

CITY OF FERNDALE, MICHIGAN

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(Federal Awards)**

YEAR ENDED JUNE 30, 2025

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Ferndale, Michigan's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2025. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the City of Ferndale, Michigan, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City of Ferndale's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City of Ferndale's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City of Ferndale's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City of Ferndale's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City of Ferndale's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Maney Costeiran PC

December 11, 2025

CITY OF FERNDALE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2025

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Oakland County, Michigan			
Community Development Block Grants Cluster Entitlements/Special Purpose			
Community Development Block Grant (CDBG) ^(a)	14.218	B-24-UC-26-002	\$ 53,284
U.S. DEPARTMENT OF JUSTICE			
Direct Program			
COVID-19 Coronavirus Relief Fund	16.922	N/A	268,844
COVID-19 Coronavirus Local Fiscal Recovery Fund	16.922	N/A	16,891
TOTAL DEPARTMENT OF JUSTICE			285,735
U.S. DEPARTMENT OF TRANSPORTATION			
Passed through SMART			
Federal Transit Cluster			
Urbanized Area Formula Grants (CARES Act)	20.507	MI-2020-052	627
Passed through the Michigan Department of Transportation			
Safe Streets and Roads for All	20.939	N/A	197,093
TOTAL DEPARTMENT OF TRANSPORTATION			197,720
U.S. DEPARTMENT OF TREASURY			
Passed through the Michigan Department of Treasury			
Coronavirus State and Local Fiscal Recovery Funds			
COVID-19 Coronavirus Local Fiscal Recovery Fund (CLFRF) ^(a)	21.027	63-2060-CLFRF T1	355,429
U.S. DEPARTMENT OF VETERAN AFFAIRS			
Direct Program			
VA Supportive Services for Veteran Families	64.033	N/A	7,850
EXECUTIVE OFFICE OF THE PRESIDENT			
Passed through Oakland County, Michigan			
High Intensity Drug Trafficking Areas (HIDTA)	95.001	N/A	6,000
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 906,018

See accompanying notes to the schedule of expenditures of federal awards.

CITY OF FERNDALE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ferndale, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note 5.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The City of Ferndale has elected to not use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance for awards executed on or before September 30, 2024, and also has elected not to use the 15-percent de minimis indirect cost rate allowed under the Uniform Guidance for awards executed on or after October 1, 2024.

NOTE 3 - SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following description identified below as (a) represents explanations that cross references to amounts on the Schedule of Expenditures of Federal Awards:

(a) Denotes programs tested as a “major program”.

NOTE 4 - SUBRECIPIENTS

No federal awards were passed through by the City to any subrecipients during the year.

CITY OF FERNDALE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 5 - RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the intergovernmental revenues reported in the June 30, 2025, basic financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	Inter- governmental Revenue	<u>Adjustments:</u> State/Local Revenue	<u>Adjustments:</u> Amounts received for Prior Year Federal Awards	Federal Award Expenditures
PRIMARY GOVERNMENT				
General Fund	\$ 5,809,550	\$ (5,598,607)	\$ -	\$ 210,943
Other Governmental Funds	4,274,819	(3,500,338)	(79,406)	695,075
Enterprise Funds	157,390	(157,390)	-	-
	<u>\$ 10,241,759</u>	<u>\$ (9,256,335)</u>	<u>\$ (79,406)</u>	<u>\$ 906,018</u>



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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, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 11, 2025.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to material weaknesses and significant deficiencies.

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 deficiency described in the accompanying schedule of findings and questioned costs as item 2025-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2025-002 and 2025-003 to be significant deficiencies.

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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2025-004 and 2025-005.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Manes Costeiran PC

December 11, 2025

**CITY OF FERNDALE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued based on financial statements prepared in accordance with generally accepted accounting principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? X Yes No

Noncompliance material to financial statements noted? X Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance 2 CFR 200.516(a)? Yes X No

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants Cluster
21.027	Entitlements/Special Purpose Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

**CITY OF FERNDALE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025**

Section II - Financial Statement Findings

2025-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries to properly record net pension liability (asset) and related deferred outflows and inflows of resources, and net OPEB asset and related deferred outflows and inflows of resources were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger. A similar condition was noted and reported in the prior audit.

Criteria: Auditing standards emphasize that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), and the notes to the financial statements, including the recording of all appropriate journal entries so that the trial balances, from which the audited financial statements are prepared, reflect amounts that are in conformity with U.S. generally accepted accounting principles.

Cause: Management did not properly identify the misstatements noted and make the necessary adjustments.

Effect: The City's financial reports contained material misstatements that were not otherwise identified by management. Without the recording of these journal entries the financial statements would have been materially misstated.

Recommendation: We recommend that the City take steps to assure that material journal entries are not necessary at the time future audit analysis is performed.

View of Responsible Officials: The management team has reviewed the findings noted by Maner Costerisan and has committed to recording these items in a timelier manner moving forward.

2025-002 BANK RECONCILIATIONS

Condition: We noted that bank reconciliations were not performed timely for the Auto Parking Fund. We noted that significant journal entries were posted during fieldwork in October to properly reconcile this account.

Criteria: The reconciliation process is an important part of the City's internal control and accounting procedures. The purpose of reconciliations is to ensure that general ledger account balances are supported by underlying transaction detail or third-party information. They also provide an important internal control, in that any differences identified between the underlying detail and an account balance through the reconciliation process may be indicative of an erroneous entry having been posted or inappropriate activity within the account. The Accounting Procedures Manual for Local Units of Government in Michigan notes that bank accounts must be reconciled within one month following the bank statement date.

Cause: Unknown.

Effect: Without reconciliations there is an increased risk of misstatement of assets or errors that might go undetected.

Recommendation: We recommend that bank reconciliations be completed on a timely basis, within one month of the statement date.

**CITY OF FERNDALE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025**

2025-002 BANK RECONCILIATIONS (continued)

View of Responsible Officials: The management team has reviewed the findings noted by Maner Costerisan and has committed to reconciling all accounts in a timelier manner moving forward.

2025-003 AVAILABILITY OF SUPPORTING DOCUMENTATION

Condition: There was one bank accounts for which the City was unable to provide a statement for during the audit. In addition, the City was unable to provide supporting documentation related to two capital asset additions selected for testing.

Criteria: Supporting documentation should be obtained and retained for audit purposes to support all transactions of the City.

Cause: The City does not receive a statement for this bank account and is unsure who, if anyone, receives it. The invoices for the capital asset additions could not be located.

Effect: The City was unable to provide supporting documentation for our testing.

Recommendation: We recommend that supporting documentation be retained for all transactions.

View of Responsible Officials: Management concurs with the finding.

2025-004 FUND EQUITY DEFICITS

Condition: At the end of the fiscal year, the Auto Parking Fund reported a deficit unrestricted net position. A similar condition was noted and reported in the prior audit.

Criteria: Michigan Public Act 275 of 1980 provides that the City shall not have deficits in unrestricted net position of one or more the City's funds. Michigan Public Act 140 of 1971 provides that a City ending its fiscal year with funds in a deficit condition shall formulate a deficit elimination plan.

Cause: Auto Parking Fund has not generated revenue sufficient to cover all expenses (including depreciation).

Effect: The City is not in compliance with Public Act 275 of 1980. As a result, the City will be required to prepare and submit a Deficit Elimination Plan to the State of Michigan.

Recommendation: We recommend that the City utilize budgetary controls to limit expenses and/or transfer funds as needed to alleviate deficits. We also recommend the City complete a rate study for the Auto Parking Fund to determine the proper rate to charge in order to sustain operations and save for future capital improvements.

View of Responsible Officials: The management team acknowledges the finding noted by Maner Costerisan regarding the deficit in the Auto Parking Fund for the year ended June 30, 2025. The City is now in its fourth year of the Deficit Elimination Plan submitted to the State of Michigan to resolve this issue. The plan will be updated to incorporate the current year's activity.

**CITY OF FERNDALE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2025**

2025-005 BUDGETARY COMPLIANCE

Condition: We noted that the City's expenditures exceeded the amounts appropriated for one activity in the General Fund, the Major Streets Fund (major special revenue fund), and three nonmajor special revenue funds.

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the City adopt a formal budget for the General Fund and Special Revenue funds and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires the City 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: The City did not adequately amend its budget during the year to reflect changes in operations from the original adopted budget.

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

Recommendation: We recommend the City 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.

View of Responsible Officials: The management team has reviewed the findings noted by Maner Costerisan and has committed to monitor budgets on a more regular basis moving forward.

Section III - Federal Award Findings and Questioned Costs

None noted.

Audit Findings Corrective Action Plan

Financial Statement Findings

Fiscal Year Ended June 30, 2025

2025-001 Material Journal Entries Proposed by Auditors

Corrective Action: The City will record these items in a timelier manner moving forward. Beginning in fiscal year 2025-2026, the City is implementing BS&A Cloud for its financial system and various business process improvements throughout the Finance Department toward accomplishing this goal.

Responsible Party: Finance Department

Date To Complete By: 6/30/2026

2025-002 Bank Reconciliations

Corrective Action: The City will reconcile all accounts in a timelier manner moving forward. Beginning in fiscal year 2025-2026, the City is implementing BS&A Cloud for its financial system and various business process improvements throughout the Finance Department toward accomplishing this goal. The City is also reviewing its current banking services for opportunities to streamline the reconciliation process.

Responsible Party: Finance Department

Date To Complete By: 6/30/2026

2025-003 Availability of Supporting Documentation

Corrective Action: Prior to and during the fiscal year 2024-2025 audit process, the City experienced staff turnover of two-thirds of its Finance Department, including the Finance Director and Deputy Finance Director, contributing to the documentation gaps cited in this finding.

The City is committed to retaining supporting documentation for all material transactions and generally does so through numerous attachments within the financial system. The City will ensure all such documentation is available in a timelier manner going forward. Beginning in fiscal year 2025-2026, the City is implementing various business process improvements throughout the Finance Department toward accomplishing this goal.

Responsible Party: Finance Department

Date To Complete By: 6/30/2026

2025-004 - Fund Equity Deficit

Corrective Action: The will continue its efforts to eliminate the deficit in the Auto Parking Fund. During fiscal year 2025-2026, the City will prepare an updated analysis and plan for the fund's deficit condition and take appropriate corrective actions through its budget process.

Responsible Party: Finance Department

Date To Complete By: 6/30/2026

2025-005 – Budgetary Compliance

Corrective Action: The City will monitor budget versus actual activity on a more regular basis moving forward and will take any and all necessary corrective actions through its budget process. Beginning in fiscal year 2025-2026, the City is implementing BS&A Cloud for its financial system and various business process improvements throughout the Finance Department toward accomplishing this goal.

Responsible Party: Finance Department

Date To Complete By: 6/30/2026

**CITY OF FERNDALE
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**

FINDINGS/NONCOMPLIANCE

Significant Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

2024-001 - MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries to properly record amounts due from other governmental units, utility receivables, delinquent taxes receivable, opioid settlement receivable and related unavailable revenue, net pension liability (asset) and related deferred outflows and inflows of resources, net OPEB liability and related deferred outflows and inflows of resources, and retainage payable were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. These entries were brought to the attention of management and were subsequently recorded in the City's general ledger.

Resolution: A similar issue was noted during the current audit and reported in the schedule of findings and questioned costs as finding 2025-001.

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

2024-002 - ESCHEATING CHECKS

Condition: We noted that there are outstanding checks dating back to 2019 included on the bank reconciliations.

Resolution: During the current audit we noted that old outstanding checks were removed from the bank reconciliations. We consider this issue resolved.

2024-003 FUND EQUITY DEFICITS

Condition: At the end of the fiscal year, the Auto Parking Fund reported a deficit unrestricted net position.

Resolution: A similar issue was noted during the current audit and reported in the schedule of findings and questioned costs as finding 2025-004.

Findings Related to Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with the Uniform Guidance.

No prior audit findings noted.