

**CITY OF FERNDALE,
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended
June 30, 2012**

CITY OF FERNDALE, MICHIGAN

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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, 2012, 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, 2012, 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 12, 2012, 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ferndale, Michigan's financial statements as a whole. The combining and individual nonmajor, internal service, pension and other employee benefit trust, and component unit fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 nonmajor, internal service, pension and other employee benefit trust, and component unit fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 12, 2012

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

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

As management of the **City of Ferndale, Michigan**, we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2012.

Financial Highlights

- The total net assets of the City exceeded its liabilities at the close of the fiscal year by \$41,961,000. Of this amount, \$22,532,000 is invested in capital assets (net of related debt), \$2,970,000 is restricted for specific purposes such as public safety, highways and streets and other purposes, and \$16,460,000 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 \$3,304,000 as a result of this year's operations. Net assets of our Governmental activities increased by \$130,000 and net assets of our Business-type activities increased by \$3,174,000.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$10,998,000 for an increase of \$1,614,000 as compared with the prior year. Approximately 49% of this amount, or \$5,429,000, is available for appropriation at the government's discretion (*unassigned fund balance*).
- General fund revenues increased by \$2,291,000 or 13.5%. This change was primarily due to an increase in 43rd District Court revenues of \$914,000, or 146%; a voter-approved increase in property taxes of 3 mills, resulting in an increase to tax revenue and related charges of \$863,000; and an increase to intergovernmental revenue of \$347,000, attributed to receiving the first full year of the SAFER grant for funding four (4) firefighter positions. General fund expenditures increased approximately \$608,000 or 3.7% primarily due to rehiring firefighters, police officers, and other public safety increases.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,429,000 or 31.6% of total General Fund expenditures.
- The City's total long-term debt decreased by approximately \$3,814,000 during the current fiscal year.
- The City invested over \$1,550,000 in capital improvements for the year including renovation of City Hall's heating and cooling system, modification of Fire Station #1 truck entrances, completion of the software upgrade for City Hall, replacement of the in-car police video system, restoration of the police shooting range, modernization of the Fire radio system, and the resurfacing of four parking lots.
- The City maintained its A+ credit rating by Standard & Poor's based on our solid financial position. This rating was upgraded in 2008 from its previous BBB+ rating.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Overview of the Financial Statements

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

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

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

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

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

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

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

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

CITY OF FERNDALE, MICHIGAN 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, MICHIGAN

Management's Discussion and Analysis

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

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

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

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

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CITY OF FERNDAL, MICHIGAN

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 \$41,961,000 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, \$22,532,000, or 53.7%, reflect 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	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 15,190,352	\$ 14,072,850	\$ 8,452,534	\$ 6,561,438	\$ 23,642,886	\$ 20,634,288
Capital assets, net	17,170,976	21,563,068	36,996,264	36,295,721	54,167,240	57,858,789
Total assets	32,361,328	35,635,918	45,448,798	42,857,159	77,810,126	78,493,077
Current liabilities	5,894,927	6,011,646	2,096,134	1,720,586	7,991,061	7,732,232
Noncurrent liabilities	14,044,859	17,332,239	13,813,579	14,771,865	27,858,438	32,104,104
Total liabilities	19,939,786	23,343,885	15,909,713	16,492,451	35,849,499	39,836,336
Net assets:						
Invested in capital assets, net of related debt	307,577	2,144,050	22,224,398	20,588,559	22,531,975	22,732,609
Restricted	2,967,822	2,176,912	-	-	2,967,822	2,176,912
Unrestricted	9,146,143	7,971,071	7,314,687	5,776,149	16,460,830	13,747,220
	\$ 12,421,542	\$ 12,292,033	\$ 29,539,085	\$ 26,364,708	\$ 41,960,627	\$ 38,656,741

An additional portion of the City's net assets, \$2,970,000, or 7.1%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$16,460,000, or 39.2%, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets in Primary Government activities increased \$3,304,000 during the current fiscal year. Governmental activities account for an increase of \$130,000, and business-type activities account for an increase of \$3,174,000 for the year ended.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

City of Ferndale's Changes in Net Assets

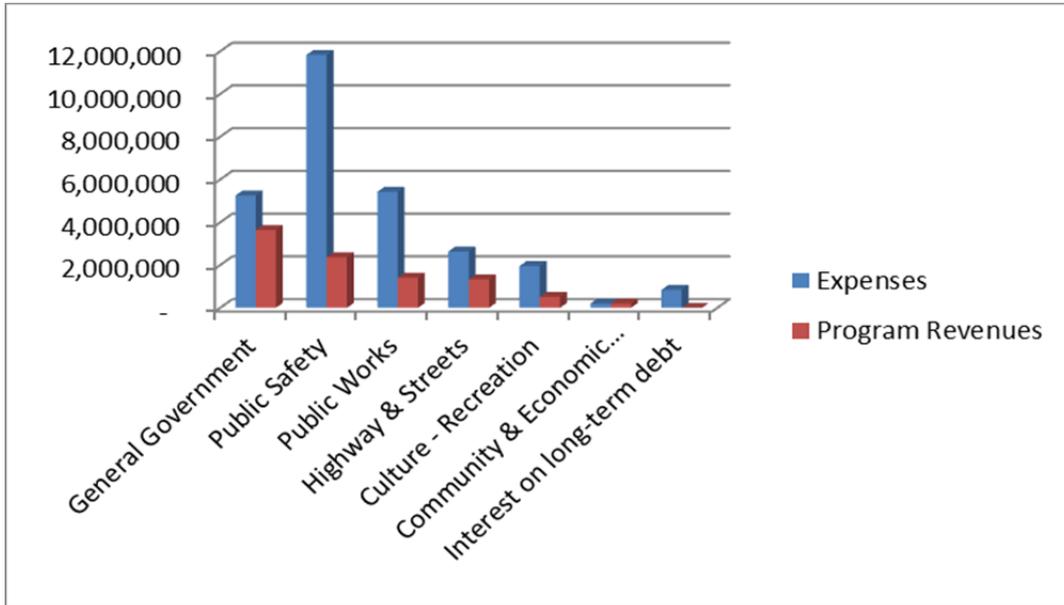
	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenue:						
Program revenue:						
Charges for services	\$ 6,792,102	\$ 5,647,303	\$ 9,341,809	\$ 9,632,752	\$ 16,133,911	\$ 15,280,055
Operating grants and contributions	2,652,190	2,719,974	2,990	2,990	2,655,180	2,722,964
Capital grants and contributions	-	675,000	-	-	-	675,000
General revenues:						
Property taxes	15,918,588	15,106,394	-	-	15,918,588	15,106,394
State shared revenue	2,284,297	2,693,992	-	-	2,284,297	2,693,992
Grants and contributions not restricted to specific programs	364,901	356,221	-	-	364,901	356,221
Other	198,025	246,752	111,046	9,643	309,071	256,395
Total revenues	28,210,103	27,445,636	9,455,845	9,645,385	37,665,948	37,091,021
Expenses:						
General government	5,250,792	5,319,830	-	-	5,250,792	5,319,830
Public safety	11,831,244	11,287,634	-	-	11,831,244	11,287,634
Public works	2,744,233	3,192,178	-	-	2,744,233	3,192,178
Highways and streets	2,636,145	2,921,431	-	-	2,636,145	2,921,431
Recreation and culture	1,950,711	420,670	-	-	1,950,711	420,670
Community and economic development	140,352	2,036,154	-	-	140,352	2,036,154
Interest on long-term debt	841,957	971,131	-	-	841,957	971,131
Water and sewer	-	-	8,633,335	8,479,550	8,633,335	8,479,550
Auto parking	-	-	333,293	391,469	333,293	391,469
Total expenses	25,395,434	26,149,028	8,966,628	8,871,019	34,362,062	35,020,047
Increase in net assets before transfers	2,814,669	1,296,608	489,217	774,366	3,303,886	2,070,974
Transfers	(2,685,160)	-	2,685,160	-	-	-
Increase in net assets	129,509	1,296,608	3,174,377	774,366	3,303,886	2,070,974
Net assets - beginning	12,292,033	10,995,425	26,364,708	25,590,342	38,656,741	36,585,767
Net assets - ending	\$ 12,421,542	\$ 12,292,033	\$ 29,539,085	\$ 26,364,708	\$ 41,960,627	\$ 38,656,741

CITY OF FERNDALE, MICHIGAN

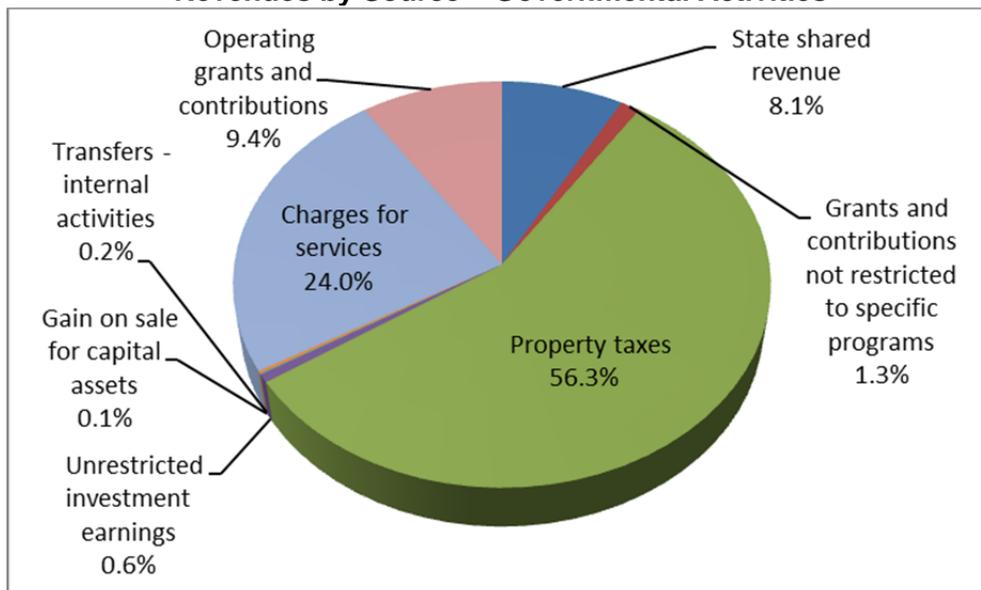
Management's Discussion and Analysis

Governmental activities increased the City's net assets by \$130,000, accounting for 3.9% of the City's total increase in net assets. Overall, the increase to revenues in governmental activities was offset by a corresponding increase to expenditures.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



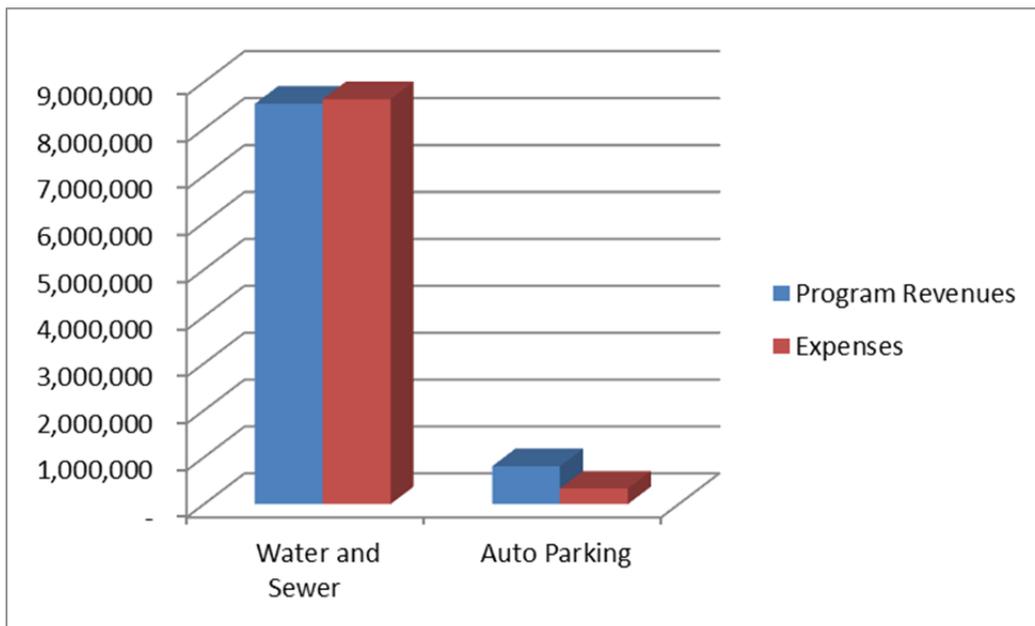
CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the City's net assets by \$3,174,000, accounting for 96.1% of the City's total increase in net assets. The key elements of this increase are as follows:

- Water/Sewer revenues increased by only \$154,000, despite an almost 9% increase in water rates, due to the high vacancy rate in housing stock. Despite increases to Detroit water rates and sewerage charges, expenses decreased by \$333,000 due to reduced water sales and open and unfilled positions throughout the year. The decrease in net assets was approximately \$97,000. Notable to this Fund was the transfer in of assets from completed sewer projects paid with infrastructure bonds in the amount of \$2,685,000.
- Auto Parking fund net revenues increased by \$100,000 over the prior year, due to both an increase in revenue and a decrease in expenses from the previous year. The overall net revenue increase was over \$475,000.
- Substantially all revenues for the Water/Sewer fund and the Auto Parking fund are derived from charges for services.

Expenses and Program Revenues - Business-Type Activities



CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

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

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

As of the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$10,998,000, an increase of \$1,614,000 in comparison with the prior year. Approximately 49.4% of this total amount, or \$5,429,000, 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 prepaid insurance), 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 \$5,429,000, while total fund balance was \$6,134,000. 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 31.6% of total General Fund expenditures, while total fund balance represents 35.7% of the same amount.

Total fund balance of the City's General Fund increased by \$1,175,000 during the fiscal year. Notable items affecting fund balance include the following:

- Increase in property tax revenues of \$863,000 were the result of a decrease in property values bolstered by a voter-approved Headlee override tax levy of 3 mills.
- Increase in intergovernmental revenue of \$347,000, primarily a federally-funded SAFER grant to hire four additional firefighters.
- Increase in fines and forfeitures in excess of \$923,000, mostly attributed to District Court activity.
- Increase in Public Safety expenditures due primarily to restoring police and fire positions of \$701,000.

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 \$5,855,000. Total net assets increased \$2,679,000, due to the transfer in of assets constructed with the 2007 bonds, as sold under the \$45M infrastructure program voters approved in 1994.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

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

General Fund Budgetary Highlights

The difference between the original revenue budget and the amended revenue budget was an increase of \$1,427,000, mostly in intergovernmental revenue sources. This planned increase was mostly due the City qualifying for the State's Economic Vitality Incentive Program and the award of a firefighter SAFER grant.

Actual revenues were \$701,000 above of budgeted revenues, as amended. The increase in actual revenues was realized primarily from fines and forfeitures.

The difference between the original and amended expenditure budgets was an increase of \$1,427,000. However, the increased expenditure budget did not translate into actual results. Actual expenditures were under the amended budget by \$474,000, mostly in general governmental expenditures. Various personnel vacancies throughout the City caused most of the savings. The change in the distribution of fringe benefits from a pooled and evenly distributed method to that of a direct allocation method caused a redistribution of costs out of general government to public safety.

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CITY OF FERNDALE, MICHIGAN

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, 2012, amounted to \$54,167,000 (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 \$3,692,000 or 6.4%. This represents a decrease for governmental activities of \$4,392,000 or 20.4%; and an increase for business-type activities of \$700,000 or 1.9%.

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

- Renovation of City Hall's heating and cooling system - \$84,000.
- Modification of Fire Station #1 truck entrance - \$19,000.
- Replacement of the Police vehicles in-car video system - \$64,000.
- Restoration of the Police shooting range - \$41,000.

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

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 687,878	\$ 687,878	\$ 454,903	\$ 454,903	\$ 1,142,781	\$ 1,142,781
Construction in process	-	2,003,562	-	-	-	2,003,562
Infrastructure	5,429,068	7,719,007	34,858,202	60,840	40,287,270	7,779,847
Buildings	7,269,088	1,810,275	55,770	1,720,821	7,324,858	3,531,096
Equipment	1,725,541	2,101,540	1,627,389	7,783	3,352,930	2,109,323
Vehicles	2,059,401	7,240,806	-	34,051,374	2,059,401	41,292,180
Total	\$ 17,170,976	\$ 21,563,068	\$ 36,996,264	\$ 36,295,721	\$ 54,167,240	\$ 57,858,789

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

CITY OF FERNDALE, MICHIGAN Management's Discussion and Analysis

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$31,934,000, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$17,143,000) and business-type activities (\$14,791,000) at year end.

City of Ferndale's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Public Improvement bonds	\$ 244,152	\$ 349,152	\$ -	\$ -	\$ 244,152	\$ 349,152
Library facility bonds	4,220,000	4,360,000	-	-	4,220,000	4,360,000
Refunding bonds, 2003	6,020,000	7,355,000	-	-	6,020,000	7,355,000
Refunding bonds, 2005	4,950,000	5,980,000	-	-	4,950,000	5,980,000
Infrastructure bonds, 2007	1,800,000	2,150,000	-	-	1,800,000	2,150,000
GWKuhn drain project	-	-	8,612,585	9,203,897	8,612,585	9,203,897
State DWRF loans	-	-	6,178,266	6,503,266	6,178,266	6,503,266
Premiums/(discounts), net	(90,753)	(93,535)	-	-	(90,753)	(93,535)
Total	\$ 17,143,399	\$ 20,100,617	\$ 14,790,851	\$ 15,707,163	\$ 31,934,250	\$ 35,807,780

The City decreased debt obligations by \$3,874,000 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 2012-13 fiscal year and will continue to be an ongoing concern as the City moves forward in future budget years.

- The continued erosion of the housing market in Michigan – particularly metro Detroit – as the automotive companies struggle to hold on to their dissipating 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. Although the voters approved a Headlee override up to 3 mills for fiscal 2012, and up to 5.4552 for the subsequent 4 years (a maximum levy of 20

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

mills), it is the sincere desire of the City Council and management to hold tight on cost increase and to enhance other revenue sources in order to avoid levying the maximum millage.

- 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 \$10.4M to date has been set aside defray those costs.
- Although the City continued to hold on to its A+ rating this year, it is tenuous given the challenges that face the City for 2013 and beyond, including the continued erosion of taxable values, and the related property taxes which comprise about 50% of General Fund operating income.
- The recognition that the infrastructure improvements approved by voters in 1994 have been in service between 5 to 20 years, and some of the streets, water mains, and sewer lines are now ready to be reviewed again for major repairs and/or replacement. Staff will be analyzing this issue over the next year or two to determine the work that needs to be considered, prioritized, and funded in order to maintain the infrastructure at a level acceptable to the citizens.

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 Assistant City Manager/ Finance Director/ Treasurer J.C.Hubanks, 300 East Nine Mile Road, Ferndale, Michigan 48220-1797.

***BASIC FINANCIAL
STATEMENTS***

City of Ferndale
Statement of Net Assets
June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and investments	\$ 13,448,019	\$ 6,344,891	\$ 19,792,910	\$ 1,201,378
Receivables (net)	1,418,099	2,107,643	3,525,742	108,749
Prepaid items and other assets	324,234	-	324,234	-
Non-depreciable capital assets	687,878	454,903	1,142,781	-
Depreciable capital assets, net	16,483,098	36,541,361	53,024,459	279,280
Total Assets:	<u>32,361,328</u>	<u>45,448,798</u>	<u>77,810,126</u>	<u>1,589,407</u>
Liabilities				
Accounts payable	1,178,625	1,020,954	2,199,579	461,217
Accrued liabilities	1,366,302	116,893	1,483,195	2,603
Non-current liabilities				
Due within one year	3,350,000	958,287	4,308,287	-
Due in more than one year	14,044,859	13,813,579	27,858,438	-
Total Liabilities:	<u>19,939,786</u>	<u>15,909,713</u>	<u>35,849,499</u>	<u>463,820</u>
Net Assets				
Invested in capital assets, net of related debt	307,577	22,224,398	22,531,975	279,280
Restricted:				
Highways and streets	1,231,858	-	1,231,858	
Public works	311,099	-	311,099	
Public safety	789,647	-	789,647	-
Recreation and culture	560,480	-	560,480	-
Community & economic development	74,738	-	74,738	846,307
Unrestricted	9,146,143	7,314,687	16,460,830	-
Total net assets	<u>\$ 12,421,542</u>	<u>\$ 29,539,085</u>	<u>\$ 41,960,627</u>	<u>\$ 1,125,587</u>

**City of Ferndale
Statement of Activities
For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues	
		Charges for services	Operating grants and contributions
Primary Government			
Governmental Activities:			
General Government	\$ 5,250,792	\$ 3,324,496	\$ 315,859
Public Safety	11,831,244	1,603,051	758,518
Public Works	2,744,233	1,404,753	-
Highway & Streets	2,636,145	12,075	1,311,905
Culture - Recreation	1,950,711	360,867	150,902
Community & Economic Development	140,352	86,860	115,006
Interest on long-term debt	841,957	-	-
Total Governmental Activities:	<u>25,395,434</u>	<u>6,792,102</u>	<u>2,652,190</u>
Business-Type Activities:			
Water and Sewer	8,633,335	8,533,040	2,990
Auto Parking	333,293	808,769	-
Total Business-Type Activities:	<u>8,966,628</u>	<u>9,341,809</u>	<u>2,990</u>
Total Primary Government:	<u>\$ 34,362,062</u>	<u>\$ 16,133,911</u>	<u>\$ 2,655,180</u>
Component Units			
Brownfield Redevelopment	\$ 181,928	\$ 6,101	\$ -
Downtown Development Authority	722,433	350	96,177
Total Component Units:	<u>\$ 904,361</u>	<u>\$ 6,451</u>	<u>\$ 96,177</u>

General Revenues

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Functions/Programs	Governmental Activities	Business-Type Activities	Total	Component Units
Primary Government				
Governmental Activities:				
General Government	\$ (1,610,437)	\$ -	\$ (1,610,437)	\$ -
Public Safety	(9,469,675)	-	(9,469,675)	-
Public Works	(1,339,480)	-	(1,339,480)	-
Highway & Streets	(1,312,165)	-	(1,312,165)	-
Culture - Recreation	(1,438,942)	-	(1,438,942)	-
Community & Economic Development	61,514	-	61,514	-
Interest on long-term debt	(841,957)	-	(841,957)	-
Total Governmental Activities:	<u>(15,951,142)</u>	<u>-</u>	<u>(15,951,142)</u>	<u>-</u>
Business-Type Activities:				
Water and Sewer	-	(97,305)	(97,305)	-
Auto Parking	-	475,476	475,476	-
Total Business-Type Activities:	<u>-</u>	<u>378,171</u>	<u>378,171</u>	<u>-</u>
Total Primary Government:	<u>(15,951,142)</u>	<u>378,171</u>	<u>(15,572,971)</u>	<u>-</u>
Component Units				
Brownfield Redevelopment	-	-	-	(175,827)
Downtown Development Authority	-	-	-	(625,906)
Total Component Units:	<u>-</u>	<u>-</u>	<u>-</u>	<u>(801,733)</u>
General Revenues and Transfers				
Property taxes	15,918,588	-	15,918,588	957,680
State shared revenue	2,284,297	-	2,284,297	-
Grants and contributions not restricted to specific programs	364,901	-	364,901	-
Unrestricted investment earnings	176,240	77,289	253,529	13,066
Gain on sale for capital assets	21,785	33,757	55,542	-
Transfers	(2,685,160)	2,685,160	-	-
Total General Revenues and Transfers	<u>16,080,651</u>	<u>2,796,206</u>	<u>18,876,857</u>	<u>970,746</u>
Change in net assets	129,509	3,174,377	3,303,886	169,013
Net assets - beginning	<u>12,292,033</u>	<u>26,364,708</u>	<u>38,656,741</u>	<u>956,574</u>
Net assets - ending	<u>\$ 12,421,542</u>	<u>\$ 29,539,085</u>	<u>\$ 41,960,627</u>	<u>\$ 1,125,587</u>

**City of Ferndale
Balance Sheet
Governmental Funds
June 30, 2012**

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and investments	\$ 7,072,801	\$ 158,992	\$ 4,783,401	\$ 12,015,194
Receivables				
Accounts receivable	489,268	-	18,282	507,550
Taxes - delinquent	138,036	37,367	22,823	198,226
Less: allowance for doubtful accounts	(115,431)	(31,248)	(19,086)	(165,765)
Interest and dividends	42,129	-	-	42,129
Due from other governments	519,210	-	292,536	811,746
Prepaid expenditures	151,014	-	-	151,014
Total assets	<u>\$ 8,297,027</u>	<u>\$ 165,111</u>	<u>\$ 5,097,956</u>	<u>\$ 13,560,094</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 622,850	\$ -	\$ 333,655	\$ 956,505
Accrued liabilities	1,138,108	-	37,910	1,176,018
Deferred revenue	401,775	6,119	21,914	429,808
Total Liabilities	<u>2,162,733</u>	<u>6,119</u>	<u>393,479</u>	<u>2,562,331</u>
Fund Balances				
Nonspendable	151,014	-	-	151,014
Restricted	12,636	158,992	2,955,186	3,126,814
Committed	531,459	-	1,629,733	2,161,192
Assigned	9,783	-	119,558	129,341
Unassigned	5,429,402	-	-	5,429,402
Total fund balances	<u>6,134,294</u>	<u>158,992</u>	<u>4,704,477</u>	<u>10,997,763</u>
Total liabilities and fund balances	<u>\$ 8,297,027</u>	<u>\$ 165,111</u>	<u>\$ 5,097,956</u>	<u>\$ 13,560,094</u>

**City of Ferndale
Balance Sheet
Governmental Funds
for the Year Ended June 30, 2012**

Fund balances - total governmental funds	\$	10,997,763
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets		56,893,469
Deduct: accumulated depreciation		(42,176,996)

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		429,808
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Internal service funds are used by management to charge the costs of certain equipment usage and employee benefits to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service funds		3,855,132
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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		(16,863,399)
Deduct: compensated absences		(531,460)
Deduct: accrued interest on bonds payable		(182,775)

Net assets of governmental activities	\$	<u>12,421,542</u>
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City of Ferndale
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 10,117,311	\$ 3,664,619	\$ 2,205,468	\$ 15,987,398
Licenses and permits	408,459	-	-	408,459
Intergovernmental	3,878,841	-	1,829,458	5,708,299
Charges for services	1,034,336	-	1,218,856	2,253,192
Fines and forfeitures	2,853,003	-	92,111	2,945,114
Investment earnings	118,006	2,161	56,073	176,240
Other	873,496	-	142,464	1,015,960
Total revenues	<u>19,283,452</u>	<u>3,666,780</u>	<u>5,544,430</u>	<u>28,494,662</u>
Expenditures				
Current				
General government	4,281,966	12,975	99,700	4,394,641
Public safety	11,762,085	-	5,740	11,767,825
Public works	601,423	-	2,523,827	3,125,250
Highway & streets	-	-	1,044,447	1,044,447
Culture - recreation	526,242	-	891,782	1,418,024
Community & economic development	-	-	140,352	140,352
Debt service				
Principal	-	2,975,000	265,000	3,240,000
Interest and fees	-	692,950	182,250	875,200
Capital outlay	-	-	896,601	896,601
Total Expenditures:	<u>17,171,716</u>	<u>3,680,925</u>	<u>6,049,699</u>	<u>26,902,340</u>
Revenues over (under) expenditures:	<u>2,111,736</u>	<u>(14,145)</u>	<u>(505,269)</u>	<u>1,592,322</u>
Other financing sources (uses)				
Transfers in	61,514	-	1,123,153	1,184,667
Transfers out	(1,018,153)	-	(166,514)	(1,184,667)
Proceeds from sale of capital assets	19,855	-	1,930	21,785
Total other financing sources (uses)	<u>(936,784)</u>	<u>-</u>	<u>958,569</u>	<u>21,785</u>
Net change in fund balances	<u>1,174,952</u>	<u>(14,145)</u>	<u>453,300</u>	<u>1,614,107</u>
Fund balances - beginning	4,959,342	173,137	4,251,177	9,383,656
Fund balances - ending	<u>\$ 6,134,294</u>	<u>\$ 158,992</u>	<u>\$ 4,704,477</u>	<u>\$ 10,997,763</u>

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, 2012

Net change in fund balances - total governmental funds	\$ 1,614,107
 Amounts reported for <i>governmental activities</i> 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	980,673
Deduct: depreciation expense	(2,678,086)
 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	(353,383)
 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	3,240,000
Add: amortization of bond premiums/discounts and change in accrued interest	33,243
 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	37,953
 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: contributed capital to business-type activities	(2,685,160)
Deduct: increase in the accrual for compensated absences	(59,838)
Change in net assets of governmental activities	\$ 129,509

City of Ferndale
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-Type Activities - Enterprise Funds			Governmental
	Major Fund	Nonmajor Fund	Total	Activities
	Water & Sewer	Auto Parking		Internal
				Service Funds
Current assets				
Cash and investments	\$ 4,668,641	\$ 1,676,250	\$ 6,344,891	\$ 1,432,825
Accounts receivable	2,090,186	14,467	2,104,653	24,213
Intergovernmental receivable	2,990	-	2,990	-
Inventories	-	-	-	148,720
Prepaid expenses	-	-	-	24,500
Total current assets	6,761,817	1,690,717	8,452,534	1,630,258
Noncurrent assets				
Capital assets	58,293,837	1,888,008	60,181,845	6,670,040
Less accumulated depreciation	(22,509,462)	(676,119)	(23,185,581)	(4,215,537)
Total noncurrent assets	35,784,375	1,211,889	36,996,264	2,454,503
Total assets	42,546,192	2,902,606	45,448,798	4,084,761
Liabilities				
Current liabilities				
Accounts payable	794,421	226,533	1,020,954	222,120
Accrued liabilities	112,836	4,057	116,893	7,509
Current portion of long-term debt	958,287	-	958,287	-
Total current liabilities	1,865,544	230,590	2,096,134	229,629
Noncurrent liabilities				
Long term debt	13,813,579	-	13,813,579	-
Total noncurrent liabilities	13,813,579	-	13,813,579	-
Total liabilities	15,679,123	230,590	15,909,713	229,629
Net Assets				
Investment in capital assets, net of related debt	21,012,509	1,211,889	22,224,398	2,454,503
Unrestricted	5,854,560	1,460,127	7,314,687	1,400,629
Total net assets	\$ 26,867,069	\$ 2,672,016	\$ 29,539,085	\$ 3,855,132

City of Ferndale
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Nonmajor Fund	Total	Internal
	Water & Sewer	Auto Parking		Service Funds
Operating revenues				
Charges for services	\$ 8,048,985	\$ -	\$ 8,048,985	\$ 1,518,010
Parking meter receipts	-	785,001	785,001	-
Water penalties	479,295	-	479,295	-
Water meter repairs	1,015	-	1,015	-
Miscellaneous income	6,735	23,768	30,503	275
Total operating revenues	<u>8,536,030</u>	<u>808,769</u>	<u>9,344,799</u>	<u>1,518,285</u>
Operating expenses				
Personal services	1,099,291	134,581	1,233,872	302,086
General and administrative	100,620	21,845	122,465	532,346
Utilities	73,706	19,902	93,608	24,052
Rental Expense	151,551	40,475	192,026	44,140
Contractual services	94,905	14,001	108,906	68,487
Water and sewer expense	4,285,163	-	4,285,163	-
Maintenance expense	308,594	11,143	319,737	158,505
Depreciation	2,132,547	91,346	2,223,893	451,164
Medical and benefit payments	-	-	-	(93,963)
Total operating expenses	<u>8,246,377</u>	<u>333,293</u>	<u>8,579,670</u>	<u>1,486,817</u>
Operating income (loss)	<u>289,653</u>	<u>475,476</u>	<u>765,129</u>	<u>31,468</u>
Nonoperating revenues (expenses)				
Interest income	57,688	19,601	77,289	-
Interest expense	(386,958)	-	(386,958)	-
Gain on sale of capital assets	33,757	-	33,757	6,485
Total nonoperating revenues (expenses):	<u>(295,513)</u>	<u>19,601</u>	<u>(275,912)</u>	<u>6,485</u>
Income (loss) before transfers:	(5,860)	495,077	489,217	37,953
Contributed capital	2,685,160	-	2,685,160	-
Change in net assets	2,679,300	495,077	3,174,377	37,953
Total net assets - beginning	24,187,769	2,176,939	26,364,708	3,817,179
Total net assets - ending	<u>\$ 26,867,069</u>	<u>\$ 2,672,016</u>	<u>\$ 29,539,085</u>	<u>\$ 3,855,132</u>

**City of Ferndale
Statement of Cash Flows
Proprietary Funds
for the Year Ended June 30, 2012**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Nonmajor Fund	Total	Internal
	Water & Sewer	Auto Parking		Service Funds
Cash flows from operating activities				
Cash received from customers and others	\$ 8,448,012	\$ 794,303	\$ 9,242,315	\$ -
Cash received from interfund services	-	-	-	1,512,389
Cash payments to employees	(1,093,358)	(132,981)	(1,226,339)	(299,722)
Cash payments to suppliers for goods, services	(4,731,082)	155,985	(4,575,097)	(1,094,216)
Cash payments for interfund services	(151,551)	(40,475)	(192,026)	-
Net cash provided by operating activities	<u>2,472,021</u>	<u>776,832</u>	<u>3,248,853</u>	<u>118,451</u>
Cash flows from investing activities				
Investment income	<u>57,688</u>	<u>19,601</u>	<u>77,289</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	-	(239,276)	(239,276)	(441,641)
Proceeds from sale of capital assets	33,757	-	33,757	6,485
Bond/note principal payments	(935,297)	-	(935,297)	-
Bond/note interest payments	(386,958)	-	(386,958)	-
Net cash used in capital and related financing activities	<u>(1,288,498)</u>	<u>(239,276)</u>	<u>(1,527,774)</u>	<u>(435,156)</u>
Net increase in cash and cash equivalents	1,241,211	557,157	1,798,368	(316,705)
Cash and cash equivalents, beginning of year	<u>3,427,430</u>	<u>1,119,093</u>	<u>4,546,523</u>	<u>1,749,530</u>
Cash and cash equivalents, end of year	<u>\$ 4,668,641</u>	<u>\$ 1,676,250</u>	<u>\$ 6,344,891</u>	<u>\$ 1,432,825</u>

	Business-Type Activities - Enterprise Funds			Governmental
	Major Fund	Nonmajor Fund	Total	Activities
	Water & Sewer	Auto Parking		Internal
				Service Funds
Reconciliation of operating income to net cash provided by operating activities				
Operating income (loss)	\$ 289,653	\$ 475,476	\$ 765,129	\$ 31,468
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	2,132,547	91,346	2,223,893	451,164
Changes in assets and liabilities:				
Accounts receivable - customers	(88,018)	(14,466)	(102,484)	(5,896)
Inventories	9,757	-	9,757	671
Accounts payable	128,100	222,876	350,976	(362,721)
Accrued liabilities	(18)	1,600	1,582	3,765
Net cash provided by operating activities	\$ 2,472,021	\$ 776,832	\$ 3,248,853	\$ 118,451

Note: During the year \$2,685,160 in capital assets was transferred from the governmental activities to the Water & Sewer Fund.

**City of Ferndale
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012**

	<u>Trust Funds</u>	<u>Agency Funds</u>
	<u>Pension and Other Post-Employment Benefits</u>	<u>Ferndale Arts and Cultural Commission</u>
Assets		
Cash and cash equivalents	\$ 7,909,573	\$ 1,434
Accrued interest receivable	155,822	-
Investments:		
Debt securities	18,561,159	-
Equity securities	34,569,622	-
Real estate investment trust	2,880,527	-
Total Investments	<u>56,011,308</u>	<u>-</u>
Total Assets	<u>64,076,703</u>	<u>\$ 1,434</u>
Liabilities		
Accounts payable	20,100	-
Other liabilities	-	1,434
Total Liabilities	<u>20,100</u>	<u>\$ 1,434</u>
Net assets held in trust for pension benefits and other purposes	<u>\$ 64,056,603</u>	

City of Ferndale
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012

	Trust Funds
	Pension and Other Post-Employment Benefits
Additions	
Contributions	
Employer contributions	\$ 1,439,086
Plan member contributions	128,879
Total contributions	1,567,965
Investment income	
Net depreciation in fair value	(660,320)
Interest	754,172
Dividends	614,595
Total investment income	708,447
Less investment expense	(244,002)
Net investment income	464,445
Total Additions	2,032,410
 Deductions	
Benefits	3,460,197
Administrative expenses	83,790
Total deductions	3,543,987
Change in net assets	(1,511,577)
Net assets held in trust - beginning	65,568,180
Net assets held in trust - ending	\$ 64,056,603

City of Ferndale
Combining Statement of Net Assets
Component Units
June 30, 2012

	Brownfield Redevelopment	Downtown Development Authority	Total Component Units
Assets			
Cash and investments	\$ 925,706	\$ 275,672	\$ 1,201,378
Receivables (net)	-	108,749	108,749
Depreciable capital assets, net	-	279,280	279,280
Total assets	925,706	663,701	1,589,407
Liabilities			
Accounts payable	343,743	117,474	461,217
Accrued liabilities	-	2,603	2,603
Total liabilities	343,743	120,077	463,820
Net Assets			
Invested in capital assets	-	279,280	279,280
Restricted	581,963	264,344	846,307
Total net assets	\$ 581,963	\$ 543,624	\$ 1,125,587

**City of Ferndale
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Brownfield Redevelopment	Downtown Development Authority	Total
Brownfield Redevelopment Authority						
Community & Economic Development	\$ 181,928	\$ 6,101	\$ -	\$ (175,827)	\$ -	\$ (175,827)
Downtown Development Authority						
General Government	93,572	-	-	-	(93,572)	(93,572)
Community & Economic Development	628,861	350	96,177	-	(532,334)	(532,334)
Total Downtown Development Authority	722,433	350	96,177	-	(625,906)	(625,906)
Total Component Units:	<u>\$ 904,361</u>	<u>\$ 6,451</u>	<u>\$ 96,177</u>	<u>(175,827)</u>	<u>(625,906)</u>	<u>(801,733)</u>
Property taxes				376,111	581,569	957,680
Unrestricted investment earnings				10,175	2,891	13,066
Total general revenues				<u>386,286</u>	<u>584,460</u>	<u>970,746</u>
Change in net assets				210,459	(41,446)	169,013
Net assets - beginning				<u>371,504</u>	<u>585,070</u>	<u>956,574</u>
Net assets - ending				<u>\$ 581,963</u>	<u>\$ 543,624</u>	<u>\$ 1,125,587</u>

NOTES TO FINANCIAL STATEMENTS

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Stmts. 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; provide assistance for the restoration of abandoned, idled, or under-utilized industrial or commercial properties which are complicated by real or perceived environmental contamination	City Council appoints the governing body and approves the budget.	Not prepared

B. Basis of Presentation

Government-Wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City’s *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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, MICHIGAN

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 non-major 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 vehicle and equipment maintenance in the motor pool and personnel-related services including workers' compensation and unemployment costs.

CITY OF FERNDALE, MICHIGAN

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 Other Post-Employment Benefits Trust Fund, which accumulates resources for retirement benefits and other post-employment benefits (OPEB) including 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/or 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. Revenues from grants, entitlements, and donations are 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 generally considers 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.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

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 reporting 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 and Policemen and Firemen Retirement System 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 including the other post-employment benefits trust, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

CITY OF FERNDALE, MICHIGAN

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 amounts, 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

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

their acquisition date or amount. The City was able to estimate the historical cost for the initial reporting of these assets through back-trending (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 bond issuance costs, are deferred and amortized over the life of the bonds using the effective

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

interest method. Bonds payable are reported net of the applicable bond premium or discount. 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:

Nonspendable – 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 that do 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, for any remaining positive amounts not classified as non-spendable, 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 or committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or 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 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 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

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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 April, with budget adoption in May. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

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

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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, 2012:

Cash and Investments	Deposits	Investments	Other	Total
Government-Wide				
Cash and cash equivalents	\$ (320,563)	\$ 9,800,634	\$ 3,350	\$ 9,483,421
Investments	621,900	9,687,589	-	10,309,489
Fiduciary Funds				
Cash and cash equivalents	(154,881)	8,065,888	-	7,911,007
Investments	-	56,011,308	-	56,011,308
Component Units				
Cash and cash equivalents	-	1,201,378	-	1,201,378
Total	\$ 146,456	\$ 84,766,797	\$ 3,350	\$ 84,916,603

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, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

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, 2012 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	\$ -	\$ -	\$ -	\$ -	\$ 19,067,899	\$ 19,067,899
U.S. Government	-	5,715,187	2,011,878	8,534,434	-	16,261,499
Corporate bonds	617,395	3,416,065	4,106,438	1,948,348	-	10,088,246
Foreign bonds	-	511,274	371,154	-	-	882,428
Stocks	-	-	-	-	23,924,470	23,924,470
Mutual funds	-	-	-	-	11,511,781	11,511,781
REIT	-	-	-	-	3,030,474	3,030,474
Total	\$ 617,395	\$ 9,642,526	\$ 6,489,470	\$ 10,482,782	\$ 57,534,624	\$ 84,766,797

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, 2012, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Credit Risk - S&P Quality Fair Values

Investment Type	AAA	AA	A	BBB	BB	B	Not Rated	Total
Pooled investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,067,899	\$ 19,067,899
U.S. Government	14,974,516	20,882	-	812,527	-	-	1,459,011	17,266,936
Corporate bonds	676,957	964,545	3,938,722	2,717,183	258,335	240,276	286,792	9,082,810
Foreign bonds	-	163,031	344,323	262,020	113,053	-	-	882,427
Stocks	-	-	-	-	-	-	23,924,470	23,924,470
Mutual funds	-	-	-	-	-	-	11,511,781	11,511,781
REIT	-	-	-	-	-	-	3,030,474	3,030,474
Total	\$ 15,651,473	\$ 1,148,458	\$ 4,283,045	\$ 3,791,730	\$ 371,388	\$ 240,276	\$ 59,280,427	\$ 84,766,797

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 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, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

B. Receivables

Receivables in the governmental activities are approximately 88 percent due from other governments, 4 percent accounts receivables, and 8 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	\$ 32,461	\$ 8,450
Special assessments	18,177	-
State shared revenue not received within 60 days	<u>379,170</u>	<u>-</u>
Total	<u>\$ 429,808</u>	<u>\$ 8,450</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Capital Assets

Capital asset activity for the year ended June 30, 2012 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	\$ 687,878	\$ -	\$ -	\$ -	\$ 687,878
Construction in process	2,003,561	681,599	-	(2,685,160)	-
Total capital assets, not depreciated	2,691,439	681,599	-	(2,685,160)	687,878
Capital assets, depreciated					
Infrastructure	40,347,363	-	-	-	40,347,363
Buildings	12,187,993	185,364	(368,645)	-	12,004,712
Equipment	4,649,027	218,921	(360,519)	-	4,507,429
Vehicles	5,858,528	336,434	(178,835)	-	6,016,127
Total capital assets, depreciated	63,042,911	740,719	(907,999)	-	62,875,631
Less accumulated depreciation					
Infrastructure	33,106,558	1,811,737	-	-	34,918,295
Buildings	4,468,986	635,283	(368,645)	-	4,735,624
Equipment	2,838,750	303,657	(360,519)	-	2,781,888
Vehicles	3,756,988	378,573	(178,835)	-	3,956,726
Total accumulated depreciation	44,171,282	3,129,250	(907,999)	-	46,392,533
Total capital assets depreciated, net	18,871,629	(2,388,531)	-	-	16,483,098
Total governmental activities, net	\$ 21,563,068	\$ (1,706,932)	\$ -	\$ (2,685,160)	\$ 17,170,976

CITY OF FERNDALE, MICHIGAN

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	-	-	-	-	-
Total capital assets, not depreciated	454,903	-	-	-	454,903
Capital assets, depreciated					
Infrastructure	53,660,166	239,276	-	2,685,160	56,584,602
Buildings	1,085,091	-	-	-	1,085,091
Equipment	1,929,122	-	-	-	1,929,122
Vehicles	128,127	-	-	-	128,127
Total capital assets, depreciated	56,802,506	239,276	-	2,685,160	59,726,942
Less accumulated depreciation					
Infrastructure	19,608,792	2,117,608	-	-	21,726,400
Buildings	1,024,251	5,070	-	-	1,029,321
Equipment	208,301	93,432	-	-	301,733
Vehicles	120,344	7,783	-	-	128,127
Total accumulated depreciation	20,961,688	2,223,893	-	-	23,185,581
Total capital assets depreciated, net	35,840,818	(1,984,617)	-	2,685,160	36,541,361
Total business-type activities, net	\$ 36,295,721	\$ (1,984,617)	\$ -	\$ 2,685,160	\$ 36,996,264

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

Governmental activities	
General government	\$ 169,000
Public safety	293,017
Public works	494,476
Highways and streets	1,632,697
Recreation and culture	<u>540,060</u>
Total depreciation expense – govt. activities	<u>\$3,129,250</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Primary government - continued

Business-type activities

Water and sewer	\$2,132,547
Auto parking	<u>91,346</u>

Total depreciation expense – bus.-type activities **\$2,223,893**

Discretely presented component unit

Activity for the Downtown Development Authority for the year ended June 30, 2012, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital assets, depreciated					
Infrastructure	\$ 1,467,331	\$ 45,350	\$ -	\$ -	\$ 1,512,681
Equipment	70,440	-	(20,040)	-	50,400
Vehicles	<u>37,103</u>	<u>-</u>	<u>(13,963)</u>	<u>-</u>	<u>23,140</u>
Total capital assets, depreciated	<u>1,574,874</u>	<u>45,350</u>	<u>(34,003)</u>	<u>-</u>	<u>1,586,221</u>
Less accumulated depreciation					
Infrastructure	1,148,331	88,836	-	-	1,237,167
Equipment	64,253	2,421	(20,040)	-	46,634
Vehicles	<u>34,788</u>	<u>2,315</u>	<u>(13,963)</u>	<u>-</u>	<u>23,140</u>
Total accumulated depreciation	<u>1,247,372</u>	<u>93,572</u>	<u>(34,003)</u>	<u>-</u>	<u>1,306,941</u>
Total capital assets depreciated, net	<u>\$ 327,502</u>	<u>\$ (48,222)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279,280</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, 2012 there were no interfund receivables or payables.

CITY OF FERNDALE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

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

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	
General fund	\$ -	\$ 1,018,153	\$ 1,018,153
Nonmajor governmental funds	61,514	105,000	166,514
Total	\$ 61,514	\$ 1,123,153	\$ 1,184,667

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 non-cancellable operating leases. Total costs for such leases were \$44,190 for the year ended June 30, 2012. The future minimum lease payments for these leases are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 31,643
2014	13,396
2015	6,609
2016	<u>2,086</u>
Total minimum lease payments	<u>\$ 53,734</u>

CITY OF FERNDALE, MICHIGAN

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 \$3,240,000. 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, draws from the State of Michigan revolving fund, Federal and State of Michigan grants, and contributions from Oakland County, Michigan. The City is one of fourteen local communities obligated for the payment of principal and interest of the outstanding debt. It is 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. The bond sales were initiated on an as-needed basis during construction, which is now materially complete. Accordingly, the following schedule of debt service requirements for business-type activities is based on final 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 draws 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% - 4.5%	\$ 239,152
Library facility bonds	3.0% - 4.0%	4,205,000
2003 refunding bonds	2.0% - 5.0%	5,805,000
2005 refunding bonds	2.5% - 4.0%	4,955,000
2007 infrastructure bonds	4.3% - 4.4%	<u>1,750,000</u>
Total governmental activities		<u>\$ 16,954,152</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Business-type activities

George W. Kuhn drain project	2.0% - 5.0%	\$ 8,598,600
State revolving fund	2.125%	<u>6,173,266</u>

Total business-type activities **\$14,771,866**

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>
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	230,000	136,250
2018 - 2022	1,380,000	537,000
2023 - 2027	<u>1,825,000</u>	<u>225,200</u>
	<u>\$ 16,954,152</u>	<u>\$ 2,935,673</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>
2013	\$ 958,287	\$ 367,478
2014	983,769	343,179
2015	1,009,777	318,228
2016	1,033,763	292,640
2017	1,062,249	266,370
2018 – 2022	5,703,587	912,793
2023 – 2027	3,659,120	248,148
2028 – 2029	<u>361,314</u>	<u>6,416</u>
	<u>\$ 14,771,866</u>	<u>\$ 2,755,252</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Advance and Current Refundings

The City has issued refunding bonds in previous years to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$25,000,000 of refunded debt. As a result, the refunded bonds are considered to be defeased. On June 30, 2012, the City had total defeased debt outstanding of approximately \$11,175,000.

Changes in Long-Term Debt.

Long-term liability activity for the year ended June 30, 2012, 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	\$ 349,152	\$ -	\$ (110,000)	\$ 239,152	\$ 115,000
Library facilities bonds	4,360,000	-	(155,000)	4,205,000	170,000
Refunding bonds, 2003	7,355,000	-	(1,550,000)	5,805,000	1,455,000
Refunding bonds, 2005	5,980,000	-	(1,025,000)	4,955,000	1,210,000
Infrastructure bonds, series 2007	2,150,000	-	(400,000)	1,750,000	400,000
Total general obligation debt	<u>20,194,152</u>	<u>-</u>	<u>(3,240,000)</u>	<u>16,954,152</u>	<u>3,350,000</u>
Premium on refunding bonds	162,204	-	(32,440)	129,764	32,440
Discount/issuance - refunding bonds	(139,911)	-	27,983	(111,928)	(27,983)
Discount/issuance - library bonds	(115,828)	-	7,239	(108,589)	(7,239)
Accrued compensated absences	471,622	531,460	(471,622)	531,460	-
Total governmental activities	<u>20,572,239</u>	<u>531,460</u>	<u>(3,708,840)</u>	<u>17,394,859</u>	<u>3,347,218</u>
Business-type activities:					
George W. Kuhn drain	9,203,897	-	(605,297)	8,598,600	623,287
State revolving fund	6,503,266	-	(330,000)	6,173,266	335,000
Total business-type activities	<u>15,707,163</u>	<u>-</u>	<u>(935,297)</u>	<u>14,771,866</u>	<u>958,287</u>
Total primary government	<u>\$ 36,279,402</u>	<u>\$ 531,460</u>	<u>\$ (4,644,137)</u>	<u>\$ 32,166,725</u>	<u>\$ 4,305,505</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

CITY OF FERNDALE, MICHIGAN

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	\$ 151,014	\$ -	\$ -	\$ -
Police in service training	-	12,636	-	-
Employee benefits	-	-	531,459	-
Senior memorial	-	-	-	9,783
Debt Service Fund:				
Principal and interest	-	158,992	-	-
Nonmajor Funds:				
Highways and streets	-	1,231,858	-	-
Sanitation	-	311,099	-	-
Public safety	-	777,011	-	-
Recreation and culture	-	560,480	-	-
Community and economic development	-	74,738	-	-
Capital projects	-	-	1,629,733	119,558
Total	\$ 151,014	\$ 3,126,814	\$ 2,161,192	\$ 129,341

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, MICHIGAN

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 five years.

B. Property Taxes

The City's property taxes are levied each July 1st on the taxable valuation of property located in the City as of the preceding December 31st, 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 1st of the succeeding year, unpaid real property taxes are sold to and collected by Oakland County. Assessed values, as established annually by the city and subject to acceptance 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 2011 levy was 555,831,670. The adjusted Ad Valorem taxable value ended at \$554,443,085, resulting in the following revenues:

Taxing Authority	Millage	Total
General Operating	17.5448	\$ 9,727,593
District Library	1.9601	1,086,764
Refuse	2.1815	1,209,518
Public Relations/Ad	0.0897	49,733
Debt Service	6.7800	3,759,124
	<u>28.5561</u>	<u>15,832,732</u>
Downtown Development Authority	1.3794	62,718
Total Tax Revenue per Ad Valorem Warrant	<u>29.9355</u>	<u>\$ 15,895,450</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Contingent Liabilities

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

Ferndale Employees Retirement System

Plan Description

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

Summary of Significant Accounting Policies

The Ferndale Employees Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Contributions

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

The following Plan provisions have been reflected in the June 30, 2011 valuation:

- Providing Medicare Part B reimbursement to active employees hired prior to January 1, 1992.
- 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, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	69
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	46
Total	118

Annual Pension Cost

For the year ended June 30, 2012, 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, 2010	\$ -	100%	\$ -
June 30, 2011	-	100%	-
June 30, 2012	-	100%	-

The plan does not issue a separately issued financial report.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Ferndale Policeman and Fireman Retirement System

Plan Description

The Ferndale Policeman and Fireman Retirement System (FPFRS) is a single-employer defined benefit pension plan administered by Comerica Bank Corporation that covers all full-time municipal police and firemen. Effective July 1, 1996, FPFRS was closed to new hires and existing members were permitted to transfer to the new Defined Contribution Plan. FPFRS provides retirement, disability and death benefits to plan members. The requirements of the State Constitution and Chapter XIXB of the City Charter 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 Policeman and Fireman Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Contributions

Plan members are required to contribute between 1.6% and 5.35% of their annual covered salary. The City was required to make a contribution of 23.86% of annual covered salary or \$692,086 for the year ended June 30, 2012, according to the valuation received for the year ended June 30, 2011. 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, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	91
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	<u>38</u>
Total	<u><u>129</u></u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended June 30, 2012, 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, 2010	\$208,650	100%	\$ -
June 30, 2011	673,877	100%	-
June 30, 2012	692,086	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 Ferndale Policemen and Firemen Retirement System (“FPFRS”) as of June 30, 2011, the most recent actuarial valuation date, is as follows.

<u>Actuarial Valuation June 30, 2011</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Actuarial (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	\$ 17,171,817	\$ 10,142,177	\$(7,029,640)	169.3%	\$2,082,022	-%
FPFRS	35,706,349	38,840,216	3,133,867	91.9%	2,990,216	105%

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

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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 ("ICMA-RC"), 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 \$17,735,668, of which \$499,055 were loans to members.

The City's payroll for employees covered by the Plan for the year ended June 30, 2012, was approximately \$4,817,252, and the City's total payroll was approximately \$9,316,685. The required contributions were \$304,295 by employees and \$551,547 by the City, representing 6.3% and 11.4% 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
Police	<u>9%</u>	<u>6%</u>	<u>5%</u>	<u>5%</u>	<u>6%</u>
City Contribution	9%	6%	5%	5%	6%
Employee Contribution	0%	0%	0%	0%	0%
or					
Police	<u>14%</u>	<u>9%</u>	<u>5%</u>	<u>7%</u>	<u>9%</u>
City Contribution	14%	9%	5%	7%	9%
Employee Contribution	5.35%	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 12 employees (all current; no 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 John Hancock. 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, 2012 was \$85,459. The defined contribution pension cost to the employees was \$0. Contributions to the plan are

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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 \$1,279,813.

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 Other Post-Employment Benefits Fund. Current healthcare premiums are paid directly from the General Fund. During the current year, healthcare benefits paid for 152 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, 2012, the City made payments for postemployment health benefit claims of approximately \$2,522,169 paid out of the General Fund and \$747,000 paid to the Other Post-Employment Benefits Fund for future health care benefits. This was equal to the actuarial required contribution and represents approximately 49% 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 biennial valuation date, is as follows:

CITY OF FERNDALE, MICHIGAN

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%

The assets in the plan as of June 30, 2012 were \$10,394,756.

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, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

F. Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of 14 municipalities in Oakland County and provides refuse collection and disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2012 the Authority reported an increase in net assets in the amount of \$186,580 resulting in ending net assets in the amount of \$6,703,011. During the year ended June 30, 2012, the City expended \$1,577,604 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.

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***REQUIRED SUPPLEMENTARY
INFORMATION***

**City of Ferndale
General Fund
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Property taxes	\$ 10,109,000	\$ 10,143,000	\$ 10,117,311	\$ (25,689)
Licenses and permits	426,350	409,350	408,459	(891)
Intergovernmental	2,185,643	3,823,443	3,878,841	55,398
Charges for services	881,300	948,400	1,034,336	85,936
Fines and forfeitures	1,885,000	2,355,000	2,853,003	498,003
Investment earnings	500,000	100,000	118,006	18,006
Other	1,038,703	812,400	873,496	61,096
Total Revenues:	17,025,996	18,591,593	19,283,452	691,859
Expenditures				
Current:				
General Government	4,552,771	4,714,814	4,281,966	432,848
Public Safety	11,202,189	11,646,665	11,762,085	(115,420)
Public Works	661,250	649,250	601,423	47,827
Culture - Recreation	720,610	728,174	526,242	201,932
Total Expenditures:	17,136,820	17,738,903	17,171,716	567,187
Revenues Over (Under) Expenditures:	(110,824)	852,690	2,111,736	1,259,046
Other financing sources (uses)				
Transfers in	170,824	62,310	61,514	(796)
Transfers out	(100,000)	(925,000)	(1,018,153)	(93,153)
Proceeds from sale of capital assets	40,000	10,000	19,855	9,855
Total other financing sources (uses)	110,824	(852,690)	(936,784)	(84,094)
Net Change in Fund Balance:	-	-	1,174,952	1,174,952
Fund Balance - Beginning	4,959,342	4,959,342	4,959,342	-
Fund Balance - Ending:	\$ 4,959,342	\$ 4,959,342	\$ 6,134,294	\$ 1,174,952

**City of Ferndale
Required Supplementary Information**

**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)
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	-
2011	17,171,817	10,142,177	(7,029,640)	169.3%	2,082,022	-

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
2007	-	\$ -	\$ -	100.0%
2008	-	-	-	100.0%
2009	-	-	-	100.0%
2010	-	-	-	100.0%
2011	-	-	-	100.0%
2012	-	-	-	100.0%

City of Ferndale Required Supplementary Information

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)
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%
2011	35,706,349	38,840,216	3,133,867	91.9%	2,990,216	104.8%

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
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%
2012	23.86%	692,086	692,086	100.0%

**City of Ferndale
Required Supplementary Information**

**Other Postemployment Benefits (OPEB) -
Other Post-Employment Benefits Trust Fund**

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) Actuarial Accrued 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%
2012 ⁽¹⁾	TBD	TBD	TBD	TBD

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%
2010	6/30/12	3,302,521	746,587	100%

(1) Actuarial valuation as of June 30, 2012 is being performed however was not available as of the issuance of the audited financial statements.

**City of Ferndale
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, 2012, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>	
General Fund:				
Public Safety	\$ 11,646,665	\$ 11,762,085	\$ (115,420)	(a)
Sanitation Fund	2,433,444	2,523,827	(90,383)	(b)
Library Fund	1,139,731	1,183,219	(43,488)	(c)
Neighborhood Stabilization Grant Fund	67,182	127,169	(59,987)	(d)

- (a) Public Safety expenditures within the General Fund were over budget by \$115,420, however, General Fund expenditures as a whole were under budget by \$567,187.
- (b) Total Sanitation Fund expenditures were over budget by \$90,383, due mostly to an unanticipated increase in waste collection and disposal costs.
- (c) Total Library Fund expenditures were over budget by \$43,488, offset by an increase in revenues of \$65,488.
- (d) Total Neighborhood Stabilization Grant expenditures were over budget by \$59,987, exactly offset by an increase in revenues of \$59,987.

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

**City of Ferndale
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

	<u>Special Revenue Funds</u>			
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Sanitation</u>	<u>Drug Forfeiture</u>
Assets				
Cash and investments	\$ 655,678	\$ 484,595	\$ 475,247	\$ 818,111
Receivables:				
Accounts receivable	-	18,177	105	-
Taxes - delinquent	-	-	12,021	-
Less: allowance for doubtful accounts	-	-	(10,053)	-
Due from other governments	147,496	52,893	-	-
Total Assets:	<u><u>\$ 803,174</u></u>	<u><u>\$ 555,665</u></u>	<u><u>\$ 477,320</u></u>	<u><u>\$ 818,111</u></u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 38,056	\$ 56,001	\$ 154,654	\$ 41,100
Accrued liabilities	9,955	4,792	9,599	-
Deferred revenue	-	18,177	1,968	-
Total Liabilities:	<u>48,011</u>	<u>78,970</u>	<u>166,221</u>	<u>41,100</u>
Fund Balances:				
Restricted	755,163	476,695	311,099	777,011
Committed	-	-	-	-
Assigned	-	-	-	-
Total Fund Balances:	<u>755,163</u>	<u>476,695</u>	<u>311,099</u>	<u>777,011</u>
Total Liabilities and Fund Balances:	<u><u>\$ 803,174</u></u>	<u><u>\$ 555,665</u></u>	<u><u>\$ 477,320</u></u>	<u><u>\$ 818,111</u></u>

Capital Projects Funds						
Library	Community Development Block Grant	SMART Trans- portation	Neighborhood Stabilization Grant	Infra- structure	Public Improvement	Total Nonmajor Governmental Funds
\$ 507,987	\$ 71,868	\$ 21,037	\$ (9,437)	\$ -	\$ 1,758,315	\$ 4,783,401
-	-	-	-	-	-	18,282
10,802	-	-	-	-	-	22,823
(9,033)	-	-	-	-	-	(19,086)
39,890	9,200	33,620	9,437	-	-	292,536
<u>\$ 549,646</u>	<u>\$ 81,068</u>	<u>\$ 54,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,758,315</u>	<u>\$ 5,097,956</u>
\$ 28,490	\$ 6,330	\$ -	\$ -	\$ -	\$ 9,024	\$ 333,655
11,903	-	1,661	-	-	-	37,910
1,769	-	-	-	-	-	21,914
<u>42,162</u>	<u>6,330</u>	<u>1,661</u>	<u>-</u>	<u>-</u>	<u>9,024</u>	<u>393,479</u>
507,484	74,738	52,996	-	-	-	2,955,186
-	-	-	-	-	1,629,733	1,629,733
-	-	-	-	-	119,558	119,558
<u>507,484</u>	<u>74,738</u>	<u>52,996</u>	<u>-</u>	<u>-</u>	<u>1,749,291</u>	<u>4,704,477</u>
<u>\$ 549,646</u>	<u>\$ 81,068</u>	<u>\$ 54,657</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,758,315</u>	<u>\$ 5,097,956</u>

City of Ferndale
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	<u>Special Revenue Funds</u>			
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Sanitation</u>	<u>Drug Forfeiture</u>
Revenues				
Property taxes	\$ -	\$ -	\$ 1,161,686	\$ -
Intergovernmental	989,084	322,821	36,538	300,569
Charges for services	-	-	1,183,873	-
Fines and forfeitures	-	-	-	52,839
Investment earnings	4,888	4,141	6,427	9,420
Other	2,987	9,088	1,265	-
Total revenues:	<u>996,959</u>	<u>336,050</u>	<u>2,389,789</u>	<u>362,828</u>
Expenditures				
Current:				
General Government	-	-	-	-
Public Safety	-	-	-	5,740
Public Works	-	-	2,523,827	-
Highway & Streets	641,045	403,402	-	-
Recreation and Culture	-	-	-	-
Community & Economic Development	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Capital outlay:	-	-	-	105,349
Total expenditures:	<u>641,045</u>	<u>403,402</u>	<u>2,523,827</u>	<u>111,089</u>
Revenues over (under) expenditures:	<u>355,914</u>	<u>(67,352)</u>	<u>(134,038)</u>	<u>251,739</u>
Other financing sources (uses)				
Transfers in	290,000	395,000	-	-
Transfers out	(95,000)	-	-	-
Proceeds from sale of capital assets	-	-	-	-
Total other financing sources (uses)	<u>195,000</u>	<u>395,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	550,914	327,648	(134,038)	251,739
Fund balances - beginning	204,249	149,047	445,137	525,272
Fund balances - ending	<u>\$ 755,163</u>	<u>\$ 476,695</u>	<u>\$ 311,099</u>	<u>\$ 777,011</u>

Library	Capital Projects Funds					Total Nonmajor Governmental Funds
	Community Development Block Grant	SMART Transportation	Neighborhood Stabilization Grant	Infrastructure	Public Improvement	
\$ 1,043,782	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,205,468
8,618	74,697	56,822	40,309	-	-	1,829,458
29,775	-	5,208	-	-	-	1,218,856
39,272	-	-	-	-	-	92,111
7,077	890	235	-	-	22,995	56,073
42,264	-	-	86,860	-	-	142,464
<u>1,170,788</u>	<u>75,587</u>	<u>62,265</u>	<u>127,169</u>	<u>-</u>	<u>22,995</u>	<u>5,544,430</u>
-	-	-	-	79,371	20,329	99,700
-	-	-	-	-	-	5,740
-	-	-	-	-	-	2,523,827
-	-	-	-	-	-	1,044,447
816,912	-	74,870	-	-	-	891,782
-	13,183	-	127,169	-	-	140,352
155,000	-	-	-	-	110,000	265,000
166,538	-	-	-	-	15,712	182,250
44,769	-	-	-	602,228	144,255	896,601
<u>1,183,219</u>	<u>13,183</u>	<u>74,870</u>	<u>127,169</u>	<u>681,599</u>	<u>290,296</u>	<u>6,049,699</u>
<u>(12,431)</u>	<u>62,404</u>	<u>(12,605)</u>	<u>-</u>	<u>(681,599)</u>	<u>(267,301)</u>	<u>(505,269)</u>
-	-	-	-	-	438,153	1,123,153
(10,000)	(61,514)	-	-	-	-	(166,514)
1,930	-	-	-	-	-	1,930
<u>(8,070)</u>	<u>(61,514)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>438,153</u>	<u>958,569</u>
(20,501)	890	(12,605)	-	(681,599)	170,852	453,300
527,985	73,848	65,601	-	681,599	1,578,439	4,251,177
<u>\$ 507,484</u>	<u>\$ 74,738</u>	<u>\$ 52,996</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,749,291</u>	<u>\$ 4,704,477</u>

**City of Ferndale
Major Streets
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 1,000,244	\$ 975,100	\$ 989,084	\$ 13,984
Investment earnings	-	-	4,888	4,888
Other	-	-	2,987	2,987
Total Revenues:	1,000,244	975,100	996,959	21,859
Expenditures				
Current:				
Highway & Streets	729,422	723,712	641,045	82,667
Capital outlay:	11,500	25,000	-	25,000
Total Expenditures:	740,922	748,712	641,045	107,667
Revenues over expenditures:	259,322	226,388	355,914	129,526
Other financing sources (uses)				
Transfers in	-	290,000	290,000	-
Transfers out	(95,000)	(95,000)	(95,000)	-
Total other financing sources (uses)	(95,000)	195,000	195,000	-
Net change in fund balance:	164,322	421,388	550,914	129,526
Fund balance - beginning	204,249	204,249	204,249	-
Fund balance - ending:	\$ 368,571	\$ 625,637	\$ 755,163	\$ 129,526

**City of Ferndale
Local Streets
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 322,863	\$ 313,000	\$ 322,821	\$ 9,821
Investment earnings	-	-	4,141	4,141
Other	-	-	9,088	9,088
Total Revenues:	322,863	313,000	336,050	23,050
Expenditures				
Current:				
Highway & Streets	408,558	409,058	403,402	5,656
Capital outlay:	23,000	23,000	-	23,000
Total Expenditures:	431,558	432,058	403,402	28,656
Revenues (under) expenditures:	(108,695)	(119,058)	(67,352)	51,706
Other financing sources				
Transfers in	95,000	395,000	395,000	-
Net change in fund balance:	(13,695)	275,942	327,648	51,706
Fund balance - beginning	149,047	149,047	149,047	-
Fund balance - ending:	\$ 135,352	\$ 424,989	\$ 476,695	\$ 51,706

**City of Ferndale
Sanitation
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012**

	<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	\$ 1,169,000	\$ 1,159,000	\$ 1,161,686	\$ 2,686
Intergovernmental	37,000	37,000	36,538	(462)
Charges for services	1,086,200	1,183,507	1,183,873	366
Investment earnings	-	-	6,427	6,427
Other	1,000	1,000	1,265	265
Total Revenues:	<u>2,293,200</u>	<u>2,380,507</u>	<u>2,389,789</u>	<u>9,282</u>
Expenditures				
Current:				
Public Works	2,433,444	2,433,444	2,523,827	(90,383)
Total Expenditures:	<u>2,433,444</u>	<u>2,433,444</u>	<u>2,523,827</u>	<u>(90,383)</u>
Net change in fund balance:	(140,244)	(52,937)	(134,038)	(81,101)
Fund balance - beginning	445,137	445,137	445,137	-
Fund balance - ending:	<u>\$ 304,893</u>	<u>\$ 392,200</u>	<u>\$ 311,099</u>	<u>\$ (81,101)</u>

**City of Ferndale
Drug Forfeiture
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 50,000	\$ 50,000	\$ 300,569	\$ 250,569
Fines and forfeitures	75,000	75,000	52,839	(22,161)
Investment earnings	400	400	9,420	9,020
Total Revenues:	125,400	125,400	362,828	237,428
Expenditures				
Current:				
Public Safety	18,500	18,500	5,740	12,760
Capital outlay:	-	105,349	105,349	-
Total Expenditures:	18,500	123,849	111,089	12,760
Revenues over expenditures:	106,900	1,551	251,739	250,188
Other financing (uses)				
Transfers out	(100,000)	-	-	-
Net change in fund balance:	6,900	1,551	251,739	250,188
Fund balance - beginning	525,272	525,272	525,272	-
Fund balance - ending:	\$ 532,172	\$ 526,823	\$ 777,011	\$ 250,188

**City of Ferndale
Library
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012**

	<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	\$ 1,049,000	\$ 1,042,000	\$ 1,043,782	\$ 1,782
Intergovernmental	8,000	8,000	8,618	618
Charges for services	8,300	8,300	29,775	21,475
Fines and forfeitures	29,500	29,500	39,272	9,772
Investment earnings	-	-	7,077	7,077
Other	17,500	17,500	42,264	24,764
Total Revenues:	<u>1,112,300</u>	<u>1,105,300</u>	<u>1,170,788</u>	<u>65,488</u>
Expenditures				
Current:				
Culture - Recreation	763,193	763,193	816,912	(53,719)
Debt service:				
Principal	155,000	155,000	155,000	-
Interest and fees	166,538	166,538	166,538	-
Capital outlay:	55,000	55,000	44,769	10,231
Total Expenditures:	<u>1,139,731</u>	<u>1,139,731</u>	<u>1,183,219</u>	<u>(43,488)</u>
Revenues over (under) expenditures:	<u>(27,431)</u>	<u>(34,431)</u>	<u>(12,431)</u>	<u>22,000</u>
Other financing sources (uses)				
Transfers out	(10,000)	(10,000)	(10,000)	-
Proceeds from sale of capital assets	-	-	1,930	1,930
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>(8,070)</u>	<u>1,930</u>
Net change in fund balance:	(37,431)	(44,431)	(20,501)	23,930
Fund balance - beginning	527,985	527,985	527,985	-
Fund balance - ending:	<u>\$ 490,554</u>	<u>\$ 483,554</u>	<u>\$ 507,484</u>	<u>\$ 23,930</u>

City of Ferndale
Community Development Block Grant
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 91,324	\$ 85,564	\$ 74,697	\$ (10,867)
Investment earnings	100	100	890	790
Total Revenues:	91,424	85,664	75,587	(10,077)
Expenditures				
Current:				
Community & Economic Development	91,424	85,664	13,183	72,481
Total Expenditures:	91,424	85,664	13,183	72,481
Revenues over expenditures:	-	-	62,404	62,404
Other financing (uses)				
Total transfers out:	-	-	(61,514)	(61,514)
Net change in fund balance:	-	-	890	890
Fund balance - beginning	73,848	73,848	73,848	-
Fund balance - ending:	\$ 73,848	\$ 73,848	\$ 74,738	\$ 890

**City of Ferndale
SMART Transportation
Schedule of Revenues, Expenditures, and Changes
in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 72,466	\$ 72,466	\$ 56,822	\$ (15,644)
Charges for services	8,145	8,145	5,208	(2,937)
Investment earnings	-	-	235	235
Total Revenues:	80,611	80,611	62,265	(18,346)
Expenditures				
Current:				
Culture - Recreation	80,611	80,611	74,870	5,741
Total Expenditures:	80,611	80,611	74,870	5,741
Net change in fund balance:	-	-	(12,605)	(12,605)
Fund balance - beginning	65,601	65,601	65,601	-
Fund balance - ending:	\$ 65,601	\$ 65,601	\$ 52,996	\$ (12,605)

**City of Ferndale
 Neighborhood Stabilization Grant
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ 15,245	\$ 40,309	\$ 25,064
Other	-	51,937	86,860	34,923
Total Revenues:	-	67,182	127,169	59,987
Expenditures				
Current:				
Community & Economic Development	-	67,182	127,169	(59,987)
Total Expenditures:	-	67,182	127,169	(59,987)
Net change in fund balance:	-	-	-	-
Fund balance - beginning	-	-	-	-
Fund balance - ending:	\$ -	\$ -	\$ -	\$ -

City of Ferndale
Combining Statement of Net Assets
Internal Service Funds
June 30, 2012

	<u>Motor Pool</u>	<u>Human Resources</u>	<u>Total Internal Service Funds</u>
Assets			
Current assets:			
Cash and investments	\$ 965,477	\$ 467,348	\$ 1,432,825
Accounts receivable	24,213	-	24,213
Inventories	148,720	-	148,720
Prepaid expenses	-	24,500	24,500
Total current assets	<u>1,138,410</u>	<u>491,848</u>	<u>1,630,258</u>
Noncurrent assets:			
Capital assets	6,670,040	-	6,670,040
Less accumulated depreciation	(4,215,537)	-	(4,215,537)
Total noncurrent assets	<u>2,454,503</u>	<u>-</u>	<u>2,454,503</u>
Total assets	<u>3,592,913</u>	<u>491,848</u>	<u>4,084,761</u>
Liabilities			
Current liabilities			
Accounts payable	25,469	196,651	222,120
Accrued liabilities	6,108	1,401	7,509
Total current liabilities	<u>31,577</u>	<u>198,052</u>	<u>229,629</u>
Net Assets			
Investment in capital assets	2,454,503	-	2,454,503
Unrestricted	1,106,833	293,796	1,400,629
Total net assets	<u>\$ 3,561,336</u>	<u>\$ 293,796</u>	<u>\$ 3,855,132</u>

City of Ferndale
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2012

	<u>Motor Pool</u>	<u>Human Resources</u>	<u>Total Internal Service Funds</u>
Operating revenues			
Charges for services	\$ 1,238,426	\$ 279,584	\$ 1,518,010
Miscellaneous income	275	-	275
Total operating revenues	<u>1,238,701</u>	<u>279,584</u>	<u>1,518,285</u>
Operating Expenses			
Personal services	239,923	62,163	302,086
General and administrative	510,285	22,061	532,346
Utilities	24,052	-	24,052
Rental expense	44,140	-	44,140
Contractual services	41,812	26,675	68,487
Maintenance expense	158,505	-	158,505
Depreciation	451,164	-	451,164
Medical and benefit payments	-	(93,963)	(93,963)
Total operating expenses	<u>1,469,881</u>	<u>16,936</u>	<u>1,486,817</u>
Operating income (loss)	<u>(231,180)</u>	<u>262,648</u>	<u>31,468</u>
Nonoperating revenues			
Gain on sale of capital assets	6,485	-	6,485
Total nonoperating revenues	<u>6,485</u>	<u>-</u>	<u>6,485</u>
Change in net assets	(224,695)	262,648	37,953
Total net assets - beginning	<u>3,786,031</u>	<u>31,148</u>	<u>3,817,179</u>
Total net assets - ending	<u>\$ 3,561,336</u>	<u>\$ 293,796</u>	<u>\$ 3,855,132</u>

City of Ferndale
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2012

	<u>Motor Pool</u>	<u>Human Resources</u>	<u>Total Internal Service Funds</u>
Cash flows from operating activities			
Cash received from interfund services	\$ 1,232,805	\$ 279,584	\$ 1,512,389
Cash payments to employees	(237,559)	(62,163)	(299,722)
Cash payments to suppliers for goods and services	(805,998)	(288,218)	(1,094,216)
Net cash provided by (used in) operating activities	<u>189,248</u>	<u>(70,797)</u>	<u>118,451</u>
Cash flows from capital and related financing activities			
Purchase of capital assets	(441,641)	-	(441,641)
Proceeds from sale of capital assets	6,485	-	6,485
Net cash used in capital and related financing activities	<u>(435,156)</u>	<u>-</u>	<u>(435,156)</u>
Net decrease in cash and investments	(245,908)	(70,797)	(316,705)
Cash and investments, beginning of year	<u>1,211,385</u>	<u>538,145</u>	<u>1,749,530</u>
Cash and investments, end of year	<u>\$ 965,477</u>	<u>\$ 467,348</u>	<u>\$ 1,432,825</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ (231,180)	\$ 262,648	\$ 31,468
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	451,164	-	451,164
Changes in assets and liabilities:			
Accounts receivable	(5,896)	-	(5,896)
Inventories	671	-	671
Accounts payable	(27,875)	(334,846)	(362,721)
Accrued liabilities	2,364	1,401	3,765
Net cash provided by (used in) operating activities	<u>\$ 189,248</u>	<u>\$ (70,797)</u>	<u>\$ 118,451</u>

City of Ferndale
Combining Statement of Fiduciary Net Assets
Pension and Other Post-Employment Benefits Trust Funds
June 30, 2012

	Employees' Retirement System	Police/Fire Retirement System	Other Post- Employment Benefits	Total Pension and Other Post- Employment Benefits Trust Funds
Assets				
Cash and cash equivalents	\$ 296,010	\$ 1,229,793	\$ 6,383,770	\$ 7,909,573
Accrued interest receivable	51,932	103,890	-	155,822
Investments:				
Debt securities	5,988,004	12,573,155	-	18,561,159
Equity securities	9,777,402	20,781,233	4,010,987	34,569,622
Real estate investment trust	982,854	1,897,673	-	2,880,527
Total Investments:	<u>16,748,260</u>	<u>35,252,061</u>	<u>4,010,987</u>	<u>56,011,308</u>
Total Assets:	<u>17,096,202</u>	<u>36,585,744</u>	<u>10,394,757</u>	<u>64,076,703</u>
Liabilities				
Accounts payable	<u>8,700</u>	<u>11,400</u>	<u>-</u>	<u>20,100</u>
Net Assets				
Held in trust for pension benefits and other purposes	<u>\$ 17,087,502</u>	<u>\$ 36,574,344</u>	<u>\$ 10,394,757</u>	<u>\$ 64,056,603</u>

City of Ferndale
Combining Statement of Changes in Fiduciary Net Assets
Pension and Other Post-Employment Benefits Trust Funds
For the Year Ended June 30, 2012

	Employees' Retirement System	Police/Fire Retirement System	Other Post- Employment Benefits	Total Pension and Other Post- Employment Benefits Trust Funds
Additions				
Contributions:				
Employer contributions	\$ -	\$ 692,086	\$ 747,000	\$ 1,439,086
Plan member contributions	-	128,879	-	128,879
Total contributions	<u>-</u>	<u>820,965</u>	<u>747,000</u>	<u>1,567,965</u>
Investment income:				
Net appreciation (depreciation) in fair value	(263,485)	(519,255)	122,420	(660,320)
Interest	224,356	476,138	53,678	754,172
Dividends	173,786	440,809	-	614,595
Total investment income	<u>134,657</u>	<u>397,692</u>	<u>176,098</u>	<u>708,447</u>
Less investment expense	<u>(81,794)</u>	<u>(160,741)</u>	<u>(1,467)</u>	<u>(244,002)</u>
Net investment income	<u>52,863</u>	<u>236,951</u>	<u>174,631</u>	<u>464,445</u>
Total Additions:	<u>52,863</u>	<u>1,057,916</u>	<u>921,631</u>	<u>2,032,410</u>
Deductions				
Benefits	997,470	2,462,727	-	3,460,197
Administrative expenses	28,100	53,190	2,500	83,790
Total Deductions:	<u>1,025,570</u>	<u>2,515,917</u>	<u>2,500</u>	<u>3,543,987</u>
Change in net assets:	(972,707)	(1,458,001)	919,131	(1,511,577)
Net assets held in trust - beginning	18,060,209	38,032,345	9,475,626	65,568,180
Net assets held in trust - ending	<u>\$17,087,502</u>	<u>\$36,574,344</u>	<u>\$ 10,394,757</u>	<u>\$ 64,056,603</u>

**City of Ferndale
Downtown Development Authority
Governmental Fund Balance Sheet
and Statement of Net Assets
June 30, 2012**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and investments	\$ 275,672		\$ 275,672
Receivables (net)	108,749		108,749
Depreciable capital assets, net	-	279,280	279,280
Total Assets	<u><u>\$ 384,421</u></u>	<u><u>279,280</u></u>	<u><u>663,701</u></u>
Liabilities			
Accounts payable	117,474		117,474
Accrued liabilities	2,603		2,603
Deferred revenue	8,450	(8,450)	-
Total liabilities	<u><u>128,527</u></u>	<u><u>(8,450)</u></u>	<u><u>120,077</u></u>
Fund Balance			
Restricted	255,894	(255,894)	-
Total liabilities and fund balance	<u><u>\$ 384,421</u></u>		
Net assets			
Invested in capital assets		279,280	279,280
Restricted		264,344	264,344
Total net assets		<u><u>\$ 543,624</u></u>	<u><u>\$ 543,624</u></u>

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

Fund Balance - Downtown Development Authority	\$ 255,894
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	279,280
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	8,450
Net assets of component unit	<u><u>\$ 543,624</u></u>

**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, 2012**

	Governmental Fund	Adjustments	Statement of Activities
Revenues			
Property taxes	\$ 581,027	\$ 542	\$ 581,569
Intergovernmental	17,203		17,203
Charges for services	350		350
Investment earnings	2,891		2,891
Other	78,974		78,974
Total Revenues	680,445	542	680,987
Expenditures/Expenses			
Current:			
Community & economic development	674,211	(45,350)	628,861
Depreciation expense	-	93,572	93,572
Total expenditures/expenses	674,211	48,222	722,433
Net change in fund balance/net assets	6,234	(47,680)	(41,446)
Beginning fund balance/net assets	249,660	335,410	585,070
Ending fund balance/net assets	<u>\$ 255,894</u>	<u>\$ 287,730</u>	<u>\$ 543,624</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 **\$ 6,234**

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 542

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 assets 45,350
Deduct: depreciation expense (93,572)

Change in net assets of governmental activities \$ (41,446)

**City of Ferndale
Brownfield Redevelopment Authority
Governmental Fund Balance Sheet
and Statement of Net Assets
June 30, 2012**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and investments	\$ 925,706		\$ 925,706
Total Assets	<u>\$ 925,706</u>	<u>-</u>	<u>925,706</u>
Liabilities			
Accounts payable	343,743		343,743
Total liabilities	<u>343,743</u>	<u>-</u>	<u>343,743</u>
Fund Balance			
Restricted	581,963	(581,963)	-
Total liabilities and fund balance	<u>\$ 925,706</u>		
Net assets			
Invested in capital assets		-	-
Restricted		581,963	581,963
Total net assets		<u>\$ 581,963</u>	<u>\$ 581,963</u>

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

Fund Balance - Brownfield Redevelopment Authority	\$ 581,963
Net assets of component unit	<u>\$ 581,963</u>

**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, 2012**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 383,116	\$ (7,005)	\$ 376,111
Charges for services	3,780		3,780
Investment earnings	10,175		10,175
Other	2,321		2,321
Total Revenues	399,392	(7,005)	392,387
Expenditures/Expenses			
Current:			
Community & economic development	181,928		181,928
Total expenditures/expenses	181,928	-	181,928
Net change in fund balance/net assets	217,464	(7,005)	210,459
Beginning fund balance/net assets	364,499	7,005	371,504
Ending fund balance/net assets	<u>\$ 581,963</u>	<u>\$ -</u>	<u>\$ 581,963</u>

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 **\$ 217,464**

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 (7,005)

Change in net assets of governmental activities \$ 210,459

SINGLE AUDIT

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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, 2012. 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, 2012.

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 management, City Council, 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 12, 2012

City of Ferndale, Michigan

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development		
<i>Passed through Oakland County, Michigan:</i>		
Community Development Block Grant	14.218	\$ 74,697
Neighborhood Stabilization Project Grant	14.218	40,309
Total U.S. Department of Housing and Urban Development		<u>115,006</u>
U.S. Department of Interior		
<i>Direct through the National Parks Service</i>		
Save America's Treasurers	15.904	<u>17,203</u>
U.S. Department of Justice		
<i>Passed through Oakland County, Michigan:</i>		
Organized Crime Drug Enforcement Task Forces (OCDETF)	16.738	14,628
Justice Assistance Grant - Other	16.738	7,668
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	8,351
Total U.S. Department of Justice		<u>30,647</u>
U.S. Department of Homeland Security		
<i>Direct funding through FEMA:</i>		
Assistance to Firefighters Grant	97.044	
Staffing for Adequate Fire and Emergency Response (SAFER)		<u>351,591</u>
Total Expenditures of Federal Awards		<u>\$ 514,447</u>

City of Ferndale
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

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, 2012, and have issued our report thereon dated December 12, 2012. 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 2012-1.

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

This report is intended solely for the information and use of management, City Council, 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 12, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2012

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

2012-1 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, Sanitation Fund, Library Fund, and Neighborhood Stabilization Grant Fund exceeded the amounts appropriated. A similar issue was noted and reported in our prior audit comments.

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 - CONTINUED

Year Ended June 30, 2012

Section II - Financial Statement Findings - Continued

2012-1 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 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, 2012

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.

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 exceeded the amounts appropriated.

Resolution: A similar issue was noted this year and is reported under finding 2012-1. 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.