

**City of Ferndale  
Oakland County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2014**

City of Ferndale

TABLE OF CONTENTS

June 30, 2014

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-viii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds	
Balance Sheet	3
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balances	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6
Proprietary Funds	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position	8
Statement of Cash Flows	9-10
Fiduciary Funds	
Statement of Fiduciary Net Position	11
Statement of Changes in Fiduciary Net Position	12
Component Unit Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Notes to Financial Statements	15-46
REQUIRED SUPPLEMENTARY INFORMATION	
General Fund	
Budgetary Comparison Schedule	47-48
Ferndale Employees Retirement System	
Schedules of Funding Progress and Employer Contributions	49
Schedule of Changes in the City's Net Pension Asset and Related Ratios	50
Schedule of City Contributions	51
Schedule of Investment Returns	52
City of Ferndale Policemen and Firemen Retirement System	
Schedules of Funding Progress and Employer Contributions	53
Schedule of Changes in the City's Net Pension Asset and Related Ratios	54
Schedule of City Contributions	55
Schedule of Investment Returns	56
Other Post-Employment Benefits Trust Fund	
Schedules of Funding Progress and Employer Contributions	57
Note to Required Supplementary Information	58

City of Ferndale

TABLE OF CONTENTS - CONTINUED

June 30, 2014

	<u>Page</u>
OTHER SUPPLEMENTARY INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet	59-60
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	61-62
Internal Service Funds	
Combining Statement of Net Position	63
Combining Statement of Revenues, Expenses, and Changes in Net Position	64
Combining Statement of Cash Flows	65
Pension and Other Post-Employment Benefits Trust Funds	
Combining Statement of Fiduciary Net Position	66
Combining Statement of Changes in Fiduciary Net Position	67
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	68-69

Principals

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



2601 Cambridge Court  
Suite 201  
Auburn Hills, MI 48326  
(248) 844-2550  
FAX: (248) 844-2551

INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

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 (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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 from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Change in Accounting Principles***

As discussed in Note P, during the year the City implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. As a result, the financial statements now include substantially different note disclosures and required supplementary information related to the pension trust fund. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and historical pension and other post-employment benefits information, 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.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ferndale, Michigan's basic financial statements. The combining nonmajor, internal service, and pension and other post-employment benefit trust fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor, internal service, and pension and other post-employment benefit trust fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor, internal service, and pension and other post-employment benefit trust fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 11, 2014

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014.

**Financial Highlights**

- The total assets of the City exceeded its liabilities at the close of the fiscal year by \$48,059,586. Of this amount, \$27,783,461 is invested in capital assets (net of related debt), \$2,386,587 is restricted for specific purposes such as public safety, highways and streets, and other purposes, and \$17,889,538 may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's combined net position of primary government activities increased \$2,356,378 as a result of this year's operations. Net position of our governmental activities increased by \$1,379,215 and net assets of our business-type activities increased by \$977,163.
- General fund revenues increased by \$314,342 or 1.7%. This change was primarily due to an increase in investment earnings.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,561,518 or 26.1% of total General Fund expenditures.
- The City's total long-term debt decreased by approximately \$4,432,921 during the current fiscal year.
- The City invested over \$4,019,432 in capital improvements for the year including renovations to the Court building, renovations to the police department, construction on a water main, purchase of police vehicles and other equipment, and continued work on street and sidewalk projects.
- The City's credit rating was upgraded to AA- by Standard & Poor's during the year from its previous A+ rating. The rating was upgraded based on our solid financial position.

**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 position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 recreation, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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

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

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *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 ten 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 Funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

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

2. **Proprietary funds** account for activities that operate similar to a business. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer system, which is considered to be a major fund of the City, and the Auto Parking fund, which is considered a non-major enterprise fund of the City.
  - a) **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for both its water distribution and sanitary sewer operations, and its municipal parking system.
  - b) **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City used internal service funds 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 benefited governmental rather than business-type functions, they were included within *governmental activities* in the government-wide financial statements. The City closed all internal service funds at the end of the fiscal year, transferring the remaining equity to the various other funds of the City.

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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

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

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

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

**Government-wide Financial Analysis**

As noted earlier, net position 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 \$48,059,586 at the close of the most recent fiscal year.

By far the largest portion of the City's net position, \$27,783,461, or 58%, 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 Position**

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 14,199,445	\$ 15,981,726	\$ 12,303,873	\$ 10,526,903	\$ 26,503,318	\$ 26,508,629
Capital assets, net	17,230,085	15,467,177	33,653,187	35,817,240	50,883,272	51,284,417
<b>Total assets</b>	<b>31,429,530</b>	<b>31,448,903</b>	<b>45,957,060</b>	<b>46,344,143</b>	<b>77,386,590</b>	<b>77,793,046</b>
Current liabilities	6,331,990	5,967,684	1,718,918	2,073,386	8,050,908	8,041,070
Noncurrent liabilities	9,456,063	11,218,957	11,820,033	12,829,811	21,276,096	24,048,768
<b>Total liabilities</b>	<b>15,788,053</b>	<b>17,186,641</b>	<b>13,538,951</b>	<b>14,903,197</b>	<b>29,327,004</b>	<b>32,089,838</b>
Net position:						
Net investment in capital assets	6,960,085	1,748,025	20,823,376	22,003,660	27,783,461	23,751,685
Restricted	2,386,587	1,844,940	-	-	2,386,587	1,844,940
Unrestricted	6,294,805	10,669,297	11,594,733	9,437,286	17,889,538	20,106,583
	<b>\$ 15,641,477</b>	<b>\$ 14,262,262</b>	<b>\$ 32,418,109</b>	<b>\$ 31,440,946</b>	<b>\$ 48,059,586</b>	<b>\$ 45,703,208</b>

An additional portion of the City's net position, \$2,386,587, or 5%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of \$17,889,538, or 37%, may be used to meet the government's ongoing obligations to citizens and creditors.

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

The City's net position in primary government activities increased \$2,356,378 during the current fiscal year. Governmental activities account for an increase of \$1,379,215, and business-type activities account for an increase of \$977,163 for the year.

**City of Ferndale's Changes in Net Position**

	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Revenue:						
Program revenue:						
Charges for services	\$ 7,030,272	\$ 7,147,464	\$ 9,613,634	\$ 11,007,340	\$ 16,643,906	\$ 18,154,804
Operating grants and contributions	1,962,043	2,228,063	-	-	1,962,043	2,228,063
General revenues:						
Property taxes	14,926,597	15,024,668	-	-	14,926,597	15,024,668
State shared revenue	2,453,334	2,342,517	-	-	2,453,334	2,342,517
Unrestricted investment earnings	311,547	(522,516)	-	-	311,547	(522,516)
Gain on sale for capital assets	-	92,610	269,248	(300,742)	269,248	(208,132)
Other	412,143	530,436	-	-	412,143	530,436
Total revenues	<u>27,095,936</u>	<u>26,843,242</u>	<u>9,882,882</u>	<u>10,706,598</u>	<u>36,978,818</u>	<u>37,549,840</u>
Expenses:						
General government	5,002,319	4,918,609	-	-	5,002,319	4,918,609
Public safety	12,603,097	11,473,812	-	-	12,603,097	11,473,812
Public works	2,554,362	2,985,487	-	-	2,554,362	2,985,487
Highways and streets	3,012,625	2,703,278	-	-	3,012,625	2,703,278
Recreation and culture	1,645,124	1,723,601	-	-	1,645,124	1,723,601
Community and economic development	174,670	9,248	-	-	174,670	9,248
Interest on long-term debt	401,713	671,120	-	-	401,713	671,120
Water and sewer	-	-	8,508,295	8,296,195	8,508,295	8,296,195
Auto parking	-	-	720,235	508,542	720,235	508,542
Total expenses	<u>25,393,910</u>	<u>24,485,155</u>	<u>9,228,530</u>	<u>8,804,737</u>	<u>34,622,440</u>	<u>33,289,892</u>
Changes in net position before transfers	1,702,026	2,358,087	654,352	1,901,861	2,356,378	4,259,948
Transfers	<u>(322,811)</u>	-	<u>322,811</u>	-	-	-
Increase in net assets	1,379,215	2,358,087	977,163	1,901,861	2,356,378	4,259,948
Net position - beginning	<u>14,262,262</u>	<u>11,904,175</u>	<u>31,440,946</u>	<u>29,539,085</u>	<u>45,703,208</u>	<u>41,443,260</u>
Net position - ending	<u>\$ 15,641,477</u>	<u>\$ 14,262,262</u>	<u>\$ 32,418,109</u>	<u>\$ 31,440,946</u>	<u>\$ 48,059,586</u>	<u>\$ 45,703,208</u>

**Governmental activities** increased the City's net position by \$1,379,215, accounting for 58.5% of the City's total increase in net position.

**Business-type activities.** Business-type activities increased the City's net position by \$977,163, accounting for 41.5% of the City's total increase in net position. The key elements of this increase are as follows:

- Water/Sewer revenues decreased by \$1,064,697. Expenses increased by approximately \$212,100 due to increases in general and administrative costs and rental expenses.
- Auto Parking fund revenues increased by \$240,981 over the prior year, due to an increase in parking meter receipts from the previous year. Expenses also increased by approximately \$211,693 due to increases in general and administrative costs and rental expenses.
- Substantially all revenues for the Water/Sewer fund and the Auto Parking fund are derived from charges for services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

**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 \$11,488,687 a decrease of \$527,915 in comparison with the prior year. Approximately 40% of this total amount, or \$4,561,518, 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 3<sup>rd</sup> parties or enabling legislation, have been committed to a specific use by City Council or have been assigned by management.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *unassigned* fund balance of the General Fund was \$4,561,518, while total fund balance was \$5,591,968. As a measure of the General Fund's liquidity and financial stability, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 26% of total General Fund expenditures, while total fund balance represents 32% of the same amount.

Total fund balance of the City's General Fund decreased by \$950,001 during the fiscal year. Notable items affecting fund balance include the following:

- Property tax revenues decreased by \$45,012, due to the continued decline in taxable values.
- Intergovernmental revenue increased by \$73,112.
- Charges for services decreased by \$264,510.
- Investment earnings increased by \$506,003.
- Expenditure increases were limited to 2.5% overall
- General Fund transferred \$1,900,500 to the Major Street Fund for upcoming road improvement projects.

**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 \$9,920,784. Total net assets increased \$654,783, primarily due to an increase in interest income of \$471,324 compared to the previous year and \$232,257 of transfers from other funds related to the closing of the City's internal service funds.

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 a decrease of \$573,745, mostly in property taxes and investment earnings.

Actual revenues were \$821,819 more than budgeted revenues, as amended. The increase in actual revenues was realized primarily from property taxes and intergovernmental revenues.

The difference between the original and amended expenditure budgets was an increase of \$261,544. Actual expenditures were under the amended budget by \$210,154, mostly in general government and public safety.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

**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, 2014, amounted to \$50,883,272 (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 net investment in capital assets for the current fiscal year was \$401,145 or 0.8%. This represents an increase for governmental activities of \$1,762,908 or 11.4%; and a decrease for business-type activities of \$2,164,053 or 6.0%.

Major capital asset events during the current fiscal year included renovations to the Court building, renovations to the police department, construction on a water main, continued work on street and sidewalk projects, and other equipment.

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

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$23,858,570, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$11,028,759) and business-type activities (\$12,829,811) at year end.

The City decreased debt obligations by \$4,191,469 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 Note E 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 2014-15 fiscal year and will continue to be an ongoing concern as the City moves forward in future budget years.

- The market value of real estate in southeastern Michigan had begun to show signs of improvement; however, with the recent changes in legislation affecting personal property taxes, overall property tax revenue is anticipated to increase at a slower rate than the noted increase in market value of real estate.
- The funding of "Legacy" costs, i.e., current and future retiree health care and benefit costs and pension contributions continue to be a significant portion of the City's budget. As of the most recent actuarial valuation, unfunded post-employment healthcare benefits totaled \$38.7 million; however, the Ferndale Employees' Retirement System was overfunded by \$10.2 million and the Ferndale Police and Fire Retirement System was overfunded by \$259,922. Contributions to the Police and Fire Pension System and the Other Post-Employment Benefits Trust totaled \$3.1 million during fiscal year 2014.
- 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 is currently determining work that needs to be considered, prioritized, and funded in order to maintain the infrastructure at a level acceptable to the citizens. A debt service millage to fund the infrastructure improvements via bond issuances will be voted on within the next fiscal year.

**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 City Manager April Lynch, 300 East Nine Mile Road, Ferndale, Michigan 48220-1797.

## **BASIC FINANCIAL STATEMENTS**

City of Ferndale

STATEMENT OF NET POSITION

June 30, 2014

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and investments	\$ 13,089,880	\$ 10,044,860	\$ 23,134,740	\$ 1,069,552
Receivables	301,776	2,256,437	2,558,213	2,905
Due from other governmental units	725,761	2,576	728,337	-
Inventories	82,028	-	82,028	-
Total current assets	14,199,445	12,303,873	26,503,318	1,072,457
Noncurrent assets				
Noncurrent portion of receivables	-	-	-0-	482,162
Capital assets not being depreciated	4,865,323	495,849	5,361,172	-
Capital assets, net of accumulated depreciation	12,364,762	33,157,338	45,522,100	175,255
Total noncurrent assets	17,230,085	33,653,187	50,883,272	657,417
<b>TOTAL ASSETS</b>	<b>31,429,530</b>	<b>45,957,060</b>	<b>77,386,590</b>	<b>1,729,874</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	1,192,216	561,701	1,753,917	34,084
Accrued liabilities	1,397,204	67,882	1,465,086	2,705
Accrued interest payable	82,004	79,557	161,561	-
Unearned revenue	53,644	-	53,644	-
Current portion of long-term debt	3,420,000	1,009,778	4,429,778	-
Current portion of uninsured claim liability	106,594	-	106,594	-
Current portion of compensated absences	80,328	-	80,328	-
Total current liabilities	6,331,990	1,718,918	8,050,908	36,789
Noncurrent liabilities				
Noncurrent portion of long-term debt	6,850,000	11,820,033	18,670,033	-
Noncurrent portion of compensated absences	571,837	-	571,837	-
Net other post-employment benefits obligation	2,034,226	-	2,034,226	-
Total noncurrent liabilities	9,456,063	11,820,033	21,276,096	-0-
<b>TOTAL LIABILITIES</b>	<b>15,788,053</b>	<b>13,538,951</b>	<b>29,327,004</b>	<b>36,789</b>
<b>NET POSITION</b>				
Net investment in capital assets	6,960,085	20,823,376	27,783,461	175,255
Restricted				
Public works	930,704	-	930,704	-
Public safety	579,765	-	579,765	-
Recreation and culture	469,922	-	469,922	-
Community and economic development	-	-	-0-	1,517,830
Debt service	406,196	-	406,196	-
Unrestricted	6,294,805	11,594,733	17,889,538	-
<b>TOTAL NET POSITION</b>	<b>\$ 15,641,477</b>	<b>\$ 32,418,109</b>	<b>\$ 48,059,586</b>	<b>\$ 1,693,085</b>

See accompanying notes to financial statements.

City of Ferndale

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government			Component Units
				Governmental Activities	Business-type Activities	Total	
Governmental activities							
General government	\$ 5,002,319	\$ 3,696,600	\$ 55,014	\$ (1,250,705)	\$ -	\$ (1,250,705)	\$ -
Public safety	12,603,097	1,510,762	232,882	(10,859,453)	-	(10,859,453)	-
Public works	2,554,362	1,450,356	-	(1,104,006)	-	(1,104,006)	-
Highways and streets	3,012,625	-	1,456,170	(1,556,455)	-	(1,556,455)	-
Recreation and culture	1,645,124	372,554	127,646	(1,144,924)	-	(1,144,924)	-
Community and economic development	174,670	-	90,331	(84,339)	-	(84,339)	-
Interest on long-term debt	401,713	-	-	(401,713)	-	(401,713)	-
Total governmental activities	25,393,910	7,030,272	1,962,043	(16,401,595)	-0-	(16,401,595)	-0-
Business-type activities							
Water and sewer	8,508,295	8,705,674	-	-	197,379	197,379	-
Auto parking	720,235	907,960	-	-	187,725	187,725	-
Total business-type activities	9,228,530	9,613,634	-0-	-0-	385,104	385,104	-0-
Total primary government	<u>\$ 34,622,440</u>	<u>\$ 16,643,906</u>	<u>\$ 1,962,043</u>	(16,401,595)	385,104	(16,016,491)	-0-
Component units							
Brownfield Redevelopment Authority	\$ 38,794	\$ -	\$ -	-	-	-	(38,794)
Downtown Development Authority	639,554	370	108,294	-	-	-	(530,890)
Total component units	<u>\$ 678,348</u>	<u>\$ 370</u>	<u>\$ 108,294</u>	-0-	-0-	-0-	(569,684)
General revenues							
Property taxes				14,926,597	-	14,926,597	872,986
State shared revenue				2,453,334	-	2,453,334	-
Unrestricted investment earnings				311,547	269,248	580,795	28,070
Miscellaneous				412,143	-	412,143	-
Transfers				(322,811)	322,811	-0-	-
Total general revenues and transfers				<u>17,780,810</u>	<u>592,059</u>	<u>18,372,869</u>	<u>901,056</u>
Change in net position				1,379,215	977,163	2,356,378	331,372
Net position, beginning of year				<u>14,262,262</u>	<u>31,440,946</u>	<u>45,703,208</u>	<u>1,361,713</u>
Net position, end of year				<u>\$ 15,641,477</u>	<u>\$ 32,418,109</u>	<u>\$ 48,059,586</u>	<u>\$ 1,693,085</u>

See accompanying notes to financial statements.

City of Ferndale  
Governmental Funds  
BALANCE SHEET  
June 30, 2014

	General	Debt Service	Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and investments	\$ 6,821,672	\$ 486,865	\$ 5,781,343	\$ 13,089,880
Accounts receivable	264,647	-	220	264,867
Accrued interest receivable	27,788	1,335	7,786	36,909
Due from other governmental units	454,905	-	270,856	725,761
Due from other funds	24,593	-	-	24,593
Inventory	82,028	-	-	82,028
<b>TOTAL ASSETS</b>	<b>\$ 7,675,633</b>	<b>\$ 488,200</b>	<b>\$ 6,060,205</b>	<b>\$ 14,224,038</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 626,498	\$ -	\$ 565,718	\$ 1,192,216
Accrued liabilities	1,339,302	-	57,902	1,397,204
Unearned revenue	53,644	-	-	53,644
Due to other funds	-	-	24,593	24,593
<b>TOTAL LIABILITIES</b>	<b>2,019,444</b>	<b>-0-</b>	<b>648,213</b>	<b>2,667,657</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	64,221	-	3,473	67,694
<b>FUND BALANCES</b>				
Nonspendable	82,028	-	-	82,028
Restricted	12,636	488,200	1,967,755	2,468,591
Committed	504,594	-	124,821	629,415
Assigned	431,192	-	3,315,943	3,747,135
Unassigned	4,561,518	-	-	4,561,518
<b>TOTAL FUND BALANCES</b>	<b>5,591,968</b>	<b>488,200</b>	<b>5,408,519</b>	<b>11,488,687</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 7,675,633</b>	<b>\$ 488,200</b>	<b>\$ 6,060,205</b>	<b>\$ 14,224,038</b>

See accompanying notes to financial statements.

City of Ferndale

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION

June 30, 2014

**Total fund balance - governmental funds** **\$ 11,488,687**

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

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

The cost of capital assets is	\$ 68,299,755	
Accumulated depreciation is	<u>(51,069,670)</u>	
Capital assets, net		17,230,085

Other long-term assets are not available to pay for current period expenditures and, therefore, are considered unavailable in the funds.	67,694
--	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. Long-term liabilities at year-end consist of:

Bonds payable	(10,270,000)	
Compensated absences	(652,165)	
Accrued interest payable	(82,004)	
Uninsured claim liability	(106,594)	
Net other post-employment benefits obligation	<u>(2,034,226)</u>	
		<u>(13,144,989)</u>

Net position of governmental activities	<u><u>\$ 15,641,477</u></u>
---	-----------------------------

City of Ferndale

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2014

	General	Debt Service	Nonmajor Governmental Funds	Total
<b>REVENUES</b>				
Property taxes	\$ 9,617,620	\$ 3,668,532	\$ 1,948,165	\$ 15,234,317
Licenses and permits	935,594	-	-	935,594
Intergovernmental	3,215,267	-	1,718,730	4,933,997
Charges for services	617,066	-	1,390,464	2,007,530
Fines and forfeits	2,766,739	-	110,968	2,877,707
Investment earnings	222,304	13,872	75,371	311,547
Other	822,243	-	25,062	847,305
<b>TOTAL REVENUES</b>	<b>18,196,833</b>	<b>3,682,404</b>	<b>5,268,760</b>	<b>27,147,997</b>
<b>EXPENDITURES</b>				
Current				
General government	4,471,333	17,852	191,111	4,680,296
Public safety	11,515,297	-	108,823	11,624,120
Public works	1,000,729	-	2,123,276	3,124,005
Highway and streets	-	-	1,879,686	1,879,686
Recreation and culture	510,140	-	756,260	1,266,400
Community and economic development	-	-	90,107	90,107
Debt service				
Principal	-	3,140,000	309,152	3,449,152
Interest and fees	-	260,702	162,375	423,077
Capital outlay	-	-	2,643,822	2,643,822
<b>TOTAL EXPENDITURES</b>	<b>17,497,499</b>	<b>3,418,554</b>	<b>8,264,612</b>	<b>29,180,665</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>699,334</b>	<b>263,850</b>	<b>(2,995,852)</b>	<b>(2,032,668)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	976,791	-	3,604,088	4,580,879
Transfers out	(2,628,017)	-	(450,000)	(3,078,017)
Proceeds from sale of capital assets	1,891	-	-	1,891
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,649,335)</b>	<b>-0-</b>	<b>3,154,088</b>	<b>1,504,753</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(950,001)</b>	<b>263,850</b>	<b>158,236</b>	<b>(527,915)</b>
Restated fund balances, beginning of year	6,541,969	224,350	5,250,283	12,016,602
<b>Fund balances, end of year</b>	<b>\$ 5,591,968</b>	<b>\$ 488,200</b>	<b>\$ 5,408,519</b>	<b>\$ 11,488,687</b>

See accompanying notes to financial statements.

City of Ferndale

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

**Net change in fund balances - total governmental funds** \$ (527,915)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 3,867,966
Depreciation expense	<u>(1,833,913)</u>

Excess of capital outlay over depreciation expense	2,034,053
--	-----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(53,952)
--	----------

Closing internal service funds into the governmental funds results included the transfer of capital assets of the internal service funds.	1,899,935
---	-----------

Internal service funds were used by management to charge the costs of certain activities to individual funds. The net expense of the internal service funds is reported with governmental activities.	(3,615,394)
---	-------------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current period, these amounts consist of:

Debt principal retirement	3,449,152
---------------------------	-----------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued compensated absences	(134,858)
Decrease in accrued interest payable	21,364
(Increase) in uninsured claim liability	(106,594)
(Increase) in other post-employment benefits obligation	<u>(1,586,576)</u>

(1,806,664)

**Change in net position of governmental activities** \$ 1,379,215

City of Ferndale

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2014

	Enterprise Funds			Governmental
	Water and Sewer	Nonmajor Auto Parking	Total	Activities Internal Service Funds
<b>ASSETS</b>				
Current assets				
Cash and investments	\$ 8,340,885	\$ 1,703,975	\$ 10,044,860	\$ -
Accounts receivable	2,238,086	18,351	2,256,437	-
Due from other governmental units	2,576	-	2,576	-
Total current assets	10,581,547	1,722,326	12,303,873	-0-
Noncurrent assets				
Capital assets not being depreciated	30,021	465,828	495,849	-
Capital assets, net of accumulated depreciation	32,100,181	1,057,157	33,157,338	-
Total noncurrent assets	32,130,202	1,522,985	33,653,187	-0-
TOTAL ASSETS	42,711,749	3,245,311	45,957,060	-0-
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	521,684	40,017	561,701	-
Accrued liabilities	59,522	8,360	67,882	-
Accrued interest payable	79,557	-	79,557	-
Current portion of long-term debt	1,009,778	-	1,009,778	-
Total current liabilities	1,670,541	48,377	1,718,918	-0-
Noncurrent liabilities				
Noncurrent portion of long-term debt	11,820,033	-	11,820,033	-
TOTAL LIABILITIES	13,490,574	48,377	13,538,951	-0-
<b>NET POSITION</b>				
Net investment in capital assets	19,300,391	1,522,985	20,823,376	-
Unrestricted	9,920,784	1,673,949	11,594,733	-
TOTAL NET POSITION	\$ 29,221,175	\$ 3,196,934	\$ 32,418,109	\$ -0-

See accompanying notes to financial statements.

City of Ferndale

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2014

	Enterprise Funds			Governmental
	Water and Sewer	Nonmajor Auto Parking	Total	Internal Service Funds
<b>OPERATING REVENUES</b>				
Charges for services	\$ 8,468,290	\$ -	\$ 8,468,290	\$ 1,742,574
Parking meter receipts	-	809,752	809,752	-
Water penalties	230,506	-	230,506	-
Water meter repairs	4,159	-	4,159	-
Miscellaneous income	2,719	98,208	100,927	-
<b>TOTAL OPERATING REVENUES</b>	<b>8,705,674</b>	<b>907,960</b>	<b>9,613,634</b>	<b>1,742,574</b>
<b>OPERATING EXPENSES</b>				
Personnel services	870,833	181,223	1,052,056	338,056
General and administrative	254,086	139,580	393,666	523,656
Utilities	69,189	20,976	90,165	34,608
Rental expense	194,588	83,700	278,288	38,298
Contractual services	49,249	160,134	209,383	90,603
Water and sewer expense	4,290,976	-	4,290,976	-
Maintenance expense	266,165	2,973	269,138	219,016
Depreciation	2,141,963	131,649	2,273,612	313,052
Medical and benefit payments	-	-	-0-	141,686
Other	32,703	-	32,703	-
<b>TOTAL OPERATING EXPENSES</b>	<b>8,169,752</b>	<b>720,235</b>	<b>8,889,987</b>	<b>1,698,975</b>
<b>OPERATING INCOME</b>	<b>535,922</b>	<b>187,725</b>	<b>723,647</b>	<b>43,599</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	225,147	44,101	269,248	66,615
Interest expense	(338,543)	-	(338,543)	-
<b>TOTAL NONOPERATING (EXPENSES)</b>	<b>(113,396)</b>	<b>44,101</b>	<b>(69,295)</b>	<b>66,615</b>
<b>CHANGE IN NET POSITION BEFORE TRANSFERS</b>	<b>422,526</b>	<b>231,826</b>	<b>654,352</b>	<b>110,214</b>
TRANSFERS IN	232,257	90,554	322,811	-
TRANSFERS OUT	-	-	-0-	(3,725,608)
<b>CHANGE IN NET POSITION</b>	<b>654,783</b>	<b>322,380</b>	<b>977,163</b>	<b>(3,615,394)</b>
Net position, beginning of year	28,566,392	2,874,554	31,440,946	3,615,394
Net position, end of year	<u>\$ 29,221,175</u>	<u>\$ 3,196,934</u>	<u>\$ 32,418,109</u>	<u>\$ -0-</u>

See accompanying notes to financial statements.

City of Ferndale

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

	Enterprise Funds			Governmental
	Water and Sewer	Nonmajor Auto Parking	Total	Activities Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers and others	\$ 9,226,164	\$ 907,698	\$ 10,133,862	\$ -
Cash received from interfund services	-	-	-	1,784,088
Cash payments to employees	(1,092,629)	(175,336)	(1,267,965)	(343,935)
Cash payments to suppliers for goods, services	(5,002,057)	(442,304)	(5,444,361)	(1,002,879)
Cash payments for interfund services	(194,588)	(83,700)	(278,288)	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,936,890</b>	<b>206,358</b>	<b>3,143,248</b>	<b>437,274</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers	232,257	90,554	322,811	(1,825,673)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of capital assets	(63,051)	(46,508)	(109,559)	(41,907)
Interest paid	(344,781)	-	(344,781)	-
Payments on borrowings	(983,769)	-	(983,769)	-
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(1,391,601)</b>	<b>(46,508)</b>	<b>(1,438,109)</b>	<b>\$ (41,907)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment income received	225,147	44,101	269,248	66,615
<b>NET INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>2,002,693</b>	<b>294,505</b>	<b>2,297,198</b>	<b>(1,363,691)</b>
Cash and investments, beginning of year	6,338,192	1,409,470	7,747,662	1,363,691
Cash and investments, end of year	<u>\$ 8,340,885</u>	<u>\$ 1,703,975</u>	<u>\$ 10,044,860</u>	<u>\$ -0-</u>

See accompanying notes to financial statements.

City of Ferndale

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2014

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Nonmajor Auto Parking</u>	<u>Total</u>	<u>Internal Service Funds</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 535,922	\$ 187,725	\$ 723,647	\$ 43,599
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	2,141,963	131,649	2,273,612	313,052
(Increase) decrease in:				
Accounts receivable	520,368	(262)	520,106	41,514
Due from other governmental units	122	-	122	-
Inventories	-	-	-0-	136,088
Prepaid items	-	-	-0-	24,500
Increase (decrease) in:				
Accounts payable	(293,775)	(118,641)	(412,416)	(115,600)
Accrued liabilities	32,290	5,887	38,177	(5,879)
	<u>\$ 2,936,890</u>	<u>\$ 206,358</u>	<u>\$ 3,143,248</u>	<u>\$ 437,274</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
<b>NONCASH CAPITAL ACTIVITIES</b>				
Transfers of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -0-</u>	<u>\$ (1,899,935)</u>

City of Ferndale

Fiduciary Funds

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	<u>Trust Funds</u>	<u>Agency Funds</u>
	Pension and Other Post- Employment Benefits	Ferndale Arts and Cultural Commission
<b>ASSETS</b>		
Cash and cash equivalents	\$ 6,511,019	\$ 1,454
Accrued interest receivable	142,550	-
Accounts receivable	457,600	-
Investments		
Debt securities	19,253,333	-
Equity securities	47,827,799	-
Real estate investment trust	3,678,199	-
	<u>77,870,500</u>	<u>\$ 1,454</u>
<b>TOTAL ASSETS</b>		
<b>LIABILITIES</b>		
Other liabilities	<u>-</u>	<u>\$ 1,454</u>
<b>NET POSITION</b>		
Held in trust for pension benefits and other purposes	<u>\$ 77,870,500</u>	

See accompanying notes to financial statements.

City of Ferndale

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2014

	<u>Trust Funds</u> <u>Pension and</u> <u>Other Post-</u> <u>Employment</u> <u>Benefits</u>
ADDITIONS	
Contributions	
Employer contributions	\$ 847,754
Plan member contributions	<u>596,039</u>
Total contributions	1,443,793
Investment income	
Net change in fair value of investments	6,446,649
Interest	3,258,114
Dividends	953,093
Less investment expense	<u>(289,582)</u>
Net investment income	<u>10,368,274</u>
TOTAL ADDITIONS	11,812,067
DEDUCTIONS	
Benefits	3,373,266
Administrative expenses	<u>47,188</u>
TOTAL DEDUCTIONS	<u>3,420,454</u>
CHANGE IN NET POSITION	8,391,613
Net position, beginning of year	<u>69,478,887</u>
Net position, end of year	<u><u>\$ 77,870,500</u></u>

See accompanying notes to financial statements.

City of Ferndale

Component Units

STATEMENT OF NET POSITION

June 30, 2014

	<u>Brownfield Redevelopment</u>	<u>Downtown Development Authority</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 663,164	\$ 406,388	\$ 1,069,552
Accrued interest receivable	<u>1,819</u>	<u>1,086</u>	<u>2,905</u>
Total current assets	664,983	407,474	1,072,457
Noncurrent assets			
Loans receivable	482,162	-	482,162
Capital assets, net of accumulated depreciation	<u>-</u>	<u>175,255</u>	<u>175,255</u>
Total noncurrent assets	<u>482,162</u>	<u>175,255</u>	<u>657,417</u>
<b>TOTAL ASSETS</b>	<b>1,147,145</b>	<b>582,729</b>	<b>1,729,874</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	18,385	15,699	34,084
Accrued liabilities	<u>-</u>	<u>2,705</u>	<u>2,705</u>
<b>TOTAL LIABILITIES</b>	<u><b>18,385</b></u>	<u><b>18,404</b></u>	<u><b>36,789</b></u>
<b>NET POSITION</b>			
Net investment in capital assets	-	175,255	175,255
Restricted	<u>1,128,760</u>	<u>389,070</u>	<u>1,517,830</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 1,128,760</b></u>	<u><b>\$ 564,325</b></u>	<u><b>\$ 1,693,085</b></u>

See accompanying notes to financial statements.

City of Ferndale  
Component Units  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Brownfield Redevelopment Authority	Downtown Development Authority	Total
Governmental activities						
Brownfield Redevelopment Authority	\$ 38,794	\$ -	\$ -	\$ (38,794)	\$ -	\$ (38,794)
Downtown Development Authority	639,554	370	108,294	-	(530,890)	(530,890)
Totals	<u>\$ 678,348</u>	<u>\$ 370</u>	<u>\$ 108,294</u>	(38,794)	(530,890)	(569,684)
General revenues						
Property taxes				304,514	568,472	872,986
Unrestricted investment earnings				17,205	10,865	28,070
Total general revenues				<u>321,719</u>	<u>579,337</u>	<u>901,056</u>
Change in net position				282,925	48,447	331,372
Net position, beginning of year				<u>845,835</u>	<u>515,878</u>	<u>1,361,713</u>
Net position, end of year				<u>\$ 1,128,760</u>	<u>\$ 564,325</u>	<u>\$ 1,693,085</u>

See accompanying notes to financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Ferndale (the City) is located in Oakland County, Michigan, and has a population of approximately 19,900. The City operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, fire protection, highways and streets, and utilities services.

The City has five (5) City Council members, including the Mayor, who are elected at-large every two (2) years for overlapping four (4) year terms. A full-time City Manager is appointed by the City Council to carry out the policies that are established.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the City of Ferndale (primary government) and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Discretely Presented Component Units

The component units are presented in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between the entities and the City is such that exclusion of the entity would render the financial statements misleading. The financial statements contain the following discretely presented component units:

Downtown Development Authority - The members of the governing body of the Downtown Development Authority (DDA) are appointed by the City Council. The City Council approves the DDA's annual budget and any required budget amendments. The City Council also has the ability to significantly influence operations of the DDA. The DDA's financial statements are included in the City's audited financial statements and are not audited separately.

Brownfield Redevelopment Authority - The members of the governing body of the Brownfield Redevelopment Authority are appointed by the City Council. The City Council approves the Brownfield Redevelopment Authority's annual budget and any required budget amendments. The City Council also has the ability to significantly influence operations of the Brownfield Redevelopment Authority. The Brownfield Redevelopment Authority's financial statements are included in the City's audited financial statements and are not audited separately.

3. 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, 2014, the Authority reported a decrease in net position in the amount of \$156,888 resulting in ending net position of \$6,795,845. During the year ended June 30, 2014, the City expended \$1,669,344 in payments made to the Authority. The City has no explicit and measurable equity interest in the joint venture. 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 County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the government-wide financial statements) present information about the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide financial statements.) For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities 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 requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- b. The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on the City's long-term general obligation debt of governmental funds.

The City reports the following major enterprise fund:

- a. The Water and Sewer 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:

- a. Special revenue 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.
- b. Capital projects funds account for revenue sources and uses related to major capital project initiatives by the City.
- c. Enterprise 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- d. Internal service 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. The City closed all internal service funds at the end of the fiscal year, transferring the remaining equity to other funds.
- e. Pension trust 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 accumulate resources for retirement benefits and other post-employment benefits (OPEB) including health care payments to qualified employees.
- f. Agency funds account for assets held for other governments in an agency capacity.

5. Measurement Focus/Basis of Accounting

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 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.

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 position 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Measurement Focus/Basis of Accounting - continued

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.

6. Budgets and Budgetary Accounting

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.

7. Cash 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 position/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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

8. Receivables

Receivables consist of amounts due from various governmental units, individuals, and businesses related to charges for services, amounts owed to the City from special assessments, taxes levied that have not been collected, and interest. All trade and delinquent property tax receivables are shown net of an allowance for uncollectable amounts, as applicable.

9. Inventories

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

10. 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 activities, business-type activities, or component units 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by the governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost for the initial 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused sick, vacation, and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50% 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.

12. 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. 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.

13. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the government-wide financial statements.

14. Unearned Revenue

The City's financial statements report unearned revenues for resources that have been received, but not yet earned.

15. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The City reports deferred inflows of resources in certain funds in connection with long-term receivables that are not considered available to liquidate liabilities of the current period. The City does not report any deferred outflows of resources.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

16. Fund Equity

In accordance with Government Accounting Standards Board Statement No. 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 constrains.

*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 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.

17. Property Taxes

The City's property taxes are levied each July 1<sup>st</sup> on the taxable valuation of property located in the City as of the preceding December 31<sup>st</sup>, the lien date. Property taxes are payable without penalty and interest if paid in full by July 31<sup>st</sup> or if elected by the taxpayer, paid using an eight monthly installment method from July through February. As of March 1<sup>st</sup> 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 City is permitted by state statute to levy taxes up to 20 mills (\$20 per \$1,000 of assessed valuation) for general governmental services other than the payment of principal and interest on long-term debt. They are also permitted to levy additional mills specifically designated for operating, refuse, district library, public relations, and debt service. For the year ended June 30, 2014, the City levied 19.1448 mills for general governmental services, 2.1815 mills for refuse, 1.9601 mills for district library, .1015 mills for public relations, and 7.7004 mills for debt service. The total taxable value for the 2013 levy for property within the City was \$492,370,020.

The Downtown Development Authority is permitted by P.A. 197 of Michigan to levy taxes up to \$2.00 per \$1,000 of assessed valuation of property in the downtown district. The Authority's current year tax rate was \$1.3794 per \$1,000 of assessed valuation.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

18. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimate and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

19. Interfund Transfers

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Funds record charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses. The net revenues or losses of the Internal Service Funds, as well as the net position are included in the reconciliation to the government-wide financial statements.

20. Restricted Net Position

Restrictions of net position shown in the government-wide financial statements indicate restrictions imposed by the funding source or some other outside source, which precludes their use for unrestricted purposes.

**NOTE B: CASH AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- 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 State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. The United States government or federal agency obligations repurchase agreements.
- d. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE B: CASH AND INVESTMENTS - CONTINUED**

Deposits

There is a custodial credit risk related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2014, the carrying amount of the City's deposits was \$2,639,939 and the bank balance was \$2,760,685. The financial statements include \$4,150 of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2014, the City accounts were insured by the FDIC for \$1,943,413 and the amount of \$817,272 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of the uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Investments

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2014, the City had the following investments:

Investment Type	Weighted Average Maturity					Total
	Less than 1 year	1-5	6-10	More than 10 years	Not Applicable	
Pooled investments	\$ -	\$ -	\$ -	\$ -	\$ 15,483,178	\$ 15,483,178
U.S. Government	811,083	4,050,868	3,521,018	1,937,448	-	10,320,417
Corporate bonds	250,634	3,972,405	3,092,160	1,967,089	-	9,282,288
Foreign bonds	110,469	377,064	826,483	-	-	1,314,016
Stocks	-	-	-	-	31,011,855	31,011,855
Asset backed securities	-	-	350,949	7,824,571	-	8,175,520
Municipal bonds	-	-	1,204,003	5,203,623	-	6,407,626
Mutual funds	-	-	-	-	13,158,909	13,158,909
REIT	-	-	-	-	3,678,198	3,678,198
<b>TOTAL</b>	<b>\$ 1,172,186</b>	<b>\$ 8,400,337</b>	<b>\$ 8,994,613</b>	<b>\$ 16,932,731</b>	<b>\$ 63,332,140</b>	<b>\$ 98,832,007</b>

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, 2014, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE B: CASH AND INVESTMENTS - CONTINUED**

Credit Risk - continued

Investment Type	AAA	AA	A	BBB	BB	B	Not Rated	Total
Pooled investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,483,178	\$ 15,483,178
U.S. Government	-	2,260,245	-	-	73,255	-	7,986,917	10,320,417
Corporate bonds	866,174	735,840	2,717,021	3,646,903	509,348	84,176	722,826	9,282,288
Foreign bonds	-	386,114	501,571	426,331	-	-	-	1,314,016
Stocks	-	-	-	-	-	-	31,011,855	31,011,855
Municipal bonds	-	6,407,626	-	-	-	-	-	6,407,626
Asset backed securities	-	-	-	-	-	-	8,175,520	8,175,520
Mutual funds	-	-	-	-	-	-	13,158,909	13,158,909
REIT	-	-	-	-	-	-	3,678,198	3,678,198
<b>TOTAL</b>	<b>\$ 866,174</b>	<b>\$ 9,789,825</b>	<b>\$ 3,218,592</b>	<b>\$ 4,073,234</b>	<b>\$ 582,603</b>	<b>\$ 84,176</b>	<b>\$ 80,217,403</b>	<b>\$ 98,832,007</b>

Custodial Credit Risk of 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. Of 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.

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.

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.

The cash and investments referred to above have been reported as cash and investments in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2014.

	Primary Government	Component Units	Fiduciary Funds	Reporting Entity
Cash and investments	\$ 23,134,740	\$ 1,069,552	\$ 77,271,804	\$ 101,476,096

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE C: TAXES RECEIVABLE**

In the current year the City allowed for 100% of the delinquent personal property taxes to be uncollectible. The following is detail of the amounts in the General Fund, Debt Service Fund, nonmajor governmental funds, and the discretely presented component units.

Receivable	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Discretely Presented Component Units
Delinquent property taxes	\$ 170,398	\$ 48,919	\$ 26,308	\$ 33,275
Allowance for uncollectible accounts	(170,398)	(48,919)	(26,308)	(33,275)
Net receivable	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

**Primary Government**

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 687,878	\$ -	\$ -	\$ 687,878
Construction in progress	516,624	3,660,821	-	4,177,445
Subtotal	1,204,502	3,660,821	-0-	4,865,323
Capital assets being depreciated				
Infrastructure	40,405,062	50,153	-	40,455,215
Buildings	12,079,548	-	-	12,079,548
Equipment	4,543,487	156,992	-	4,700,479
Vehicles	6,231,648	41,907	(74,365)	6,199,190
Subtotal	63,259,745	249,052	(74,365)	63,434,432
Less accumulated depreciation for:				
Infrastructure	(36,411,243)	(1,230,530)	-	(37,641,773)
Buildings	(5,202,692)	(457,513)	-	(5,660,205)
Equipment	(2,989,126)	(210,459)	-	(3,199,585)
Vehicles	(4,394,009)	(248,463)	74,365	(4,568,107)
Subtotal	(48,997,070)	(2,146,965)	74,365	(51,069,670)
Net capital assets being depreciated	14,262,675	(1,897,913)	-0-	12,364,762
Capital assets, net	<u>\$ 15,467,177</u>	<u>\$ 1,762,908</u>	<u>\$ -0-</u>	<u>\$ 17,230,085</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE D: CAPITAL ASSETS - CONTINUED**

**Primary Government - Continued**

Depreciation expense was charged to the following governmental activities:

General government	\$ 128,129
Public safety	258,374
Public works	199,863
Highways and streets	1,197,528
Recreation and culture	360,407
Community and economic development	<u>2,664</u>
Total depreciation expense	<u>\$ 2,146,965</u>

	<u>Balance July 1, 2013</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2014</u>
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 454,903	\$ -	\$ -	\$ 454,903
Construction in progress	<u>543,754</u>	<u>53,992</u>	<u>(556,800)</u>	<u>40,946</u>
Subtotal	998,657	53,992	(556,800)	495,849
Capital assets being depreciated				
Infrastructure	57,105,150	612,367	-	57,717,517
Buildings	1,085,091	-	-	1,085,091
Equipment	1,929,122	-	(30,922)	1,898,200
Vehicles	<u>128,127</u>	<u>-</u>	<u>(16,662)</u>	<u>111,465</u>
Subtotal	60,247,490	612,367	(47,584)	60,812,273
Less accumulated depreciation for:				
Infrastructure	(23,871,985)	(2,171,011)	-	(26,042,996)
Buildings	(1,034,391)	(5,070)	-	(1,039,461)
Equipment	(394,404)	(97,531)	30,922	(461,013)
Vehicles	<u>(128,127)</u>	<u>-</u>	<u>16,662</u>	<u>(111,465)</u>
Subtotal	<u>(25,428,907)</u>	<u>(2,273,612)</u>	<u>47,584</u>	<u>(27,654,935)</u>
Net capital assets being depreciated	<u>34,818,583</u>	<u>(1,661,245)</u>	<u>-0-</u>	<u>33,157,338</u>
Capital assets, net	<u>\$ 35,817,240</u>	<u>\$ (1,607,253)</u>	<u>\$ (556,800)</u>	<u>\$ 33,653,187</u>

Depreciation expense was charged to the following business-type activities:

Water and sewer	\$ 2,141,963
Auto parking	<u>131,649</u>
Total depreciation expense	<u>\$ 2,273,612</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE D: CAPITAL ASSETS - CONTINUED**

**Component Unit**

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<b>Downtown Development Authority</b>				
Capital assets being depreciated				
Infrastructure	\$ 1,574,005	\$ -	\$ -	\$ 1,574,005
Equipment	50,400	-	-	50,400
Vehicles	23,140	-	-	23,140
Subtotal	1,647,545	-0-	-0-	1,647,545
Less accumulated depreciation for:				
Infrastructure	(1,327,970)	(70,780)	-	(1,398,750)
Equipment	(49,053)	(1,347)	-	(50,400)
Vehicles	(23,140)	-	-	(23,140)
Subtotal	(1,400,163)	(72,127)	-0-	(1,472,290)
Net capital assets being depreciated	247,382	(72,127)	-0-	175,255
Capital assets, net	<u>\$ 247,382</u>	<u>\$ (72,127)</u>	<u>\$ -0-</u>	<u>\$ 175,255</u>

**NOTE E: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2014:

**Primary Government**

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Amounts Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds					
Public Improvement Bonds	\$ 124,152	\$ -	\$ (124,152)	\$ -0-	\$ -
2005 Unlimited tax refunding bonds	3,745,000	-	(1,200,000)	2,545,000	1,280,000
2007 Unlimited tax bonds	1,350,000	-	(400,000)	950,000	450,000
2008 Limited tax bonds (library)	4,035,000	-	(185,000)	3,850,000	200,000
2013 Unlimited tax refunding bonds	4,465,000	-	(1,540,000)	2,925,000	1,490,000
Uninsured claim liability	-	106,594	-	106,594	106,594
Compensated absences	517,307	140,747	(5,889)	652,165	80,328
Total Governmental Activities	14,236,459	247,341	(3,455,041)	11,028,759	3,606,922
<b>Business-type Activities</b>					
George W. Kuhn Drain Bonds	7,975,314	-	(638,769)	7,336,545	654,778
State Revolving Loan Fund					
2006 Michigan Municipal Bond Authority	2,568,451	-	(160,000)	2,408,451	165,000
2007 Michigan Municipal Bond Authority	1,939,815	-	(110,000)	1,829,815	115,000
2008 Michigan Municipal Bond Authority	1,330,000	-	(75,000)	1,255,000	75,000
Total Business-type Activities	13,813,580	-0-	(983,769)	12,829,811	1,009,778
TOTAL PRIMARY GOVERNMENT	<u>\$ 28,050,039</u>	<u>\$ 247,341</u>	<u>\$ (4,438,810)</u>	<u>\$ 23,858,570</u>	<u>\$ 4,616,700</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE E: LONG-TERM DEBT - CONTINUED**

**Governmental Activities**

General Obligation Bonds

\$9,205,000 2005 Unlimited Tax General Obligation Refunding Bonds, dated March 1, 2005, due in annual installments ranging from \$1,280,000 to \$1,265,000 through April 1, 2016, with interest of 4.00 percent.	\$ 2,545,000
\$3,000,000 2007 Unlimited Tax General Obligations Bonds, dated December 1, 2007, due in annual installments ranging from \$450,000 to \$500,000 through April 1, 2016, with interest of 4.00 percent.	950,000
\$4,700,000 2008 General Obligation Limited Tax Bonds (Library Facilities), dated April 9, 2008, due in annual installments ranging from \$200,000 to \$390,000 through May 1, 2027, with interest ranging from 3.25 percent to 4.00 percent.	3,850,000
\$4,465,000 2013 Unlimited Tax General Obligation Refunding Bonds, dated January 8, 2013, due in annual installments ranging from \$1,435,000 to \$1,490,000 through April 1, 2016, with interest of 1.28 percent.	<u>2,925,000</u>
	<u><u>\$ 10,270,000</u></u>

**Business-type Activities**

George W. Kuhn Drain Bonds

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, drawdowns from the State of Michigan revolving fund, Federal and State of Michigan grants, and contributions from Oakland County, Michigan. The City, along with thirteen other local communities, is obligated for the payment of principal and interest of the outstanding debt. The City is obligated for varying percentages of each of the county bond issuances.

\$ 7,336,545

Revenue Bonds

\$3,475,000 Michigan Municipal Bond Authority Series 2006, dated September 21, 2006, due in annual installments ranging from \$165,000 to \$205,000 through April 1, 2027, with an interest rate of 2.125 percent.	\$ 2,408,451
\$2,470,000 Michigan Municipal Bond Authority Series 2007, dated September 27, 2007, due in annual installments ranging from \$115,000 to \$149,815 through April 1, 2028, with an interest rate of 2.125 percent.	1,829,815
\$1,670,000 Michigan Municipal Bond Authority Series 2008, dated June 23, 2008, due in annual installments ranging from \$75,000 to \$105,000 through April 1, 2028, with an interest rate of 2.50 percent.	<u>1,255,000</u>
	<u><u>\$ 5,493,266</u></u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE E: LONG-TERM DEBT - CONTINUED**

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick/vacation time. The dollar amounts of these vested rights including related payroll taxes, which have been recorded in the government-wide financial statements, amounted to \$652,165 at June 30, 2014. For the governmental activities, compensated absences are generally liquidated by the General Fund.

Uninsured Claim Liability

The City estimates the liability for its self-insured coverage and includes both those claims that have been reported as well as those that have not yet been reported. These estimates are prepared with the assistance of the City's third-party administrators for claims management. An estimated liability for workers' compensation claims, in the amount of \$106,594, is recorded in the government-wide financial statements. The General Fund is typically used to liquidate uninsured claims.

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities			
	General Obligation Bonds		Drain Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 3,420,000	\$ 328,015	\$ 654,778	\$ 198,430	\$ 355,000	\$ 121,438
2016	3,415,000	232,743	673,762	180,628	360,000	113,613
2017	230,000	136,250	692,250	162,309	370,000	105,663
2018	245,000	128,200	709,730	143,450	375,000	97,501
2019	260,000	118,400	726,729	124,082	390,000	89,232
2020-2024	1,555,000	423,200	3,588,794	315,998	2,060,000	314,384
2025-2029	1,145,000	92,400	290,502	19,794	1,583,266	82,103
	<u>\$ 10,270,000</u>	<u>\$ 1,459,208</u>	<u>\$ 7,336,545</u>	<u>\$ 1,144,691</u>	<u>\$ 5,493,266</u>	<u>\$ 923,934</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE F: DETAILS OF FUND BALANCE CLASSIFICATIONS**

As previously discussed in Note A, 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:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Fund balances				
Nonspendable				
Inventory	\$ 82,028	\$ -	\$ -	\$ 82,028
Restricted				
Public safety	12,636	-	567,129	579,765
Debt service	-	488,200	-	488,200
Public works	-	-	930,704	930,704
Recreation and culture	-	-	469,922	469,922
Committed				
Employee benefits	504,594	-	-	504,594
Capital projects	-	-	124,821	124,821
Assigned				
Highways and streets	-	-	3,196,385	3,196,385
Senior memorial	9,783	-	-	9,783
Subsequent year's expenditures	421,409	-	-	421,409
Capital projects	-	-	119,558	119,558
Unassigned	4,561,518	-	-	4,561,518
TOTAL FUND BALANCES	<u>\$ 5,591,968</u>	<u>\$ 488,200</u>	<u>\$ 5,408,519</u>	<u>\$ 11,488,687</u>

**NOTE G: INTERFUND PAYABLES AND RECEIVABLES**

The amount of interfund receivables and payables at June 30, 2014, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 24,593</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not yet cleared as of the balance sheet date.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE H: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business- type funds, and component units have been eliminated.

Transfers to General Fund from:	
Internal service funds	<u>\$ 976,791</u>
Transfers to Water and Sewer Fund from:	
Internal service funds	<u>\$ 232,257</u>
Transfer to nonmajor governmental funds from:	
General Fund	\$ 2,628,017
Nonmajor governmental funds	450,000
Internal service funds	<u>526,071</u>
	<u>\$ 3,604,088</u>
Transfers to the nonmajor enterprise fund from:	
Internal service funds	<u>\$ 90,554</u>

Total interfund transfers in and out at June 30, 2014, totaled \$4,903,690 and \$6,803,625, respectively. The difference of \$1,899,935 is due to transfers between governmental activities and the internal service funds related to transfers of capital assets which are not recorded in the governmental funds. Transfers from the internal service funds were transfers of assets and liabilities upon closing of the internal services funds in 2014.

Transfers are used to move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**NOTE I: OPERATING LEASES**

The City leases vehicles and other equipment under non-cancellable operating leases. Total costs for such leases were \$38,298 for the year ended June 30, 2014. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	
<u>2015</u>	\$ 6,609
2016	<u>2,086</u>
Total minimum lease payments	<u>\$ 8,695</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE J: 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. Workers' compensation is provided through purchased commercial insurance. For workers' compensation claims, the policy covers the City's claims up to \$400,000 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 - \$15,000. The City is insured for those automobile claims that consist of employee injuries and City vehicle damage. There have been no significant reductions in insurance coverage from the prior year.

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

**NOTE K: 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.

A class action lawsuit has been filed against the City related to its water and sewer rates. Potential damages against the City could exceed \$1,000,000. Although the outcome is not presently determinable, the City will continue to vigorously defend its position.

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

**NOTE L: DEFINED BENEFIT PENSION PLANS**

FERNDALE EMPLOYEES RETIREMENT SYSTEM

Plan Administration

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

Plan Membership

Membership of the FERS consisted of the following at June 30, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	60
Active plan members	<u>42</u>
<b>Total</b>	<b><u>102</u></b>

Benefits Provided

The Plan provides retirement, death and disability benefits to plan members and their beneficiaries. Members are eligible for benefits at age 55 with 33 or more years of service or age 60 with 10 or more years of service.

Retirement benefits for plan members are calculated as total service times 2.0% of the final average salary.

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, 2014, valuation:

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

Investment Policy

The Board of Trustees may invest and reinvest the assets of the Plan subject to the terms, conditions, limitations, and restrictions imposed by Michigan law and, to the extent applicable to a government plan, the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. It is the policy of the Plan to invest funds in a manner which will ensure the preservation of principal while providing the highest investment return with maximum security.

Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.07%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program

Participants are eligible for the deferred retirement option program (DROP) if he or she has 10 or more years of service, regardless of age. The benefit begins at age 60. The annual benefit is computed as regular retirement but based on service and final average salary at time of termination. For the year ended June 30, 2014, the balance of amounts held by the Plan pursuant to the DROP is \$0.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

**Annual Required Contribution**

The annual required contribution (ARC) for the year ended June 30, 2014, was \$-0-. There was no net pension obligation at the beginning or end of the fiscal year. The ARC was determined as part of an actuarial valuation as of June 30, 2012, using the individual entry-age cost method.

Schedule of Employer Contributions:

	Year Ended June 30,		
	2012	2013	2014
Annual pension cost	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Schedule of Funding Progress:

The funded status of the Plan as of June 30, 2014, the date of the most recent actuarial valuation, was as follows:

Actuarial value of assets	\$ 18,608,627
Actuarial accrued liability (AAL)	8,431,712
Overfunded AAL (OAAL)	(10,176,915)
Funded ratio	220.7%
Annual covered payroll	2,194,974
Ratio of OAAL to covered payroll	-

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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. For purposes of the schedule of funding progress, the actuarial accrued liability value as shown is determined using the entry age actuarial cost method.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the Plan by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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. Additional information as of June 30, 2014, the date of the latest actuarial valuation using the entry age actuarial cost method, includes:

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

**Annual Required Contribution - Continued**

Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	10 years
Asset valuation method	4 years smoothed market
Inflation	3.00%
Salary increases	3.0% - 7.4%, including inflation
Investment rate of return	7.00%

**Net Pension Asset**

The components of the net pension asset of the City at June 30, 2014, were as follows:

TOTAL PENSION LIABILITY	
Service cost	\$ 16,286
Interest	581,366
Differences between expected and actual experience	(248,912)
Benefit payments, including refunds of member contributions	<u>(962,588)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	(613,848)
TOTAL PENSION LIABILITY, BEGINNING	<u>8,778,361</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u>\$ 8,164,513</u>
PLAN FIDUCIARY NET POSITION	
Net investment income	\$ 2,628,765
Benefit payments, including refunds of member contributions	(962,588)
Administrative expense	<u>(9,000)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	1,657,177
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>18,276,347</u>
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 19,933,524</u>
CITY'S NET PENSION ASSET, ENDING (A)-(B)	<u>\$ (11,769,011)</u>
Plan fiduciary net position as a percentage of the total pension liability	244.15%
Covered-employee payroll	\$ 2,194,974
City's net pension asset as a percentage of covered-employee payroll	(536.18)%

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

**Net Pension Asset - Continued**

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Asset valuation method	4 years smoothed market
Inflation	3.00%
Projected salary increases	3.00% - 7.40% (including inflation)
Investment rate of return	7.00%
Municipal Bond Rate	4.29%
Retirement Age	Age-based table of rates that are specific to the type of eligibility condition

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2014.

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determine contribution rates and the member rate. Based on these assumptions, the 7.0% long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the City's net pension liability (asset), calculated using the discount rate of 7.0%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate:

	1% Decrease Rate 6.00%	Current Discount Rate 7.00%	1% Increase Rate 8.00%
Total pension liability	\$ 8,866,982	\$ 8,164,513	\$ 7,735,534
Plan fiduciary net position	<u>19,933,524</u>	<u>19,933,524</u>	<u>19,933,524</u>
City's net pension liability (asset)	<u>\$ (11,066,542)</u>	<u>\$ (11,769,011)</u>	<u>\$ (12,197,990)</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM

Plan Administration

The Ferndale Policemen and Firemen Retirement System (FPFRS) is a single-employer defined benefit pension plan administered by Comerica Bank Corporation that covers all full-time municipal police and firemen. Effective July 1, 1996, FPFRS was closed to new hires and existing members were permitted to transfer to the new Defined Contribution Plan. FPFRS provides retirement, disability, and death benefits to plan members. The requirements of the State Constitution and Chapter XIXB of the City Charter 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.

Plan Membership

Membership of the FPFRS consisted of the following at June 30, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	83
Active plan members	<u>34</u>
<b>Total</b>	<b><u>117</u></b>

Benefits Provided

The Plan provides retirement, death and disability benefits to plan members and their beneficiaries. Members are eligible for benefits at the age at which the sum of age and service equals 75 years, with a minimum of 25 years of service.

For firefighters and police captain retirement benefits are calculated as final average compensation times 3.0% times the first 25 years of service plus 1.0% times the next 5 years of service.

For all other members retirement benefits are calculated as final average compensation times 2.5% times the first 30 years of service, or members have the option of final average compensation times 3.0% times the first 25 years of service plus 1.0% times the next 5 years of service by contributing an additional amount.

Contributions

Police patrol and police command members are required to contribute 1.6% of annual covered salary for the 2.5% multiplier or 5.35% of annual covered salary for the 3.0% multiplier. Police captains are required to contribute 3.75% of annual covered salary. Firefighters are required to contribute 5.35% of annual covered salary. The City was required to make a contribution of 28.32% of annual covered salary or \$830,704 for the year ended June 30, 2014, according to the June 30, 2012, valuation received. 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.

Investment Policy

The Board of Trustees may invest and reinvest the assets of the Plan subject to the terms, conditions, limitations, and restrictions imposed by Michigan law and, to the extent applicable to a government plan, the Internal Revenue Code of 1986, as amended, and the Employee Retirement Income Security Act of 1974, as amended. It is the policy of the Plan to invest funds in a manner which will ensure the preservation of principal while providing the highest investment return with maximum security.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

Rate of Return

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.66%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deferred Retirement Option Program

Participants are eligible for the deferred retirement option program (DROP) if he or she has 10 or more years of service, regardless of age. The benefit begins at age 50. The annual benefit is computed as regular retirement but based on service and final average salary at time of termination. For the year ended June 30, 2014, the balance of amounts held by the Plan pursuant to the DROP is \$0.

**Annual Required Contribution**

The annual required contribution (ARC) for the year ended June 30, 2014, was \$830,704. The ARC was made by the City. There was no net pension obligation at the beginning or end of the fiscal year. The ARC was determined as part of an actuarial valuation as of June 30, 2012, using the individual entry-age cost method.

Schedule of Employer Contributions:

	Year Ended June 30,		
	2012	2013	2014
Annual pension cost	\$ 692,086	\$ 713,792	\$ 830,704
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Schedule of Funding Progress:

The funded status of the Plan as of June 30, 2014, the date of the most recent actuarial valuation, was as follows:

Actuarial value of assets	\$ 40,826,287
Actuarial accrued liability (AAL)	40,566,365
Underfunded AAL (UAAL)	(259,922)
Funded ratio	100.6%
Annual covered payroll	2,740,856
Ratio of UAAL to covered payroll	(9.5)%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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. For purposes of the schedule of funding progress, the actuarial accrued liability value as shown is determined using the entry age actuarial cost method.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

**Annual Required Contribution - Continued**

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the Plan by the employer in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 25. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. 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. Additional information as of June 30, 2014, the date of the latest actuarial valuation using the entry age actuarial cost method, includes:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	25 years
Asset valuation method	4 years smoothed market
Inflation	4.00%
Salary increases	4.0% - 7.0%, including inflation
Investment rate of return	7.25%

**Net Pension Asset**

The components of the net pension asset of the City at June 30, 2014, were as follows:

TOTAL PENSION LIABILITY	
Service cost	\$ 691,796
Interest	2,805,903
Differences between expected and actual experience	(597,764)
Benefit payments, including refunds of member contributions	<u>(2,410,678)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	489,257
TOTAL PENSION LIABILITY, BEGINNING	<u>39,561,537</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u><u>\$ 40,050,794</u></u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

**Net Pension Asset - Continued**

PLAN FIDUCIARY NET POSITION	
Contributions - employer	\$ 830,704
Contributions - member	138,439
Net investment income	5,247,511
Benefit payments, including refunds of member contributions	(2,410,678)
Administrative expense	<u>(13,287)</u>
 NET CHANGE IN PLAN FIDUCIARY NET POSITION	 3,792,689
 PLAN FIDUCIARY NET POSITION, BEGINNING	 <u>39,261,589</u>
 PLAN FIDUCIARY NET POSITION, ENDING (B)	 <u><u>\$ 43,054,278</u></u>
 CITY'S NET PENSION ASSET, ENDING (A)-(B)	 <u><u>\$ (3,003,484)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 107.50%
 Covered-employee payroll	 \$ 2,740,856
 City's net pension asset as a percentage of covered-employee payroll	 (109.58)%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	4.00%
Projected salary increases	4.00% - 7.00% (including inflation)
Investment rate of return	7.25%
Retirement Age	Age-based table of rates that are specific to the type of eligibility condition
Mortality rates	RP-2000 Healthy Combined Mortality Table projected to 2020 using scale AA

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2013 through June 30, 2014.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE L: DEFINED BENEFIT PENSION PLANS - CONTINUED**

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

**Net Pension Asset - Continued**

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determine contribution rates and the member rate. Based on these assumptions, the 7.25% long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

The following presents the City's net pension liability (asset), calculated using the discount rate of 7.25%, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current rate:

	<u>1% Decrease Rate 6.25%</u>	<u>Current Discount Rate 7.25%</u>	<u>1% Increase Rate 8.25%</u>
Total pension liability	\$ 44,311,450	\$ 40,050,795	\$ 36,419,255
Plan fiduciary net position	43,054,279	43,054,279	43,054,279
City's net pension liability (asset)	<u>\$ 1,257,171</u>	<u>\$ (3,003,484)</u>	<u>\$ (6,635,024)</u>

**NOTE M: DEFINED CONTRIBUTION PENSION PLANS**

CITY OF FERNDALE 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. 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.

The required contributions were \$210,919 by employees and \$540,304 by the City.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE M: DEFINED CONTRIBUTION PENSION PLANS - CONTINUED**

CITY OF FERNDALE DEFINED CONTRIBUTION PENSION PLAN - CONTINUED

The City's contribution rate structure is as follows:

	<u>Police</u>	<u>City and Admin hire prior to 7/16/96</u>	<u>City hire subsequent to 7/16/96</u>	<u>Admin hire subsequent to 7/16/96</u>	<u>City Manager</u>
City Contribution	9%	6%	5%	5%	6%
Employee Contribution	0%	0%	0%	0%	0%
or					
City Contribution	14%	9%	5%	7%	9%
Employee Contribution	5.35%	3%	3%	3%	3%

43<sup>rd</sup> CITY COURT PROFIT SHARING PENSION PLAN

The 43<sup>rd</sup> City Court Profit Sharing Pension Plan is held in trust and covers current employees 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 43<sup>rd</sup> District Court for the fiscal year ending June 30, 2014, was \$81,511. The defined contribution pension cost to the employees was \$0. 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.

**NOTE N: OTHER POST-EMPLOYMENT BENEFITS**

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 Trust Fund. Current healthcare premiums are paid directly from the General Fund.

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.

The following are the Governmental Accounting Standards Board Statement No. 45 (GASB Statement 45) required disclosures that have been implemented prospectively by the City.

Membership in the plan at June 30, 2012, (latest actuarial report) is as follows:

Retirees and beneficiaries receiving benefits	159
Active plan members	<u>104</u>
<b>Total</b>	<b><u><u>263</u></u></b>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE N: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

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, 2014, the City made payments for post-employment health benefit claims of approximately \$1,749,888 paid out of the General Fund and \$474,650 paid to the Other Post-Employment Benefits Fund for future health care benefits. This was less than the estimated required contribution and represents approximately 33.0% 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, 2012, the most recent biennial valuation date, is as follows:

Actuarial value of assets	\$ 10,394,757
Actuarial accrued liabilities (AAL)	49,114,831
Unfunded AAL (UAAL)	38,720,074
Funded ratio	21.2%

The assets in the plan as of June 30, 2014, were \$14,882,698.

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, 2012, actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include an annual healthcare cost trend of 9.0% in 2013, reduced by decrements to an ultimate rate of 4.0% after ten years. The UAAL is being amortized as a level dollar amount closed over a 26 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, 2012. 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 7.0% per year compounded annually, (b) projected salary increases of 3.0% 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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE N: OTHER POST EMPLOYMENT BENEFITS - CONTINUED**

The City's computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 3,777,540
Interest on net OPEB obligation	<u>33,574</u>
Annual OPEB cost	3,811,114
Contributions made	<u>2,224,538</u>
Increase in net OPEB obligation	1,586,576
Net OPEB obligation - beginning of year	<u>447,650</u>
Net OPEB obligation - end of year	<u><u>\$ 2,034,226</u></u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the years ended June 30, were as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annual OPEB cost	\$ 3,329,958	\$ 3,483,130	3,811,114
Percentage contributed	98%	99%	58%
Net OPEB obligation	426,614	447,650	\$ 2,034,226

The schedule of funding progress of the plan based on the most recent valuations is as follows:

	<u>2008</u>	<u>2010</u>	<u>2012</u>
Actuarial value of assets	\$ 5,458,377	\$ 8,243,946	\$ 10,394,757
Actuarial accrued liability (AAL)	42,468,935	43,243,505	49,114,831
Unfunded AAL (UAAL)	37,010,558	34,999,559	38,720,074
Funded ratio	12.9%	19.1%	21.2%

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE O: SEGMENT INFORMATION**

The City reports pension trust funds for the activities of the Employees' Retirement System, the Policemen and Firemen Retirement System, and the Other Post-Employment Benefits Trust Fund. Segment information as of and for the year ended June 30, 2014, is as follows:

	Employees' Retirement System	Policemen and Firemen Retirement System	Other Post- Employment Benefits	Total
<b>Additions</b>				
Employer contributions	\$ -	\$ 830,704	\$ 17,050	\$ 847,754
Plan member contributions	-	138,439	457,600	596,039
Net investment income	2,628,765	5,247,511	2,491,998	10,368,274
<b>Deductions</b>				
Benefits	962,588	2,410,678	-	3,373,266
Administrative expenses	9,000	13,287	24,901	47,188
Change in net position	1,657,177	3,792,689	2,941,747	8,391,613
Total assets	19,933,524	43,054,278	14,882,698	77,870,500
Net position	19,933,524	43,054,278	14,882,698	77,870,500

**NOTE P: CHANGES IN ACCOUNTING**

During the current year, the City adopted GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement required changes to the actuarial valuations resulting in a different measurement of the liability of the employer to plan members for benefits provided through the pension plan. As a result, the disclosures within the pension footnote have changed considerably along with the related schedules in the required supplementary information.

During the current year, the City also revised its policy regarding the timing of recognition of State revenue sharing payments. This change in policy resulted in a restatement of beginning fund balance for the General Fund by \$399,413.

**NOTE Q: SUBSEQUENT EVENT**

Subsequent to year end the City suffered significant property damage, approximately \$750,000, due to flooding from a storm. The City will be receiving insurance reimbursements to fund the necessary repairs. In addition, the Federal Emergency Management Agency (FEMA) has declared the metro-Detroit area a federal disaster due to flooding. FEMA is working with the City and its residents to remediate the damage.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE R: CODE ENFORCEMENT FINANCIAL INFORMATION**

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2014:

REVENUES	
Licenses and permits	\$ 403,777
EXPENDITURES	
Code enforcement	<u>(504,186)</u>
Revenues under expenditures	<u>\$ (100,409)</u>

**NOTE S: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the City's 2014-2015 fiscal year.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. The statement addresses an issue regarding the application of the transition provisions of GASB Statement No. 68 and amends paragraph 137 of GASB Statement No. 68 and requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2014-2015 fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Ferndale

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Property taxes	\$ 10,291,000	\$ 9,718,639	\$ 9,617,620	\$ (101,019)
Licenses and permits	836,050	534,475	935,594	401,119
Intergovernmental	3,081,509	3,198,028	3,215,267	17,239
Charges for services	992,500	780,372	617,066	(163,306)
Fines and forfeits	2,050,000	2,725,000	2,766,739	41,739
Investment earnings	200,000	(260,000)	222,304	482,304
Other	497,700	678,500	822,243	143,743
<b>TOTAL REVENUES</b>	<b>17,948,759</b>	<b>17,375,014</b>	<b>18,196,833</b>	<b>821,819</b>
<b>EXPENDITURES</b>				
Current				
General government				
City council	47,280	48,400	42,198	6,202
District court	1,304,827	1,382,836	1,348,929	33,907
City manager	192,775	200,125	223,962	(23,837)
Budget and financial analysis	726,689	731,000	736,422	(5,422)
City clerk	202,598	231,158	267,869	(36,711)
City elections	25,900	10,450	10,621	(171)
Legal services	320,000	295,000	219,665	75,335
Cable television	139,712	98,096	128,847	(30,751)
Central services	1,729,000	1,514,800	1,492,697	22,103
Other	-	-	123	(123)
<b>Total general government</b>	<b>4,688,781</b>	<b>4,511,865</b>	<b>4,471,333</b>	<b>40,532</b>
Public safety				
Police department	6,844,286	6,809,708	6,530,563	279,145
Fire department	3,998,040	4,284,537	4,480,548	(196,011)
Code enforcement	468,465	549,689	504,186	45,503
<b>Total public safety</b>	<b>11,310,791</b>	<b>11,643,934</b>	<b>11,515,297</b>	<b>128,637</b>
Public works				
Public services department	835,486	1,004,856	1,000,729	4,127
Recreation and culture				
Dream cruise car show	113,288	101,272	106,956	(5,684)
Community center	497,763	445,726	403,184	42,542
<b>Total recreation and culture</b>	<b>611,051</b>	<b>546,998</b>	<b>510,140</b>	<b>36,858</b>
<b>TOTAL EXPENDITURES</b>	<b>17,446,109</b>	<b>17,707,653</b>	<b>17,497,499</b>	<b>210,154</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>502,650</b>	<b>(332,639)</b>	<b>699,334</b>	<b>1,031,973</b>

City of Ferndale

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 976,791	\$ 976,791
Transfers out	(510,000)	(950,500)	(2,628,017)	(1,677,517)
Proceeds from sale of capital assets	20,000	5,000	1,891	(3,109)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(490,000)</u>	<u>(945,500)</u>	<u>(1,649,335)</u>	<u>(703,835)</u>
NET CHANGE IN FUND BALANCE	12,650	(1,278,139)	(950,001)	328,138
Restated fund balance, beginning of year	<u>6,541,969</u>	<u>6,541,969</u>	<u>6,541,969</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 6,554,619</u>	<u>\$ 5,263,830</u>	<u>\$ 5,591,968</u>	<u>\$ 328,138</u>

City of Ferndale

Ferndale Employees' Retirement System

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended June 30, 2014

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets ( a )	Actuarial Accrued 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 )
2005	\$ 18,066,625	\$ 12,828,481	\$ (5,238,144)	140.8%	\$ 2,767,899	-
2006	18,423,039	11,891,917	(6,531,122)	154.9%	3,117,728	-
2007	19,139,718	11,592,792	(7,546,926)	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	-
2012	16,667,751	9,850,252	(6,817,499)	169.2%	2,082,022	-
2013	17,463,679	8,954,100	(8,509,579)	195.0%	2,100,187	-
2014	18,608,627	8,431,712	(10,176,915)	220.7%	2,194,974	-

Schedule of Employer Contributions

Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contributions
2005	-	\$ -	\$ -	100.0%
2006	-	-	-	100.0%
2007	-	-	-	100.0%
2008	-	-	-	100.0%
2009	-	-	-	100.0%
2010	-	-	-	100.0%
2011	-	-	-	100.0%
2012	-	-	-	100.0%
2013	-	-	-	100.0%
2014	-	-	-	100.0%

City of Ferndale

Ferndale Employees' Retirement System

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

	<u>2014</u>
CHANGE IN TOTAL PENSION LIABILITY	
Service cost	\$ 16,286
Interest	581,366
Differences between expected and actual experience	(248,912)
Benefit payments, including refunds of member contributions	<u>(962,588)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	(613,848)
TOTAL PENSION LIABILITY, BEGINNING	<u>8,778,361</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u><u>\$ 8,164,513</u></u>
CHANGE IN PLAN FIDUCIARY NET POSITION	
Net investment income	\$ 2,628,765
Benefit payments, including refunds of member contributions	(962,588)
Administrative expenses	<u>(9,000)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	1,657,177
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>18,276,347</u>
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u><u>\$ 19,933,524</u></u>
CITY'S NET PENSION ASSET, ENDING (A)-(B)	<u><u>\$ (11,769,011)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	244.15%
Covered-employee payroll	\$ 2,194,974
City's net pension asset as a percentage of covered-employee payroll	(536.18)%

City of Ferndale  
 Ferndale Employees' Retirement System  
 SCHEDULE OF CITY CONTRIBUTIONS

Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution *	-	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -0-</u>									
Covered-employee payroll	\$ 2,194,974	\$ 2,100,187	\$ 2,313,052	\$ 2,082,022	\$ 2,262,010	\$ 3,244,254	\$ 3,242,529	\$ 3,182,522	\$ 3,117,728	\$ 2,767,899
Contributions as a percentage of covered-employee payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

\* The City has not been required to contribute to the plan since 1998

Actuarial valuation information relative to the determination of contributions:

Valuation date                      Actuarially determined contribution rates are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	10 years
Asset valuation method	4 years smoothed market
Inflation	3.00%
Projected salary increases	3.00% - 7.40% (including inflation)
Investment rate of return	7.00%
Municipal Bond Rate	4.29%
Retirement Age	Age-based table of rates that are specific to the type of eligibility condition
Mortality rates	RP-2000 Healthy Combined Mortality Table projected to 2020 using scale BB

City of Ferndale  
Ferndale Employees' Retirement System  
SCHEDULE OF INVESTMENT RETURNS

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	9.07%

City of Ferndale

City of Ferndale Policemen and Firemen Retirement System

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended June 30, 2014

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 )
2005	\$ 37,465,032	\$ 34,311,824	\$ (3,153,208)	109.2%	\$ 2,880,620	-
2006	38,544,837	33,722,210	(4,822,627)	114.3%	3,073,865	-
2007	40,554,657	34,970,161	(5,584,496)	116.0%	2,994,676	-
2008	41,388,619	37,775,851	(3,612,768)	109.6%	3,076,765	-
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%
2012	35,906,254	40,213,216	4,306,962	89.3%	2,769,266	155.5%
2013	37,945,059	40,098,974	2,153,915	94.6%	2,874,962	74.9%
2014	40,826,287	40,566,365	(259,922)	100.6%	2,740,856	(9.5)%

Schedule of Employer Contributions

Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contributions
2005	-	\$ -	\$ -	100.0%
2006	-	-	-	100.0%
2007	2.82%	88,709	-	-
2008	-	-	88,709	100.0%
2009	-	-	-	100.0%
2010	6.21%	208,650	208,650	100.0%
2011	19.80%	673,877	692,086	102.7%
2012	23.86%	692,086	692,086	100.0%
2013	23.68%	761,235	713,792	93.8%
2014	28.32%	830,704	830,704	100.0%

City of Ferndale

City of Ferndale Policemen and Firemen Retirement System

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

	<u>2014</u>
CHANGE IN TOTAL PENSION LIABILITY	
Service cost	\$ 691,796
Interest	2,805,903
Differences between expected and actual experience	(597,764)
Benefit payments, including refunds of member contributions	<u>(2,410,678)</u>
 NET CHANGE IN TOTAL PENSION LIABILITY	 489,257
 TOTAL PENSION LIABILITY, BEGINNING	 <u>39,561,537</u>
 TOTAL PENSION LIABILITY, ENDING (A)	 <u><u>\$ 40,050,794</u></u>
 CHANGE IN PLAN FIDUCIARY NET POSITION	
Contributions - employer	\$ 830,704
Contributions - member	138,439
Net investment income	5,247,511
Benefit payments, including refunds of member contributions	(2,410,678)
Administrative expenses	<u>(13,287)</u>
 NET CHANGE IN PLAN FIDUCIARY NET POSITION	 3,792,689
 PLAN FIDUCIARY NET POSITION, BEGINNING	 <u>39,261,589</u>
 PLAN FIDUCIARY NET POSITION, ENDING (B)	 <u><u>\$ 43,054,278</u></u>
 CITY'S NET PENSION ASSET, ENDING (A)-(B)	 <u><u>\$ (3,003,484)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	 107.50%
 Covered-employee payroll	 \$ 2,740,856
 City's net pension asset as a percentage of covered-employee payroll	 (109.58)%

City of Ferndale

City of Ferndale Policemen and Firemen Retirement System

SCHEDULE OF CITY CONTRIBUTIONS

Last Ten Fiscal Years

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	\$ 830,704	\$ 761,235	\$ 692,086	\$ 673,877	\$ 208,650	\$ -	\$ -	\$ 88,709	\$ -	\$ -
Contributions in relation to the actuarially determined contribution	830,704	713,792	692,086	692,086	208,650	-	88,709	-	-	-
Contribution deficiency (excess)	\$ -0-	\$ 47,443	\$ -0-	\$ (18,209)	\$ -0-	\$ -0-	\$ (88,709)	\$ 88,709	\$ -0-	\$ -0-
Covered-employee payroll	\$ 2,740,856	\$ 2,874,856	\$ 2,769,266	\$ 2,990,216	\$ 2,746,203	\$ 3,116,613	\$ 3,076,765	\$ 2,994,676	\$ 3,073,865	\$ 2,880,620
Contributions as a percentage of covered-employee payroll	30.31%	24.83%	24.99%	23.15%	7.60%	0.00%	2.88%	0.00%	0.00%	0.00%

Actuarial valuation information relative to the determination of contributions:

Valuation date Actuarially determined contribution rates are calculated as of June 30 each year, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Remaining amortization period	25 years
Asset valuation method	4 years smoothed market
Inflation	4.00%
Projected salary increases	4.00% - 7.00% (including inflation)
Investment rate of return	7.25%
Retirement Age	Age-based table of rates that are specific to the type of eligibility condition
Mortality rates	RP-2000 Healthy Combined Mortality Table projected to 2020 using scale AA

City of Ferndale

City of Ferndale Policemen and Firemen Retirement System

SCHEDULE OF INVESTMENT RETURNS

	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	9.66%

City of Ferndale

Other Post-Employment Benefits Trust Fund

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended June 30, 2014

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	10,394,757	49,114,831	38,720,074	21.2%

Schedule of Employer Contributions

Actuarial Valuation Date June 30	Fiscal Year Ending	OPEB Cost	Contributions Made	Percentage of Annual OPEB Cost Contributed
2008	6/30/09	\$ 3,419,452	\$ 3,479,991	102%
2008	6/30/10	3,568,787	3,318,846	93%
2010	6/30/11	3,174,512	2,998,089	94%
2010	6/30/12	3,329,958	3,269,169	98%
2012	6/30/13	3,483,130	3,462,094	99%
2012	6/30/14	3,811,114	2,224,538	58%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2012, the latest valuation follows:

Amortization method:

General and Police Level dollar, closed  
Fire Level percent of payroll, open

Remaining amortization period

General and Police 26 years  
Fire 30 years

Asset valuation method

Market value at valuation date

Actuarial assumptions:

Investment rate of return 7.00%  
Projected salary increases 3.0% - 7.4%, including inflation  
Health cost increases 4.0% - 9.0%

City of Ferndale

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2014

**NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

State statutes provide that a local government unit not incur expenditures in excess of the amounts appropriated. The City's budgeted expenditures for the General Fund have been shown at the activity level. The approved budgets of the City have been adopted at the functional level for the General Fund and the fund level for the Special Revenue Funds.

During the year ended June 30, 2014, the City incurred expenditures in the General Fund and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Transfers out	\$ 950,500	\$ 2,628,017	\$ 1,677,517
Community Development			
Block Grant Fund	72,000	90,107	18,107

## **OTHER SUPPLEMENTARY INFORMATION**

City of Ferndale  
 Nonmajor Governmental Funds  
 COMBINING BALANCE SHEET  
 June 30, 2014

	Special			
	Major Streets	Local Streets	Sanitation	Drug Forfeiture
<b>ASSETS</b>				
Cash and investments	\$ 2,732,776	\$ 360,867	\$ 1,022,742	\$ 626,562
Accounts receivable	-	-	220	-
Accrued interest receivable	715	1,916	1,921	1,494
Due from other governmental units	146,374	54,913	-	-
<b>TOTAL ASSETS</b>	<b>\$ 2,879,865</b>	<b>\$ 417,696</b>	<b>\$ 1,024,883</b>	<b>\$ 628,056</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 73,219	\$ 2,529	\$ 73,264	\$ 60,927
Accrued liabilities	15,656	9,772	20,915	-
Due to other funds	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>88,875</b>	<b>12,301</b>	<b>94,179</b>	<b>60,927</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	-	-	-	-
<b>FUND BALANCES</b>				
Restricted	-	-	930,704	567,129
Committed	-	-	-	-
Assigned	2,790,990	405,395	-	-
<b>TOTAL FUND BALANCES</b>	<b>2,790,990</b>	<b>405,395</b>	<b>930,704</b>	<b>567,129</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 2,879,865</b>	<b>\$ 417,696</b>	<b>\$ 1,024,883</b>	<b>\$ 628,056</b>

Library	Revenue		Capital Projects Fund		Total
	Community Development Block Grant	SMART Transportation	Public Improvement		
\$ 374,981	\$ -	\$ 74,016	\$ 589,399	\$ 5,781,343	
-	-	-	-	220	
951	-	156	633	7,786	
29,902	24,593	15,074	-	270,856	
<u>\$ 405,834</u>	<u>\$ 24,593</u>	<u>\$ 89,246</u>	<u>\$ 590,032</u>	<u>\$ 6,060,205</u>	
\$ 9,726	\$ -	\$ 400	\$ 345,653	\$ 565,718	
10,260	-	1,299	-	57,902	
-	24,593	-	-	24,593	
19,986	24,593	1,699	345,653	648,213	
-	-	3,473	-	3,473	
385,848	-	84,074	-	1,967,755	
-	-	-	124,821	124,821	
-	-	-	119,558	3,315,943	
<u>385,848</u>	<u>-0-</u>	<u>84,074</u>	<u>244,379</u>	<u>5,408,519</u>	
<u>\$ 405,834</u>	<u>\$ 24,593</u>	<u>\$ 89,246</u>	<u>\$ 590,032</u>	<u>\$ 6,060,205</u>	

City of Ferndale

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2014

	Special			
	Major Streets	Local Streets	Sanitation	Drug Forfeiture
REVENUES				
Property taxes	\$ -	\$ -	\$ 1,026,157	\$ -
Intergovernmental	1,122,631	333,540	35,050	65,913
Charges for services	-	-	1,360,807	-
Fines and forfeits	-	-	-	51,138
Investment earnings	3,660	28,682	19,488	14,011
Other	-	-	500	-
<b>TOTAL REVENUES</b>	<b>1,126,291</b>	<b>362,222</b>	<b>2,442,002</b>	<b>131,062</b>
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	-	-	-	108,823
Public works	-	-	2,123,276	-
Highway and streets	1,645,753	233,933	-	-
Recreation and culture	-	-	-	-
Community and economic development	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Capital outlay	-	-	-	152,005
<b>TOTAL EXPENDITURES</b>	<b>1,645,753</b>	<b>233,933</b>	<b>2,123,276</b>	<b>260,828</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(519,462)</b>	<b>128,289</b>	<b>318,726</b>	<b>(129,766)</b>
OTHER FINANCING SOURCES (USES)				
Transfers in	2,450,616	86,773	297,386	-
Transfers out	-	(450,000)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>2,450,616</b>	<b>(363,227)</b>	<b>297,386</b>	<b>-0-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,931,154</b>	<b>(234,938)</b>	<b>616,112</b>	<b>(129,766)</b>
Fund balances, beginning of year	859,836	640,333	314,592	696,895
Fund balances, end of year	<u>\$ 2,790,990</u>	<u>\$ 405,395</u>	<u>\$ 930,704</u>	<u>\$ 567,129</u>

Revenue			Capital Projects Fund	
Library	Community Development Block Grant	SMART Transportation	Public Improvement	Total
\$ 922,008	\$ -	\$ -	\$ -	\$ 1,948,165
14,011	90,331	57,254	-	1,718,730
25,477	-	4,180	-	1,390,464
59,830	-	-	-	110,968
9,199	(224)	1,551	(996)	75,371
24,562	-	-	-	25,062
1,055,087	90,107	62,985	(996)	5,268,760
-	-	-	191,111	191,111
-	-	-	-	108,823
-	-	-	-	2,123,276
-	-	-	-	1,879,686
701,724	-	54,536	-	756,260
-	90,107	-	-	90,107
185,000	-	-	124,152	309,152
156,788	-	-	5,587	162,375
21,897	-	-	2,469,920	2,643,822
1,065,409	90,107	54,536	2,790,770	8,264,612
(10,322)	-	8,449	(2,791,766)	(2,995,852)
25,744	-	16,052	727,517	3,604,088
-	-	-	-	(450,000)
25,744	-0-	16,052	727,517	3,154,088
15,422	-0-	24,501	(2,064,249)	158,236
370,426	-	59,573	2,308,628	5,250,283
\$ 385,848	\$ -0-	\$ 84,074	\$ 244,379	\$ 5,408,519

City of Ferndale

Internal Service Funds

COMBINING STATEMENT OF NET POSITION

June 30, 2014

	<u>Motor Pool</u>	<u>Human Resources</u>	<u>Total</u>
ASSETS	\$ -	\$ -	\$ -0-
LIABILITIES	-	-	-0-
NET POSITION	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

City of Ferndale

Internal Service Funds

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2014

	<u>Motor Pool</u>	<u>Human Resources</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 1,349,983	\$ 392,591	\$ 1,742,574
OPERATING EXPENSES			
Personal services	218,963	119,093	338,056
General and administrative	481,734	41,922	523,656
Utilities	34,608	-	34,608
Rental expense	38,298	-	38,298
Contractual services	31,354	59,249	90,603
Maintenance expense	219,016	-	219,016
Depreciation	313,052	-	313,052
Medical and benefit payments	-	141,686	141,686
	<u>1,337,025</u>	<u>361,950</u>	<u>1,698,975</u>
TOTAL OPERATING EXPENSES			
OPERATING INCOME	12,958	30,641	43,599
NONOPERATING REVENUES			
Interest income	<u>57,298</u>	<u>9,317</u>	<u>66,615</u>
CHANGE IN NET POSITION BEFORE TRANSFERS	70,256	39,958	110,214
TRANSFERS OUT	<u>(3,369,940)</u>	<u>(355,668)</u>	<u>(3,725,608)</u>
CHANGE IN NET POSITION	(3,299,684)	(315,710)	(3,615,394)
Net position, beginning of year	<u>3,299,684</u>	<u>315,710</u>	<u>3,615,394</u>
Net position, end of year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

City of Ferndale

Internal Service Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

	Motor Pool	Human Resources	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from interfund services	\$ 1,390,260	\$ 393,828	\$ 1,784,088
Cash payments to employees	(223,336)	(120,599)	(343,935)
Cash payments to suppliers for goods and services	(713,612)	(289,267)	(1,002,879)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>453,312</b>	<b>(16,038)</b>	<b>437,274</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers	(1,470,005)	(355,668)	(1,825,673)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(41,907)	-	(41,907)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income received	57,298	9,317	66,615
<b>NET (DECREASE) IN CASH AND INVESTMENTS</b>	<b>(1,001,302)</b>	<b>(362,389)</b>	<b>(1,363,691)</b>
Cash and investments, beginning of year	1,001,302	362,389	1,363,691
Cash and investments, end of year	\$ -0-	\$ -0-	\$ -0-
<b>Reconciliation of operating income to net cash provided (used) by operating activities</b>			
Operating income	\$ 12,958	\$ 30,641	\$ 43,599
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>			
Depreciation	313,052	-	313,052
Decrease in:			
Accounts receivable	40,277	1,237	41,514
Inventories	136,088	-	136,088
Prepaid items	-	24,500	24,500
(Decrease) in:			
Accounts payable	(44,690)	(70,910)	(115,600)
Accrued liabilities	(4,373)	(1,506)	(5,879)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 453,312</b>	<b>\$ (16,038)</b>	<b>\$ 437,274</b>
<b>NONCASH CAPITAL ACTIVITIES</b>			
Transfers of capital assets	\$ (1,899,935)	\$ -	\$ (1,899,935)

City of Ferndale

Fiduciary Funds

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	Employees' Retirement System	Policemen and Firemen Retirement System	Other Post- Employment Benefits	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 281,733	\$ 6,229,286	\$ -	\$ 6,511,019
Accrued interest receivable	45,170	97,353	27	142,550
Accounts receivable	-	-	457,600	457,600
Investments				
Debt securities	5,682,230	13,571,103	-	19,253,333
Equity securities	12,681,168	20,721,560	14,425,071	47,827,799
Real estate investment trust	1,243,223	2,434,976	-	3,678,199
	<u>19,933,524</u>	<u>43,054,278</u>	<u>14,882,698</u>	<u>77,870,500</u>
<b>TOTAL ASSETS</b>	<b>19,933,524</b>	<b>43,054,278</b>	<b>14,882,698</b>	<b>77,870,500</b>
<b>LIABILITIES</b>				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-0-</u>
<b>NET POSITION</b>				
Held in trust for pension benefits and other purposes	<u>\$ 19,933,524</u>	<u>\$ 43,054,278</u>	<u>\$ 14,882,698</u>	<u>\$ 77,870,500</u>

City of Ferndale

Fiduciary Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2014

	Employees' Retirement System	Policemen and Firemen Retirement System	Other Post- Employment Benefits	Total
<b>ADDITIONS</b>				
Contributions				
Employer contributions	\$ -	\$ 830,704	\$ 17,050	\$ 847,754
Plan member contributions	-	138,439	457,600	596,039
Total contributions	-0-	969,143	474,650	1,443,793
Investment income				
Net change in fair value of investments	2,137,454	4,309,195	-	6,446,649
Interest	211,092	506,144	2,540,878	3,258,114
Dividends	365,558	587,535	-	953,093
Less investment expense	(85,339)	(155,363)	(48,880)	(289,582)
Net investment income	2,628,765	5,247,511	2,491,998	10,368,274
TOTAL ADDITIONS	2,628,765	6,216,654	2,966,648	11,812,067
<b>DEDUCTIONS</b>				
Benefits	962,588	2,410,678	-	3,373,266
Administrative expenses	9,000	13,287	24,901	47,188
TOTAL DEDUCTIONS	971,588	2,423,965	24,901	3,420,454
CHANGE IN NET POSITION	1,657,177	3,792,689	2,941,747	8,391,613
Net position, beginning of year	18,276,347	39,261,589	11,940,951	69,478,887
Net position, end of year	<u>\$ 19,933,524</u>	<u>\$ 43,054,278</u>	<u>\$ 14,882,698</u>	<u>\$ 77,870,500</u>

Principals

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



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

INDEPENDENT AUDITOR'S 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, in accordance with the 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, the 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 (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given the limitations, during the audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

### UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City's compliance with the budgeting act, we noted that transfers out of the General Fund and total expenditures in the CDBG Fund exceeded the amounts appropriated. A similar issue was noted and reported in our prior audit comments.

Criteria: State statutes provide 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. State statutes also require 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".

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: The City has outsourced the finance director position and has already begun monitoring the budget on a more timely basis. The City is committed to maintaining compliance with State of Michigan statutes.

### City of Ferndale's Response to the Finding

The City's response to the finding identified in our audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 11, 2014