

**City of Ferndale  
Oakland County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2015**

City of Ferndale

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INDEPENDENT AUDITOR'S REPORT

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

**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, 2015, 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 misstatement.

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, 2015, 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 O to the financial statements, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the year. As a result, the financial statements now recognize the City's net pension asset for the first time and more comprehensively and comparable measures the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). 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 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 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 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 10, 2015, 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. That 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 10, 2015

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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, 2015.

**Financial Highlights**

- The total assets of the City exceeded its liabilities at the close of the fiscal year by \$60,304,884. Of this amount, \$29,493,895 is invested in capital assets (net of related debt), \$2,230,993 is restricted for specific purposes such as public safety, highways and streets, and other purposes, and \$28,579,996 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 decreased \$2,527,196 as a result of this year's operations. Net position of our governmental activities increased by \$2,673,252 and net assets of our business-type activities decreased by \$5,200,448.
- General fund revenues and other financing sources increased by \$340,822 or 1.77%. This change was primarily due to an installment purchase agreement.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,696,189 or 28% of total General Fund expenditures.
- The City's total long-term debt decreased by approximately \$4,605,431 during the current fiscal year.
- The City invested over \$2,543,342 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.

**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, 2015

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 has one type of proprietary fund which are enterprise 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.
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.

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this Management Discussion and Analysis, 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.

The combining and individual fund statements referred to earlier in connection with nonmajor governmental, agency, 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 \$60,304,884 at the close of the most recent fiscal year.

By far the largest portion of the City's net position, \$29,493,895, or 49%, 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	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 15,931,140	\$ 14,199,445	\$ 7,655,712	\$ 12,303,873	\$ 23,586,852	\$ 26,503,318
Noncurrent assets, net	28,122,667	17,230,085	33,961,566	33,653,187	62,084,233	50,883,272
<b>Total assets</b>	<b>\$ 44,053,807</b>	<b>\$ 31,429,530</b>	<b>\$ 41,617,278</b>	<b>\$ 45,957,060</b>	<b>\$ 85,671,085</b>	<b>\$ 77,386,590</b>
Deferred outflows of resources	\$ 2,016,753	\$ -	\$ 87,988	\$ -	\$ 2,104,741	\$ -0-
Current liabilities	\$ 6,493,603	\$ 6,331,990	\$ 1,808,275	\$ 1,718,918	\$ 8,301,878	\$ 8,050,908
Noncurrent liabilities	8,068,252	9,456,063	10,796,288	11,820,033	18,864,540	21,276,096
<b>Total liabilities</b>	<b>\$ 14,561,855</b>	<b>\$ 15,788,053</b>	<b>\$ 12,604,563</b>	<b>\$ 13,538,951</b>	<b>\$ 27,166,418</b>	<b>\$ 29,327,004</b>
Deferred inflows of resources	\$ 304,524	\$ -	\$ -	\$ -	\$ 304,524	\$ -0-
<b>Net position:</b>						
Net investment in capital assets	\$ 9,236,089	\$ 6,960,085	\$ 20,257,806	\$ 20,823,376	\$ 29,493,895	\$ 27,783,461
Restricted	2,230,993	2,386,587	-	-	2,230,993	2,386,587
Unrestricted	19,737,099	19,184,257	8,842,897	13,477,775	28,579,996	32,662,032
<b>Total net position</b>	<b>\$ 31,204,181</b>	<b>\$ 28,530,929</b>	<b>\$ 29,100,703</b>	<b>\$ 34,301,151</b>	<b>\$ 60,304,884</b>	<b>\$ 62,832,080</b>

An additional portion of the City's net position, \$2,230,993, or 4%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of \$28,579,996, or 47%, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net position in primary government activities decreased \$2,527,196 during the current fiscal year. Governmental activities account for an increase of \$2,673,252, and business-type activities account for a decrease of \$5,200,448 for the year.

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

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

(Note: The 2014 columns are prior to the implementation of GASB Statement No. 68 which was effective for fiscal years beginning after June 15, 2014)

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Revenue:						
Program revenue:						
Charges for services	\$ 7,591,769	\$ 7,030,272	\$ 8,689,926	\$ 9,613,634	\$ 16,281,695	\$ 16,643,906
Operating grants and contributions	2,147,981	1,962,043	-	-	2,147,981	1,962,043
General revenues:						
Property taxes	14,944,619	14,926,597	-	-	14,944,619	14,926,597
State shared revenue	2,525,441	2,453,334	-	-	2,525,441	2,453,334
Unrestricted investment earnings	422,992	311,547	-	-	422,992	311,547
Gain on sale for capital assets	-	-	177,835	269,248	177,835	269,248
Other	627,814	412,143	-	-	627,814	412,143
Total revenues	<u>28,260,616</u>	<u>27,095,936</u>	<u>8,867,761</u>	<u>9,882,882</u>	<u>37,128,377</u>	<u>36,978,818</u>
Expenses:						
General government	5,161,686	5,002,319	-	-	5,161,686	5,002,319
Public safety	11,115,865	12,603,097	-	-	11,115,865	12,603,097
Public works	4,388,873	2,554,362	-	-	4,388,873	2,554,362
Highways and streets	1,732,777	3,012,625	-	-	1,732,777	3,012,625
Recreation and culture	2,075,935	1,645,124	-	-	2,075,935	1,645,124
Community and economic development	131,701	174,670	-	-	131,701	174,670
Interest on long-term debt	307,841	401,713	-	-	307,841	401,713
Water and sewer	-	-	13,178,474	8,508,295	13,178,474	8,508,295
Auto parking	-	-	877,016	720,235	877,016	720,235
Total expenses	<u>24,914,678</u>	<u>25,393,910</u>	<u>14,055,490</u>	<u>9,228,530</u>	<u>38,970,168</u>	<u>34,622,440</u>
Changes in net position before transfers	3,345,938	1,702,026	(5,187,729)	654,352	(1,841,791)	2,356,378
Transfers	<u>12,719</u>	<u>(322,811)</u>	<u>(12,719)</u>	<u>322,811</u>	<u>-</u>	<u>-</u>
Special item						
Disposal of operations	<u>(685,405)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(685,405)</u>	<u>-</u>
Change in net position	<u>\$ 2,673,252</u>	<u>\$ 1,379,215</u>	<u>\$ (5,200,448)</u>	<u>\$ 977,163</u>	<u>\$ (2,527,196)</u>	<u>\$ 2,356,378</u>

**Governmental activities** increased the City's net position by \$2,673,252. During the current fiscal year, the City implemented GASB Statement No. 68, which recognized pension expense on the Statement of Activities.

**Business-type activities.** Business-type activities decreased the City's net position by \$5,200,448, accounting for the majority of the City's total decrease in net position. The key elements of this decrease are as follows:

- Water/Sewer revenues decreased by \$1,061,665. Expenses increased by approximately \$4,670,179 primarily due to settlement of a class action lawsuit.
- Auto Parking fund revenues increased by \$46,544 over the prior year, due to an increase in parking meter receipts from the previous year. Expenses also increased by approximately \$156,783 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, 2015

**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 \$13,428,215 an increase of \$1,939,528 in comparison with the prior year. Approximately 35% of this total amount, or \$4,696,189, 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 \$4,696,189, while total fund balance was \$6,301,535. 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 28% of total General Fund expenditures, while total fund balance represents 37% of the same amount.

Total fund balance of the City's General Fund increased by \$709,567 during the fiscal year. Notable items affecting fund balance include the following:

- Property tax revenues increased by \$445,869, due to a slight increase in taxable values and millage levied.
- Charges for services increased by \$80,699.
- Investment earnings increased by \$527,387.
- Expenditure increases were limited to 2.5% overall

**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 \$6,919,697. Total net assets decreased \$5,322,037, primarily due to an increase in general and administrative expenses of \$4,557,236 over the prior year, the result of a class action lawsuit settlement.

The debt service costs on maintaining the system include the \$144M George W. Kuhn project (of which the City's portion is approximately 10% or \$14M) and the \$8M SRF-funded water main and booster station projects.

**General Fund Budgetary Highlights**

The difference between the original revenue budget and the amended revenue budget was an increase of \$715,273, mostly in investment earnings and other revenues.

Actual revenues were \$400,379 more than budgeted revenues, as amended. The increase in actual revenues was realized primarily from property taxes, licenses and permits, and investment earnings.

The difference between the original and amended expenditure budgets was an increase of \$558,191. Actual expenditures were under the amended budget by \$1,561,642, mostly in general government and public safety.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015

**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, 2015, amounted to \$48,305,889 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure.

Major capital asset events during the current fiscal year included completion of renovations to the Court building, renovations to the police department, construction on a water main, continued work on street and sidewalk projects, several new police cars, playground equipment, a new ERP system, 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 bonded debt outstanding of \$18,670,036, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$6,850,000) and business-type activities (\$111,820,036) at year end. The City decreased debt obligations by \$4,429,775 during the year through regularly scheduled payments of debt principal.

In addition, the City has just over \$1 million of compensated absences accrued.

During the year, the City entered into a new installment purchase agreement for the purchase of the new ERP system.

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 2015-16 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 has 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 \$38.4 million; however, the Ferndale Employees' Retirement System was overfunded by \$11.8 million and the Ferndale Police and Fire Retirement System was overfunded by \$2.0 million following implementation of GASB 68. Contributions to the Police and Fire Pension System and the Other Post-Employment Benefits Trust totaled \$2.6 million during fiscal year 2015.

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 considered in the future.

**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, 2015

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and investments	\$ 14,550,780	\$ 5,642,589	\$ 20,193,369	\$ 1,308,878
Receivables	273,032	2,010,547	2,283,579	3,699
Due from other governmental units	966,995	2,576	969,571	-
Inventories	140,333	-	140,333	-
Total current assets	15,931,140	7,655,712	23,586,852	1,312,577
Noncurrent assets				
Noncurrent portion of receivables	-	-	-0-	656,622
Net pension asset	11,894,620	1,883,724	13,778,344	-
Capital assets not being depreciated	2,831,249	531,083	3,362,332	-
Capital assets, net of accumulated depreciation	13,396,798	31,546,759	44,943,557	132,603
Total noncurrent assets	28,122,667	33,961,566	62,084,233	789,225
TOTAL ASSETS	44,053,807	41,617,278	85,671,085	2,101,802
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources related to pensions	2,016,753	87,988	2,104,741	-
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	1,033,170	561,777	1,594,947	53,749
Accrued liabilities	1,222,484	120,576	1,343,060	3,905
Due to other governmental units	-	-	-0-	675
Accrued interest payable	58,186	73,560	131,746	-
Unearned revenue	1,865	-	1,865	-
Current portion of compensated absences	450,000	18,600	468,600	-
Current portion of long-term debt	3,476,949	1,033,762	4,510,711	-
Current portion of uninsured claim liability	250,949	-	250,949	-
Total current liabilities	6,493,603	1,808,275	8,301,878	58,329
Noncurrent liabilities				
Noncurrent portion of compensated absences	549,950	10,014	559,964	-
Noncurrent portion of long-term debt	3,515,009	10,786,274	14,301,283	-
Net other post-employment benefits obligation	4,003,293	-	4,003,293	-
Total noncurrent liabilities	8,068,252	10,796,288	18,864,540	-0-
TOTAL LIABILITIES	14,561,855	12,604,563	27,166,418	58,329
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	304,524	-	304,524	-
<b>NET POSITION</b>				
Net investment in capital assets	9,236,089	20,257,806	29,493,895	132,603
Restricted				
Highways and streets	5,581	-	5,581	-
Public works	1,098,582	-	1,098,582	-
Public safety	673,239	-	673,239	-
Recreation and culture	116,661	-	116,661	-
Community and economic development	-	-	-0-	1,910,870
Debt service	336,930	-	336,930	-
Unrestricted	19,737,099	8,842,897	28,579,996	-
TOTAL NET POSITION	\$ 31,204,181	\$ 29,100,703	\$ 60,304,884	\$ 2,043,473

See accompanying notes to financial statements.

City of Ferndale  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2015

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>							
Governmental activities							
General government	\$ 5,161,686	\$ 3,921,558	\$ 55,062	\$ (1,185,066)	\$ -	\$ (1,185,066)	\$ -
Public safety	11,115,865	1,729,748	368,976	(9,017,141)	-	(9,017,141)	-
Public works	4,388,873	1,653,406	-	(2,735,467)	-	(2,735,467)	-
Highways and streets	1,732,777	-	1,505,498	(227,279)	-	(227,279)	-
Recreation and culture	2,075,935	287,057	137,022	(1,651,856)	-	(1,651,856)	-
Community and economic development	131,701	-	81,423	(50,278)	-	(50,278)	-
Interest on long-term debt	307,841	-	-	(307,841)	-	(307,841)	-
Total governmental activities	24,914,678	7,591,769	2,147,981	(15,174,928)	-0-	(15,174,928)	-0-
Business-type activities							
Water and sewer	13,178,474	7,694,950	-	-	(5,483,524)	(5,483,524)	-
Auto parking	877,016	994,976	-	-	117,960	117,960	-
Total business-type activities	14,055,490	8,689,926	-0-	-0-	(5,365,564)	(5,365,564)	-0-
Total primary government	<u>\$ 38,970,168</u>	<u>\$ 16,281,695</u>	<u>\$ 2,147,981</u>	(15,174,928)	(5,365,564)	(20,540,492)	-0-
<b>Component units</b>							
Brownfield Redevelopment Authority	\$ 72,368	\$ 3,568	\$ 403	-	-	-	(68,397)
Downtown Development Authority	553,962	200	90,356	-	-	-	(463,406)
Total component units	<u>\$ 626,330</u>	<u>\$ 3,768</u>	<u>\$ 90,759</u>	-0-	-0-	-0-	(531,803)
<b>General revenues</b>							
Property taxes				14,944,619	-	14,944,619	858,205
State shared revenue				2,525,441	-	2,525,441	-
Unrestricted investment earnings				422,992	177,835	600,827	23,986
Miscellaneous				627,814	-	627,814	-
Transfers				12,719	(12,719)	-0-	-
Total general revenues and transfers				<u>18,533,585</u>	<u>165,116</u>	<u>18,698,701</u>	<u>882,191</u>
Special item - disposal of operations				(685,405)	-	(685,405)	-
Change in net position				2,673,252	(5,200,448)	(2,527,196)	350,388
Restated net position, beginning of year				<u>28,530,929</u>	<u>34,301,151</u>	<u>62,832,080</u>	<u>1,693,085</u>
Net position, end of year				<u>\$ 31,204,181</u>	<u>\$ 29,100,703</u>	<u>\$ 60,304,884</u>	<u>\$ 2,043,473</u>

See accompanying notes to financial statements.

City of Ferndale  
Governmental Funds  
BALANCE SHEET  
June 30, 2015

	General	Debt Service	Nonmajor Governmental Funds	Total
<b>ASSETS</b>				
Cash and investments	\$ 7,195,984	\$ 394,000	\$ 6,960,796	\$ 14,550,780
Accounts receivable	233,095	-	-	233,095
Accrued interest receivable	23,921	1,116	14,900	39,937
Due from other governmental units	635,233	-	331,762	966,995
Due from other funds	30,246	-	-	30,246
Inventory	140,333	-	-	140,333
<b>TOTAL ASSETS</b>	<b>\$ 8,258,812</b>	<b>\$ 395,116</b>	<b>\$ 7,307,458</b>	<b>\$ 15,961,386</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 542,767	\$ -	\$ 490,403	\$ 1,033,170
Accrued liabilities	1,189,012	-	33,472	1,222,484
Unearned revenue	1,865	-	-	1,865
Due to other funds	-	-	30,246	30,246
<b>TOTAL LIABILITIES</b>	<b>1,733,644</b>	<b>-0-</b>	<b>554,121</b>	<b>2,287,765</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	223,633	-	21,773	245,406
<b>FUND BALANCES</b>				
Nonspendable	140,333	-	-	140,333
Restricted	12,636	395,116	1,877,780	2,285,532
Committed	504,594	-	2,023,006	2,527,600
Assigned	947,783	-	2,830,778	3,778,561
Unassigned	4,696,189	-	-	4,696,189
<b>TOTAL FUND BALANCES</b>	<b>6,301,535</b>	<b>395,116</b>	<b>6,731,564</b>	<b>13,428,215</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 8,258,812</b>	<b>\$ 395,116</b>	<b>\$ 7,307,458</b>	<b>\$ 15,961,386</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, 2015

**Total fund balances - governmental funds** **\$ 13,428,215**

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	\$ 68,784,295	
Accumulated depreciation is	<u>(52,556,248)</u>	
Capital assets, net		16,228,047

Other long-term assets are not available to pay for current period expenditures and, therefore, are considered unavailable in the funds.		245,406
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Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension asset or liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Net pension asset	11,894,620	
Deferred outflows of resources related to pensions	2,016,753	
Deferred inflows of resources related to pensions	<u>(304,524)</u>	
		13,606,849

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 and installment purchase agreement	(6,991,958)	
Compensated absences	(999,950)	
Accrued interest payable	(58,186)	
Uninsured claim liability	(250,949)	
Net other post-employment benefits obligation	<u>(4,003,293)</u>	
		<u>(12,304,336)</u>

Net position of governmental activities		<u><u>\$ 31,204,181</u></u>
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City of Ferndale

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2015

	General	Debt Service	Nonmajor Governmental Funds	Total
<b>REVENUES</b>				
Property taxes	\$ 10,063,489	\$ 3,232,815	\$ 1,962,072	\$ 15,258,376
Licenses and permits	1,019,994	-	-	1,019,994
Intergovernmental	3,220,052	-	1,750,222	4,970,274
Charges for services	1,015,423	-	1,471,192	2,486,615
Fines and forfeits	2,711,488	-	71,882	2,783,370
Investment earnings	223,998	74,140	124,852	422,990
Other	1,033,901	-	79,365	1,113,266
<b>TOTAL REVENUES</b>	<b>19,288,345</b>	<b>3,306,955</b>	<b>5,459,585</b>	<b>28,054,885</b>
<b>EXPENDITURES</b>				
Current				
General government	4,803,111	2,800	17,904	4,823,815
Public safety	9,723,630	-	36,744	9,760,374
Public works	1,713,147	-	2,409,994	4,123,141
Highway and streets	-	-	2,094,494	2,094,494
Recreation and culture	560,413	-	329,402	889,815
Community and economic development	-	-	81,423	81,423
Debt service				
Principal	45,296	3,220,000	200,000	3,465,296
Interest and fees	3,645	177,239	150,775	331,659
Capital outlay	-	-	87,927	87,927
<b>TOTAL EXPENDITURES</b>	<b>16,849,242</b>	<b>3,400,039</b>	<b>5,408,663</b>	<b>25,657,944</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>2,439,103</b>	<b>(93,084)</b>	<b>50,922</b>	<b>2,396,941</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	12,719	-	1,957,528	1,970,247
Transfers out	(1,957,528)	-	-	(1,957,528)
Installment purchase agreement	187,254	-	-	187,254
Proceeds from sale of capital assets	28,019	-	-	28,019
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,729,536)</b>	<b>-0-</b>	<b>1,957,528</b>	<b>227,992</b>
<b>SPECIAL ITEM</b>				
Disposal of operations	-	-	(685,405)	(685,405)
<b>NET CHANGE IN FUND BALANCES</b>	<b>709,567</b>	<b>(93,084)</b>	<b>1,323,045</b>	<b>1,939,528</b>
Fund balances, beginning of year	5,591,968	488,200	5,408,519	11,488,687
Fund balances, end of year	<u>\$ 6,301,535</u>	<u>\$ 395,116</u>	<u>\$ 6,731,564</u>	<u>\$ 13,428,215</u>

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, 2015

**Net change in fund balances - total governmental funds** **\$ 1,939,528**

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	\$ 1,893,224	
Loss on disposal of capital assets	(806,465)	
Depreciation expense	<u>(2,088,797)</u>	

Excess of depreciation expense and loss on disposals over capital outlay		(1,002,038)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		177,712
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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:

Installment purchase agreement	(187,254)	
Debt principal retirement	<u>3,465,296</u>	

3,278,042

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:

(Decrease) in net pension asset	(994,832)	
Increase in deferred outflows of resources related to pensions	2,016,753	
(Increase) in deferred inflows of resources related to pensions	(304,524)	
(Increase) in accrued compensated absences	(347,785)	
Decrease in accrued interest payable	23,818	
(Increase) in uninsured claim liability	(144,355)	
(Increase) in net other post-employment benefits obligation	<u>(1,969,067)</u>	

(1,719,992)

**Change in net position of governmental activities**

**\$ 2,673,252**

City of Ferndale

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2015

	Enterprise Funds		
	Water and Sewer	Nonmajor Auto Parking	Total
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 3,651,449	\$ 1,991,140	\$ 5,642,589
Accounts receivable	2,007,151	3,396	2,010,547
Due from other governmental units	2,576	-	2,576
Total current assets	5,661,176	1,994,536	7,655,712
Noncurrent assets			
Net pension asset	1,883,724	-	1,883,724
Capital assets not being depreciated	76,180	454,903	531,083
Capital assets, net of accumulated depreciation	30,606,339	940,420	31,546,759
Total noncurrent assets	32,566,243	1,395,323	33,961,566
TOTAL ASSETS	38,227,419	3,389,859	41,617,278
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	87,988	-	87,988
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	497,683	64,094	561,777
Accrued liabilities	114,653	5,923	120,576
Accrued interest payable	73,560	-	73,560
Current portion of compensated absences	17,742	858	18,600
Current portion of long-term debt	1,033,762	-	1,033,762
Total current liabilities	1,737,400	70,875	1,808,275
Noncurrent liabilities			
Noncurrent portion of compensated absences	9,553	461	10,014
Noncurrent portion of long-term debt	10,786,274	-	10,786,274
Total noncurrent liabilities	10,795,827	461	10,796,288
TOTAL LIABILITIES	12,533,227	71,336	12,604,563
<b>NET POSITION</b>			
Net investment in capital assets	18,862,483	1,395,323	20,257,806
Unrestricted	6,919,697	1,923,200	8,842,897
TOTAL NET POSITION	\$ 25,782,180	\$ 3,318,523	\$ 29,100,703

See accompanying notes to financial statements.

City of Ferndale

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2015

	Enterprise Funds		
	Water and Sewer	Nonmajor Auto Parking	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 7,479,669	\$ -	\$ 7,479,669
Parking meter receipts	-	974,718	974,718
Water penalties	204,948	-	204,948
Water meter repairs	7,007	-	7,007
Miscellaneous income	3,326	20,258	23,584
<b>TOTAL OPERATING REVENUES</b>	<b>7,694,950</b>	<b>994,976</b>	<b>8,689,926</b>
<b>OPERATING EXPENSES</b>			
Personnel services	756,044	174,568	930,612
General and administrative	4,811,322	353,593	5,164,915
Utilities	61,277	23,677	84,954
Rental expense	208,112	69,142	277,254
Contractual services	56,340	116,473	172,813
Water and sewer expense	4,513,308	-	4,513,308
Maintenance expense	120,771	5,901	126,672
Depreciation	2,290,966	133,662	2,424,628
Other	46,501	-	46,501
<b>TOTAL OPERATING EXPENSES</b>	<b>12,864,641</b>	<b>877,016</b>	<b>13,741,657</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(5,169,691)</b>	<b>117,960</b>	<b>(5,051,731)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest income	174,206	3,629	177,835
Interest expense	(313,833)	-	(313,833)
<b>TOTAL NONOPERATING (EXPENSES)</b>	<b>(139,627)</b>	<b>3,629</b>	<b>(135,998)</b>
<b>CHANGE IN NET POSITION BEFORE TRANSFERS</b>	<b>(5,309,318)</b>	<b>121,589</b>	<b>(5,187,729)</b>
<b>TRANSFERS OUT</b>	<b>(12,719)</b>	<b>-</b>	<b>(12,719)</b>
<b>CHANGE IN NET POSITION</b>	<b>(5,322,037)</b>	<b>121,589</b>	<b>(5,200,448)</b>
Restated net position, beginning of year	31,104,217	3,196,934	34,301,151
<b>Net position, end of year</b>	<b>\$ 25,782,180</b>	<b>\$ 3,318,523</b>	<b>\$ 29,100,703</b>

See accompanying notes to financial statements.

City of Ferndale

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2015

	Enterprise Funds		
	Water and Sewer	Nonmajor Auto Parking	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers and others	\$ 7,925,885	\$ 1,009,931	\$ 8,935,816
Cash payments to employees	(700,913)	(177,005)	(877,918)
Cash payments to suppliers for goods and services	(5,472,190)	(475,567)	(5,947,757)
Cash payments for litigation settlement	(4,250,000)	-	(4,250,000)
Cash payments for interfund services	(180,817)	(67,823)	(248,640)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	(2,678,035)	289,536	(2,388,499)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers	(12,719)	-	(12,719)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of capital assets	(843,283)	(6,000)	(849,283)
Interest paid	(319,830)	-	(319,830)
Payments on borrowings	(1,009,775)	-	(1,009,775)
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	(2,172,888)	(6,000)	(2,178,888)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment income received	174,206	3,629	177,835
<b>NET INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	(4,689,436)	287,165	(4,402,271)
Cash and investments, beginning of year	8,340,885	1,703,975	10,044,860
Cash and investments, end of year	\$ 3,651,449	\$ 1,991,140	\$ 5,642,589

See accompanying notes to financial statements.

City of Ferndale

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2015

	Enterprise Funds		
	Water and Sewer	Nonmajor Auto Parking	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (5,169,691)	\$ 117,960	\$ (5,051,731)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	2,290,966	133,662	2,424,628
(Increase) decrease in:			
Accounts receivable	230,935	14,955	245,890
Net pension asset	(682)	-	(682)
Deferred outflows of resources related to pensions	(87,988)	-	(87,988)
Increase (decrease) in:			
Accounts payable	(24,001)	24,077	76
Accrued liabilities	55,131	(2,437)	52,694
Compensated absences	27,295	1,319	28,614
 NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	 <u>\$ (2,678,035)</u>	 <u>\$ 289,536</u>	 <u>\$ (2,388,499)</u>

City of Ferndale

Fiduciary Funds

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

	<u>Trust Funds</u>	
	Pension and Other Post- Employment Benefits	Agency Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,485,564	\$ 397,347
Accrued interest receivable	140,466	-
Accounts receivable	414,425	-
Investments		
Debt securities	23,244,903	-
Equity securities	46,910,669	-
Real estate investment trust	5,567,669	-
	<u>\$ 77,763,696</u>	<u>\$ 397,347</u>
<b>TOTAL ASSETS</b>		
<b>LIABILITIES</b>		
Due to other governmental units	\$ -	\$ 395,893
Other liabilities	-	1,454
	<u>-0-</u>	<u>\$ 397,347</u>
<b>TOTAL LIABILITIES</b>		
<b>NET POSITION</b>		
Held in trust for pension benefits and other purposes	<u>\$ 77,763,696</u>	

See accompanying notes to financial statements.

City of Ferndale

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2015

	<u>Trust Funds</u> <u>Pension and</u> <u>Other Post-</u> <u>Employment</u> <u>Benefits</u>
<b>ADDITIONS</b>	
Contributions	
Employer contributions	\$ 1,099,363
Plan member contributions	<u>129,221</u>
Total contributions	1,228,584
Investment income	
Net change in fair value of investments	(93,962)
Interest	958,990
Dividends	1,596,270
Less investment expense	<u>(320,836)</u>
Net investment income	<u>2,140,462</u>
TOTAL ADDITIONS	3,369,046
<b>DEDUCTIONS</b>	
Benefits	3,459,701
Administrative expenses	<u>16,149</u>
TOTAL DEDUCTIONS	<u>3,475,850</u>
CHANGE IN NET POSITION	(106,804)
Net position, beginning of year	<u>77,870,500</u>
Net position, end of year	<u><u>\$ 77,763,696</u></u>

See accompanying notes to financial statements.

City of Ferndale

Component Units

STATEMENT OF NET POSITION

June 30, 2015

	Brownfield Redevelopment Authority	Downtown Development Authority	Total
<b>ASSETS</b>			
Current assets			
Cash and investments	\$ 767,114	\$ 541,764	\$ 1,308,878
Accrued interest receivable	2,164	1,535	3,699
Total current assets	769,278	543,299	1,312,577
Noncurrent assets			
Loans receivable	656,622	-	656,622
Capital assets, net of accumulated depreciation	-	132,603	132,603
Total noncurrent assets	656,622	132,603	789,225
<b>TOTAL ASSETS</b>	<b>1,425,900</b>	<b>675,902</b>	<b>2,101,802</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	34,738	19,011	53,749
Accrued liabilities	-	3,905	3,905
Due to other governmental units	-	675	675
<b>TOTAL LIABILITIES</b>	<b>34,738</b>	<b>23,591</b>	<b>58,329</b>
<b>NET POSITION</b>			
Investment in capital assets	-	132,603	132,603
Restricted	1,391,162	519,708	1,910,870
<b>TOTAL NET POSITION</b>	<b>\$ 1,391,162</b>	<b>\$ 652,311</b>	<b>\$ 2,043,473</b>

See accompanying notes to financial statements.

City of Ferndale

Component Units

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

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	\$ 72,368	\$ 3,568	\$ 403	\$ (68,397)	\$ -	\$ (68,397)
Downtown Development Authority	553,962	200	90,356	-	(463,406)	(463,406)
Totals	<u>\$ 626,330</u>	<u>\$ 3,768</u>	<u>\$ 90,759</u>	(68,397)	(463,406)	(531,803)
General revenues						
Property taxes				316,683	541,522	858,205
Unrestricted investment earnings				14,116	9,870	23,986
Total general revenues				<u>330,799</u>	<u>551,392</u>	<u>882,191</u>
Change in net position				262,402	87,986	350,388
Net position, beginning of year				<u>1,128,760</u>	<u>564,325</u>	<u>1,693,085</u>
Net position, end of year				<u>\$ 1,391,162</u>	<u>\$ 652,311</u>	<u>\$ 2,043,473</u>

See accompanying notes to financial statements.

## **NOTES TO FINANCIAL STATEMENTS**

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**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, 2015, the Authority reported a decrease in net position in the amount of \$478,639 resulting in ending net position of \$3,555,535. During the year ended June 30, 2015, the City expended \$1,746,475 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, 2015

**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, 2015

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

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- d. 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.
- e. 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 are charges to customers for sales and services. Operating expenses for enterprise 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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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

Unearned revenues are reported 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 will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category. Accordingly, they are deferred outflows of resources related to pensions reported in the government-wide statement of net position. The deferred outflows of resources related to pensions are the result of changes in assumptions and differences between projected and actual pension plan investment earnings. These amounts are deferred and recognized as an outflow of resources in the period to which they apply.

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 will not be recognized as an inflow of resources (revenue) until then. The City has two items that qualify for reporting in this category. One item, which arises only under a modified accrual basis of accounting, is unavailable revenue which is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue related to probation payments not received within 60 days of fiscal year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City has another item in this category which is reported in the government-wide statement of net position. The deferred inflows of resources related to pensions is related to differences between expected and actual experience. This amount is deferred and recognized as an inflow of resources in the period to which it applies.

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 constraints.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

16. Fund Equity - continued

*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, 2015, the City levied 20.0000 mills for general governmental services, 2.1815 mills for refuse, 1.9601 mills for district library, 0.1013 mills for public relations, and 6.7434 mills for debt service. The total taxable value for the 2014 levy for property within the City was \$493,417,270.

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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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.

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.

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, 2015, the carrying amount of the City's deposits was \$4,770,001 and the bank balance was \$7,234,666. 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, 2015, the City accounts were insured by the Federal Deposit Insurance Corporation for \$1,699,370 and the amount of \$5,535,296 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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

Investments

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2015, 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	\$ -	\$ -	\$ -	\$ -	\$ 5,673,512	\$ 5,673,512
U.S. Government	806,842	3,567,512	6,577,530	1,482,820	-	12,434,704
Corporate bonds	717,896	3,745,744	3,074,198	1,735,718	-	9,273,556
Foreign bonds	-	529,648	600,407	-	-	1,130,055
Stocks	-	-	-	-	36,861,481	36,861,481
Asset backed securities	-	43,996	-	5,735,667	-	5,779,663
Municipal bonds	-	-	238,030	3,273,781	-	3,511,811
Mutual funds	-	-	-	-	14,101,797	14,101,797
REIT	-	-	-	-	5,567,669	5,567,669
<b>TOTAL</b>	<b>\$ 1,524,738</b>	<b>\$ 7,886,900</b>	<b>\$ 10,490,165</b>	<b>\$ 12,227,986</b>	<b>\$ 62,204,459</b>	<b>\$ 94,334,248</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, 2015, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

Investment Type	AAA	AA	A	BBB	BB	B	Not Rated	Total
Pooled investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,673,512	\$ 5,673,512
U.S. Government	2,133,031	3,394,301	-	-	20,800	-	6,886,572	12,434,704
Corporate bonds	490,124	544,933	2,996,800	3,890,958	340,716	251,350	758,675	9,273,556
Foreign bonds	-	256,001	313,023	392,392	168,639	-	-	1,130,055
Stocks	-	-	-	-	-	-	36,861,481	36,861,481
Municipal bonds	-	3,511,811	-	-	-	-	-	3,511,811
Asset backed securities	-	-	-	-	-	-	5,779,663	5,779,663
Mutual funds	-	-	-	-	-	-	14,101,797	14,101,797
REIT	-	-	-	-	-	-	5,567,669	5,567,669
<b>TOTAL</b>	<b>\$ 2,623,155</b>	<b>\$ 7,707,046</b>	<b>\$ 3,309,823</b>	<b>\$ 4,283,350</b>	<b>\$ 530,155</b>	<b>\$ 251,350</b>	<b>\$ 75,629,369</b>	<b>\$ 94,334,248</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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

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, 2015.

	Primary Government	Component Units	Fiduciary Funds	Reporting Entity
Cash and investments	\$ 20,193,369	\$ 1,308,878	\$ 77,606,152	\$ 99,108,399

**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	\$ 111,964	\$ 37,321	\$ 18,661	\$ 39,714
Allowance for uncollectible accounts	(111,964)	(37,321)	(18,661)	(39,714)
Net receivable	\$ -0-	\$ -0-	\$ -0-	\$ -0-

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015, was as follows:

**Primary Government**

	<u>Balance July 1, 2014</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2015</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 687,878	\$ -	\$ -	\$ 687,878
Construction in progress	4,177,445	1,087,772	(3,121,846)	2,143,371
Subtotal	4,865,323	1,087,772	(3,121,846)	2,831,249
Capital assets being depreciated				
Infrastructure	40,455,215	509,323	-	40,964,538
Buildings	12,079,548	2,903,299	-	14,982,847
Equipment	4,700,479	380,383	(1,408,684)	3,672,178
Vehicles	6,199,190	134,293	-	6,333,483
Subtotal	63,434,432	3,927,298	(1,408,684)	65,953,046
Less accumulated depreciation for:				
Infrastructure	(37,641,773)	(917,087)	-	(38,558,860)
Buildings	(5,660,205)	(595,034)	-	(6,255,239)
Equipment	(3,199,585)	(284,718)	602,219	(2,882,084)
Vehicles	(4,568,107)	(291,958)	-	(4,860,065)
Subtotal	(51,069,670)	(2,088,797)	602,219	(52,556,248)
Net capital assets being depreciated	12,364,762	1,838,501	(806,465)	13,396,798
Capital assets, net	<u>\$ 17,230,085</u>	<u>\$ 2,926,273</u>	<u>\$ (3,928,311)</u>	<u>\$ 16,228,047</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 176,270
Public safety	387,913
Public works	284,107
Highways and streets	876,999
Recreation and culture	360,844
Community and economic development	2,664
Total depreciation expense	<u>\$ 2,088,797</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE D: CAPITAL ASSETS - CONTINUED**

**Primary Government - Continued**

	Balance July 1, 2014	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2015
<b>Business-Type Activities</b>				
Capital assets not being depreciated				
Land	\$ 454,903	\$ -	\$ -	\$ 454,903
Construction in progress	40,946	76,180	(40,946)	76,180
Subtotal	495,849	76,180	(40,946)	531,083
Capital assets being depreciated				
Infrastructure	57,717,517	712,157	-	58,429,674
Buildings	1,085,091	-	-	1,085,091
Equipment	1,898,200	101,892	-	2,000,092
Vehicles	111,465	-	-	111,465
Subtotal	60,812,273	814,049	-0-	61,626,322
Less accumulated depreciation for:				
Infrastructure	(26,042,996)	(2,309,355)	-	(28,352,351)
Buildings	(1,039,461)	(5,070)	-	(1,044,531)
Equipment	(461,013)	(110,203)	-	(571,216)
Vehicles	(111,465)	-	-	(111,465)
Subtotal	(27,654,935)	(2,424,628)	-0-	(30,079,563)
Net capital assets being depreciated	33,157,338	(1,610,579)	-0-	31,546,759
Capital assets, net	<u>\$ 33,653,187</u>	<u>\$ (1,534,399)</u>	<u>\$ (40,946)</u>	<u>\$ 32,077,842</u>

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

Water and sewer	\$ 2,290,966
Auto parking	133,662
Total depreciation expense	<u>\$ 2,424,628</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE D: CAPITAL ASSETS - CONTINUED**

**Component Unit**

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
<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	(1,398,750)	(42,652)	-	(1,441,402)
Equipment	(50,400)	-	-	(50,400)
Vehicles	(23,140)	-	-	(23,140)
Subtotal	(1,472,290)	(42,652)	-0-	(1,514,942)
Capital assets, net	<u>\$ 175,255</u>	<u>\$ (42,652)</u>	<u>\$ -0-</u>	<u>\$ 132,603</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, 2015:

**Primary Government**

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015	Amounts Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds					
2005 Unlimited tax refunding bonds	\$ 2,545,000	\$ -	\$ (1,280,000)	\$ 1,265,000	\$ 1,265,000
2007 Unlimited tax bonds	950,000	-	(450,000)	500,000	500,000
2008 Limited tax bonds (library)	3,850,000	-	(200,000)	3,650,000	215,000
2013 Unlimited tax refunding bonds	2,925,000	-	(1,490,000)	1,435,000	1,435,000
Installment purchase agreement	-	187,254	(45,296)	141,958	61,949
Uninsured claim liability	106,594	274,715	(130,360)	250,949	250,949
Compensated absences	652,165	762,611	(414,826)	999,950	450,000
Total Governmental Activities	11,028,759	1,224,580	(4,010,482)	8,242,857	4,177,898
<b>Business-type Activities</b>					
George W. Kuhn Drain Bonds	7,336,545	-	(654,775)	6,681,770	673,762
State Revolving Loan Fund					
2006 Michigan Municipal Bond Authority	2,408,451	-	(165,000)	2,243,451	165,000
2007 Michigan Municipal Bond Authority	1,829,815	-	(115,000)	1,714,815	115,000
2008 Michigan Municipal Bond Authority	1,255,000	-	(75,000)	1,180,000	80,000
Compensated absences	-	28,614	-	28,614	18,600
Total Business-type Activities	12,829,811	28,614	(1,009,775)	11,848,650	1,052,362
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 23,858,570</u>	<u>\$ 1,253,194</u>	<u>\$ (5,020,257)</u>	<u>\$ 20,091,507</u>	<u>\$ 5,230,260</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**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 an annual installment of \$1,265,000 on April 1, 2016, with interest of 4.00 percent. \$ 1,265,000

\$3,000,000 2007 Unlimited Tax General Obligations Bonds, dated December 1, 2007, due in an installment of \$500,000 on April 1, 2016, with interest of 4.00 percent. 500,000

\$4,700,000 2008 General Obligation Limited Tax Bonds (Library Facilities), dated April 9, 2008, due in annual installments ranging from \$215,000 to \$390,000 through May 1, 2027, with interest ranging from 3.25 percent to 4.00 percent. 3,650,000

\$4,465,000 2013 Unlimited Tax General Obligation Refunding Bonds, dated January 8, 2013, due in an annual installment of \$1,435,000 on April 1, 2016, with interest of 1.28 percent. 1,435,000

\$ 6,850,000

Installment Purchase Agreement

\$187,254 BS&A Installment Purchase Agreement, dated October 1, 2014, due in monthly installments of \$5,438 through October 1, 2017, with interest of 2.906 percent. \$ 141,958

**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. \$ 6,681,770

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. \$ 2,243,451

\$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. 1,714,815

\$1,670,000 Michigan Municipal Bond Authority Series 2008, dated June 23, 2008, due in annual installments ranging from \$80,000 to \$105,000 through April 1, 2028, with an interest rate of 2.50 percent. 1,180,000

\$ 5,138,266

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**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 \$1,028,564 at June 30, 2015. 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 \$250,949, 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 bonds and the installment purchase agreement are as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 3,476,949	\$ 236,048	\$ 1,033,762	\$ 294,241
2017	293,774	137,730	1,062,250	267,972
2018	261,235	128,279	1,084,730	240,951
2019	260,000	118,400	1,116,729	213,314
2020	275,000	108,000	1,135,716	184,897
2021-2025	1,650,000	361,000	5,010,963	487,383
2026-2028	775,000	46,600	1,375,886	59,999
	<u>\$ 6,991,958</u>	<u>\$ 1,136,057</u>	<u>\$ 11,820,036</u>	<u>\$ 1,748,757</u>

**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	\$ 140,333	\$ -	\$ -	\$ 140,333
Restricted				
Public safety	12,636	-	660,603	673,239
Debt service	-	395,116	-	395,116
Highways and streets	-	-	5,581	5,581
Public works	-	-	1,098,582	1,098,582
Recreation and culture	-	-	113,014	113,014

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Fund balances - continued				
Committed				
Employee benefits	\$ 504,594	\$ -	\$ -	\$ 504,594
Capital projects	-	-	2,023,006	2,023,006
Assigned				
Highways and streets	-	-	2,652,754	2,652,754
Senior memorial	9,783	-	-	9,783
Compensation study	225,000	-	-	225,000
Subsequent years' expenditures	713,000	-	-	713,000
Capital projects	-	-	178,024	178,024
Unassigned	4,696,189	-	-	4,696,189
 TOTAL FUND BALANCES	 <u>\$ 6,301,535</u>	 <u>\$ 395,116</u>	 <u>\$ 6,731,564</u>	 <u>\$ 13,428,215</u>

**NOTE G: INTERFUND PAYABLES AND RECEIVABLES**

The amount of interfund receivables and payables at June 30, 2015, are as follows:

Due to General Fund from:	
Nonmajor governmental funds	<u>\$ 30,246</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.

**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 have been eliminated.

Transfers to General Fund from:	
Water and Sewer Fund	<u>\$ 12,719</u>
Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 1,957,528</u>

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE I: 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 J: CONTINGENT LIABILITIES**

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

The City is a defendant in various lawsuits. Although the 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 K: DEFINED BENEFIT PENSION PLANS**

FERNDALE EMPLOYEES RETIREMENT SYSTEM

Plan Administration

The Ferndale Employees Retirement System (FERS or "the Plan") 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.

The Board of Trustees consists of three members. One member is appointed by the City Council and the City Manager and City Finance Director serve as ex-officio members.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

Summary of Significant Accounting Policies

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Plan Membership

Membership of the FERS consisted of the following at June 30, 2015, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefits	57
Active members	<u>39</u>
	<u><u>96</u></u>

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.

Duty Disability

Participants are eligible for duty disability regardless of age or service time. Prior to age 60 the annual benefit is computed as regular retirement benefit plus amount paid by workers' compensation. After age 60 the annual benefit is computed by regular retirement with additional service credit granted for period in receipt of workers' compensation.

Non-Duty Disability

Participants are eligible for non-duty disability if they have 10 years of service. The annual benefit is computed as regular retirement but based upon service and final average compensation at commencement of disability. Minimum benefit to age 60 is \$720.

Duty Death

Payable upon expiration of workers' compensation to the survivor of a member who died in the line of duty. The annual benefit is the same amount that was paid by workers' compensation to spouse, unmarried children under 18, and dependent parents.

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, 2015, the balance of amounts held by the Plan pursuant to the DROP is \$0.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

Non-Duty Death before Retirement

Participants are eligible for non-duty death before retirement benefits if they have 10 or more years of service. The benefit is accrued straight-line pension reduced actuarially in accordance with an Option II election.

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, 2015, 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.)

Net Pension Asset

The net pension asset reported at June 30, 2015 was determined using a measure of the total pension liability and the pension net position as of June 30, 2015. The June 30, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension asset during the measurement year were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a)-(b)
<u>Changes in Net Pension Asset</u>			
Balances at June 30, 2014	\$ 8,164,513	\$ 19,933,524	\$ (11,769,011)
Service cost	15,285	-	15,285
Interest on total pension liability	539,766	-	539,766
Differences between expected and actual experience	111,044	-	111,044
Net investment income	-	675,480	(675,480)
Benefit payments, including employee refunds	(922,431)	(922,431)	-0-
Administrative expense	-	(5,120)	5,120
Net changes	<u>(256,336)</u>	<u>(252,071)</u>	<u>(4,265)</u>
Balances at June 30, 2015	<u>\$ 7,908,177</u>	<u>\$ 19,681,453</u>	<u>\$ (11,773,276)</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized pension revenue of \$554,188. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual investment experience	<u>\$ 549,922</u>	<u>\$ -0-</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense</u>
2016	\$ 137,480
2017	137,480
2018	137,480
2019	137,482

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Asset valuation method	4 years smoothed market
Wage inflation	3.00%
Salary increases	3.00% - 7.40% (including inflation)
Investment rate of return	7.00%
Municipal Bond Rate	3.80%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Healthy Combined Mortality Table projected to 2020 using scale BB

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2014 through June 30, 2015.

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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

Projected Cash Flows

Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all future periods of projected benefit payments to determine the total pension liability.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target</u>	<u>Long-term Expected Rate of Return</u>
U.S. Equities	55.00%	7.00%
U.S. Fixed Income	40.00%	7.00%
Commercial Real Estate	5.00%	7.00%

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the City's net pension asset, calculated using the discount rate of 7.0%, as well as what the City's net pension 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:

	<u>1% Decrease Rate 6.00%</u>	<u>Current Discount Rate 7.00%</u>	<u>1% Increase Rate 8.00%</u>
Total pension liability	\$ 8,481,190	\$ 7,908,177	\$ 7,404,155
Plan fiduciary net position	19,681,453	19,681,453	19,681,453
City's net pension asset	<u>\$ (11,200,263)</u>	<u>\$ (11,773,276)</u>	<u>\$ (12,277,298)</u>

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM

Plan Administration

The Ferndale Policemen and Firemen Retirement System (FPFRS or "the Plan") 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.

The Board of Trustees consists of six members. One member is a City Council member appointed by the City Council, one member is a citizen elected by the members of the Plan, two members are elected by active Plan participants, and the City Mayor and City Manager serve as ex-officio members.

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

Summary of Significant Accounting Policies

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Plan Membership

Membership of the FPFERS consisted of the following at June 30, 2015, the date of the latest actuarial valuation:

Inactive plan members or beneficiaries currently receiving benefits	83
Active members	<u>31</u>
	<u><u>114</u></u>

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.

Duty Disability

Participants are eligible for duty disability regardless of age or service time. Prior to age 50 the annual benefit is computed as 70% of annual base pay of a patrol officer or firefighter, whichever is higher. After age 50 the annual benefit is computed by regular retirement with additional service credit granted for period in receipt of workers' compensation.

Non-Duty Disability

Participants are eligible for non-duty disability if they have 10 years of service. The annual benefit is computed as regular retirement but based upon service and final average compensation at commencement of disability. Minimum benefit to age 60 is \$720.

Duty Death

Payable upon expiration of workers' compensation to the survivor of a member who died in the line of duty. Spouse receives 40% of final compensation (70% of FAC for Fire); unmarried children under 18 receive an equal share of 25% of final compensation (5% of FAC for Fire); unmarried children under 18 and no spouse receive an equal share of 50% of final compensation.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

Non-Duty Death before Retirement

Participants are eligible for non-duty death before retirement benefits if they have 10 or more years of service or are 55 regardless of service. The benefit is accrued straight-line pension reduced actuarially in accordance with a 100% joint and survivor election.

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, 2015, the balance of amounts held by the Plan pursuant to the DROP is \$0.

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 22.732% of annual covered salary or \$684,938 for the year ended June 30, 2015, according to the June 30, 2013, 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 FPFERS are financed through investment earnings.

Net Pension Asset

The net pension asset reported at June 30, 2015 was determined using a measure of the total pension liability and the pension net position as of June 30, 2015. The June 30, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension asset during the measurement year were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension (Asset) Liability (a)-(b)
<u>Changes in Net Pension Asset</u>			
Balances at June 30, 2014	\$ 40,050,795	\$ 43,054,278	\$ (3,003,483)
Service cost	635,613	-	635,613
Interest on total pension liability	2,834,748	-	2,834,748
Differences between expected and actual experience	(553,767)	-	(553,767)
Employer contributions	-	684,938	(684,938)
Employee contributions	-	129,221	(129,221)
Net investment income	-	1,115,049	(1,115,049)
Benefit payments, including employee refunds	(2,537,270)	(2,537,270)	-0-
Administrative expense	-	(11,029)	11,029
Net changes	<u>379,324</u>	<u>(619,091)</u>	<u>998,415</u>
Balances at June 30, 2015	<u>\$ 40,430,119</u>	<u>\$ 42,435,187</u>	<u>\$ (2,005,068)</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the City recognized pension expense of \$433,059. The City reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 304,524
Difference between expected and actual investment experience	<u>1,554,819</u>	<u>-</u>
	<u>\$ 1,554,819</u>	<u>\$ 304,524</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense</u>
2016	\$ 139,462
2017	333,423
2018	388,705
2019	388,705

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

Asset valuation method	4 years smoothed market
Wage inflation	4.00%
Salary increases	4.00% - 7.00% (including inflation)
Investment rate of return	7.25%
Municipal bond rate	3.80%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Healthy Combined Mortality Table projected to 2020 using scale AA

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2014 through June 30, 2015.

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.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

Projected Cash Flows

Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all future periods of projected benefit payments to determine the total pension liability.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target	Long-term Expected Rate of Return
U.S. Equities	45.00%	7.25%
Non U.S. Equities	10.00%	7.25%
U.S. Fixed Income	40.00%	7.25%
Commercial Real Estate	5.00%	7.25%

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:

	1% Decrease Rate 6.25%	Current Discount Rate 7.25%	1% Increase Rate 8.25%
Total pension liability	\$ 44,700,313	\$ 40,430,119	\$ 36,790,100
Plan fiduciary net position	42,435,187	42,435,187	42,435,187
City's net pension liability (asset)	<u>\$ 2,265,126</u>	<u>\$ (2,005,068)</u>	<u>\$ (5,645,087)</u>

**NOTE L: 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 98 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 \$202,569 by employees and \$516,064 by the City.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE L: 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, 2015, was \$73,985. 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 M: 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, 2014, (latest actuarial report) is as follows:

Retirees and beneficiaries receiving benefits	151
Active plan members	<u>92</u>
	<u><u>243</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE M: 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, 2015, the City made payments for post-employment health benefit claims of approximately \$1,596,122 paid out of the General Fund and \$414,425 paid to the Other Post-Employment Benefits Fund for future health care benefits. This was less than the estimated required contribution and represents approximately 30% 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, 2014, the most recent biennial valuation date, is as follows:

Actuarial value of assets	\$ 14,882,698
Actuarial accrued liability (AAL)	53,314,112
Unfunded AAL (UAAL)	38,431,414
Funded ratio	27.9%

The assets in the plan as of June 30, 2015, were \$15,647,056.

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, 2014, 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 2015, 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 24 year period for all groups except Fire in which a level percent of payroll over a closed 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, 2014. 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, 2015

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

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

Annual required contribution (ARC)	\$ 3,837,218
Interest on net OPEB obligation	<u>142,396</u>
Annual OPEB cost	3,979,614
Contributions made	<u>2,010,547</u>
Increase in net OPEB obligation	1,969,067
Net OPEB obligation - beginning of year	<u>2,034,226</u>
Net OPEB obligation - end of year	<u><u>\$ 4,003,293</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>2013</u>	<u>2014</u>	<u>2015</u>
Annual OPEB cost	\$ 3,483,130	\$ 3,811,114	\$ 3,979,614
Percentage contributed	99%	58%	51%
Net OPEB obligation	\$ 447,650	\$ 2,034,226	\$ 4,003,293

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

	<u>2010</u>	<u>2012</u>	<u>2014</u>
Actuarial value of assets	\$ 8,243,946	\$ 10,394,757	\$ 14,882,698
Actuarial accrued liability (AAL)	43,243,505	49,114,831	53,314,112
Unfunded AAL (UAAL)	34,999,559	38,720,074	38,431,414
Funded ratio	19.1%	21.2%	27.9%

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**NOTE N: 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, 2015, is as follows:

	Employees' Retirement System	Policemen and Firemen Retirement System	Other Post- Employment Benefits	Total
<b>Additions</b>				
Employer contributions	\$ -	\$ 684,938	\$ 414,425	\$ 1,099,363
Plan member contributions	-	129,221	-	129,221
Net investment income	675,480	1,115,049	349,933	2,140,462
<b>Deductions</b>				
Benefits	922,431	2,537,270	-	3,459,701
Administrative expenses	5,120	11,029	-	16,149
Change in net position	(252,071)	(619,091)	764,358	(106,804)
Total assets	19,681,453	42,435,187	15,647,056	77,763,696
Beginning net position	19,933,524	43,054,278	14,882,698	77,870,500
Ending net position	19,681,453	42,435,187	15,647,056	77,763,696

**NOTE O: CHANGES IN ACCOUNTING PRINCIPLE**

During the current year, the City adopted GASB 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).

**NOTE P: RESTATEMENT OF BEGINNING NET POSITION**

Beginning net position has been restated for governmental activities, business-type activities, and Water and Sewer Fund due to the implementation of GASB Statement No. 68 during the year.

	Governmental Activities	Business-type Activities	Water and Sewer Fund
Beginning net position	\$ 15,641,477	\$ 32,418,109	\$ 29,221,175
Net pension asset	12,889,452	1,883,042	1,883,042
Restated beginning net position	<u>\$ 28,530,929</u>	<u>\$ 34,301,151</u>	<u>\$ 31,104,217</u>

**NOTE Q: SPECIAL ITEM - DISPOSAL OF OPERATIONS**

On January 1, 2015, the City transferred the assets and liabilities comprising its library service operations to the Ferndale Area District Library for the purpose of enhancing library services. As a result of the transfer, the City recognized a loss of \$685,405 on the disposal of its library service operations as a special item.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

**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, 2015:

Cumulative shortfall at July 1, 2014	\$ (1,048,112)
REVENUES	
Licenses and permits	436,457
EXPENDITURES	
Code enforcement	<u>(629,136)</u>
Cumulative shortfall at June 30, 2015	<u>\$ (1,240,791)</u>

**NOTE S: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In February 2015, the GASB issued Statement No 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The City is currently evaluating the impact this standard will have on the financial statements when adopted for the 2015-2016 fiscal year.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement will establish accounting and financial reporting requirements related to other postemployment benefit plans and specify the required approach to measuring the OPEB liability of employers. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. This statement will be effective for the 2016-2017 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2015-2016 fiscal year.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The City is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

**REQUIRED SUPPLEMENTARY INFORMATION**

City of Ferndale

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Property taxes	\$ 9,777,524	\$ 9,746,524	\$ 10,063,489	\$ 316,965
Licenses and permits	888,020	905,010	1,019,994	114,984
Intergovernmental	3,348,424	3,207,824	3,220,052	12,228
Charges for services	980,725	1,000,658	1,015,423	14,765
Fines and forfeits	2,795,000	2,795,000	2,711,488	(83,512)
Investment earnings	(260,000)	(60,000)	223,998	283,998
Other	643,000	1,292,950	1,033,901	(259,049)
<b>TOTAL REVENUES</b>	<b>18,172,693</b>	<b>18,887,966</b>	<b>19,288,345</b>	<b>400,379</b>
<b>EXPENDITURES</b>				
Current				
General government				
City council	48,900	48,900	43,370	5,530
District court	1,456,377	1,446,222	1,219,023	227,199
City manager	226,900	229,145	242,028	(12,883)
Budget and financial analysis	571,323	636,113	525,641	110,472
City clerk	203,781	181,624	176,474	5,150
City elections	65,360	73,986	68,904	5,082
Legal services	244,600	234,600	255,639	(21,039)
Cable television	44,586	45,076	33,478	11,598
Central services	630,915	1,126,646	1,204,785	(78,139)
Technology and telecommunications	235,390	220,394	377,548	(157,154)
Human resources	192,999	165,519	121,520	43,999
Health and wellness	-	50,000	54,421	(4,421)
Other	507,755	517,755	480,280	37,475
<b>Total general government</b>	<b>4,428,886</b>	<b>4,975,980</b>	<b>4,803,111</b>	<b>172,869</b>
Public safety				
Police department	6,469,912	6,443,205	5,579,290	863,915
Fire department	3,940,348	4,035,636	3,515,204	520,432
Code enforcement	698,693	697,273	629,136	68,137
<b>Total public safety</b>	<b>11,108,953</b>	<b>11,176,114</b>	<b>9,723,630</b>	<b>1,452,484</b>
Public works				
Public services department	1,050,184	1,089,780	1,076,430	13,350
Motor pool	136,437	22,317	122,637	(100,320)
Street lighting	507,600	507,600	514,080	(6,480)
<b>Total public works</b>	<b>1,694,221</b>	<b>1,619,697</b>	<b>1,713,147</b>	<b>(93,450)</b>

City of Ferndale

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Current - continued				
Recreation and culture				
Dream cruise car show	\$ 103,553	\$ 105,763	\$ 106,160	\$ (397)
Community center	517,080	497,330	454,148	43,182
Other	-	-	105	(105)
Total recreation and culture	620,633	603,093	560,413	42,680
Debt service				
Principal	-	36,000	45,296	(9,296)
Interest and fees	-	-	3,645	(3,645)
Total debt service	-0-	36,000	48,941	(12,941)
TOTAL EXPENDITURES	17,852,693	18,410,884	16,849,242	1,561,642
EXCESS OF REVENUES OVER EXPENDITURES	320,000	477,082	2,439,103	1,962,021
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	12,719	12,719
Transfers out	(325,000)	(541,500)	(1,957,528)	(1,416,028)
Installment purchase agreement	-	-	187,254	187,254
Proceeds from sale of capital assets	5,000	64,418	28,019	(36,399)
TOTAL OTHER FINANCING SOURCES (USES)	(320,000)	(477,082)	(1,729,536)	(1,252,454)
NET CHANGE IN FUND BALANCE	-0-	-0-	709,567	709,567
Fund balance, beginning of year	5,591,968	5,591,968	5,591,968	-0-
Fund balance, end of year	\$ 5,591,968	\$ 5,591,968	\$ 6,301,535	\$ 709,567

City of Ferndale

Ferndale Employees' Retirement System

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

Last Two Fiscal Years (Ultimately ten fiscal years will be displayed)

	<u>2015</u>	<u>2014</u>
CHANGE IN TOTAL PENSION LIABILITY		
Service cost	\$ 15,285	\$ 16,286
Interest	539,766	581,366
Differences between expected and actual experience	111,044	(248,912)
Benefit payments, including refunds of member contributions	<u>(922,431)</u>	<u>(962,588)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	(256,336)	(613,848)
TOTAL PENSION LIABILITY, BEGINNING	<u>8,164,513</u>	<u>8,778,361</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u>\$ 7,908,177</u>	<u>\$ 8,164,513</u>
CHANGE IN PLAN FIDUCIARY NET POSITION		
Net investment income	\$ 675,480	\$ 2,628,765
Benefit payments, including refunds of member contributions	(922,431)	(962,588)
Administrative expenses	<u>(5,120)</u>	<u>(9,000)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(252,071)	1,657,177
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>19,933,524</u>	<u>18,276,347</u>
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 19,681,453</u>	<u>\$ 19,933,524</u>
CITY'S NET PENSION ASSET, ENDING (A)-(B)	<u>\$ (11,773,276)</u>	<u>\$ (11,769,011)</u>
Plan fiduciary net position as a percentage of the total pension liability	248.87%	244.15%
Covered-employee payroll	\$ 2,041,236	\$ 2,194,974
City's net pension asset as a percentage of covered-employee payroll	(576.77)%	(536.18)%

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

Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution *	-	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -0-</u>									
Covered-employee payroll	\$ 2,041,236	\$ 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
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	Aggregate
Amortization method	Level dollar, open
Remaining amortization period	10 years
Asset valuation method	4 years smoothed market
Wage inflation	3.00%
Salary increases	3.00% - 7.40% (including inflation)
Investment rate of return	7.00%
Municipal Bond Rate	3.80%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Healthy Combined Mortality Table projected to 2020 using scale BB

City of Ferndale

Ferndale Employees' Retirement System

SCHEDULE OF INVESTMENT RETURNS

Last Two Fiscal Years (Ultimately ten years will be displayed)

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	-1.26%	9.07%

City of Ferndale

Ferndale Policemen and Firemen Retirement System

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

Last Two Fiscal Years (Ultimately ten fiscal years will be displayed)

	<u>2015</u>	<u>2014</u>
CHANGE IN TOTAL PENSION LIABILITY		
Service cost	\$ 635,613	\$ 691,796
Interest	2,834,748	2,805,903
Differences between expected and actual experience	(553,767)	(597,764)
Benefit payments, including refunds of member contributions	<u>(2,537,270)</u>	<u>(2,410,678)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	379,324	489,257
TOTAL PENSION LIABILITY, BEGINNING	<u>40,050,795</u>	<u>39,561,537</u>
TOTAL PENSION LIABILITY, ENDING (A)	<u>\$ 40,430,119</u>	<u>\$ 40,050,794</u>
CHANGE IN PLAN FIDUCIARY NET POSITION		
Contributions - employer	\$ 684,938	\$ 830,704
Contributions - member	129,221	138,439
Net investment income	1,115,049	5,247,511
Benefit payments, including refunds of member contributions	(2,537,270)	(2,410,678)
Administrative expenses	<u>(11,029)</u>	<u>(13,287)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(619,091)	3,792,689
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>43,054,278</u>	<u>39,261,589</u>
PLAN FIDUCIARY NET POSITION, ENDING (B)	<u>\$ 42,435,187</u>	<u>\$ 43,054,278</u>
CITY'S NET PENSION ASSET, ENDING (A)-(B)	<u>\$ (2,005,068)</u>	<u>\$ (3,003,484)</u>
Plan fiduciary net position as a percentage of the total pension liability	104.96%	107.50%
Covered-employee payroll	\$ 2,511,453	\$ 2,740,856
City's net pension asset as a percentage of covered-employee payroll	(79.84)%	(109.58)%

City of Ferndale

Ferndale Policemen and Firemen Retirement System

SCHEDULE OF CITY CONTRIBUTIONS

Last Ten Fiscal Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 684,938	\$ 830,704	\$ 761,235	\$ 692,086	\$ 673,877	\$ 208,650	\$ -	\$ -	\$ 88,709	\$ -
Contributions in relation to the actuarially determined contribution	684,938	830,704	713,792	692,086	692,086	208,650	-	88,709	-	-
Contribution deficiency (excess)	\$ -0-	\$ -0-	\$ 47,443	\$ -0-	\$ (18,209)	\$ -0-	\$ -0-	\$ (88,709)	\$ 88,709	\$ -0-
Covered-employee payroll	\$ 2,511,453	\$ 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
Contributions as a percentage of covered-employee payroll	27.27%	30.31%	24.83%	24.99%	23.15%	7.60%	0.00%	2.88%	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	24 years
Asset valuation method	4 years smoothed market
Wage inflation	4.00%
Salary increases	4.00% - 7.00% (including inflation)
Investment rate of return	7.25%
Municipal bond rate	3.80%
Retirement age	Age-based table of rates that are specific to the type of eligibility condition
Mortality	RP-2000 Healthy Combined Mortality Table projected to 2020 using scale AA

City of Ferndale

Ferndale Policemen and Firemen Retirement System

SCHEDULE OF INVESTMENT RETURNS

Last Two Fiscal Years (Ultimately ten years will be displayed)

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	-1.44%	9.66%

City of Ferndale

Other Post-Employment Benefits Trust Fund

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended June 30, 2015

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%
2014	14,882,698	53,314,112	38,431,414	27.9%

Schedule of Employer Contributions

Actuarial Valuation Date June 30	Fiscal Year Ended	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%
2014	6/30/15	3,979,614	2,010,547	51%

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2014, the latest valuation follows:

Amortization method:

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

Remaining amortization period

General and Police 24 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, 2015

**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, 2015, the City incurred expenditures in the General Fund fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Public works	\$ 1,619,697	\$ 1,713,147	\$ 93,450
Debt service	36,000	48,941	12,941
Transfers out	541,500	1,957,528	1,416,028

## **OTHER SUPPLEMENTARY INFORMATION**

City of Ferndale

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2015

	<u>Special</u>			
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Sanitation</u>	<u>Drug Forfeiture</u>
<b>ASSETS</b>				
Cash and investments	\$ 2,362,854	\$ 377,425	\$ 1,253,734	\$ 664,912
Accrued interest receivable	6,689	1,095	3,774	1,863
Due from other governmental units	229,655	54,592	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 2,599,198</u></b>	<b><u>\$ 433,112</u></b>	<b><u>\$ 1,257,508</u></b>	<b><u>\$ 666,775</u></b>
<b>LIABILITIES</b>				
Accounts payable	\$ 335,739	\$ 132	\$ 147,338	\$ 6,172
Accrued liabilities	13,965	6,013	11,588	-
Due to other funds	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>349,704</b>	<b>6,145</b>	<b>158,926</b>	<b>6,172</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue	18,126	-	-	-
<b>FUND BALANCES</b>				
Restricted	-	5,581	1,098,582	660,603
Committed	-	-	-	-
Assigned	2,231,368	421,386	-	-
<b>TOTAL FUND BALANCES</b>	<b><u>2,231,368</u></b>	<b><u>426,967</u></b>	<b><u>1,098,582</u></b>	<b><u>660,603</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b><u>\$ 2,599,198</u></b>	<b><u>\$ 433,112</u></b>	<b><u>\$ 1,257,508</u></b>	<b><u>\$ 666,775</u></b>

Library	Revenue		Capital Projects		Total
	Community Development Block Grant	SMART Transportation	Public Improvement		
\$ -	\$ -	\$ 102,030	\$ 2,199,841	\$ 6,960,796	
-	-	290	1,189	14,900	
-	31,268	16,247	-	331,762	
<u>\$ -0-</u>	<u>\$ 31,268</u>	<u>\$ 118,567</u>	<u>\$ 2,201,030</u>	<u>\$ 7,307,458</u>	
\$ -	\$ 1,022	\$ -	\$ -	\$ 490,403	
-	-	1,906	-	33,472	
-	30,246	-	-	30,246	
-0-	31,268	1,906	-0-	554,121	
-	-	3,647	-	21,773	
-	-	113,014	-	1,877,780	
-	-	-	2,023,006	2,023,006	
-	-	-	178,024	2,830,778	
<u>-0-</u>	<u>-0-</u>	<u>113,014</u>	<u>2,201,030</u>	<u>6,731,564</u>	
<u>\$ -0-</u>	<u>\$ 31,268</u>	<u>\$ 118,567</u>	<u>\$ 2,201,030</u>	<u>\$ 7,307,458</u>	

City of Ferndale

Nonmajor Governmental Funds

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

Year Ended June 30, 2015

	Special			
	Major Streets	Local Streets	Sanitation	Drug Forfeiture
REVENUES				
Property taxes	\$ -	\$ -	\$ 1,032,256	\$ -
Intergovernmental	1,146,785	340,587	41,812	66,366
Charges for services	-	-	1,458,394	-
Fines and forfeits	-	-	-	60,550
Investment earnings	53,081	6,448	44,506	11,008
Other	-	9,543	904	-
<b>TOTAL REVENUES</b>	<b>1,199,866</b>	<b>356,578</b>	<b>2,577,872</b>	<b>137,924</b>
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	-	-	-	36,744
Public works	-	-	2,409,994	-
Highway and streets	1,759,488	335,006	-	-
Recreation and culture	-	-	-	-
Community and economic development	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Capital outlay	-	-	-	7,706
<b>TOTAL EXPENDITURES</b>	<b>1,759,488</b>	<b>335,006</b>	<b>2,409,994</b>	<b>44,450</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(559,622)</b>	<b>21,572</b>	<b>167,878</b>	<b>93,474</b>
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
SPECIAL ITEM				
Disposal of operations	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>(559,622)</b>	<b>21,572</b>	<b>167,878</b>	<b>93,474</b>
Fund balances, beginning of year	2,790,990	405,395	930,704	567,129
Fund balances, end of year	<u>\$ 2,231,368</u>	<u>\$ 426,967</u>	<u>\$ 1,098,582</u>	<u>\$ 660,603</u>

Library	Revenue		Capital Projects		Total
	Community Development Block Grant	SMART Transportation	Public Improvement		
\$ 929,816	\$ -	\$ -	\$ -	\$ 1,962,072	
7,493	81,423	65,756	-	1,750,222	
10,775	-	2,023	-	1,471,192	
11,332	-	-	-	71,882	
-	-	1,648	8,161	124,852	
18,613	-	-	50,305	79,365	
978,029	81,423	69,427	58,466	5,459,585	
-	-	-	17,904	17,904	
-	-	-	-	36,744	
-	-	-	-	2,409,994	
-	-	-	-	2,094,494	
288,915	-	40,487	-	329,402	
-	81,423	-	-	81,423	
200,000	-	-	-	200,000	
150,775	-	-	-	150,775	
38,782	-	-	41,439	87,927	
678,472	81,423	40,487	59,343	5,408,663	
299,557	-	28,940	(877)	50,922	
-	-	-	1,957,528	1,957,528	
(685,405)	-	-	-	(685,405)	
(385,848)	-0-	28,940	1,956,651	1,323,045	
385,848	-	84,074	244,379	5,408,519	
\$ -0-	\$ -0-	\$ 113,014	\$ 2,201,030	\$ 6,731,564	

City of Ferndale

Agency Funds

COMBINING STATEMENT OF ASSETS AND LIABILITIES

June 30, 2015

	Ferndale Area District Library	Ferndale Arts and Cultural Commission	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 395,893	\$ 1,454	\$ 397,347
<b>LIABILITIES</b>			
Due to other governmental units	\$ 395,893	\$ -	\$ 395,893
Other liabilities	-	1,454	1,454
	<u>\$ 395,893</u>	<u>\$ 1,454</u>	<u>\$ 397,347</u>

City of Ferndale

Fiduciary Funds

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

	Employees' Retirement System	Policemen and Firemen Retirement System	Other Post- Employment Benefits	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 529,020	\$ 956,544	\$ -	\$ 1,485,564
Accrued interest receivable	46,456	93,983	27	140,466
Accounts receivable	-	-	414,425	414,425
Investments				
Debt securities	7,361,446	15,883,457	-	23,244,903
Equity securities	9,826,416	21,851,649	15,232,604	46,910,669
Real estate investment trust	1,918,115	3,649,554	-	5,567,669
<b>TOTAL ASSETS</b>	<b>19,681,453</b>	<b>42,435,187</b>	<b>15,647,056</b>	<b>77,763,696</b>
<b>LIABILITIES</b>				
	-	-	-	-0-
<b>NET POSITION</b>				
Held in trust for pension benefits and other purposes	<u>\$ 19,681,453</u>	<u>\$ 42,435,187</u>	<u>\$ 15,647,056</u>	<u>\$ 77,763,696</u>

City of Ferndale

Agency Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2015

	Employees' Retirement System	Policemen and Firemen Retirement System	Other Post- Employment Benefits	Total
<b>ADDITIONS</b>				
Contributions				
Employer contributions	\$ -	\$ 684,938	\$ 414,425	\$ 1,099,363
Plan member contributions	-	129,221	-	129,221
Total contributions	-0-	814,159	414,425	1,228,584
Investment income				
Net change in fair value of investments	(97,360)	3,398	-	(93,962)
Interest	178,416	374,745	405,829	958,990
Dividends	688,777	907,493	-	1,596,270
Less investment expense	(94,353)	(170,587)	(55,896)	(320,836)
Net investment income	675,480	1,115,049	349,933	2,140,462
TOTAL ADDITIONS	675,480	1,929,208	764,358	3,369,046
<b>DEDUCTIONS</b>				
Benefits	922,431	2,537,270	-	3,459,701
Administrative expenses	5,120	11,029	-	16,149
TOTAL DEDUCTIONS	927,551	2,548,299	-0-	3,475,850
CHANGE IN NET POSITION	(252,071)	(619,091)	764,358	(106,804)
Net position, beginning of year	19,933,524	43,054,278	14,882,698	77,870,500
Net position, end of year	<u>\$ 19,681,453</u>	<u>\$ 42,435,187</u>	<u>\$ 15,647,056</u>	<u>\$ 77,763,696</u>

Principals

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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, 2015, 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 10, 2015.

**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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the following deficiencies in internal control to be material weaknesses:

JOURNAL ENTRY REVIEW

Condition: During our review and testing of journal entries, we noted that there was no indication of review by another person other than the person making the entry. We also noted that employees that have the ability to cut checks have the ability to enter journal entries in the automated system.

## JOURNAL ENTRY REVIEW - CONTINUED

Criteria: Management is responsible for proper design and implementation of internal controls to mitigate the risk of material misstatement of the financial statements due to fraud or error.

Cause: Management has not established internal controls related to the recording and independent review of journal entries.

Effect: Without proper controls in place over the journal entry process, erroneous or fraudulent entries could be made that could materially misstate the financial statements.

Recommendation: We recommend that the City implement a review process whereby the journal entries prepared by one employee are reviewed by an independent employee. Both employees should initial and date the journal entry as evidence of preparation and review. If it is not possible to review each journal entry as it is processed, we recommend at least a periodic review (i.e., monthly).

Corrective Action Response: The City will develop a procedure for periodic review and approval of manual journal entries, along with documented evidence of the procedure.

## PENSION/OPEB CENSUS DATA

Condition: During our testing of the census data and actuarial assumptions used in the pension and other post-employment benefits (OPEB) actuarial valuation, we noted that the data for two participants submitted to the actuary should not have been included in the participants list. We also noted that the participant data related to the City's pension plan for June 30, 2015, was not compiled and provided to the actuary in a timely manner.

Criteria: The underlying data and assumptions used on the actuarial valuation should be accurate and reasonable in order for pension and OPEB expenses to be accurate and the potential asset/liability to be fairly stated in the financial statements.

Cause: The City does not have proper internal controls in place for the review of the census data and key assumptions used in the actuarial valuation. Proper internal controls are also not in place to assure the timely submission of data to the actuary.

Effect: The City's actuarial liability may be misstated due to the inaccurate information being provided to the actuary.

Recommendation: We recommend that the City implement procedures to reconcile the census data and assumptions when draft valuations are received from the actuaries. We also recommend that the City review its procedures as it relates to the maintenance and collection of census data for the purpose of actuarial valuation to ensure that data is obtained and submitted to the actuary in a timely manner.

Corrective Action Response: With the next actuarial valuation, the City will implement a review process to reconcile the census data to the draft valuations. The upcoming valuations will be scheduled in the near future along with a timeline for the City's preparation.

## **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 instances of noncompliance or other matters that are 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 certain functions of the General Fund exceeded the amounts appropriated. A similar issue was noted and reported in our prior audit comments.

## UNFAVORABLE BUDGET VARIANCES - CONTINUED

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 budget is monitored continuously and amendments are proposed on a regular basis. Unfortunately, it is very difficult to quantify exactly what the expenditures by department will be in advance of the end of the fiscal year as the City does not utilize a strict purchase order system. The City is committed to maintaining compliance with State of Michigan statutes and will continue to work toward minimizing or eliminating these variances.

## UNCLAIMED PROPERTY

Condition: During our testing of cash we noted old outstanding checks that should have been escheated to the State of Michigan.

Criteria: City personnel are not monitoring unclaimed property and escheating old outstanding checks to the State of Michigan as required.

Effect: The City is not in compliance with State escheating laws.

Recommendation: We recommend that any outstanding check that is more than a year old at March 31<sup>st</sup> of each year be properly included in the July escheating report to the State of Michigan.

Corrective Action Response: The vast majority of outstanding checks during the year were properly escheated. The City will evaluate the few remaining outstanding checks and determine the proper course of action for follow up in order to be in compliance with State statute.

## **City of Ferndale's Responses to the Findings**

The City's responses to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **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 10, 2015