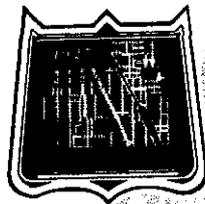


**CITY OF FERNDALE,  
MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended  
June 30, 2010**



***"GOOD  
NEIGHBORS"***

# CITY OF FERNDALE, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferndale, Michigan as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ferndale's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2010, on our consideration of the City of Ferndale's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, General Fund budgetary comparison information, and schedules of funding progress and employer contributions, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ferndale's basic financial statements. The combining and individual fund financial statements and schedules and the accompanying schedule of expenditures of federal awards are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining and individual fund financial statements and schedules and the accompanying schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 3, 2010

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

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

---

As management of the *City of Ferndale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2010.

#### Financial Highlights

- The total net assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$36,585,767. Of this amount, \$20,884,708 is invested in capital assets (net of related debt), \$2,239,002 is restricted for specific purposes such as debt proceeds for capital assets, debt service payments and other purposes, and \$13,462,057 may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's combined net assets in Primary Government activities increased \$1,012,119 as a result of this year's operations. Net assets of our Governmental activities increased by \$384,074 and net assets of our Business-type activities increased by \$628,045.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$10,931,522 for a decrease of \$5,479,260 as compared with the prior year. Approximately 66% of this amount, or \$7,179,466, is available for spending at the government's discretion (*unreserved, undesignated fund balance*).
- General fund revenues decreased by \$905,500 or 4.7% primarily due to the decrease in property taxes, intergovernmental revenues and charges for services. General fund expenditures increased approximately 898,000 or 5% primarily due to increases for public safety, recreation and higher benefit costs.
- At the end of the current fiscal year, the unreserved and undesignated fund balance for the General Fund was \$3,987,319 or 21% of total General Fund expenditures.
- The City's total long-term debt decreased by \$3,913,090 during the current fiscal year.
- The City invested over \$7,000,000 in capital improvements for the year including the renovation of the library, upgrade of water meters and meter reading systems, and renovation of several sewer lines and water mains. These renovations and upgrades were the result of the City's Capital Improvement Program (CIP). The CIP is used as a long and short term planning guide when considering the need for capital improvements and the related funding for those improvements.
- The City maintained its A+ credit rating by Standard & Poor's based on our solid financial position. This rating was upgraded in 2008 from its previous BBB+ rating.

# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

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### Overview of the Financial Statements

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

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

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

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

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

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

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

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

## CITY OF FERNDALE, MICHIGAN Management's Discussion and Analysis

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*near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service, and Library Renovation funds, each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

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

2. **Proprietary funds** account for activities that operate similar to a business. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer system, which is considered to be a major fund of the City, and the Auto Parking fund, which is considered a non-major enterprise fund of the City.
  - a) **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for both its water distribution and sanitary sewer operations, and its municipal parking system.
  - b) **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motorized vehicle and general maintenance equipment, and for costs related to workers' compensation, unemployment, and other employment-related costs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

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

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

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

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

#### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Ferndale, assets exceeded liabilities by \$36,585,767 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, \$20,884,708 or (57%), reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF FERNDALE, MICHIGAN**  
**Management's Discussion and Analysis**

**City of Ferndale's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 16,065,210	\$ 21,276,782	\$ 5,456,917	\$ 4,824,585	\$ 21,522,127	\$ 26,101,367
Capital assets, net	21,728,038	19,191,176	37,500,984	38,365,264	59,229,022	57,556,440
Total assets	<u>37,793,248</u>	<u>40,467,958</u>	<u>42,957,901</u>	<u>43,189,849</u>	<u>80,751,149</u>	<u>83,657,807</u>
Current liabilities	6,324,095	6,325,195	1,660,396	1,493,518	7,984,491	7,818,713
Noncurrent liabilities	20,473,728	23,531,412	15,707,163	16,734,034	36,180,891	40,265,446
Total liabilities	<u>26,797,823</u>	<u>29,856,607</u>	<u>17,367,559</u>	<u>18,227,552</u>	<u>44,165,382</u>	<u>48,084,159</u>
Net assets:						
Invested in capital assets, net of related debt	7,199	(150,788)	20,877,509	20,730,917	20,884,708	20,580,129
Restricted assets	2,239,002	4,238,672	-	-	2,239,002	4,238,672
Unrestricted	8,749,224	6,523,467	4,712,833	4,231,380	13,462,057	10,754,847
<b>Total net assets</b>	<b><u>\$ 10,995,425</u></b>	<b><u>\$ 10,611,351</u></b>	<b><u>\$ 25,590,342</u></b>	<b><u>\$ 24,962,297</u></b>	<b><u>\$ 36,585,767</u></b>	<b><u>\$ 35,573,648</u></b>

An additional portion of the City's net assets, \$2,239,002 or (6.2%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$13,462,057 or (36.8%) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets in Primary Government activities increased \$1,012,119 during the current fiscal year. Governmental activities account for an increase of \$384,074, and business-type activities account for an increase of \$628,045 for the year ended.

**CITY OF FERNDALE, MICHIGAN**  
**Management's Discussion and Analysis**

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
<b>Revenue:</b>						
Program revenues:						
Charges for services	\$ 5,602,082	\$ 5,832,374	\$ 8,517,232	\$ 7,524,601	\$ 14,119,314	\$ 13,356,975
Operating grants and contributions	2,725,860	1,786,428	4,484	4,485	2,730,344	1,790,913
Capital grants and contributions	59,237	57,836	-	-	59,237	57,836
General revenues:						
Property taxes	16,100,052	15,991,349	-	-	16,100,052	15,991,349
State shared revenue	2,635,854	2,996,316	-	-	2,635,854	2,996,316
Grants and contributions not restricted to specific programs	672,209	392,515	-	-	672,209	392,515
Other	689,503	1,196,642	5,253	25,050	694,756	1,221,692
<b>Total revenues</b>	<b>28,484,797</b>	<b>28,253,460</b>	<b>8,526,969</b>	<b>7,554,136</b>	<b>37,011,766</b>	<b>35,807,596</b>
<b>Expenses:</b>						
General government	4,973,747	4,679,321	-	-	4,973,747	4,679,321
Public safety	12,500,711	11,837,134	-	-	12,500,711	11,837,134
Public works	3,350,751	3,412,243	-	-	3,350,751	3,412,243
Highways and streets	3,224,245	3,798,219	-	-	3,224,245	3,798,219
Community and economic development	1,079,492	230,809	-	-	1,079,492	230,809
Recreation and culture	1,981,636	1,959,505	-	-	1,981,636	1,959,505
Interest on long-term debt	1,093,797	1,218,586	-	-	1,093,797	1,218,586
Water and sewer	-	-	7,386,133	6,790,494	7,386,133	6,790,494
Auto parking	-	-	409,135	395,558	409,135	395,558
<b>Total expenses</b>	<b>28,204,379</b>	<b>27,135,817</b>	<b>7,795,268</b>	<b>7,186,052</b>	<b>35,999,647</b>	<b>34,321,869</b>
Increase in net assets before transfers	280,418	1,117,643	731,701	368,084	1,012,119	1,485,727
Transfers	103,656	84,040	(103,656)	(84,040)	-	-
<b>Increase in net assets</b>	<b>384,074</b>	<b>1,201,683</b>	<b>628,045</b>	<b>284,044</b>	<b>1,012,119</b>	<b>1,485,727</b>
Net assets-beginning	10,611,351	9,409,668	24,962,297	24,678,253	35,573,648	34,087,921
<b>Net assets-ending</b>	<b>\$ 10,995,425</b>	<b>\$ 10,611,351</b>	<b>\$ 25,590,342</b>	<b>\$ 24,962,297</b>	<b>\$ 36,585,767</b>	<b>\$ 35,573,648</b>

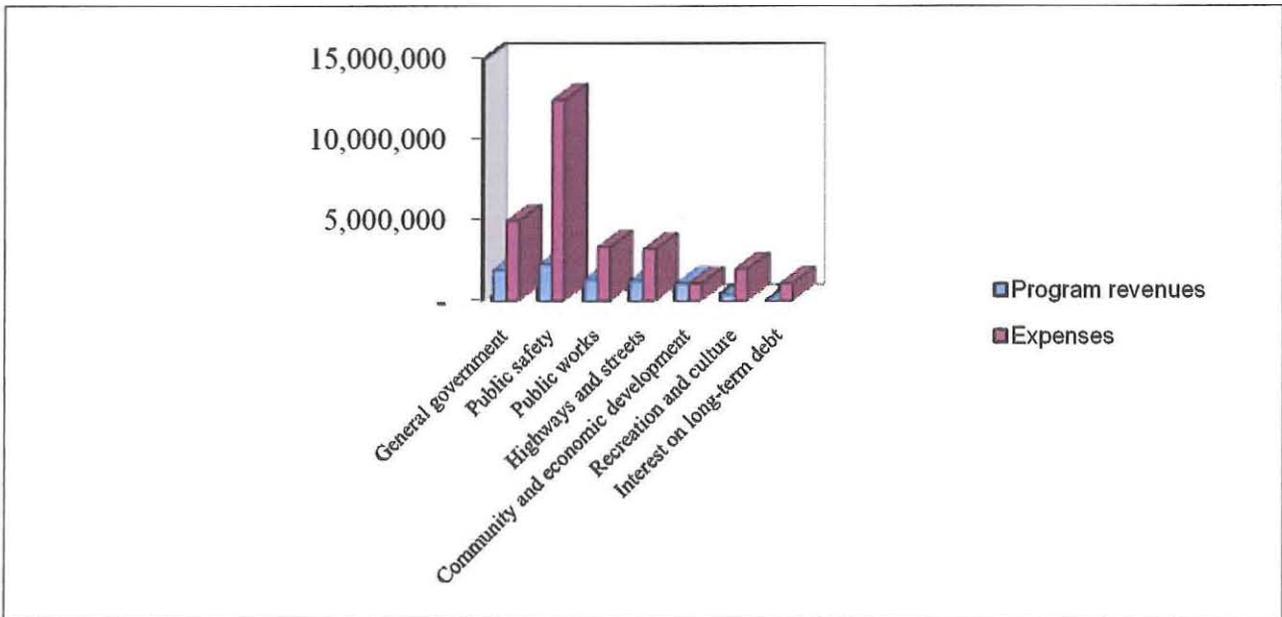
# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

**Governmental activities** increased the City's net assets by \$384,074, accounting for 37.9% of the City's total increase in net assets. Key elements of this change are as follows:

- An increase to operating grants and contributions both restricted and unrestricted to specific programs of approximately \$1,219,000.

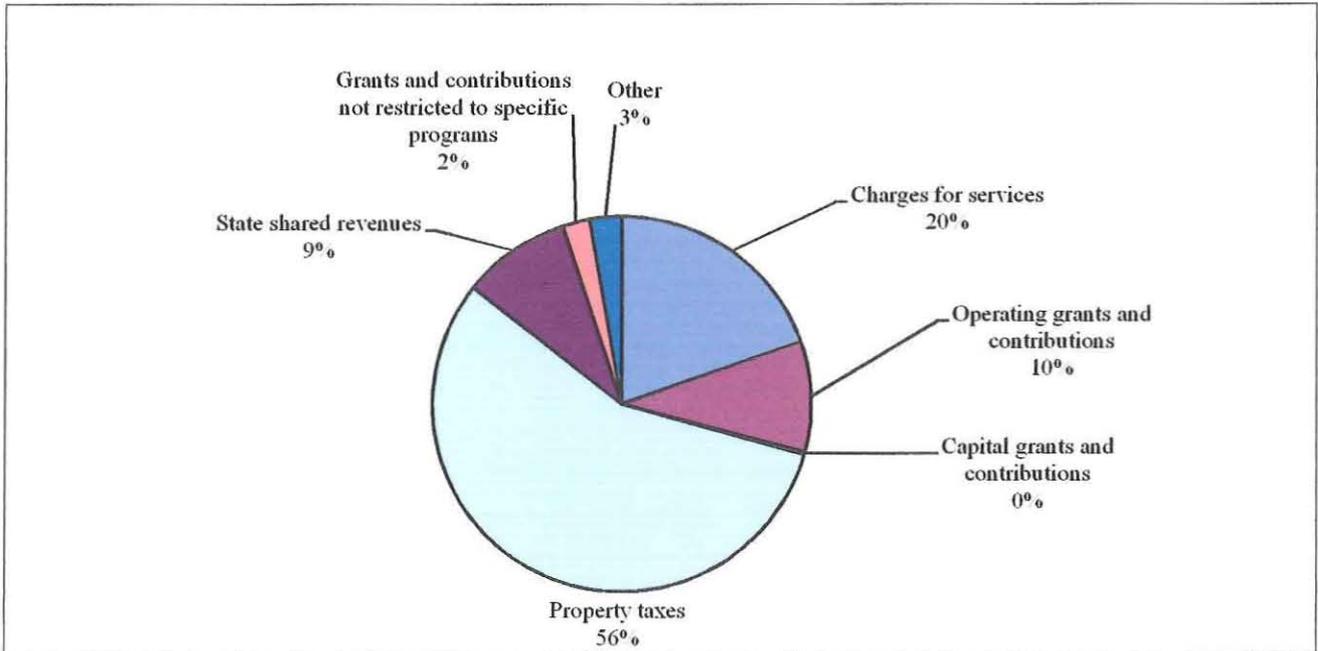
### Expenses and Program Revenues – Governmental Activities



**CITY OF FERNDALE, MICHIGAN**  
**Management's Discussion and Analysis**

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**Revenues by Source – Governmental Activities**

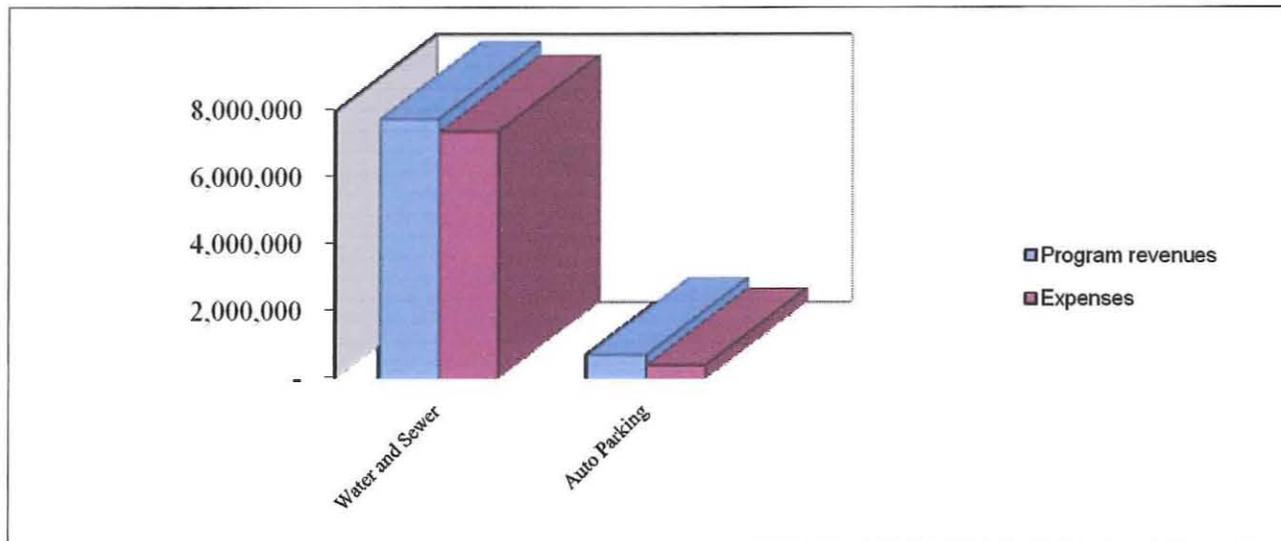


**Business-type Activities.** Business-type activities increased the City's net assets by \$628,045, accounting for 62.1% of the City's total increase in net assets. The key elements of this increase are as follows:

- An increase in charge for services revenue in the amount of \$992,000, due to a 9.5% increase in water/sewer rates effective July 1, 2009. This was partially offset by an increase in expense of \$609,000 primarily due to an increase in water rates charged from the City of Detroit of \$0.71 per MCF or 9.3%.

## CITY OF FERNDALE, MICHIGAN Management's Discussion and Analysis

**Expenses and Program Revenues - Business-Type Activities**



### 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 current fiscal year, the City's governmental funds reported combined ending fund balances of \$10,931,522, a decrease of \$5,479,260 in comparison with the prior year. Approximately 66% of this total amount, or \$7,179,466, constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Approximately 16.6% or \$1,813,611 is *unreserved, designated*. The remainder of fund balance, or \$1,938,445, is *reserved* to indicate that it is not available for new spending as it has already been committed for other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved and undesignated* fund balance of the general fund was \$3,987,319, while total fund balance was \$4,849,582. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 21% of total general fund expenditures, while total fund balance represents 26% of the same amount.

The total fund balance of the City's General Fund decreased by \$704,439 during the current fiscal year.

## CITY OF FERNDALE, MICHIGAN

### Management's Discussion and Analysis

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Notable changes decreasing the expected balance include the following:

- Decrease in property tax revenues of \$107,000.
- Decrease in charges for service revenues of \$199,000.
- Decrease in state shared revenues of \$518,000.
- Increase in expenditures for police services of \$489,000.
- Increase in expenditures for fire services of \$375,000.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$3,981,151 representing an increase in total net assets of \$443,956. This increase was primarily due to an increase in charges for water/sewer charges of \$503,000 and participation fees of \$284,000, offset by an increase in operating expenses of \$567,000 compared to the prior year.

The system continues to struggle to keep up with its expenses due primarily to the costs related to maintaining an aging infrastructure. The debt service costs on maintaining the system include the \$144M GWKuhn project (of which the City's portion is approximately 10%, or \$14M), the \$8M SRF-funded water main and booster station projects, and the \$3M sewer cleaning and videotaping project.

#### **General Fund Budgetary Highlights**

The difference between the original revenue budget and the amended revenue budget was a slight increase of \$200,000. The difference is due primarily to amendments for property tax revenues of \$217,000. Actual revenues were under budget by approximately \$228,000 due primarily to charges for services under projected amounts.

The difference between the original expenditure budget and amended expenditure budget was an increase of \$866,000. The difference is due primarily to amendments to the original budget to reflect the additional costs for police and fire services (\$400,000) and the additional funding requirements for retiree health care of \$430,000. Actual expenditures were under budget by \$248,000 due primarily to a decrease in sidewalk maintenance from expectations of approximately \$297,000.

**CITY OF FERNDALE, MICHIGAN**  
**Management's Discussion and Analysis**

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**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, 2010, amounted to \$59,229,022 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$1,672,582 or 2.9%. This represents an increase for governmental activities of \$2,536,862 or 13.2%; and a decrease for business-type activities of \$864,280 or 2.2%.

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

- Renovation of Public Library \$4,216,000.
- Police vehicle replacement \$229,000.
- Storm Water system renovations \$1,072,000.
- Water meter replacement \$1,046,000.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Land	\$ 745,693	\$ 745,693	\$ 454,903	\$ 454,903	\$ 1,200,596	\$ 1,200,596
Construction in progress	6,496,683	1,208,612	1,043,718	8,671,542	7,540,401	9,880,154
Buildings	3,222,620	3,537,510	65,910	70,980	3,288,530	3,608,490
Equipment	1,049,206	1,119,920	17,763	22,136	1,066,969	1,142,056
Vehicles	1,601,242	1,788,323	15,570	23,357	1,616,812	1,811,680
Infrastructure	8,612,594	10,791,118	35,903,120	29,122,346	44,515,714	39,913,464
<b>Total</b>	<b>\$21,728,038</b>	<b>\$19,191,176</b>	<b>\$37,500,984</b>	<b>\$38,365,264</b>	<b>\$59,229,022</b>	<b>\$57,556,440</b>

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

**CITY OF FERNDALE, MICHIGAN**  
**Management's Discussion and Analysis**

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

**City of Ferndale's Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Public improvement bonds	\$ 454,152	\$ 554,152	\$ -	\$ -	\$ 454,152	\$ 554,152
Library facility bonds	4,500,000	4,625,000	-	-	4,500,000	4,625,000
Refunding bonds, 2003	8,690,000	10,030,000	-	-	8,690,000	10,030,000
Refunding bonds, 2005	7,010,000	8,050,000	-	-	7,010,000	8,050,000
Infrastructure bonds, 2007	2,500,000	2,800,000	-	-	2,500,000	2,800,000
GW Kuhn drain project	-	-	9,795,209	10,469,347	9,795,209	10,469,347
State DWRP loans	-	-	6,828,266	7,165,000	6,828,266	7,165,000
Premiums/(Discounts), net	(96,317)	(99,099)	-	-	(96,317)	(99,099)
<b>Total</b>	<b>\$23,057,835</b>	<b>\$25,960,053</b>	<b>\$16,623,475</b>	<b>\$17,634,347</b>	<b>\$39,681,310</b>	<b>\$43,594,400</b>

The City decreased debt obligations by \$3,913,090 from payments on principal and the amortization of debt premiums and discounts.

Additional information regarding the City's long-term debt can be found in the notes to the financial statements.

**Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2010-11 fiscal year and will continue to be an ongoing concern as the City moves forward in future budget years.

- The general economic climate in Michigan – particularly metro Detroit – as the automotive companies struggle to hold on to their eroding market share against foreign competitors. The negative impact of this environment is seen in the decline in the housing starts, housing sales, and housing values, and the struggle the State has in keeping its fiscal commitment to the City as its own situation teeters at the precipice.
- The combined impact of Headlee and Prop A – which has cut in half Ferndale's ability to collect tax revenues based on the City's authorized millage and the fair market value of its real and personal property.

**CITY OF FERNDALE, MICHIGAN**  
**Management's Discussion and Analysis**

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- The funding of "Legacy" costs, i.e. current and future retiree health care and benefit costs, in times of double-digit medical inflation. Ferndale's estimated unfunded liability for retiree health care costs as of June 30, 2008 was \$37M, for which approximately \$8.3M to date has been set aside defray those costs.
- General fund revenues are expected to decrease by approximately \$1,200,000. To offset this decrease the City has implemented cost reduction plan estimated to reduce expenditures of the General Fund by \$1,850,000.
- Although the City continued to hold on to its A+ rating this year, it is tenuous given the challenges that face the City for 2011 and beyond, including the continued erosion of taxable values, and the related property taxes which comprise about 50% of General Fund operating income.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 300 East Nine Mile Road, Ferndale, Michigan 48220.

***BASIC FINANCIAL  
STATEMENTS***

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Net Assets**  
**June 30, 2010**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>Assets</b>				
Cash and investments	\$ 13,953,065	\$ 3,579,608	\$ 17,532,673	\$ 567,431
Receivables (net)	1,629,999	1,796,440	3,426,439	10,321
Internal balances	(71,490)	71,490	-	-
Due from primary government	-	-	-	5,839
Prepaid items and other assets	553,636	9,379	563,015	-
Non-depreciable capital assets	7,242,376	1,498,620	8,740,996	-
Depreciable capital assets, net	14,485,662	36,002,364	50,488,026	416,538
<b>Total assets</b>	<b>37,793,248</b>	<b>42,957,901</b>	<b>80,751,149</b>	<b>1,000,129</b>
<b>Liabilities</b>				
Accounts payable	2,097,494	622,368	2,719,862	140,267
Due to component unit	5,839	-	5,839	-
Accrued liabilities	1,263,544	121,716	1,385,260	1,009
Noncurrent liabilities:				
Due within one year	2,957,218	916,312	3,873,530	-
Due in more than one year	20,473,728	15,707,163	36,180,891	-
<b>Total liabilities</b>	<b>26,797,823</b>	<b>17,367,559</b>	<b>44,165,382</b>	<b>141,276</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	7,199	20,877,509	20,884,708	416,538
Restricted for:				
Highways and streets	294,351	-	294,351	-
Public safety	435,276	-	435,276	-
Public works	584,628	-	584,628	-
Community and economic development	133,202	-	133,202	-
Recreation and culture	552,599	-	552,599	-
Debt service	238,946	-	238,946	-
Unrestricted	8,749,224	4,712,833	13,462,057	442,315
<b>Total net assets</b>	<b>\$ 10,995,425</b>	<b>\$ 25,590,342</b>	<b>\$ 36,585,767</b>	<b>\$ 858,853</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2010**

<u>Functions / Programs</u>	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary government:</b>					
<b>Governmental activities:</b>					
General government	\$ 4,973,747	\$ 1,872,467	\$ 69,577	\$ -	\$ (3,031,703)
Public safety	12,500,711	1,916,043	351,034	-	(10,233,634)
Public works	3,350,751	1,362,460	5,375	-	(1,982,916)
Highways and streets	3,224,245	65,829	1,165,617	59,237	(1,933,562)
Community and economic development	1,079,492	17,649	1,057,652	-	(4,191)
Recreation and culture	1,981,636	367,634	76,605	-	(1,537,397)
Interest on long-term debt	1,093,797	-	-	-	(1,093,797)
<b>Total governmental activities</b>	<b>28,204,379</b>	<b>5,602,082</b>	<b>2,725,860</b>	<b>59,237</b>	<b>(19,817,200)</b>
<b>Business-type activities:</b>					
Water and sewer	7,386,133	7,794,255	4,484	-	412,606
Auto parking	409,135	722,977	-	-	313,842
<b>Total business-type activities</b>	<b>7,795,268</b>	<b>8,517,232</b>	<b>4,484</b>	<b>-</b>	<b>726,448</b>
<b>Total primary government</b>	<b>\$ 35,999,647</b>	<b>\$ 14,119,314</b>	<b>\$ 2,730,344</b>	<b>\$ 59,237</b>	<b>\$ (19,090,752)</b>
<b>Component unit:</b>					
Downtown Development Authority	\$ 604,511	\$ -	\$ 91,339	\$ -	\$ (513,172)
Brownfield Redevelopment Authy.	246,939	4,590	-	-	(242,349)
<b>Total component units</b>	<b>\$ 851,450</b>	<b>\$ 4,590</b>	<b>\$ 91,339</b>	<b>\$ -</b>	<b>\$ (755,521)</b>

continued...

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2010**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (19,817,200)	\$ 726,448	\$ (19,090,752)	\$ (755,521)
General revenues:				
Property taxes	16,100,052	-	16,100,052	916,963
State shared revenue	2,635,854	-	2,635,854	-
Grants and contributions not restricted to specific programs	672,209	-	672,209	-
Unrestricted investment earnings	607,221	4,796	612,017	800
Gain on sale of capital assets	82,282	457	82,739	-
Transfers - internal activities	103,656	(103,656)	-	-
<b>Total general revenues and transfers</b>	<b>20,201,274</b>	<b>(98,403)</b>	<b>20,102,871</b>	<b>917,763</b>
<b>Change in net assets</b>	<b>384,074</b>	<b>628,045</b>	<b>1,012,119</b>	<b>162,242</b>
Net assets, beginning of year	10,611,351	24,962,297	35,573,648	696,611
<b>Net assets, end of year</b>	<b>\$ 10,995,425</b>	<b>\$ 25,590,342</b>	<b>\$ 36,585,767</b>	<b>\$ 858,853</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## Balance Sheet Governmental Funds June 30, 2010

	General	Debt Service	Capital Project Library Renovation	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 5,623,746	\$ 238,946	\$ 864,559	\$ 5,807,112	\$ 12,534,363
Inventory	1,544	-	-	-	1,544
Receivables:					
Accounts receivable	435,892	-	-	-	435,892
Taxes-delinquent	175,946	60,600	-	35,217	271,763
Less: allowance for doubtful accounts	(83,335)	(32,345)	-	(16,137)	(131,817)
Interest and dividends	35,108	-	-	-	35,108
Due from other funds	32,049	-	-	-	32,049
Due from other governments	584,201	-	-	434,852	1,019,053
Prepaid expenditures	333,480	-	-	-	333,480
<b>Total assets</b>	<b>\$ 7,138,631</b>	<b>\$ 267,201</b>	<b>\$ 864,559</b>	<b>\$ 6,261,044</b>	<b>\$ 14,531,435</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 687,087	\$ -	\$ 631,597	\$ 535,065	\$ 1,853,749
Accrued liabilities	985,420	-	-	24,852	1,010,272
Due to other funds	-	-	-	32,049	32,049
Deferred revenue	616,542	28,255	-	59,046	703,843
<b>Total liabilities</b>	<b>2,289,049</b>	<b>28,255</b>	<b>631,597</b>	<b>651,012</b>	<b>3,599,913</b>
<b>Fund balances:</b>					
Reserved for:					
Debt service	-	238,946	-	-	238,946
Capital projects	-	-	232,962	1,104,034	1,336,996
Inventory	1,544	-	-	-	1,544
Prepaid expenditures	333,480	-	-	-	333,480
Other purposes	27,479	-	-	-	27,479
Unreserved, designated	499,760	-	-	1,313,851	1,813,611
Unreserved, undesignated reported in:					
General fund	3,987,319	-	-	-	3,987,319
Special revenue funds	-	-	-	1,987,785	1,987,785
Capital projects funds	-	-	-	1,204,362	1,204,362
<b>Total fund balances</b>	<b>4,849,582</b>	<b>238,946</b>	<b>232,962</b>	<b>5,610,032</b>	<b>10,931,522</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,138,631</b>	<b>\$ 267,201</b>	<b>\$ 864,559</b>	<b>\$ 6,261,044</b>	<b>\$ 14,531,435</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2010**

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**Fund balances - total governmental funds** **\$ 10,931,522**

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

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

Add: capital assets	57,444,802
Deduct: accumulated depreciation	(37,718,082)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	703,843
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Internal service funds are used by management to charge the costs of certain equipment usage and employee benefits to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service funds	3,391,465
Deduct: amount due to business-type activities	(71,490)
Deduct: amount due to component units	(5,839)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(23,057,835)
Deduct: compensated absences	(373,111)
Deduct: accrued interest on bonds payable	(249,850)

<b>Net assets of governmental activities</b>	<b>\$ 10,995,425</b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2010**

	General	Debt Service	Capital Project Library Renovation	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property taxes	\$ 9,818,336	\$ 3,654,947	\$ -	\$ 2,574,724	\$ 16,048,007
Licenses and permits	419,194	-	-	-	419,194
Intergovernmental	3,800,688	-	-	2,523,347	6,324,035
Charges for services	843,371	-	-	1,194,109	2,037,480
Fines and forfeitures	1,705,520	-	-	171,004	1,876,524
Investment earnings	594,277	43	4,636	6,610	605,566
Other	981,221	-	-	39,036	1,020,257
<b>Total revenues</b>	<b>18,162,607</b>	<b>3,654,990</b>	<b>4,636</b>	<b>6,508,830</b>	<b>28,331,063</b>
<b>Expenditures</b>					
Current:					
General government	3,303,362	-	-	194,673	3,498,035
Public safety	12,407,203	-	-	36,942	12,444,145
Public works	558,990	-	-	2,439,096	2,998,086
Highways and streets	-	-	-	1,135,241	1,135,241
Community and economic development	-	-	-	854,819	854,819
Recreation and culture	849,268	-	-	933,938	1,783,206
Other functions	1,638,999	14,858	-	-	1,653,857
Debt service					
Principal	-	2,680,000	-	225,000	2,905,000
Interest and fees	-	922,125	-	199,425	1,121,550
Capital outlay	112,450	-	4,215,836	1,211,244	5,539,530
<b>Total expenditures</b>	<b>18,870,272</b>	<b>3,616,983</b>	<b>4,215,836</b>	<b>7,230,378</b>	<b>33,933,469</b>
<b>Revenues over (under) expenditures</b>	<b>(707,665)</b>	<b>38,007</b>	<b>(4,211,200)</b>	<b>(721,548)</b>	<b>(5,602,406)</b>
<b>Other financing sources (uses)</b>					
Transfers in	363,557	-	-	498,994	862,551
Transfers out	(383,994)	-	-	(379,901)	(763,895)
Proceeds from sale of capital assets	23,663	-	-	827	24,490
<b>Total other financing sources (uses)</b>	<b>3,226</b>	<b>-</b>	<b>-</b>	<b>119,920</b>	<b>123,146</b>
<b>Net change in fund balances</b>	<b>(704,439)</b>	<b>38,007</b>	<b>(4,211,200)</b>	<b>(601,628)</b>	<b>(5,479,260)</b>
Fund balances, beginning of year	5,554,021	200,939	4,444,162	6,211,660	16,410,782
<b>Fund balances, end of year</b>	<b>\$ 4,849,582</b>	<b>\$ 238,946</b>	<b>\$ 232,962</b>	<b>\$ 5,610,032</b>	<b>\$ 10,931,522</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2010**

**Net change in fund balances - total governmental funds** **\$ (5,479,260)**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	5,539,529
Deduct: depreciation expense	(2,783,846)
Deduct: basis in sale of capital assets	(908)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: net difference in deferred revenue	69,798
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	2,905,000
Add: amortization of bond premiums/discounts and change in accrued interest	27,753

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Deduct: net operating loss from governmental activities in the internal service fund	(24,835)
Add: change in amount charged to business-type activities	31,278
Deduct: change in amount charged to component units	(901)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in the accrual for compensated absences	100,466
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<b>Change in net assets of governmental activities</b>	<b>\$ 384,074</b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2010**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Major Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
	<u>Water/ Sewer</u>	<u>Auto Parking</u>		
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 2,923,733	\$ 655,875	\$ 3,579,608	\$ 1,418,702
Accounts receivable	1,778,096	13,860	1,791,956	-
Intergovernmental receivable	4,484	-	4,484	-
Inventories	9,379	-	9,379	194,112
Prepaid expenses	-	-	-	24,500
<b>Total current assets</b>	<u>4,715,692</u>	<u>669,735</u>	<u>5,385,427</u>	<u>1,637,314</u>
Noncurrent assets:				
Capital assets	55,606,678	1,648,733	57,255,411	5,528,551
Less accumulated depreciation	<u>(19,245,048)</u>	<u>(509,379)</u>	<u>(19,754,427)</u>	<u>(3,527,233)</u>
<b>Total noncurrent assets</b>	<u>36,361,630</u>	<u>1,139,354</u>	<u>37,500,984</u>	<u>2,001,318</u>
<b>Total assets</b>	<u>41,077,322</u>	<u>1,809,089</u>	<u>42,886,411</u>	<u>3,638,632</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	615,676	6,692	622,368	243,745
Accrued liabilities	118,865	2,851	121,716	3,422
Current portion of long-term debt	916,312	-	916,312	-
<b>Total current liabilities</b>	<u>1,650,853</u>	<u>9,543</u>	<u>1,660,396</u>	<u>247,167</u>
Noncurrent liabilities:				
Long-term debt	15,707,163	-	15,707,163	-
<b>Total liabilities</b>	<u>17,358,016</u>	<u>9,543</u>	<u>17,367,559</u>	<u>247,167</u>
<b>Net Assets</b>				
Investment in capital assets, net of related debt	19,738,155	1,139,354	20,877,509	2,001,318
Unrestricted	3,981,151	660,192	4,641,343	1,390,147
<b>Total net assets</b>	<u>\$ 23,719,306</u>	<u>\$ 1,799,546</u>	25,518,852	<u>\$ 3,391,465</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			71,490	
<b>Net assets of business type activities</b>			<u>\$ 25,590,342</u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2010**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Nonmajor Fund		Internal Service Funds
		Water/ Sewer	Auto Parking	
<b>Operating revenues</b>				
Charges for services	\$ 6,618,193	\$ -	\$ 6,618,193	\$ 1,439,488
Parking meter receipts	-	691,040	691,040	-
Water penalties	393,407	-	393,407	-
Water meter repairs	268,776	-	268,776	-
Miscellaneous income	518,363	31,937	550,300	24,476
<b>Total operating revenues</b>	<b>7,798,739</b>	<b>722,977</b>	<b>8,521,716</b>	<b>1,463,964</b>
<b>Operating expenses</b>				
Personal services	1,140,027	162,804	1,302,831	225,652
General and administrative	110,261	65,427	175,688	765,432
Utilities	58,878	20,990	79,868	-
Rental expense	156,413	49,539	205,952	-
Contractual services	121,254	19,637	140,891	-
Water and sewer expense	3,287,633	-	3,287,633	-
Maintenance expense	131,279	10,901	142,180	-
Depreciation	1,927,595	75,394	2,002,989	483,144
Medical and benefit payments	-	-	-	79,926
<b>Total operating expenses</b>	<b>6,933,340</b>	<b>404,692</b>	<b>7,338,032</b>	<b>1,554,154</b>
<b>Operating income (loss)</b>	<b>865,399</b>	<b>318,285</b>	<b>1,183,684</b>	<b>(90,190)</b>
<b>Non-operating revenues (expenses)</b>				
Interest income	4,058	738	4,796	1,655
Interest expense	(425,958)	-	(425,958)	-
Gain on sale of capital assets	457	-	457	58,700
<b>Total non-operating revenues (expenses)</b>	<b>(421,443)</b>	<b>738</b>	<b>(420,705)</b>	<b>60,355</b>
<b>Income before transfers</b>	<b>443,956</b>	<b>319,023</b>	<b>762,979</b>	<b>(29,835)</b>
Transfers in	-	-	-	5,000
Transfers out	-	(103,656)	(103,656)	-
<b>Change in net assets</b>	<b>443,956</b>	<b>215,367</b>	<b>659,323</b>	<b>(24,835)</b>
Net assets, beginning of year	23,275,350	1,584,179	24,859,529	3,416,300
<b>Net assets, end of year</b>	<b>\$ 23,719,306</b>	<b>\$ 1,799,546</b>	<b>\$ 25,518,852</b>	<b>\$ 3,391,465</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(31,278)	
<b>Change in net assets of business-type activities</b>			<b>\$ 628,045</b>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2010**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Nonmajor Fund	Total	Internal Service Funds
	Water/ Sewer	Auto Parking		
<b>Cash flows from operating activities</b>				
Cash received from customers and others	\$ 7,741,873	\$ 715,861	\$ 8,457,734	\$ -
Cash received from interfund services	-	-	-	1,472,320
Cash payments to employees	(1,178,507)	(164,265)	(1,342,772)	(229,765)
Cash payments to suppliers for goods and services	(3,487,321)	(120,361)	(3,607,682)	(967,221)
Cash payments for interfund services	(179,754)	(52,446)	(232,200)	-
<b>Net cash provided by operating activities</b>	<b>2,896,291</b>	<b>378,789</b>	<b>3,275,080</b>	<b>275,334</b>
<b>Cash flows from investing activities</b>				
Investment income	4,058	738	4,796	1,655
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(1,046,274)	(191,981)	(1,238,255)	(265,231)
Proceeds from sale of capital assets	100,003	-	100,003	58,699
Bond/note principal payments	(1,010,872)	-	(1,010,872)	-
Bond/note interest payments	(425,958)	-	(425,958)	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(2,383,101)</b>	<b>(191,981)</b>	<b>(2,575,082)</b>	<b>(206,532)</b>
<b>Cash flows from non-capital financing activities</b>				
Transfers	-	(103,656)	(103,656)	5,000
<b>Net increase in cash and cash equivalents</b>	<b>517,248</b>	<b>83,890</b>	<b>601,138</b>	<b>75,457</b>
Cash and cash equivalents, beginning of year	2,406,485	571,985	2,978,470	1,343,245
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,923,733</b>	<b>\$ 655,875</b>	<b>\$ 3,579,608</b>	<b>\$ 1,418,702</b>

Continued...

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2010**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Major Fund</u>	<u>Nonmajor Fund</u>	<u>Total</u>	<u>Internal Service Funds</u>
	<u>Water/ Sewer</u>	<u>Auto Parking</u>		
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 865,399	\$ 318,285	\$ 1,183,684	\$ (90,190)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	1,927,595	75,394	2,002,989	483,144
Changes in assets and liabilities:				
Accounts receivable - customers	(56,867)	(7,116)	(63,983)	-
Due from other governments	1	-	1	-
Accounts receivable - other	-	-	-	8,356
Inventories	1,510	-	1,510	(39,005)
Accounts payable	197,985	(6,313)	191,672	(82,858)
Accrued liabilities	(38,482)	(1,461)	(39,943)	(4,113)
Customer deposits	(850)	-	(850)	-
<b>Net cash provided by operating activities</b>	<b><u>\$ 2,896,291</u></b>	<b><u>\$ 378,789</u></b>	<b><u>\$ 3,275,080</u></b>	<b><u>\$ 275,334</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**

**Statement of Fiduciary Net Assets**

**Fiduciary Funds**

**June 30, 2010**

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	<u>Pension and Other Employee Benefit Trusts</u>	<u>Agency</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 505,298	\$ 197,729
Accrued interest receivable	236,885	-
Investments		
Debt securities	25,144,147	-
Equity securities	23,551,159	-
Mutual funds	4,632,922	-
Real estate investment trust	2,285,745	-
Total investments	<u>55,613,973</u>	<u>-</u>
<b>Total assets</b>	<u><b>56,356,156</b></u>	<u><b>\$ 197,729</b></u>
<b>Liabilities</b>		
Accounts payable	56,955	\$ -
Other liabilities	-	197,729
<b>Total liabilities</b>	<u><b>56,955</b></u>	<u><b>\$ 197,729</b></u>
<b>Net Assets</b>		
<b>Held in trust for pension benefits and other purposes</b>	<u><b>\$ 56,299,201</b></u>	

The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended June 30, 2010**

	<b>Pension and Other Employee Benefit Trusts</b>
<b>Additions</b>	
<b>Contributions</b>	
Employer contributions	\$ 1,448,650
Plan member contributions	155,574
	<b>1,604,224</b>
<b>Investment income</b>	
Net appreciation in fair value	4,473,508
Interest	1,141,206
Dividends	365,875
	<b>5,980,589</b>
Less investment expense	(324,225)
	<b>5,656,364</b>
<b>Total additions</b>	<b>7,260,588</b>
<b>Deductions</b>	
Benefits	3,449,300
Administrative expenses	46,651
	<b>3,495,951</b>
<b>Total deductions</b>	<b>3,495,951</b>
<b>Net increase in plan net assets</b>	<b>3,764,637</b>
Net assets held in trust for pension benefits - beginning of year	52,534,564
<b>Net assets held in trust for pension benefits - end of year</b>	<b>\$ 56,299,201</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## Combining Statement of Net Assets - Component Units For the Year Ended June 30, 2010

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
<b>Assets</b>			
Cash and investments	\$ 219,895	\$ 347,536	\$ 567,431
Receivables, net	10,307	14	10,321
Due from primary government	5,839	-	5,839
Capital assets:			
Depreciable, net	416,538	-	416,538
<b>Total assets</b>	<b>652,579</b>	<b>347,550</b>	<b>1,000,129</b>
<b>Liabilities</b>			
Accounts payable	42,078	98,189	140,267
Accrued liabilities	1,009	-	1,009
<b>Total liabilities</b>	<b>43,087</b>	<b>98,189</b>	<b>141,276</b>
<b>Net assets</b>			
Invested in capital assets, net	416,538	-	416,538
Unrestricted	192,954	249,361	442,315
<b>Total net assets</b>	<b>\$ 609,492</b>	<b>\$ 249,361</b>	<b>\$ 858,853</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF FERNDALE, MICHIGAN

## Combining Statement of Activities - Component Units For the Year Ended June 30, 2010

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
<b>Expenses</b>			
Community and economic development	\$ 603,511	\$ 247,939	\$ 851,450
<b>Program revenues</b>			
Charges for services	-	4,590	4,590
<b>General revenues</b>			
Property taxes	550,047	366,916	916,963
Contributions from city general fund	30,000	-	30,000
Other contributions	61,339	-	61,339
Unrestricted investment earnings	377	423	800
<b>Total revenues</b>	<u><b>641,763</b></u>	<u><b>371,929</b></u>	<u><b>1,013,692</b></u>
<b>Change in net assets</b>	<b>38,252</b>	<b>123,990</b>	<b>162,242</b>
Net assets, beginning of year	<u>571,240</u>	<u>125,371</u>	<u>696,611</u>
<b>Net assets, end of year</b>	<u><b>\$ 609,492</b></u>	<u><b>\$ 249,361</b></u>	<u><b>\$ 858,853</b></u>

The accompanying notes are an integral part of these financial statements.

***NOTES TO FINANCIAL STATEMENTS***

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

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

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown City, encourages historical preservation and promotes economic growth within the City	City Council appoints and may remove DDA board and approves DDA budget	Not prepared
Brownfield Redevelopment Authority; provide assistance for the redevelopment of abandoned, idled, or under-utilized industrial or commercial properties which are complicated by real or perceived environmental contamination	City Council appoints the governing body and approves the budget.	Not prepared

**B. Basis of Presentation**

*Government-Wide Financial Statements.* The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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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:

*General fund.* This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Debt service fund.* This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*Library Renovation (Capital project).* This fund accounts for the use of bond proceeds received on the general obligation debt issuance for the renovation of the City Library.

The City reports the following major enterprise fund:

*Water and sewer fund.* This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

Additionally, the City reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

*Capital project funds.* These funds account for revenue sources and uses related to major capital project initiatives by the City.

*Enterprise funds.* These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

*Internal service funds.* These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes vehicles and equipment maintenance and workers' compensation self-insurance.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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*Pension trust funds.* These funds account for the activities of the Employees Retirement System, the Policemen and Firemen Retirement System and the Post Retirement Healthcare Fund, which accumulates resources for retirement benefits and post-retirement health care payments to qualified employees.

*Agency funds.* These funds account for assets held for other governments in an agency capacity.

### **C. Measurement Focus/Basis of Accounting**

*Government-Wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within 60 days after year end. Property taxes, franchise taxes, intergovernmental revenues, licenses, and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the city's water and sewer function and various other functions of the city. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

### **D. Assets, Liabilities and Equity**

#### **Deposits and Investments**

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "cash and investments". The cash and investment resources of the Employees Retirement System, Policemen and Firemen Retirement System as well as the Post Retirement Health Care Fund are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the city to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, banker's acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value is recognized each year.

### **Receivables and Payables**

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

### **Inventories, Prepaid Items and Other Assets**

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The city defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by the governmental activities) the city chose to include all such items regardless of their acquisition date or amount. The city was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement cost of the

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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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	5 - 40
Public domain infrastructure	15 - 40
Water and wastewater system infrastructure	25 - 40
Vehicles	2 - 20
Office equipment	3 - 10
Machinery and equipment	5 - 10

### Compensated Absences

It is the city's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned amounts and all unused leave hours are accrued in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

## **2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the functional level for the general fund and the fund level for special revenue funds.

The City Council requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

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

**CITY OF FERNDALE, MICHIGAN**

**NOTES TO FINANCIAL STATEMENTS**

**3. DETAILED NOTES ON ALL FUNDS AND ACTIVITIES**

**A. Deposits and Investments**

*Summary of Deposit and Investment Balances.* Following is a reconciliation of deposit and investment balances as of June 30, 2010:

<u>Cash and Investments</u>	<u>Deposits</u>	<u>Investments</u>	<u>Other</u>	<u>Total</u>
<b>Governmental-Wide</b>				
Cash and cash equivalents	\$(1,979,325)	\$ 9,202,390	\$ 3,900	\$ 7,226,965
Investments	500,000	9,805,708	-	10,305,708
<b>Fiduciary Funds</b>				
Cash and cash equivalents	224,519	478,508	-	703,027
Investments	-	55,613,973	-	55,613,973
<b>Component Units</b>				
Cash and cash equivalents	567,431	-	-	567,431
<b>Total</b>	<b>\$ (687,375)</b>	<b>\$ 75,100,579</b>	<b>\$ 3,900</b>	<b>\$ 74,417,104</b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### **Statutory Authority**

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

### **Investment and Deposit Risk**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities for the City's investments are included in the investment schedule below.

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2010 the City had the following investments:

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Credit Risk - S&P Quality Fair Values

Investment Type	Less Than		More Than		Not Applicable	Total
	1 Year	1-5	6-10	10 Years		
Pooled investments	\$ -	\$ -	\$ -	\$ -	\$ 9,202,390	\$ 9,202,390
U.S. Government	171,288	2,237,962	1,460,163	17,967,603	-	21,837,016
Corporate bonds	120,614	5,424,570	3,567,203	2,349,116	-	11,461,503
Foreign bonds	-	622,909	290,374	31,999	-	945,282
Stocks	-	-	-	-	23,551,159	23,551,159
Mutual funds	-	-	-	-	4,632,922	4,632,922
REIT	-	-	-	-	2,285,745	2,285,745
Other	-	504,995	201,060	-	478,507	1,184,562
<b>Total</b>	<b>\$ 291,902</b>	<b>\$ 8,790,436</b>	<b>\$ 5,518,800</b>	<b>\$ 20,348,718</b>	<b>\$ 40,150,723</b>	<b>\$ 75,100,579</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, 2010, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

### Credit Risk - S&P Quality Fair Values

Investment Type	S&P Quality						Not Rated	Total
	AAA	AA	A	BBB	BB	B		
Pooled investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,202,390	\$ 9,202,390
U.S. Government	20,723,643	-	-	-	-	-	1,113,373	21,837,016
Corporate bonds	1,263,872	570,718	4,108,850	4,139,700	733,659	456,398	188,305	11,461,502
Foreign bonds	-	85,910	405,504	453,869	-	-	-	945,283
Stocks	-	-	-	-	-	-	23,551,159	23,551,159
Mutual funds	-	-	-	-	-	-	4,632,922	4,632,922
REIT	-	-	-	-	-	-	2,285,745	2,285,745
Other	-	201,060	-	-	-	-	983,502	1,184,562
<b>Total</b>	<b>\$ 21,987,515</b>	<b>\$ 857,688</b>	<b>\$ 4,514,354</b>	<b>\$ 4,593,569</b>	<b>\$ 733,659</b>	<b>\$ 456,398</b>	<b>\$ 41,957,396</b>	<b>\$ 75,100,579</b>

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end none of the City's bank balance of \$749,807 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are either uninsured, unregistered and held by a counterparty in the City's name or are uncategorized as to credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

### B. Receivables

Receivables in the governmental activities are approximately 63 percent due from other governments, 27 percent accounts receivables, and 10 percent taxes and special assessments. Business-type activities receivables are 100 percent due from customers.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	Primary Government			Component Units
	Unearned	Unavailable	Total	Unavailable
Personal property taxes not yet received	\$ -	\$ 139,946	\$ 139,946	10,320
Special assessments	-	39,966	39,966	-
State shared revenue not received within 60 days	-	523,931	523,931	-
<b>Total</b>	<b>\$ -</b>	<b>\$ 703,843</b>	<b>\$ 703,843</b>	<b>\$ 10,320</b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### C. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

<u>Primary government</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
<b>Governmental activities</b>					
<b>Capital assets, not depreciated</b>					
Land	\$ 745,693	\$ -	\$ -	\$ -	\$ 745,693
Construction in process	1,208,612	5,288,071	-	-	6,496,683
<b>Total capital assets, not depreciated</b>	<b>1,954,305</b>	<b>5,288,071</b>	<b>-</b>	<b>-</b>	<b>7,242,376</b>
<b>Capital assets, depreciated</b>					
Infrastructure	39,596,491	101,035	-	-	39,697,526
Buildings	7,298,955	5,321	-	-	7,304,276
Equipment	3,634,221	157,122	(42,014)	-	3,749,329
Vehicles	4,960,917	253,211	(234,282)	-	4,979,846
<b>Total capital assets, depreciated</b>	<b>55,490,584</b>	<b>516,689</b>	<b>(276,296)</b>	<b>-</b>	<b>55,730,977</b>
Less accumulated depreciation					
Infrastructure	28,805,373	2,279,559	-	-	31,084,932
Buildings	3,761,444	320,212	-	-	4,081,656
Equipment	2,514,301	226,928	(41,106)	-	2,700,123
Vehicles	3,172,595	440,291	(234,282)	-	3,378,604
<b>Total accumulated depreciation</b>	<b>38,253,713</b>	<b>3,266,990</b>	<b>(275,388)</b>	<b>-</b>	<b>41,245,315</b>
<b>Total capital assets depreciated, net</b>	<b>17,236,871</b>	<b>(2,750,301)</b>	<b>(908)</b>	<b>-</b>	<b>14,485,662</b>
<b>Total governmental activities, net</b>	<b>\$ 19,191,176</b>	<b>\$ 2,537,770</b>	<b>\$ (908)</b>	<b>\$ -</b>	<b>\$ 21,728,038</b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Primary government - continued

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Business-type activities:</b>					
<b>Capital assets, not depreciated</b>					
Land	\$ 454,903	\$ -	\$ -	\$ -	\$ 454,903
Construction in process	8,671,542	1,043,716	(99,546)	(8,571,995)	1,043,717
<b>Total capital assets, not depreciated</b>	<b>9,126,445</b>	<b>1,043,716</b>	<b>(99,546)</b>	<b>(8,571,995)</b>	<b>1,498,620</b>
<b>Capital assets, depreciated</b>					
Infrastructure	44,768,964	194,539	-	8,571,995	53,535,498
Buildings	1,085,091	-	-	-	1,085,091
Equipment	1,008,075	-	-	-	1,008,075
Vehicles	128,127	-	-	-	128,127
<b>Total capital assets, depreciated</b>	<b>46,990,257</b>	<b>194,539</b>	<b>-</b>	<b>8,571,995</b>	<b>55,756,791</b>
<b>Less accumulated depreciation</b>					
Infrastructure	15,646,618	1,985,759	-	-	17,632,377
Buildings	1,014,111	5,070	-	-	1,019,181
Equipment	985,939	4,373	-	-	990,312
Vehicles	104,770	7,787	-	-	112,557
Total accumulated depreciation	17,751,438	2,002,989	-	-	19,754,427
<b>Total capital assets depreciated, net</b>	<b>29,238,819</b>	<b>(1,808,450)</b>	<b>-</b>	<b>8,571,995</b>	<b>36,002,364</b>
<b>Total business-type activities, net</b>	<b>\$ 38,365,264</b>	<b>\$ (764,734)</b>	<b>\$ (99,546)</b>	<b>\$ -</b>	<b>\$ 37,500,984</b>

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

<b>Governmental activities</b>	
General government	\$ 103,824
Public safety	133,678
Public works	287,664
Highways and streets	2,056,072
Recreation and culture	202,608
Capital assets held by the city's internal service funds are charged to the various functions based on their usage of the assets	483,144
<b>Total depreciation expense - governmental activities</b>	<b>\$ 3,266,990</b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Primary government – continued

#### **Business-type activities**

Water and sewer	\$ 1,927,595
Auto parking	<u>75,394</u>

**Total depreciation expense - business-type activities**      **\$ 2,002,989**

### Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 20, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<b>Capital assets, depreciated</b>					
Infrastructure	\$ 1,398,397	\$ 68,934	\$ -	\$ -	\$ 1,467,331
Equipment	68,015	2,425	-	-	70,440
Vehicles	37,103	-	-	-	37,103
Total capital assets, depreciated	<u>1,503,515</u>	<u>71,359</u>	<u>-</u>	<u>-</u>	<u>1,574,874</u>
<b>Less accumulated depreciation</b>					
Infrastructure	966,526	97,504	-	-	1,064,030
Equipment	53,274	8,558	-	-	61,832
Vehicles	28,764	3,710	-	-	32,474
Total accumulated depreciation	<u>1,048,564</u>	<u>109,772</u>	<u>-</u>	<u>-</u>	<u>1,158,336</u>
<b>Total capital assets depreciated, net</b>	<u>\$ 454,951</u>	<u>\$ (38,413)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 416,538</u>

#### **D. Interfund Receivables, Payables and Transfers**

Interfund balances are a result of routine and temporary time lags in cash flows between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

As of June 30, 2010 nonmajor special revenue funds had an amount due to the general fund of \$32,049.

In addition, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Funds. As a result, governmental activities had an amount due to business-type activities in the amount of \$71,490 at June 30, 2010.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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

Transfers Out	Transfers In			Total
	General Fund	Nonmajor Governmental	Internal Service	
General fund	\$ -	\$ 378,994	\$ 5,000	\$ 383,994
Nonmajor governmental funds	259,901	120,000	-	379,901
Nonmajor enterprise funds	103,656	-	-	103,656
<b>Total</b>	<b>\$ 363,557</b>	<b>\$ 498,994</b>	<b>\$ 5,000</b>	<b>\$ 867,551</b>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### E. Operating Leases

The City leases vehicles and other equipment under noncancelable operating leases. Total costs for such leases were \$41,112 for the year ended June 30, 2010. The future minimum lease payments for these leases are as follows:

<u>Year Ending June 30,</u>	
2011	\$ 35,400
2012	35,400
2013	35,400
2014	11,368
<b>Total minimum lease payments</b>	<b>\$ 117,568</b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### F. Long-Term Debt

*General obligation bonds.* The city issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities and business type activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government were \$46,624,457 to finance the repair and/or reconstruction of water, sewer and street infrastructure, \$4,700,000 for library renovations and \$933,152 to finance the City's boiler and HVAC improvements.

During the current fiscal year, the City made debt repayments against its General Obligation Bonds totaling \$2,905,000. No new General Obligation debt was issued in the current fiscal year.

*George W. Kuhn project bonds and revolving fund obligations* The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission, and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, Federal and State of Michigan grants and contributions from Oakland County, Michigan. The City along with thirteen other local community's are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's total obligation at the end of construction will be approximately \$13,228,411 or 9.77% of the projects total cost of \$135,398,270. Due to the current construction of the project, the sale of bonds are being incurred on an as needed basis. Accordingly, the following schedule of debt service requirements for Business-type activities is based on current estimates.

*State revolving fund.* The City has obtained \$7,598,266 in state revolving fund loans to finance the cost of water mains and sewer lining expenditures incurred since 2007. There were no new draw downs during the current fiscal year. The loan acts like a line-of-credit to the City. Repayment of this loan began in fiscal year 2008.

Purpose	Interest Rate	Amount
<b>Governmental activities</b>		
Public improvement bonds	4.3% - 4.4%	\$ 454,152
Library facility bonds	3.0% - 4.0%	4,500,000
2003 refunding bonds	2.0% - 5.0%	8,690,000
2005 refunding bonds	2.5% - 4.0%	7,010,000
2007 infrastructure bonds	4.3% - 4.4%	<u>2,500,000</u>
<b>Total governmental activities</b>		<b><u>\$ 23,154,152</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

<b>Business-type activities</b>		
George W. Kuhn drain project	2.0% - 5.0%	\$ 9,795,209
State revolving fund	2.125%	<u>6,828,266</u>
<b>Total business-type activities</b>		<b><u>\$ 16,623,475</u></b>

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest and Premium</u>
2011	\$ 2,960,000	\$ 999,400
2012	3,240,000	875,199
2013	3,350,000	731,099
2014	3,359,152	583,674
2015	3,380,000	435,575
2016 – 2020	4,440,000	777,725
2021 – 2025	1,650,000	361,000
2026 – 2027	<u>775,000</u>	<u>46,600</u>
	<b><u>\$ 23,154,152</u></b>	<b><u>\$ 4,810,272</u></b>

Estimated annual debt service requirements to maturity for business-type activities are as follows:

	<u>Business-Type Activities – (estimated)</u>	
	<u>Principal</u>	<u>Interest and Premium</u>
2011	\$ 916,312	\$ 414,538
2012	935,298	391,281
2013	958,286	367,478
2014	983,769	343,179
2015	1,009,777	318,228
2016 – 2020	5,433,185	1,193,369
2021 – 2025	5,010,964	479,385
2026 – 2029	<u>1,375,884</u>	<u>53,613</u>
	<b><u>\$ 16,623,475</u></b>	<b><u>\$ 3,561,071</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### ***Advance and Current Refundings***

The City has issued refunding bonds in previous years to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$25,000,000 of refunded debt. As a result, the refunded bonds are considered to be defeased. On June 30, 2010, the City had total defeased debt outstanding of approximately \$16,100,000.

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
<b>Governmental Activities:</b>					
Public improvement bonds	\$ 554,152	\$ -	\$ (100,000)	\$ 454,152	\$ 105,000
Library facilities bonds	4,625,000	-	(125,000)	4,500,000	140,000
Refunding bonds, 2003	10,030,000	-	(1,340,000)	8,690,000	1,335,000
Refunding bonds, 2005	8,050,000	-	(1,040,000)	7,010,000	1,030,000
Infrastructure bonds, series 2007	2,800,000	-	(300,000)	2,500,000	350,000
Total general obligation debt	<u>26,059,152</u>	<u>-</u>	<u>(2,905,000)</u>	<u>23,154,152</u>	<u>2,960,000</u>
Premium on refunding bonds	227,084	-	(32,440)	194,644	32,440
Discount/issuance - refunding bonds	(195,877)	-	27,983	(167,894)	(27,983)
Discount/issuance - library bonds	(130,306)	-	7,239	(123,067)	(7,239)
Accrued compensated absences	473,577	373,111	(473,577)	373,111	-
<b>Total governmental activities</b>	<u><b>26,433,630</b></u>	<u><b>373,111</b></u>	<u><b>(3,375,795)</b></u>	<u><b>23,430,946</b></u>	<u><b>2,957,218</b></u>
<b>Business-type activities:</b>					
George W. Kuhn drain	10,469,347	-	(674,138)	9,795,209	591,312
State revolving fund	7,165,000	-	(336,734)	6,828,266	325,000
<b>Total business-type activities</b>	<u><b>17,634,347</b></u>	<u><b>-</b></u>	<u><b>(1,010,872)</b></u>	<u><b>16,623,475</b></u>	<u><b>916,312</b></u>
<b>Total primary government</b>	<u><b>\$ 44,067,977</b></u>	<u><b>\$ 373,111</b></u>	<u><b>\$ (4,386,667)</b></u>	<u><b>\$ 40,054,421</b></u>	<u><b>\$ 3,873,530</b></u>

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### G. Reserves, Designations and Restrictions of Fund Balance and Net Assets

*Reserves* Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes on City financial resource.

*Designations* Designated fund balances are restrictions imposed by the City on the use of fund balance for specific purposes.

*Restricted Net Assets* Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

The schedule of other reserved and designated fund balances is as follows:

	<u>Other Reserved Fund Balance</u>	<u>Designated Fund Balance</u>
<b>General fund</b>		
Police in-service training	\$ 17,746	\$ -
Senior memorial	9,733	-
Fire equipment	-	126,649
Compensated absences	-	373,111
<b>Nonmajor governmental funds</b>		
Court renovation	-	946,080
Accounting systems renovation	-	355,500
Women's club	-	5,986
Heldt memorial	-	6,285
	<u>\$ 27,479</u>	<u>\$ 1,813,611</u>

#### 4. OTHER INFORMATION

##### A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City maintains an Internal Service Fund to account for and finance its risks of loss for workers' compensation claims. Workers' compensation is provided through purchased commercial insurance. For workers' compensation claims, the policy covers the

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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City's claims up to \$350,000 per occurrence. The City is self-insured for the following risks up to the maximum amount per claim as follows: general liability - \$150,000, and property - \$16,000. The City is insured for those automobile claims that consist of employee injuries and City vehicle damage. There have been no significant reductions in insurance coverage from the prior year.

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

### **B. Property Taxes**

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by July 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 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. The taxable value of real and personal property in the City for the 2009 levy, including industrial facilities was \$622,649,718. The City's operating tax rate was 14.5448 mills for the same year with additional millages of 5.8, 1.9601, .080 and 2.1815 levied to fund various types of debt service costs, library, public recreation, and refuse removal and disposal, respectively.

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing City.

Property taxes are recognized in the fiscal year in which they are levied.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### C. Contingent Liabilities

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

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

### D. Retirement System and Plan

#### Ferndale Employees Retirement System

##### Plan Description

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

##### Summary of Significant Accounting Policies

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Contributions

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

The following Plan provisions have been reflected in the June 30, 2009 valuation:

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

Membership of the FERS consisted of the following at June 30, 2008, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	81
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>68</u>
<b>Total</b>	<b><u>152</u></b>

### Annual Pension Cost

For the year ended June 30, 2010, the City had no annual pension cost or required or actual contributions.

### Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ -	100%	\$ -
June 30, 2009	-	100%	-
June 30, 2010	-	100%	-

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### Ferndale Policeman and Fireman Retirement System

#### Plan Description

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

#### Summary of Significant Accounting Policies

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

#### Contributions

Plan members are required to contribute between 1.6% and 5.35% of their annual covered salary. The City was required to make a contribution of \$208,650 or for the year ended June 30, 2010, according to the valuation received for the year ended June 30, 2009. Per Chapter XIXB of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FPFRS are financed through investment earnings.

Membership of the FPFRS consisted of the following at June 30, 2009, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	89
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>42</u>
<b>Total</b>	<b><u>132</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended June 30, 2010, the City incurred actual pension costs equal to required contributions.

<b>Three-Year Trend Information</b>			
<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 88,709	100%	\$ -
June 30, 2009	-	100%	-
June 30, 2010	208,650	100%	-

The Plans do not issue a separate financial report.

The funded status of the Ferndale Employees Retirement System ("FERS") and the Ferndale Policemen and Firemen Retirement System ("FPFRS") as of June 30, 2009, the most recent actuarial valuation date, is as follows.

<u>Actuarial Valuation June 30, 2009</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>(Overfunded) Unfunded (UAAL) (b-a)</u>	<u>Funded Ratio % (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll ((b-a) / c)</u>
FERS	\$18,478,980	\$11,212,824	\$(7,266,156)	164.8%	\$3,244,254	-%
FPFRS	37,049,165	38,363,400	1,314,235	96.6	3,116,613	-

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Statement of Net Assets

	<u>Employees' Retirement System Fund</u>	<u>Policemen and Firemen Retirement System Fund</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 35,210	\$ 445,694
Accrued interest receivable	67,189	142,754
Investments		
Debt securities	5,468,626	11,431,575
Equity securities	7,696,382	15,854,777
Mutual funds	1,447,788	3,185,134
Real estate investment trust	<u>779,911</u>	<u>1,505,834</u>
Total investments	<u>15,392,707</u>	<u>31,977,320</u>
<b>Total assets</b>	<b><u>15,495,106</u></b>	<b><u>32,565,768</u></b>
<b>Liabilities</b>		
Accounts payable	<u>-</u>	<u>56,955</u>
<b>Net Assets</b>		
<b>Held in trust for pension benefits (equal to total net assets)</b>	<b><u>\$15,495,106</u></b>	<b><u>\$32,508,813</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Statement of Changes in Fund Net Assets

	<u>Employees' Retirement System Fund</u>	<u>Policemen and Firemen Retirement System Fund</u>
<b>Additions</b>		
<b>Contributions</b>		
Employer contributions	\$ -	\$ 208,650
Plan member contributions	<u>-</u>	<u>155,574</u>
<b>Total contributions</b>	<u>-</u>	<u>364,224</u>
<b>Investment income</b>		
Net appreciation in fair value	1,443,707	3,027,279
Interest	275,976	567,324
Dividends	<u>119,302</u>	<u>246,573</u>
Total investment income	1,838,985	3,841,176
Less investment expense	<u>(126,213)</u>	<u>(198,012)</u>
<b>Net investment income</b>	<u>1,712,772</u>	<u>3,643,164</u>
<b>Total additions</b>	<u>1,712,772</u>	<u>4,007,388</u>
<b>Deductions</b>		
Benefits	1,092,566	2,356,734
Administrative expenses	<u>6,506</u>	<u>16,145</u>
<b>Total deductions</b>	<u>1,099,072</u>	<u>2,372,879</u>
<b>Net increase in plan assets</b>	<b>613,700</b>	<b>1,634,509</b>
Net assets held in trust for pension benefits – beginning of year	<u>14,881,406</u>	<u>30,874,304</u>
<b>Net assets held in trust for pension     benefits – end of year</b>	<u><b>\$15,495,106</b></u>	<u><b>\$32,508,813</b></u>

#### Defined Contribution Pension Plan

The City of Ferndale Defined Contribution Pension Plan is held in trust and covers approximately 110 employees of the City. The plan is available to employees upon their first day of employment and benefits are fully vested upon the fifth year of service. The third party administrator for this plan is International City Manager's Association Retirement

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

Corporation (“ICMARC”), which qualifies under the Internal Revenue Code Section 401(a). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City contributions. Assets of the plan are valued at \$15,199,102, of which \$405,269 were loans to members.

The City’s payroll for employees covered by the Plan for the year ended June 30, 2010, was approximately \$6,194,130, and the City’s total payroll was approximately \$9,990,503. The required contributions were \$329,485 by employees and \$649,387 by the City, representing 5.3% and 10.5% of covered payroll, respectively.

The City’s contribution rate structure is as follows:

		<b>City and Admin hire prior to <u>7/16/96</u></b>	<b>City hire subsequent to <u>7/16/96</u></b>	<b>Admin hire subsequent to <u>7/16/96</u></b>	<b>City <u>Manager</u></b>
<b>Police</b>					
City Contribution	9%	6%	5%	5%	6%
Employee Contribution	0%	0%	0%	0%	0%
or					
City Contribution	12%	9%	5%	7%	10%
Employee Contribution	3%	3%	3%	3%	3%

### **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 14 employees (13 current and 1 former) of the City Court. The plan is available to employees upon their first day of employment and benefits are fully vested upon the seventh year of service. The third party administrator for this plan is Watkins, Ross & Company. In a profit sharing pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The profit sharing pension cost to the 43<sup>rd</sup> District Court for the fiscal year ending June 30, 2010 was \$85,839. The defined contribution pension cost to the employees was \$0. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City Court contributions. Assets of the plan are valued at \$1,167,347.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### E. Postemployment Benefits – Retiree Health Care Trust Fund

#### Overview

The City has adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 45 *“Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”*. The Statement essentially requires the City to account for other postemployment benefits other than pensions on an actuarially determined basis similar to the City’s defined pension plans. The City has adopted the provisions of GASB Statement No. 45 on a prospective basis beginning on July 1, 2008.

#### Plan Description

The City provides certain healthcare benefits for retired employees in accordance with the bargaining group agreements and other requirements. Substantially all of the City’s full-time employees may become eligible for those benefits if they reach normal retirement age while working for the City. The City’s contribution for future healthcare benefits is accounted for in the Retiree Health Care Trust Fund. Current healthcare premiums are paid directly from the general fund. During the current year, healthcare benefits paid for 166 retirees.

This is a single-employer defined benefit plan administered by the City. The Plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions.

#### Funding Policy

The City provides 100% of the contributions for Retiree healthcare. Retiree healthcare costs are recognized when paid by the City. For the fiscal year ended June 30, 2010, the City made payments for postemployment health benefit claims of approximately \$2,078,846 paid out of the General fund and \$1,240,000 paid to the Retiree Health Care Trust fund for future health care benefits. This was equal to the actuarial required contribution and represents approximately 44.8% 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, 2008, the most recent valuation date, is as follows:

Actuarial value of assets	\$ 5,458,377
Actuarial value of liabilities (“AAL”)	\$ 42,468,935
Unfunded AAL (“UAAL”)	\$ 37,010,558
Funded ratio	12.9%
Annual covered payroll	\$ 7,633,000
Ratio of UAAL to covered payroll	79.4%

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### 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, 2008 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include an annual healthcare cost trend of 10% initially, reduced by decrements to an ultimate rate of 4.5% after nine years. The UAAL is being amortized as a level percent of payroll for payroll and a level dollar amount for General and Police employees. The remaining amortization period as of June 30, 2008 was 30 years.

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2008. Significant actuarial assumptions used in determining the Plan's unfunded accrued liability included (a) a rate of return on the investment (net of investment expense) of 7.5% per year compounded annually, (b) projected salary increases of 4.5% per year, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.4% per year, depending on age, attributable to seniority/merit, (d) future life expectancy, based on age and sex, (e) rate of retirement, (f) rate of separation from active membership, and (g) marital status.

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Statement of Net Assets

	<b>Retiree Health Care Trust Fund</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 24,394
Accrued interest receivable	26,942
Investments – debt securities	<u>8,243,946</u>
<b>Total assets</b>	<u><b>8,295,282</b></u>
<b>Net Assets</b>	
<b>Held in trust for postemployment healthcare benefits (equal to total net assets)</b>	<b><u>\$ 8,295,282</u></b>

### Statement of Changes in Fund Net Assets

	<b>Retiree Health Care Trust Fund</b>
<b>Additions</b>	
<b>Contributions</b>	
Employer contributions	\$ 1,240,000
<b>Investment income</b>	
Net appreciation in fair value	2,522
Interest	<u>297,906</u>
Total investment income	300,428
Less investment expense	<u>-</u>
<b>Net investment income</b>	<b><u>300,428</u></b>
<b>Total additions</b>	<b>1,540,428</b>
<b>Deductions</b>	
Administrative expenses	<u>24,000</u>
<b>Net increase in plan assets</b>	<b>1,516,428</b>
Net assets held in trust for postemployment benefits – beginning of year	<u>6,778,854</u>
<b>Net assets held in trust for postemployment benefits – end of year</b>	<b><u>\$ 8,295,282</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### F. Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of 14 municipalities in Oakland County and provides refuse collection and disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2010 the Authority reported an increase in net assets in the amount of \$203,989 resulting in ending net assets in the amount of \$5,985,610. During the year ended June 30, 2010, the City expended \$1,498,582 in payments made to the Authority. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

\* \* \* \* \*

***REQUIRED SUPPLEMENTARY  
INFORMATION***

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 9,648,749	\$ 9,866,000	\$ 9,818,336	\$ (47,664)
Licenses and permits	392,600	365,600	419,194	53,594
Intergovernmental:				
Federal grants	18,945	18,500	17,071	(1,429)
State grants	74,424	74,424	86,503	12,079
State shared revenue	3,000,000	2,600,000	2,618,102	18,102
Local reimbursements	1,042,982	1,059,536	1,079,012	19,476
Charges for services	1,328,930	1,243,930	843,371	(400,559)
Fines and forfeitures	1,749,740	1,651,740	1,705,520	53,780
Investment earnings	100,000	500,000	594,277	94,277
Other	749,671	922,796	981,221	58,425
<b>Total revenues</b>	<b>18,106,041</b>	<b>18,302,526</b>	<b>18,162,607</b>	<b>(139,919)</b>
<b>Expenditures</b>				
<b>General government:</b>				
Council	61,985	61,985	71,835	9,850
District court	1,289,046	1,300,348	1,304,133	3,785
Manager	330,459	347,181	342,400	(4,781)
Finance	427,667	840,282	826,651	(13,631)
Clerk	297,144	305,967	301,210	(4,757)
Assessor/Treasurer	372,781	-	-	-
Elections	48,100	48,100	33,188	(14,912)
Attorney	330,000	330,000	336,627	6,627
Cable television	99,949	95,449	87,318	(8,131)
<b>Total general government</b>	<b>3,257,131</b>	<b>3,329,312</b>	<b>3,303,362</b>	<b>(25,950)</b>
<b>Public safety:</b>				
Police	6,869,610	7,203,909	7,269,689	65,780
Fire	4,012,817	4,223,640	4,457,365	233,725
Inspection	757,440	608,716	579,140	(29,576)
Animal control and shelter	102,290	106,533	101,009	(5,524)
<b>Total public safety</b>	<b>11,742,157</b>	<b>12,142,798</b>	<b>12,407,203</b>	<b>264,405</b>

Continued.....

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Concluded.....				
<b>Public works:</b>				
Department of public works	\$ 600,976	\$ 608,951	\$ 510,831	\$ (98,120)
Refuse and weed control	28,377	28,377	11,249	(17,128)
Sidewalk program	334,200	334,200	36,910	(297,290)
<b>Total public works</b>	<b>963,553</b>	<b>971,528</b>	<b>558,990</b>	<b>(412,538)</b>
<b>Recreation and culture:</b>				
Dream cruise car show	108,986	108,986	112,075	3,089
Kulick Community Center	818,200	810,466	689,631	(120,835)
Martin Road Youth Center	54,963	54,963	47,562	(7,401)
<b>Total recreation and culture</b>	<b>982,149</b>	<b>974,415</b>	<b>849,268</b>	<b>(125,147)</b>
<b>Other functions:</b>				
Liability insurance	450,000	500,000	474,438	(25,562)
Utilities	507,000	507,000	563,781	56,781
Other	254,806	597,806	600,780	2,974
<b>Total other functions</b>	<b>1,211,806</b>	<b>1,604,806</b>	<b>1,638,999</b>	<b>34,193</b>
Capital Outlay	95,500	95,500	112,450	16,950
<b>Total expenditures</b>	<b>18,252,296</b>	<b>19,118,359</b>	<b>18,870,272</b>	<b>(248,087)</b>
<b>Revenues over (under) expenditures</b>	<b>(146,255)</b>	<b>(815,833)</b>	<b>(707,665)</b>	<b>108,168</b>
<b>Other financing sources (uses)</b>				
Transfers in	340,249	337,249	363,557	26,308
Transfers out	(238,994)	(383,994)	(383,994)	-
Proceeds from sale of capital assets	45,000	45,000	23,663	(21,337)
<b>Total other financing (uses)</b>	<b>146,255</b>	<b>(1,745)</b>	<b>3,226</b>	<b>4,971</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>(817,578)</b>	<b>(704,439)</b>	<b>113,139</b>
Fund balance, beginning of year	5,554,021	5,554,021	5,554,021	-
<b>Fund balance, end of year</b>	<b>\$ 5,554,021</b>	<b>\$ 4,736,443</b>	<b>\$ 4,849,582</b>	<b>\$ 113,139</b>

# CITY OF FERNDALE, MICHIGAN

## Required Supplementary Information (Unaudited)

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

#### Schedule of Funding Progress

Actuarial Valuation Date <u>June 30</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Liability (AAL) Attained Age# <u>(b)</u>	(Overfunded) Unfunded (AAL) (UAAL) <u>(b-a)</u>	Funded Ratio % <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as % of Covered Payroll <u>((b-a) / c)</u>
2005	\$ 18,066,625	\$ 12,828,481	\$ (5,238,144)	140.8%	\$ 2,767,899	-%
2006	18,423,039	11,891,917	(6,531,122)	154.9	3,117,728	-
2007	19,139,718	11,592,792	(7,546,926)	140.8	3,182,522	-
2008	19,389,860	11,325,326	(8,064,534)	171.2	3,242,529	-
2009	18,478,980	11,212,824	(7,266,156)	164.8	3,244,254	-

#### Schedule of Employer Contributions

Fiscal Year Ended <u>June 30</u>	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contributions
2006	- %	\$ -	\$ -	100%
2007	-	-	-	100
2008	-	-	-	100
2009	-	-	-	100
2010	-	-	-	100

# CITY OF FERNDALE, MICHIGAN

## Required Supplementary Information (Unaudited)

### Defined Benefit Pension Trust - Ferndale Policeman and Fireman Retirement System

#### Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Attained Age# (b)	(Overfunded) Unfunded (AAL) (UAAL) (b-a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a) / c)
2005	\$ 37,465,032	\$ 34,311,824	\$ (3,153,208)	109.2%	\$ 2,880,620	-%
2006	38,544,837	33,722,210	(4,822,627)	114.3	3,073,865	-
2007	40,554,657	34,970,161	(5,584,496)	116.0	2,994,676	-
2008	41,388,619	37,775,851	(3,612,768)	109.6	3,076,765	-
2009	37,049,165	38,363,400	1,314,235	96.6	3,116,613	42

#### Schedule of Employer Contributions

Fiscal Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contributions
2006	- %	\$ -	\$ -	100%
2007	2.82	88,709	-	-
2008	-	-	88,709	100
2009	-	-	-	100
2010	6.21	208,650	208,650	100

# CITY OF FERNDALE, MICHIGAN

## Required Supplementary Information (Unaudited)

### Other Postemployment Benefits

#### Schedule of Funding Progress

Actuarial Valuation Date <u>June 30,</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Attained Age# <u>(b)</u>	(Overfunded) Unfunded (AAL) (UAAL) <u>(b-a)</u>	Funded Ratio % <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as % of Covered Payroll <u>((b-a) / c)</u>
2008	\$ 5,458,377	\$ 42,468,935	\$ 37,010,558	12.9%	\$ 7,633,000	79.4%

#### Schedule of Employer Contributions

Fiscal Year Ended <u>June 30</u>	Actuarial Valuation Date	Annual Required Contribution	Actual Annual Contributions	Percent of Required Contributions
2009	6/30/08	\$ 1,293,805	\$ 1,293,805	100%
2010	6/30/08	1,239,472	1,240,000	100

# CITY OF FERNDALE, MICHIGAN

## Required Supplementary Information (Unaudited)

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### A. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The legal level of budgetary control is the functional level for the general fund and the fund level for special revenue funds. During the year ended June 30, 2010, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public safety	\$ 12,142,798	\$12,407,203	\$264,405
Other functions	1,604,806	1,638,999	34,193
Capital outlay	95,500	112,450	16,950

Total general fund expenditures were under budget by \$248,087.

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

**CITY OF FERNDALE, MICHIGAN**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2010**

	<b>Special Revenue</b>			
	<b>Major Streets</b>	<b>Local Streets</b>	<b>Sanitation</b>	<b>Drug Forfeiture</b>
<b>Assets</b>				
Cash and investments	\$ 50,930	\$ 83,185	\$ 757,336	\$ 435,440
Receivables:				
Taxes-delinquent	-	-	24,528	-
Less: allowance for doubtful accounts	-	-	(12,417)	-
Due from other governments	138,835	92,383	-	-
<b>Total assets</b>	<b>\$ 189,765</b>	<b>\$ 175,568</b>	<b>\$ 769,447</b>	<b>\$ 435,440</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 19,211	\$ 5,215	\$ 161,694	\$ 164
Accrued liabilities	4,076	2,514	11,014	-
Due to other funds	-	-	-	-
Deferred revenue	-	39,966	12,111	-
<b>Total liabilities</b>	<b>23,287</b>	<b>47,695</b>	<b>184,819</b>	<b>164</b>
<b>Fund balances:</b>				
Reserved for capital projects	-	-	-	-
Unreserved:				
Designated	-	-	-	-
Undesignated	166,478	127,873	584,628	435,276
<b>Total fund balances</b>	<b>166,478</b>	<b>127,873</b>	<b>584,628</b>	<b>435,276</b>
<b>Total liabilities and fund balances</b>	<b>\$ 189,765</b>	<b>\$ 175,568</b>	<b>\$ 769,447</b>	<b>\$ 435,440</b>

Library	Community Development Block Grant	SMART Taxi Subsidy	Neighborhood Stabilization Project Grant	Capital Projects		Total Nonmajor Governmental Funds
				Public Improvement	Infrastructure	
\$ 533,228	\$ 71,177	\$ 26,329	\$ -	\$ 2,506,619	\$1,342,868	\$ 5,807,112
10,689	-	-	-	-	-	35,217
(3,720)	-	-	-	-	-	(16,137)
37,671	3,220	34,104	128,639	-	-	434,852
<b>\$ 577,868</b>	<b>\$ 74,397</b>	<b>\$ 60,433</b>	<b>\$ 128,639</b>	<b>\$ 2,506,619</b>	<b>\$1,342,868</b>	<b>\$ 6,261,044</b>
\$ 12,562	\$ 118	\$ -	\$ 96,590	\$ 677	\$ 238,834	\$ 535,065
5,738	-	1,510	-	-	-	24,852
-	-	-	32,049	-	-	32,049
6,969	-	-	-	-	-	59,046
<b>25,269</b>	<b>118</b>	<b>1,510</b>	<b>128,639</b>	<b>677</b>	<b>238,834</b>	<b>651,012</b>
-	-	-	-	-	1,104,034	1,104,034
12,271	-	-	-	1,301,580	-	1,313,851
540,328	74,279	58,923	-	1,204,362	-	3,192,147
<b>552,599</b>	<b>74,279</b>	<b>58,923</b>	<b>-</b>	<b>2,505,942</b>	<b>1,104,034</b>	<b>5,610,032</b>
<b>\$ 577,868</b>	<b>\$ 74,397</b>	<b>\$ 60,433</b>	<b>\$ 128,639</b>	<b>\$ 2,506,619</b>	<b>\$1,342,868</b>	<b>\$ 6,261,044</b>

**CITY OF FERNDALE, MICHIGAN**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**NonMajor Governmental Funds**  
**For the Year Ended June 30, 2010**

	Special Revenue			
	Major Street	Local Street	Sanitation	Drug Forfeiture
<b>Revenues</b>				
Property taxes	\$ -	\$ -	\$ 1,355,243	\$ -
Intergovernmental				
Federal	-	-	-	178,958
State	955,356	320,040	-	-
Charges for services	-	-	1,186,460	-
Fines and forfeitures	-	-	-	130,347
Investment earnings	-	-	134	437
Other	-	15,287	5,759	-
<b>Total revenues</b>	<b>955,356</b>	<b>335,327</b>	<b>2,547,596</b>	<b>309,742</b>
<b>Expenditures</b>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	36,942
Public works	-	-	2,439,096	-
Highways and streets	639,267	495,974	-	-
Community and economic development	-	-	-	-
Recreation and culture	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Capital outlay	74,870	-	2,140	-
<b>Total expenditures</b>	<b>714,137</b>	<b>495,974</b>	<b>2,441,236</b>	<b>36,942</b>
<b>Revenues over (under) expenditures</b>	<b>241,219</b>	<b>(160,647)</b>	<b>106,360</b>	<b>272,800</b>
<b>Other financing sources (uses)</b>				
Transfers in	-	285,000	-	-
Transfers out	(120,000)	-	(25,000)	(100,000)
Proceeds from the sale of capital assets	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>(120,000)</b>	<b>285,000</b>	<b>(25,000)</b>	<b>(100,000)</b>
<b>Net change in fund balances</b>	<b>121,219</b>	<b>124,353</b>	<b>81,360</b>	<b>172,800</b>
Fund balances, beginning of year	45,259	3,520	503,268	262,476
<b>Fund balances, end of year</b>	<b>\$ 166,478</b>	<b>\$ 127,873</b>	<b>\$ 584,628</b>	<b>\$ 435,276</b>

Library	Capital Projects					Total Nonmajor Governmental Funds
	Community Development Block Grant	SMART Taxi Subsidy	Neighborhood Stabilization Project Grant	Public Improvement	Infrastructure	
\$ 1,219,481	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,574,724
7,000	81,911	-	907,533	-	-	1,175,402
4,341	-	68,208	-	-	-	1,347,945
-	-	7,649	-	-	-	1,194,109
40,657	-	-	-	-	-	171,004
416	166	5	-	3,110	2,342	6,610
7,990	-	-	-	10,000	-	39,036
<b>1,279,885</b>	<b>82,077</b>	<b>75,862</b>	<b>907,533</b>	<b>13,110</b>	<b>2,342</b>	<b>6,508,830</b>
-	-	76,439	-	118,234	-	194,673
-	-	-	-	-	-	36,942
-	-	-	-	-	-	2,439,096
-	-	-	-	-	-	1,135,241
-	13,022	-	841,797	-	-	854,819
933,938	-	-	-	-	-	933,938
125,000	-	-	-	100,000	-	225,000
174,488	-	-	-	24,937	-	199,425
35,833	-	-	-	26,166	1,072,235	1,211,244
<b>1,269,259</b>	<b>13,022</b>	<b>76,439</b>	<b>841,797</b>	<b>269,337</b>	<b>1,072,235</b>	<b>7,230,378</b>
<b>10,626</b>	<b>69,055</b>	<b>(577)</b>	<b>65,736</b>	<b>(256,227)</b>	<b>(1,069,893)</b>	<b>(721,548)</b>
-	-	-	-	213,994	-	498,994
-	(69,165)	-	(65,736)	-	-	(379,901)
827	-	-	-	-	-	827
<b>827</b>	<b>(69,165)</b>	<b>-</b>	<b>(65,736)</b>	<b>213,994</b>	<b>-</b>	<b>119,920</b>
<b>11,453</b>	<b>(110)</b>	<b>(577)</b>	<b>-</b>	<b>(42,233)</b>	<b>(1,069,893)</b>	<b>(601,628)</b>
541,146	74,389	59,500	-	2,548,175	2,173,927	6,211,660
<b>\$ 552,599</b>	<b>\$ 74,279</b>	<b>\$ 58,923</b>	<b>\$ -</b>	<b>\$ 2,505,942</b>	<b>\$ 1,104,034</b>	<b>\$ 5,610,032</b>

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Major Streets**  
**For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
<b>Revenues</b>				
State gas & weight tax	\$ 1,018,387	\$ 1,018,387	\$ 955,356	\$ (63,031)
Investment earnings	3,000	1,000	-	(1,000)
<b>Total revenues</b>	<b>1,021,387</b>	<b>1,019,387</b>	<b>955,356</b>	<b>(64,031)</b>
<b>Expenditures</b>				
Current:				
Routine maintenance	661,567	617,439	514,090	(103,349)
Winter maintenance	121,500	121,500	83,170	(38,330)
Traffic service	95,000	95,000	42,007	(52,993)
Capital Outlay	59,100	37,952	74,870	36,918
<b>Total expenditures</b>	<b>937,167</b>	<b>871,891</b>	<b>714,137</b>	<b>(157,754)</b>
<b>Revenues over expenditures</b>	<b>84,220</b>	<b>147,496</b>	<b>241,219</b>	<b>93,723</b>
<b>Other financing (uses)</b>				
Transfers out	(120,000)	(120,000)	(120,000)	-
<b>Net change in fund balance</b>	<b>(35,780)</b>	<b>27,496</b>	<b>121,219</b>	<b>93,723</b>
Fund balance, beginning of year	45,259	45,259	45,259	-
<b>Fund balance, end of year</b>	<b>\$ 9,479</b>	<b>\$ 72,755</b>	<b>\$ 166,478</b>	<b>\$ 93,723</b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Local Streets**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
<b>Revenues</b>				
State gas & weight tax	\$ 329,920	\$ 329,920	\$ 320,040	\$ (9,880)
Other revenue	-	-	15,287	15,287
<b>Total revenues</b>	<b>329,920</b>	<b>329,920</b>	<b>335,327</b>	<b>5,407</b>
<b>Expenditures</b>				
Current:				
Routine maintenance	430,804	369,343	399,787	30,444
Winter maintenance	135,000	135,000	63,133	(71,867)
Traffic service	37,000	37,000	33,054	(3,946)
<b>Total expenditures</b>	<b>602,804</b>	<b>541,343</b>	<b>495,974</b>	<b>(45,369)</b>
<b>Revenues under expenditures</b>	<b>(272,884)</b>	<b>(211,423)</b>	<b>(160,647)</b>	<b>50,776</b>
<b>Other financing sources</b>				
Transfers in	140,000	285,000	285,000	-
<b>Net change in fund balance</b>	<b>(132,884)</b>	<b>73,577</b>	<b>124,353</b>	<b>50,776</b>
Fund balance, beginning of year	3,520	3,520	3,520	-
<b>Fund balance, end of year</b>	<b>\$ (129,364)</b>	<b>\$ 77,097</b>	<b>\$ 127,873</b>	<b>\$ 50,776</b>

**CITY OF FERNDALE, MICHIGAN**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Sanitation**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Property taxes	\$ 1,343,000	\$ 1,372,000	\$ 1,355,243	\$ (16,757)
Charges for services	1,104,175	1,178,222	1,186,460	8,238
Investment earnings	5,000	5,000	134	(4,866)
Other	5,000	5,000	5,759	759
<b>Total revenues</b>	<b><u>2,457,175</u></b>	<b><u>2,560,222</u></b>	<b><u>2,547,596</u></b>	<b><u>(12,626)</u></b>
<b>Expenditures</b>				
Current:				
Operating	2,165,396	2,245,628	2,048,644	(196,984)
Personal	331,896	423,631	390,452	(33,179)
Capital outlay	30,000	-	2,140	2,140
<b>Total expenditures</b>	<b><u>2,527,292</u></b>	<b><u>2,669,259</u></b>	<b><u>2,441,236</u></b>	<b><u>(228,023)</u></b>
<b>Revenues over (under) expenditures</b>	<b>(70,117)</b>	<b>(109,037)</b>	<b>106,360</b>	<b>215,397</b>
<b>Other financing (uses)</b>				
Transfers out	(25,000)	(25,000)	(25,000)	-
<b>Net change in fund balance</b>	<b>(95,117)</b>	<b>(134,037)</b>	<b>81,360</b>	<b>215,397</b>
Fund balance, beginning of year	503,268	503,268	503,268	-
<b>Fund balance, end of year</b>	<b><u>\$ 408,151</u></b>	<b><u>\$ 369,231</u></b>	<b><u>\$ 584,628</u></b>	<b><u>\$ 215,397</u></b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Drug Forfeiture**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Intergovernmental				
Federal	\$ -	\$ 135,000	\$ 178,958	\$ 43,958
Fines and forfeitures	95,000	10,000	130,347	120,347
Investment earnings	2,000	2,000	437	(1,563)
<b>Total revenues</b>	<b>97,000</b>	<b>147,000</b>	<b>309,742</b>	<b>162,742</b>
<b>Expenditures</b>				
Current:				
Operating expenditures	21,000	48,830	36,942	(11,888)
<b>Revenues over expenditures</b>	<b>76,000</b>	<b>98,170</b>	<b>272,800</b>	<b>174,630</b>
<b>Other financing (uses)</b>				
Transfers out	(100,000)	(100,000)	(100,000)	-
<b>Net change in fund balance</b>	<b>(24,000)</b>	<b>(1,830)</b>	<b>172,800</b>	<b>174,630</b>
Fund balance, beginning of year	262,476	262,476	262,476	-
<b>Fund balance, end of year</b>	<b>\$ 238,476</b>	<b>\$ 260,646</b>	<b>\$ 435,276</b>	<b>\$ 174,630</b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Library**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Property taxes	\$ 1,207,000	\$ 1,232,000	\$ 1,219,481	\$ (12,519)
Intergovernmental:				
Federal	-	-	7,000	7,000
State	15,000	15,000	4,341	(10,659)
Fines and forfeitures	41,500	41,500	40,657	(843)
Investment earnings	5,400	5,400	416	(4,984)
Other	4,400	4,400	7,990	3,590
<b>Total revenues</b>	<b><u>1,273,300</u></b>	<b><u>1,298,300</u></b>	<b><u>1,279,885</u></b>	<b><u>(18,415)</u></b>
<b>Expenditures</b>				
Current:				
Personal services	583,098	591,263	603,841	12,578
Operating expenditures	214,400	322,900	330,097	7,197
Debt service				
Principal	125,000	125,000	125,000	-
Interest	174,488	174,488	174,488	-
Capital outlay	80,000	80,000	35,833	(44,167)
<b>Total expenditures</b>	<b><u>1,176,986</u></b>	<b><u>1,293,651</u></b>	<b><u>1,269,259</u></b>	<b><u>(24,392)</u></b>
<b>Revenues over expenditures</b>	<b><u>96,314</u></b>	<b><u>4,649</u></b>	<b><u>10,626</u></b>	<b><u>5,977</u></b>
<b>Other financing sources</b>				
Proceeds from the sale of capital assets	500	500	827	327
<b>Total other financing sources</b>	<b><u>500</u></b>	<b><u>500</u></b>	<b><u>827</u></b>	<b><u>327</u></b>
<b>Net change in fund balance</b>	<b><u>96,814</u></b>	<b><u>5,149</u></b>	<b><u>11,453</u></b>	<b><u>6,304</u></b>
Fund balance, beginning of year	541,146	541,146	541,146	-
<b>Fund balance, end of year</b>	<b><u>\$ 637,960</u></b>	<b><u>\$ 546,295</u></b>	<b><u>\$ 552,599</u></b>	<b><u>\$ 6,304</u></b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Community Development Block Grant**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Intergovernmental:				
Federal	\$ 82,749	\$ 82,749	\$ 81,911	\$ (838)
Investment earnings	1,820	1,820	166	(1,654)
<b>Total revenues</b>	<b>84,569</b>	<b>84,569</b>	<b>82,077</b>	<b>(2,492)</b>
<b>Expenditures</b>				
Current:				
Operating expenditures	20,500	20,500	13,022	(7,478)
<b>Revenues over expenditures</b>	<b>64,069</b>	<b>64,069</b>	<b>69,055</b>	<b>4,986</b>
<b>Other financing (uses)</b>				
Transfers out	(62,249)	(62,249)	(69,165)	(6,916)
<b>Net change in fund balance</b>	<b>1,820</b>	<b>1,820</b>	<b>(110)</b>	<b>(1,930)</b>
Fund balance, beginning of year	74,389	74,389	74,389	-
<b>Fund balance, end of year</b>	<b>\$ 76,209</b>	<b>\$ 76,209</b>	<b>\$ 74,279</b>	<b>\$ (1,930)</b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**SMART Taxi Subsidy**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Intergovernmental:				
State	\$ 72,466	\$ 72,466	\$ 68,208	\$ (4,258)
Charges for services	8,500	8,500	7,649	(851)
Investment earnings	-	-	5	5
<b>Total revenues</b>	<b><u>80,966</u></b>	<b><u>80,966</u></b>	<b><u>75,862</u></b>	<b><u>(5,104)</u></b>
<b>Expenditures</b>				
Current:				
Personal services	60,211	60,211	56,401	(3,810)
Operating expenditures	20,400	20,400	20,038	(362)
<b>Total expenditures</b>	<b><u>80,611</u></b>	<b><u>80,611</u></b>	<b><u>76,439</u></b>	<b><u>(4,172)</u></b>
<b>Net change in fund balance</b>	<b>355</b>	<b>355</b>	<b>(577)</b>	<b>(932)</b>
Fund balance, beginning of year	<u>59,500</u>	<u>59,500</u>	<u>59,500</u>	<u>-</u>
<b>Fund balance, end of year</b>	<b><u>\$ 59,855</u></b>	<b><u>\$ 59,855</u></b>	<b><u>\$ 58,923</u></b>	<b><u>\$ (932)</u></b>

**CITY OF FERNDALE, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**Neighborhood Stabilization Project Grant**  
**For the Year Ended June 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Intergovernmental:				
Federal	\$ 670,640	\$ 1,038,450	\$ 907,533	\$ (130,917)
<b>Expenditures</b>				
Current:				
Operating expenditures	595,640	977,950	841,797	(136,153)
<b>Revenues over expenditures</b>	<b>75,000</b>	<b>60,500</b>	<b>65,736</b>	<b>5,236</b>
<b>Other financing sources (uses)</b>				
Operating transfers out	(75,000)	(60,500)	(65,736)	(5,236)
<b>Net change in fund balances</b>	-	-	-	-
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**CITY OF FERNDALE, MICHIGAN**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2010**

	<u>Vehicle and Equipment Maintenance</u>	<u>Worker's Compensation</u>	<u>Total</u>
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 881,667	\$ 537,035	\$ 1,418,702
Inventory	194,112	-	194,112
Prepaid expenses	-	24,500	24,500
<b>Total current assets</b>	<u>1,075,779</u>	<u>561,535</u>	<u>1,637,314</u>
Noncurrent assets:			
Capital assets	5,528,551	-	5,528,551
Less accumulated depreciation	(3,527,233)	-	(3,527,233)
<b>Total noncurrent assets</b>	<u>2,001,318</u>	<u>-</u>	<u>2,001,318</u>
<b>Total assets</b>	<u>3,077,097</u>	<u>561,535</u>	<u>3,638,632</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	37,830	205,915	243,745
Accrued liabilities	3,422	-	3,422
<b>Total current liabilities</b>	<u>41,252</u>	<u>205,915</u>	<u>247,167</u>
<b>Net Assets</b>			
Investment in capital assets	2,001,318	-	2,001,318
Unrestricted	1,034,527	355,620	1,390,147
<b>Total net assets</b>	<u>\$ 3,035,845</u>	<u>\$ 355,620</u>	<u>\$ 3,391,465</u>

**CITY OF FERNDALE, MICHIGAN**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2010**

	<u>Vehicle and Equipment Maintenance</u>	<u>Worker's Compensation</u>	<u>Total</u>
<b>Operating revenues</b>			
Charges for services	\$ 1,229,126	\$ 210,362	\$ 1,439,488
Miscellaneous fees	24,476	-	24,476
<b>Total operating revenues</b>	<u>1,253,602</u>	<u>210,362</u>	<u>1,463,964</u>
<b>Operating expenses</b>			
Personal services	225,652	-	225,652
General and administrative	722,052	43,380	765,432
Depreciation	483,144	-	483,144
Benefit and medical payments	-	79,926	79,926
<b>Total operating expenses</b>	<u>1,430,848</u>	<u>123,306</u>	<u>1,554,154</u>
<b>Operating income (loss)</b>	<u>(177,246)</u>	<u>87,056</u>	<u>(90,190)</u>
<b>Non-operating revenues</b>			
Investment earnings	1,017	638	1,655
Gain on sale of capital assets	58,700	-	58,700
<b>Total non-operating revenues</b>	<u>59,717</u>	<u>638</u>	<u>60,355</u>
<b>Income (loss) before transfers</b>	<u>(117,529)</u>	<u>87,694</u>	<u>(29,835)</u>
Transfers in	5,000	-	5,000
<b>Change in net assets</b>	<u>(112,529)</u>	<u>87,694</u>	<u>(24,835)</u>
Net assets, beginning of year	3,148,374	267,926	3,416,300
<b>Net assets, end of year</b>	<u>\$ 3,035,845</u>	<u>\$ 355,620</u>	<u>\$ 3,391,465</u>

**CITY OF FERNDALE, MICHIGAN**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2010**

	<u>Vehicle and Equipment Maintenance</u>	<u>Worker's Compensation</u>	<u>Total</u>
<b>Cash flows from operating activities</b>			
Cash received from interfund services	\$ 1,261,958	\$ 210,362	\$ 1,472,320
Cash payments to employees	(229,765)	-	(229,765)
Cash payments to suppliers for goods and services	(784,171)	(183,050)	(967,221)
<b>Net cash provided by operating activities</b>	<b><u>248,022</u></b>	<b><u>27,312</u></b>	<b><u>275,334</u></b>
<b>Cash flows from investing activities</b>			
Investment income	1,017	638	1,655
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	(265,231)	-	(265,231)
Proceeds from sale of capital assets	58,699	-	58,699
<b>Net cash used in capital and related financing activities</b>	<b><u>(206,532)</u></b>	<b><u>-</u></b>	<b><u>(206,532)</u></b>
<b>Cash flows from non-capital financing activities</b>			
Transfers	5,000	-	5,000
<b>Net increase in cash and cash equivalents</b>	<b><u>47,507</u></b>	<b><u>27,950</u></b>	<b><u>75,457</u></b>
Cash and cash equivalents, beginning of year	834,160	509,085	1,343,245
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 881,667</u></b>	<b><u>\$ 537,035</u></b>	<b><u>\$ 1,418,702</u></b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>			
Operating income (loss)	\$ (177,246)	\$ 87,056	\$ (90,190)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	483,144	-	483,144
Changes in assets and liabilities:			
Accounts receivable	8,356	-	8,356
Inventories	(39,005)	-	(39,005)
Accounts payable	(23,114)	(59,744)	(82,858)
Accrued liabilities	(4,113)	-	(4,113)
<b>Net cash provided by operating activities</b>	<b><u>\$ 248,022</u></b>	<b><u>\$ 27,312</u></b>	<b><u>\$ 275,334</u></b>

**CITY OF FERNDALE, MICHIGAN**  
**Combining Statement of Net Assets**  
**Pension and Other Employee Benefit Trust Funds**  
**June 30, 2010**

	<u>Employees' Retirement System</u>	<u>Policemen and Firemen Retirement System</u>	<u>Post- Retirement Healthcare</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 35,210	\$ 445,694	\$ 24,394	\$ 505,298
Accrued interest receivable	67,189	142,754	26,942	236,885
Investments				
Debt securities	5,468,626	11,431,575	8,243,946	25,144,147
Equity securities	7,696,382	15,854,777	-	23,551,159
Mutual funds	1,447,788	3,185,134	-	4,632,922
Real estate investment trust	779,911	1,505,834	-	2,285,745
Total investments	<u>15,392,707</u>	<u>31,977,320</u>	<u>8,243,946</u>	<u>55,613,973</u>
<b>Total assets</b>	<u><b>15,495,106</b></u>	<u><b>32,565,768</b></u>	<u><b>8,295,282</b></u>	<u><b>56,356,156</b></u>
<b>Liabilities</b>				
Accounts payable	-	56,955	-	56,955
<b>Net Assets</b>				
<b>Held in trust for pension benefits and other purposes</b>	<u><b>\$ 15,495,106</b></u>	<u><b>\$ 32,508,813</b></u>	<u><b>\$ 8,295,282</b></u>	<u><b>\$ 56,299,201</b></u>

# CITY OF FERNDALE, MICHIGAN

## Combining Statement of Changes in Net Assets Pension and Other Employee Benefit Trust Funds For the Year Ended June 30, 2010

	Employees' Retirement System	Policemen and Firemen Retirement System	Post- Retirement Healthcare	<u>Total</u>
<b>Additions</b>				
<b>Contributions</b>				
Employer contributions	\$ -	\$ 208,650	\$ 1,240,000	\$ 1,448,650
Plan member contributions	-	155,574	-	155,574
<b>Total contributions</b>	<u>-</u>	<u>364,224</u>	<u>1,240,000</u>	<u>1,604,224</u>
<b>Investment income</b>				
Net appreciation in fair value	1,443,707	3,027,279	2,522	4,473,508
Interest	275,976	567,324	297,906	1,141,206
Dividends	119,302	246,573	-	365,875
<b>Total investment income</b>	<u>1,838,985</u>	<u>3,841,176</u>	<u>300,428</u>	<u>5,980,589</u>
Less investment expense	(126,213)	(198,012)	-	(324,225)
<b>Net investment income</b>	<u>1,712,772</u>	<u>3,643,164</u>	<u>300,428</u>	<u>5,656,364</u>
<b>Total additions</b>	<u>1,712,772</u>	<u>4,007,388</u>	<u>1,540,428</u>	<u>7,260,588</u>
<b>Deductions</b>				
Benefits	1,092,566	2,356,734	-	3,449,300
Administrative expenses	6,506	16,145	24,000	46,651
<b>Total deductions</b>	<u>1,099,072</u>	<u>2,372,879</u>	<u>24,000</u>	<u>3,495,951</u>
<b>Net increase in plan net assets</b>	<u>613,700</u>	<u>1,634,509</u>	<u>1,516,428</u>	<u>3,764,637</u>
Net assets held in trust for pension benefits - beginning of year	<u>14,881,406</u>	<u>30,874,304</u>	<u>6,778,854</u>	<u>52,534,564</u>
<b>Net assets held in trust for pension benefits - end of year</b>	<u>\$ 15,495,106</u>	<u>\$ 32,508,813</u>	<u>\$ 8,295,282</u>	<u>\$ 56,299,201</u>

**CITY OF FERNDALE, MICHIGAN**

**Combining Balance Sheet**

**Agency Funds**

**June 30, 2010**

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	<u>43rd District Court</u>	<u>Other</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	<u>\$ 196,298</u>	<u>\$ 1,431</u>	<u>\$ 197,729</u>
<b>Liabilities</b>			
Other liabilities	<u>\$ 196,298</u>	<u>\$ 1,431</u>	<u>\$ 197,729</u>

**CITY OF FERNDALE, MICHIGAN**  
**Downtown Development Authority**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**June 30, 2010**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and investments	\$ 219,895	\$ -	\$ 219,895
Taxes receivable	43,650	-	43,650
Less allowance for uncollectables	(33,343)	-	(33,343)
Due from primary government	-	5,839	5,839
Capital assets:			
Equipment	-	70,440	70,440
Vehicles	-	37,103	37,103
Infrastructure	-	1,467,331	1,467,331
Less: accumulated depreciation	-	(1,158,336)	(1,158,336)
<b>Total assets</b>	<b><u>\$ 230,202</u></b>	<b><u>422,377</u></b>	<b><u>652,579</u></b>
<b>Liabilities</b>			
Accounts payable	\$ 42,078	-	42,078
Accrued liabilities	1,009	-	1,009
Deferred revenue	10,307	(10,307)	-
<b>Total liabilities</b>	<b>53,394</b>	<b>(10,307)</b>	<b>43,087</b>
<b>Fund Balance:</b>			
Unreserved, undesignated	176,808	(176,808)	-
<b>Total liabilities and fund balance</b>	<b><u>\$ 230,202</u></b>		
<b>Net Assets:</b>			
Invested in capital assets,		416,538	416,538
Unrestricted		192,954	192,954
<b>Total net assets</b>		<b><u>\$ 609,492</u></b>	<b><u>\$ 609,492</u></b>

**CITY OF FERNDALE, MICHIGAN**  
**Downtown Development Authority**  
**Reconciliation of Governmental Fund Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2010**

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<b>Fund balance - Downtown Development Authority</b>	<b>\$</b>	<b>176,808</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Add: capital assets		1,574,874
Deduct: accumulated depreciation		(1,158,336)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues		10,307
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the

Add: net assets of governmental activities accounted for in the internal service fund		5,839
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<b>Net assets of component unit</b>	<b>\$</b>	<b><u>609,492</u></b>
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**CITY OF FERNDALE, MICHIGAN**  
**Downtown Development Authority**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures, and**  
**Changes in Fund Balance**  
**For the Year Ended June 30, 2010**

	Governmental Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Property taxes	\$ 550,363	\$ (316)	\$ 550,047
Intergovernmental:			
State grant	30,000	-	30,000
City general fund	30,000	-	30,000
Investment earnings	377	-	377
Other contributions	31,339	-	31,339
<b>Total revenues</b>	<b>642,079</b>	<b>(316)</b>	<b>641,763</b>
<b>Expenditures/Expenses</b>			
Personal services	101,193	-	101,193
Operating services	393,414	(901)	392,513
Capital outlay	71,359	(71,359)	-
Interest expense	33	-	33
Depreciation expense	-	109,772	109,772
<b>Total expenditures/expenses</b>	<b>565,999</b>	<b>37,512</b>	<b>603,511</b>
<b>Net change in fund balance/ net assets</b>	<b>76,080</b>	<b>(37,828)</b>	<b>38,252</b>
Beginning fund balance/net assets	100,728	470,512	571,240
<b>Ending fund balance/net assets</b>	<b>\$ 176,808</b>	<b>\$ 432,684</b>	<b>\$ 609,492</b>

**CITY OF FERNDALE, MICHIGAN**  
**Downtown Development Authority**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balance**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2010**

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**Net change in fund balance - Downtown Development Authority** **\$ 76,080**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: purchases of capital assets	71,359
Deduct: depreciation expense	(109,772)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add: net operating income from component unit activities in the internal service fund	901
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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, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenues	(316)
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**Change in net assets of governmental activities** **\$ 38,252**

**CITY OF FERNDALE, MICHIGAN**  
**Brownfield Redevelopment Authority**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**June 30, 2010**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and investments	\$ 347,536	\$ -	\$ 347,536
Taxes receivable	18	-	18
Less allowance for uncollectables	(4)	-	(4)
<b>Total assets</b>	<b><u>\$ 347,550</u></b>	<b><u>-</u></b>	<b><u>347,550</u></b>
<b>Liabilities</b>			
Accounts payable	\$ 98,189	-	98,189
Deferred revenue	13	(13)	-
<b>Total liabilities</b>	<b>98,202</b>	<b>(13)</b>	<b>98,189</b>
<b>Fund Balance:</b>			
Unreserved, undesignated	249,348	(249,348)	-
<b>Total liabilities and fund balance</b>	<b><u>\$ 347,550</u></b>		
<b>Net Assets:</b>			
Unrestricted		<b><u>\$ 249,361</u></b>	<b><u>\$ 249,361</u></b>
<b>Fund Balance</b>			<b>\$ 249,348</b>
Amounts reported for the statement of net assets are different from the governmental fund balance sheet because:			
The focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.			
Add: Deferred revenues			
<b>Net Assets</b>			<b><u>13</u></b> <b><u>\$ 249,361</u></b>

**CITY OF FERNDALE, MICHIGAN**  
**Brownfield Redevelopment Authority**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures, and**  
**Changes in Fund Balance**  
**For the Year Ended June 30, 2010**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Property taxes	\$ 366,903	\$ 13	\$ 366,916
Charges for services	4,590	-	4,590
Investment earnings	423	-	423
<b>Total revenues</b>	<u>371,916</u>	<u>13</u>	<u>371,929</u>
<b>Expenditures/expense</b>			
Operating expenditures/expense	247,939	-	247,939
<b>Net change in fund balance/ net assets</b>	<b>123,977</b>	<b>13</b>	<b>123,990</b>
Beginning fund balance/net assets	125,371	-	125,371
<b>Ending fund balance/net assets</b>	<u>\$ 249,348</u>	<u>\$ 13</u>	<u>\$ 249,361</u>
<b>Net change in fund balance</b>			<b>\$ 123,977</b>
Amounts reported in the statement of activities are different from change in fund balance because:			
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.			
Add: Net change in deferred revenues			13
<b>Change in net assets</b>			<u>\$ 123,990</u>

***SINGLE AUDIT***

Principals

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



**ABRAHAM & GAFFNEY, P.C.**

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE  
A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Ferndale's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on the City of Ferndale's major federal program for the year ended June 30, 2010. The City of Ferndale's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the major federal program is the responsibility of the City of Ferndale's management. Our responsibility is to express an opinion on the City of Ferndale's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Ferndale's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Ferndale's compliance with those requirements.

In our opinion, the City of Ferndale complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

Management of the City of Ferndale is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ferndale's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ferndale's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of City Council and management of the City of Ferndale, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 3, 2010

# City of Ferndale, Michigan

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2010

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Justice</b>		
<i>Direct funding:</i>		
Asset Forfeiture and Money Laundering Section	16.580	\$ 178,958
<i>Passed through Oakland County, Michigan:</i>		
Organized Crime Drug Enforcement Task Forces (OCDETF)	16.738	<u>17,071</u>
<b>Total U.S. Department of Justice</b>		<u><b>196,029</b></u>
<b>U.S. Department of Housing and Urban Development</b>		
<i>Passed through Oakland County, Michigan:</i>		
Community Development Block Grant	14.218	81,911
Neighborhood Stabilization Project Grant	14.218	<u>907,533</u>
<b>Total U.S. Department of Housing and Urban Development</b>		<u><b>989,444</b></u>
<b>National Endowment for the Arts</b>		
<i>Passed through Arts Midwest:</i>		
Big Read Grant	45.129	<u>7,000</u>
<b>Total Expenditures of Federal Awards</b>		<u><b>\$ 1,192,473</b></u>

**CITY OF FERNDALE, MICHIGAN**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2010**

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**1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ferndale, Michigan (the "City") and is presented on the same basis of accounting as the basic financial statements.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

\* \* \* \* \*

## Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
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### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferndale, Michigan as of and for the year ended June 30, 2010, and have issued our report thereon dated December 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Ferndale's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Ferndale's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ferndale's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ferndale's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as 2010-1.

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

This report is intended solely for the information and use of City Council and management of the City of Ferndale, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 3, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes  X  None reported

Noncompliance material to financial statements noted?  X  Yes \_\_\_\_\_ No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

Significant deficiencies identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes  X  None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_\_\_ Yes  X  No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grants/ Entitlement Grants

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes  X  No

**Section II - Financial Statement Findings**

2010-1 UNFAVORABLE BUDGET VARIANCES

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

Criteria: Michigan Public Act 621 of 1978, as amended, provides that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires the City Council to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined".

City of Ferndale

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2010

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**Section II - Financial Statement Findings - continued**

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2010-1 UNFAVORABLE BUDGET VARIANCES - CONTINUED

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

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

Recommendation: We recommend the City Council monitor budgeted expenditures against actual expenditures on a more frequent basis and amend the original adopted budget to alleviate future unfavorable budget variances in a timely manner.

Corrective Action Response: Based on the City's current general ledger software, more closely monitoring budget to actual results is not an effective or efficient use of staff time. The City is currently reviewing options for a new software system to replace its current one, with a planned implementation in calendar 2010. As noted, the total expenditures of the General Fund were well under the amount authorized.

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**Section III - Federal Award Findings and Questioned Costs**

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None noted.

City of Ferndale

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2010

FINDINGS/NONCOMPLIANCE

Control Deficiencies Related to Internal Controls Over the Financial Statements.

No prior audit findings.

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

2009-1 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the City's compliance with the budgeting act, we noted that the expenditures exceeded the amounts appropriated in the General Fund and several of the City's Special Revenue funds as noted in the notes to the financial statements.

Resolution: A similar issue was noted this year and is reported under finding 2010-1. We do not consider this issue resolved.

2008-1 VALUATION FOR DEFINED PENSION TRUSTS

Condition: The City was unable to provide the most recent actuarial valuation for disclosures in the financial statements.

Resolution: During the prior year the City had an actuarial valuation conducted and that study was used for financial statement note disclosure. We consider this issue to be resolved.

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

2008-2 REPORTING - EDI SPECIAL PROJECTS PROGRAM

Condition: During the course of the audit it was noted that the City had not complied with the grant agreement and did not submit semi-annual progress reports to their Grant Officer for the 2006 EDI Special Project Grant Agreement.

Resolution: The City did not receive this grant again in the current year. In discussions with management it was noted that these semi-annual progress reports were completed and submitted subsequent to the issuance of the City's audited financial statements for the year ended June 30, 2008. We consider this issue to be resolved.