fund balance - ending | \$ 44,513 | \$ 57,428 | \$ 65,601 | \$ 8,173 |

City of Ferndale
Neighborhood Stabilization Grant
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---------------------------------------|-------------------------|--------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 259,613 | \$ 360,291 | \$ 350,221 | \$ (10,070) |
| Expenditures | | | | |
| Current: | | | | |
| Community & economic development | 244,613 | 345,291 | 341,422 | 3,869 |
| Revenues over (under) expenditures | 15,000 | 15,000 | 8,799 | (6,201) |
| Other financing sources (uses) | | | | |
| Transfers out | (15,000) | (15,000) | (8,799) | 6,201 |
| Net change in fund balance | - | - | - | - |
| Fund balance - beginning | - | - | - | - |
| Fund balance - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

City of Ferndale
Combining Statement of Net Assets
Internal Service Funds
June 30, 2011

| | <u>Motor Pool</u> | <u>Employee Benefits</u> | <u>Total Internal Service Funds</u> |
|---|---------------------|--------------------------|-------------------------------------|
| Assets | | | |
| Current assets: | | | |
| Cash and investments | \$ 1,211,385 | \$ 538,145 | \$ 1,749,530 |
| Accounts receivable | 18,317 | - | 18,317 |
| Inventories | 149,391 | - | 149,391 |
| Prepaid expenses | - | 24,500 | 24,500 |
| Total current assets | <u>1,379,093</u> | <u>562,645</u> | <u>1,941,738</u> |
| Noncurrent assets: | | | |
| Capital assets | 6,407,233 | - | 6,407,233 |
| Less accumulated depreciation | (3,943,207) | - | (3,943,207) |
| Total noncurrent assets | <u>2,464,026</u> | <u>-</u> | <u>2,464,026</u> |
| Total assets | <u>3,843,119</u> | <u>562,645</u> | <u>4,405,764</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | 53,344 | 531,497 | 584,841 |
| Accrued liabilities | 3,744 | - | 3,744 |
| Total current liabilities | <u>57,088</u> | <u>531,497</u> | <u>588,585</u> |
| Net Assets | | | |
| Investment in capital assets, net of related debt | 2,464,026 | - | 2,464,026 |
| Unrestricted | 1,322,005 | 31,148 | 1,353,153 |
| Total net assets | <u>\$ 3,786,031</u> | <u>\$ 31,148</u> | <u>\$ 3,817,179</u> |

City of Ferndale
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2011

| | <u>Motor Pool</u> | <u>Employee Benefits</u> | <u>Total Internal Service Funds</u> |
|----------------------------------|----------------------------|--------------------------|-------------------------------------|
| Operating revenues | | | |
| Charges for services | \$ 1,261,140 | \$ 206,334 | \$ 1,467,474 |
| Operating Expenses | | | |
| Personal services | 248,211 | - | 248,211 |
| General and administrative | 501,548 | 22,211 | 523,759 |
| Utilities | 38,095 | - | 38,095 |
| Rental expense | 43,505 | - | 43,505 |
| Contractual services | 44,690 | 23,149 | 67,839 |
| Maintenance expense | 167,906 | - | 167,906 |
| Depreciation | 501,803 | - | 501,803 |
| Medical and benefit payments | - | 485,446 | 485,446 |
| Total Operating Expenses | <u>1,545,758</u> | <u>530,806</u> | <u>2,076,564</u> |
| Operating Income (Loss) | <u>(284,618)</u> | <u>(324,472)</u> | <u>(609,090)</u> |
| Nonoperating Revenues | | | |
| Gain on sale of capital assets | 13,804 | - | 13,804 |
| Federal capital grant | 675,000 | - | 675,000 |
| Total Nonoperating Revenues | <u>688,804</u> | <u>-</u> | <u>688,804</u> |
| Income (Loss) Before Transfers | <u>404,186</u> | <u>(324,472)</u> | <u>79,714</u> |
| Transfers in | <u>346,000</u> | <u>-</u> | <u>346,000</u> |
| Change in net assets | 750,186 | (324,472) | 425,714 |
| Total net assets - beginning | <u>3,035,845</u> | <u>355,620</u> | <u>3,391,465</u> |
| Total net assets - ending | <u>\$ 3,786,031</u> | <u>\$ 31,148</u> | <u>\$ 3,817,179</u> |

City of Ferndale
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2011

| | <u>Motor Pool</u> | <u>Employee Benefits</u> | <u>Total Internal Service Funds</u> |
|--|----------------------------|--------------------------|-------------------------------------|
| Cash flows from operating activities | | | |
| Cash received from interfund services | \$ 1,242,823 | \$ 206,334 | \$ 1,449,157 |
| Cash payments to employees | (247,889) | - | (247,889) |
| Cash payments to suppliers for goods and services | (735,509) | (205,224) | (940,733) |
| Net cash provided by operating activities | <u>259,425</u> | <u>1,110</u> | <u>260,535</u> |
| Cash flows from capital and related financing activities | | | |
| Purchase of capital assets | (964,512) | - | (964,512) |
| Proceeds from sale of capital assets | 13,805 | - | 13,805 |
| Capital grant | 675,000 | - | 675,000 |
| Net cash used in capital and related financing activities | <u>(275,707)</u> | <u>-</u> | <u>(275,707)</u> |
| Cash flows from non-capital financing activities | | | |
| Transfers | <u>346,000</u> | <u>-</u> | <u>346,000</u> |
| Net increase in cash and investments | 329,718 | 1,110 | 330,828 |
| Cash and investments, beginning of year | <u>881,667</u> | <u>537,035</u> | <u>1,418,702</u> |
| Cash and investments, end of year | <u>\$ 1,211,385</u> | <u>\$ 538,145</u> | <u>\$ 1,749,530</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities | | | |
| Operating income (loss) | \$ (284,618) | \$ (324,472) | \$ (609,090) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 501,803 | - | 501,803 |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (18,317) | - | (18,317) |
| Inventories | 44,721 | - | 44,721 |
| Accounts payable | 15,514 | 325,582 | 341,096 |
| Accrued liabilities | 322 | - | 322 |
| Net cash provided by operating activities | <u>\$ 259,425</u> | <u>\$ 1,110</u> | <u>\$ 260,535</u> |

City of Ferndale
Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
for the Year Ended June 30, 2011

| | Employees' Retirement System | Police/Fire Retirement System | Other Post- Employment Benefits | Total Pension Trust Funds |
|------------------------------------|---|--|--|--------------------------------------|
| Assets | | | | |
| Cash and investments | \$ 257,063 | \$ 1,221,370 | \$ 832,282 | \$ 2,310,715 |
| Accrued interest receivable | 57,634 | 124,691 | 42,418 | 224,743 |
| Investments: | | | | |
| Debt securities | 5,064,252 | 10,684,707 | 8,602,426 | 24,351,385 |
| Equity securities | 11,786,999 | 24,274,958 | - | 36,061,957 |
| Real estate investment trust | 894,261 | 1,726,619 | - | 2,620,880 |
| Total Investments: | <u>17,745,512</u> | <u>36,686,284</u> | <u>8,602,426</u> | <u>63,034,222</u> |
| Total assets | <u>18,060,209</u> | <u>38,032,345</u> | <u>9,477,126</u> | <u>65,569,680</u> |
| Liabilities | | | | |
| Accounts payable | <u>-</u> | <u>-</u> | <u>1,500</u> | <u>1,500</u> |
| Net assets | | | | |
| Held in trust for pension | | | | |
| benefits and other purposes | <u><u>\$ 18,060,209</u></u> | <u><u>\$ 38,032,345</u></u> | <u><u>\$ 9,475,626</u></u> | <u><u>\$ 65,568,180</u></u> |

City of Ferndale
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Employee Benefit Trust Funds
for the Year Ended June 30, 2011

| | <u>Employees' Retirement System</u> | <u>Police/Fire Retirement System</u> | <u>Other Post- Employment Benefits</u> | <u>Total Pension Trust Funds</u> |
|--------------------------------------|---|--|--|--------------------------------------|
| Additions | | | | |
| Contributions: | | | | |
| Employer contributions | \$ - | \$ 692,086 | \$ 830,811 | \$ 1,522,897 |
| Plan member contributions | - | 135,502 | - | 135,502 |
| Total contributions | <u>-</u> | <u>827,588</u> | <u>830,811</u> | <u>1,658,399</u> |
| Investment income: | | | | |
| Net appreciation in fair value | 3,267,911 | 6,382,692 | (75,203) | 9,575,400 |
| Interest | 251,739 | 527,844 | 451,836 | 1,231,419 |
| Dividends | 206,974 | 438,425 | - | 645,399 |
| Total investment income | <u>3,726,624</u> | <u>7,348,961</u> | <u>376,633</u> | <u>11,452,218</u> |
| Less: investment expense | <u>(101,926)</u> | <u>(167,199)</u> | <u>(24,600)</u> | <u>(293,725)</u> |
| Net investment income | <u>3,624,698</u> | <u>7,181,762</u> | <u>352,033</u> | <u>11,158,493</u> |
| Total additions | <u>3,624,698</u> | <u>8,009,350</u> | <u>1,182,844</u> | <u>12,816,892</u> |
| Deductions | | | | |
| Benefits | 1,052,645 | 2,471,363 | - | 3,524,008 |
| Administrative expenses | 6,950 | 14,455 | 2,500 | 23,905 |
| Total deductions | <u>1,059,595</u> | <u>2,485,818</u> | <u>2,500</u> | <u>3,547,913</u> |
| Change in net assets | 2,565,103 | 5,523,532 | 1,180,344 | 9,268,979 |
| Net assets held in trust - beginning | <u>15,495,106</u> | <u>32,508,813</u> | <u>8,295,282</u> | <u>56,299,201</u> |
| Net assets held in trust - ending | <u>\$ 18,060,209</u> | <u>\$ 38,032,345</u> | <u>\$ 9,475,626</u> | <u>\$ 65,568,180</u> |

**City of Ferndale
Downtown Development Authority
Governmental Fund Balance Sheet
and Statement of Net Assets
For Year Ending June 30, 2011**

| | Governmental Fund | Adjustments | Statement of Net Assets |
|---|------------------------------|--------------------|------------------------------------|
| Assets | | | |
| Cash and investments | \$ 185,854 | | \$ 185,854 |
| Receivables (net) | 86,705 | | 86,705 |
| Depreciable capital assets, net | | 327,502 | 327,502 |
| Total Assets | \$ 272,559 | 327,502 | 600,061 |
| Liabilities | | | |
| Accounts payable | 12,970 | | 12,970 |
| Accrued liabilities | 2,021 | | 2,021 |
| Deferred revenue | 7,908 | (7,908) | - |
| Total liabilities | 22,899 | (7,908) | 14,991 |
| Fund Balance | | | |
| Restricted | 249,660 | (249,660) | - |
| Total liabilities and fund balance | \$ 272,559 | | |
| Net assets | | | |
| Invested in capital assets | | 327,502 | 327,502 |
| Restricted | | 257,568 | 257,568 |
| Total net assets | | \$ 585,070 | \$ 585,070 |

Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets:

| | |
|---|-------------------|
| Fund Balance - Downtown Development Authority | \$ 249,660 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets use in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Add: Capital assets | 327,502 |
| 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 | 7,908 |
| Net assets of component unit | \$ 585,070 |

**City of Ferndale
Downtown Development Authority
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
and Statement of Activities
For the Year Ended June 30, 2011**

| | Governmental Fund | Adjustments | Statement of Activities |
|--|----------------------|-------------------|----------------------------|
| Revenues | | | |
| Property taxes | \$ 527,836 | \$ (2,399) | \$ 525,437 |
| Intergovernmental | 78,797 | | 78,797 |
| Charges for services | 532 | | 532 |
| Investment earnings | 249 | | 249 |
| Other | 28,745 | | 28,745 |
| Total Revenues | 636,159 | (2,399) | 633,760 |
| Expenditures | | | |
| Current: | | | |
| General government | - | 5,840 | 5,840 |
| Community & economic development | 563,307 | | 563,307 |
| Depreciation expense | - | 89,035 | 89,035 |
| Total expenditures | 563,307 | 94,875 | 658,182 |
| Net change in fund balance/net assets | 72,852 | (97,274) | (24,422) |
| Beginning fund balance/net assets | 176,808 | 432,684 | 609,492 |
| Ending fund balance/net assets | <u>\$ 249,660</u> | <u>\$ 335,410</u> | <u>\$ 585,070</u> |

Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities

Net change in fund balance - Downtown Development Authority **\$ 72,852**

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

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 revenue (2,399)

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.

 Deduct: net operating expense from component unit activities in the internal service fund (5,840)

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 (89,035)

Change in net assets of governmental activities **\$ (24,422)**

**City of Ferndale
Brownfield Redevelopment Authority
Governmental Fund Balance Sheet
and Statement of Net Assets
For Year Ending June 30, 2011**

| | <u>Governmental Fund</u> | <u>Adjustments</u> | <u>Statement of Net Assets</u> |
|---|------------------------------|--------------------|------------------------------------|
| Assets | | | |
| Cash and investments | \$ 531,094 | | \$ 531,094 |
| Receivables (net) | 7,005 | | 7,005 |
| Total Assets | \$ 538,099 | - | 538,099 |
| Liabilities | | | |
| Accounts payable | 166,595 | | 166,595 |
| Deferred revenue | 7,005 | (7,005) | - |
| Total liabilities | 173,600 | (7,005) | 166,595 |
| Fund Balance | | | |
| Restricted | 364,499 | (364,499) | - |
| Total liabilities and fund balance | \$ 538,099 | | |
| Net assets | | | |
| Invested in capital assets | | - | - |
| Restricted | | 371,504 | 371,504 |
| Total net assets | | \$ 371,504 | \$ 371,504 |

Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets:

| | |
|---|-------------------|
| Fund Balance - Brownfield Redevelopment Authority | \$ 364,499 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| 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 | 7,005 |
| Net assets of component unit | \$ 371,504 |

**City of Ferndale
Brownfield Redevelopment Authority
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
and Statement of Activities
For the Year Ended June 30, 2011**

| | Governmental Fund | Adjustments | Statement of Activities |
|--|----------------------|-----------------|----------------------------|
| Revenues | | | |
| Property taxes | \$ 342,031 | \$ 6,992 | \$ 349,023 |
| Charges for services | 4,668 | | 4,668 |
| Investment earnings | 1,047 | | 1,047 |
| Total Revenues | 347,746 | 6,992 | 354,738 |
| Expenditures | | | |
| Current: | | | |
| General government | - | - | - |
| Community & economic development | 232,595 | | 232,595 |
| Depreciation expense | - | - | - |
| Total expenditures | 232,595 | - | 232,595 |
| Net change in fund balance/net assets | 115,151 | 6,992 | 122,143 |
| Beginning fund balance/net assets | 249,348 | 13 | 249,361 |
| Ending fund balance/net assets | \$ 364,499 | \$ 7,005 | \$ 371,504 |

Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities

Net change in fund balance - Brownfield Redevelopment Authority **\$ 115,151**

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

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 revenue 6,992

Change in net assets of governmental activities **\$ 122,143**

SINGLE AUDIT

Principals

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT ON 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 City of Ferndale's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the City of Ferndale's major federal program for the year ended June 30, 2011. 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. 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 compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2011.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ferndale's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 City Council and management 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

December 14, 2011

City of Ferndale, Michigan

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2011

| <u>Federal Grantor/Program Title</u> | <u>CFDA Number</u> | <u>Federal Expenditures</u> |
|---|--------------------|-----------------------------|
| U.S. Department of Justice | | |
| <i>Direct funding:</i> | | |
| Asset Forfeiture and Money Laundering Section | 16.580 | \$ 156,513 |
| Justice Assistance Grant - Radar Equipment | 16.738 | 12,218 |
| <i>Passed through Oakland County, Michigan:</i> | | |
| ARRA - Justice Assistance Grant - Bullet Proof Vests | 16.804 | 14,760 |
| Justice Assistance Grant - Other | 16.738 | 3,663 |
| Organized Crime Drug Enforcement Task Forces (OCDETF) | 16.738 | 3,900 |
| Total U.S. Department of Justice | | 191,054 |
| U.S. Department of Housing and Urban Development | | |
| <i>Passed through Oakland County, Michigan:</i> | | |
| Community Development Block Grant | 14.218 | 84,655 |
| Neighborhood Stabilization Project Grant | 14.218 | 350,221 |
| Total U.S. Department of Housing and Urban Development | | 434,876 |
| U.S. Department of Interior | | |
| <i>Direct through the National Parks Service</i> | | |
| Preserve America Grant | 15.904 | 78,797 |
| U.S. Department of Homeland Security | | |
| <i>Direct funding through FEMA:</i> | | |
| Assistance to Firefighters Grant - Vehicle Acquisition | 97.044 | 675,000 |
| Staffing for Adequate Fire and Emergency Response (SAFER) | 97.044 | 44,683 |
| Total U.S. Department of Homeland Security | | 719,683 |
| Total Expenditures of Federal Awards | | \$ 1,424,410 |

City of Ferndale
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

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

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

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, 2011, and have issued our report thereon dated December 14, 2011. 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as 2011-1.

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 City Council and management 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

December 14, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

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 |
|----------------|------------------------------------|
| 97.044 | Assistance to Firefighter's Grant |

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

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

Section II - Financial Statement Findings

2011-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City's compliance with the budgeting act, we noted that while the General Fund expenditures in total were less than appropriated, the expenditures of certain functions of the General Fund and the Local Streets Fund exceeded the amounts appropriated.

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".

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

Section II - Financial Statement Findings - continued

2011-1 UNFAVORABLE BUDGET VARIANCES - CONTINUED

Cause: While the City attempts to budget for anticipated expenditures some items cannot be anticipated or accurately determined until after the fact.

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

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 conversion of the City's general ledger software to an accessible, on-line system in January 2011 and the training of departmental budget managers in the fall of 2011, management expects that improved expenditure monitoring will be available to staff and Council in 2012 and subsequent fiscal years.

Section III - Federal Award Findings and Questioned Costs

None noted.

City of Ferndale

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2011

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.

2010-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City's compliance with the budgeting act, , we noted that while the General Fund expenditures in total were less than appropriated, the expenditures of certain functions exceeded the amounts appropriated.

Resolution: A similar issue was noted this year and is reported under finding 2011-1. We do not consider this issue resolved.

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

No prior compliance findings.