

CITY OF FERNDALE
AUDIT PRESENTATION
JUNE 30, 2013

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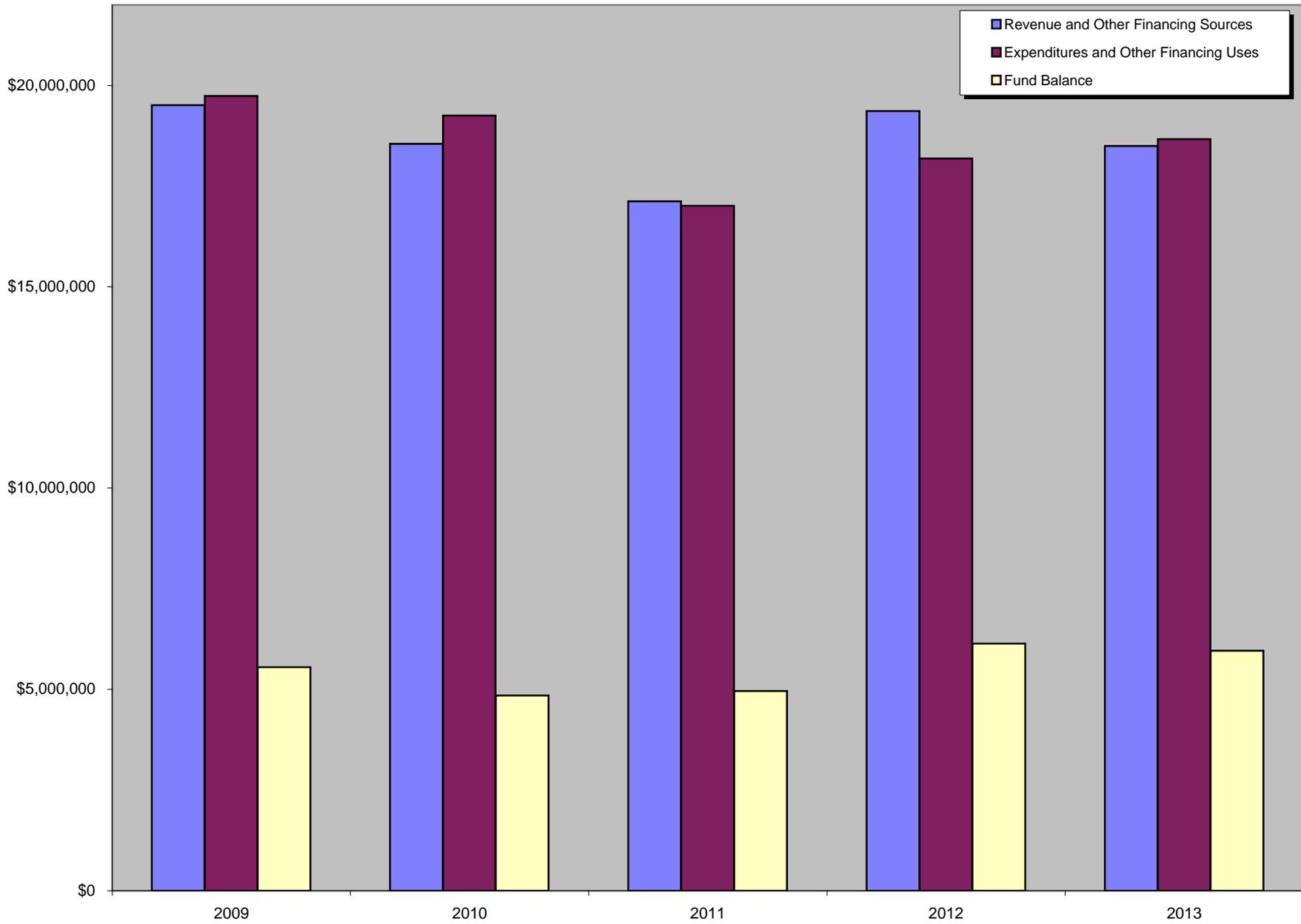
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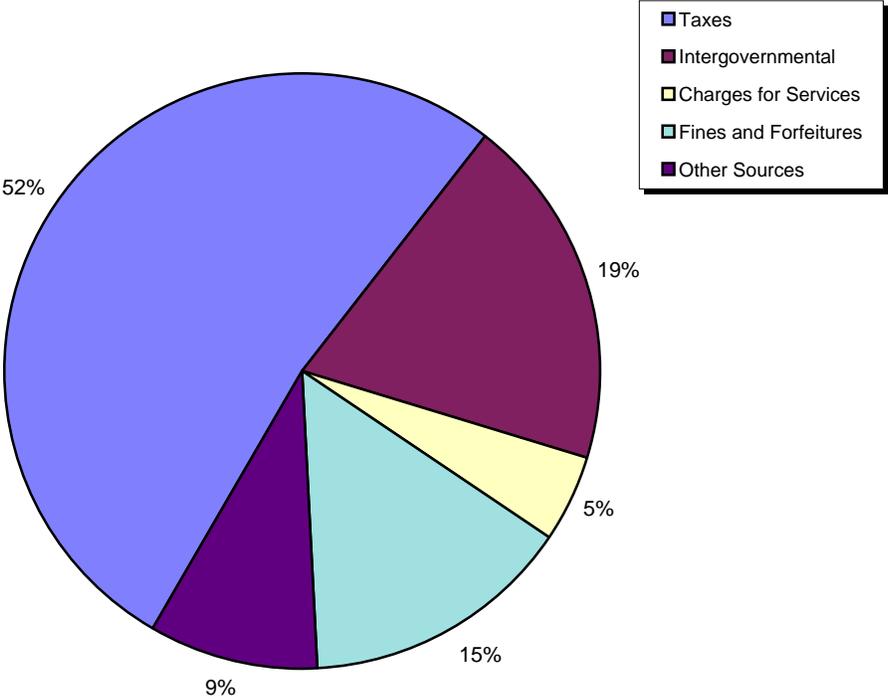
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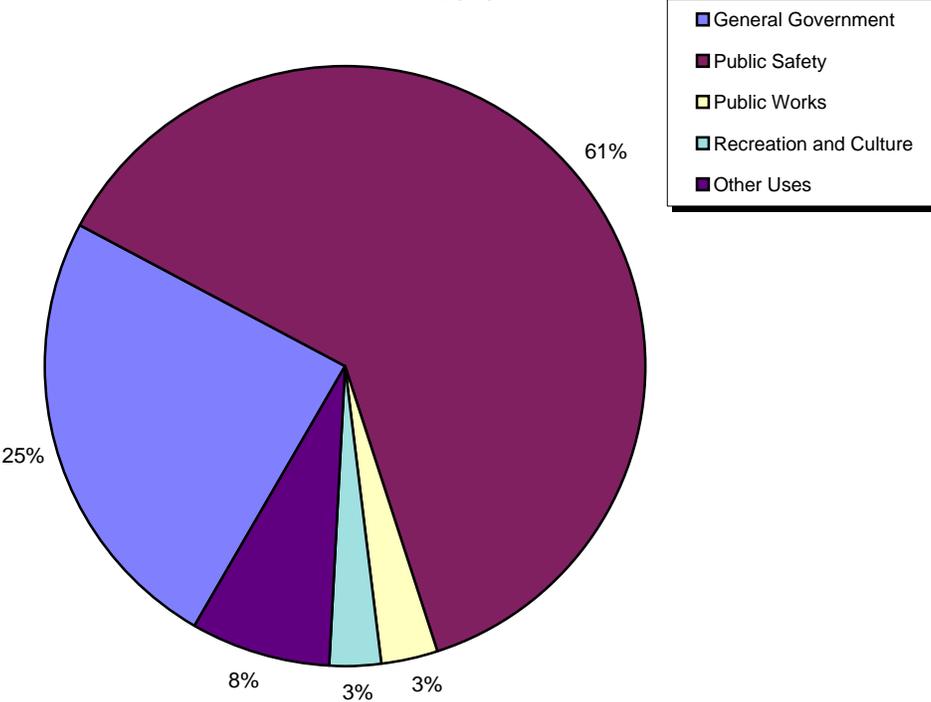
**City of Ferndale
General Fund Revenues, Expenditures, and Fund Balance**



**City of Ferndale
General Fund Revenues and Other Financing Sources
2013**



**City of Ferndale
General Fund Expenditures and Other Financing Uses
2013**



Principals

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferndale, Michigan for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 17, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Ferndale are described in Note A to the financial statements. As described in Note O to the financial statements, the City adopted Governmental Accounting Standards Board Statements (GASB Statements) No. 61, *The Financial Reporting Entity Omnibus*; No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and No. 65, *Items Previously Reported as Assets and Liabilities*, during the fiscal year ended June 30, 2013. Accordingly, the effects of the accounting changes are reported in the applicable financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements of the governmental activities, business-type activities, proprietary funds, and aggregate discretely presented component units were:

Management's calculation of depreciation expense for the current period is based on an estimate of the useful lives of the capital assets.

Investments are carried at fair value, which is defined as the amount that the City could reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller and is generally measured by quoted market prices.

Management's calculation of the defined benefit pension and post-employment benefits is calculated using the individual entry age normal actuarial cost method of calculation based upon certain actuarial assumptions.

Management's calculation of the percentages for the allowance for uncollectible receivable balances is based on past experience and future expectation for collection of various account balances.

The most sensitive estimate affecting the financial statements of the governmental activities was:

Management's calculation of the percentages for current and noncurrent compensated absence payments is based on the amount earned by employees during the year. The entire amount earned by each employee during the year is considered to be current compensated absences.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial reporting opinion units that collectively comprise the City's basic financial statements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Material misstatements were not detected as a result of our auditing procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the City Council and management of the City of Ferndale and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 12, 2013

**City of Ferndale
Oakland County, Michigan**

FINANCIAL STATEMENTS

June 30, 2013

City of Ferndale

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Ferndale, Michigan (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion on Governmental Activities

Sufficient appropriate evidence about the carrying amount of the City's net other post-employment benefits obligation as of June 30, 2013, was unable to be obtained because the City's actuarial valuation for the year ended June 30, 2012, and related calculation of the annual required contribution for the year ended June 30, 2013, has not been completed. Accounting principles generally accepted in the United States of America require an actuarial valuation be performed at least biennially for other post-employment benefit plans with a total membership of 200 or more. The amount by which this departure would affect the liabilities, net position, and expenses of the governmental activities has not been determined.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the City of Ferndale, Michigan, as of June 30, 2013, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of 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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note O, the City implemented GASB Statement No. 61, *The Financial Reporting Entity Omnibus* during the year. As a result, the criteria for reporting component units as if they were part of the primary government (that is, blending) has been modified. Our opinions are not modified with respect to this matter.

As discussed in Note O, the City implemented GASB Statements No. 63 and 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Items Previously Reported as Assets and Liabilities*, during the year. As a result of these implementations, the format and reporting of the financial statements has changed to reflect the required components of GASB Statements No. 63 and 65, as applicable. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, on our consideration of the City of Ferndale, Michigan'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 internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the City of Ferndale, Michigan's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 12, 2013

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013.

Financial Highlights

- The total assets of the City exceeded its liabilities at the close of the fiscal year by \$45,703,208. Of this amount, \$23,751,685 is invested in capital assets (net of related debt), \$1,844,940 is restricted for specific purposes such as public safety, highways and streets, and other purposes, and \$20,106,583 may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's combined net position of Primary Government activities increased \$4,259,948 as a result of this year's operations. Net position of our Governmental activities increased by \$2,358,087 and net assets of our Business-type activities increased by \$1,901,861.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$11,617,189 for an increase of \$619,426 as compared with the prior year. Approximately 48% of this amount, or \$5,519,263, is available for appropriation at the government's discretion (*unassigned fund balance*).
- General fund revenues decreased by \$1,001,547 or 5.2%. This change was primarily due to a decrease in property tax revenue of \$455,000, or 4.5%, a decrease in state shared revenue of approximately \$205,000 and loss of a federal grant of \$223,000, various reductions in charges for services of approximately \$119,000, and a net loss on investments of approximately \$429,000.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,519,263 or 32.0% of total General Fund expenditures.
- The City's total long-term debt decreased by approximately \$4,193,000 during the current fiscal year.
- The City invested over \$1,987,000 in capital improvements for the year including adding parking spaces, construction on a water main, purchase of several police vehicles and other equipment, continued work on street and sidewalk projects, and the purchase of land.
- 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.

Overview of the Financial Statements

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

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

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

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and 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 *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Debt Service, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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.
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.

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Ferndale, assets exceeded liabilities by \$45,703,208 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, \$23,751,685, or 52%, reflect its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Ferndale's Net Assets

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 15,981,726	\$ 15,190,352	\$ 10,526,903	\$ 8,452,534	\$ 26,508,629	\$ 23,642,886
Capital assets, net	15,467,177	17,170,976	35,817,240	36,996,264	51,284,417	54,167,240
Total assets	31,448,903	32,361,328	46,344,143	45,448,798	77,793,046	77,810,126
Current liabilities	5,967,684	5,894,927	2,073,386	2,096,134	8,041,070	7,991,061
Noncurrent liabilities	11,218,957	14,044,859	12,829,811	13,813,579	24,048,768	27,858,438
Total liabilities	17,186,641	19,939,786	14,903,197	15,909,713	32,089,838	35,849,499
Net position:						
Net investment in capital assets	1,748,025	307,577	22,003,660	22,224,398	23,751,685	22,531,975
Restricted	1,844,940	2,967,822	-	-	1,844,940	2,967,822
Unrestricted	10,669,297	9,146,143	9,437,286	7,314,687	20,106,583	16,460,830
	\$ 14,262,262	\$ 12,421,542	\$ 31,440,946	\$ 29,539,085	\$ 45,703,208	\$ 41,960,627

An additional portion of the City's net position, \$1,844,940, or 4%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of \$20,106,583, or 44%, may be used to meet the government's ongoing obligations to citizens and creditors.

The City's net assets in Primary Government activities increased \$4,259,948 during the current fiscal year. Governmental activities account for an increase of \$2,358,087, and business-type activities account for an increase of \$1,901,861 for the year ended.

City of Ferndale

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

City of Ferndale's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenue:						
Program revenue:						
Charges for services	\$ 7,147,464	\$ 6,792,102	\$ 11,007,340	\$ 9,341,809	\$ 18,154,804	\$ 16,133,911
Operating grants and contributions	2,228,063	2,652,190	-	2,990	2,228,063	2,655,180
General revenues:						
Property taxes	15,024,668	15,918,588	-	-	15,024,668	15,918,588
State shared revenue	2,342,517	2,284,297	-	-	2,342,517	2,284,297
Unrestricted investment earnings	(522,516)	-	-	-	(522,516)	-
Gain on sale for capital assets	92,610	364,901	(300,742)	-	(208,132)	364,901
Other	530,436	198,025	-	111,046	530,436	309,071
Total revenues	26,843,242	28,210,103	10,706,598	9,455,845	37,549,840	37,665,948
Expenses:						
General government	4,918,609	5,250,792	-	-	4,918,609	5,250,792
Public safety	11,473,812	11,831,244	-	-	11,473,812	11,831,244
Public works	2,985,487	2,744,233	-	-	2,985,487	2,744,233
Highways and streets	2,703,278	2,636,145	-	-	2,703,278	2,636,145
Recreation and culture	1,723,601	1,950,711	-	-	1,723,601	1,950,711
Community and economic development	9,248	140,352	-	-	9,248	140,352
Interest on long-term debt	671,120	841,957	-	-	671,120	841,957
Water and sewer	-	-	8,296,195	8,633,335	8,296,195	8,633,335
Auto parking	-	-	508,542	333,293	508,542	333,293
Total expenses	24,485,155	25,395,434	8,804,737	8,966,628	33,289,892	34,362,062
Increase in net assets before transfers	2,358,087	2,814,669	1,901,861	489,217	4,259,948	3,303,886
Transfers	-	(2,685,160)	-	2,685,160	-	-
Increase in net assets	2,358,087	129,509	1,901,861	3,174,377	4,259,948	3,303,886
Net position - beginning	11,904,175	12,292,033	29,539,085	26,364,708	41,443,260	38,656,741
Net position - ending	\$ 14,262,262	\$ 12,421,542	\$ 31,440,946	\$ 29,539,085	\$ 45,703,208	\$ 41,960,627

Governmental activities increased the City's net position by \$2,358,087, accounting for 55.4% of the City's total increase in net position.

Business-type Activities. Business-type activities increased the City's net position by \$1,901,861, accounting for 44.6% of the City's total increase in net position. The key elements of this increase are as follows:

- Water/Sewer revenues increased by \$1,765,355. Expenses decreased by approximately \$313,000 due to reduction in personnel costs, maintenance expenses, and contracted services.
- Auto Parking fund net revenues decreased by \$218,000 over the prior year, due to both a decrease in revenue and an increase in expenses from the previous year.
- Substantially all revenues for the Water/Sewer fund and the Auto Parking fund are derived from charges for services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Financial Analysis of the Government's Funds

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

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

As of the end of the fiscal year, the City's governmental funds reported combined ending fund balances of \$11,617,189, an increase of \$619,426 in comparison with the prior year. Approximately 48% of this total amount, or \$5,519,263, constitutes *unassigned fund balance*, which is available for appropriation at the government's discretion. The remaining fund balance amounts are either not in a spendable form (i.e., inventories and prepaid insurance), are restricted as to their use by outside 3rd parties or enabling legislation, have been committed to a specific use by City Council or have been assigned by management.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *unassigned* fund balance of the General Fund was \$5,519,263, while total fund balance was \$6,142,556. As a measure of the General Fund's liquidity and financial stability, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 32% of total General Fund expenditures, while total fund balance represents 36% of the same amount.

Total fund balance of the City's General Fund increased by \$8,262 during the fiscal year. Notable items affecting fund balance include the following:

- Property tax revenues decreased by \$455,000, due to the continued decline in taxable values.
- A net investment loss of approximately \$429,000
- Expenditure increases were limited to 0.4% overall

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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$8,170,858. Total net assets increased \$1,699,323, due to an increase in charges for service of approximately \$1,765,000.

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

General Fund Budgetary Highlights

The difference between the original revenue budget and the amended revenue budget was an increase of \$321,008, mostly in fines and forfeitures.

Actual revenues were \$559,189 less than budgeted revenues, as amended. The decrease in actual revenues was realized primarily from a net investment loss.

The difference between the original and amended expenditure budgets was a decrease of \$504,146. Actual expenditures were under the amended budget by \$326,464, mostly in public safety expenditures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013, amounted to \$51,284,417 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure. The total decrease in the City's net investment in capital assets for the current fiscal year was \$2,882,823 or 5.3%. This represents a decrease for governmental activities of \$1,703,799 or 9.9%; and a decrease for business-type activities of \$1,179,024 or 3.2%.

Major capital asset events during the current fiscal year included additional parking lot spaces, construction on a water main, purchase of several police vehicles and other equipment, continued work on street and sidewalk projects, and purchase of land.

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

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$28,050,039, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$14,236,459) and business-type activities (\$13,813,580) at year end.

The City decreased debt obligations by \$4,207,437 from payments on principal and the amortization of debt premiums and discounts. In addition, the City issued \$4.5 million of unlimited tax refunding bonds to defease the 2003 unlimited tax refunding bonds.

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 2013-14 fiscal year and will continue to be an ongoing concern as the City moves forward in future budget years.

- The market value of real estate in southeastern Michigan had begun to show signs of improvement; however, the City estimates that property tax revenues will not yet show improvement until after fiscal year 2014.
- The funding of "Legacy" costs, i.e., current and future retiree health care and benefit costs and pension contributions continue to be a significant portion of the City's budget. As of the most recent actuarial valuation, unfunded pension (police and fire) and healthcare benefits totaled \$39.3 million; however, the Ferndale Employees' Retirement System was overfunded by \$6.8 million. Contributions to the Police and Fire Pension System and the Other Post-Employment Benefits Trust totaled \$4.2 million during fiscal year 2013.
- The recognition that the infrastructure improvements approved by voters in 1994 have been in service between 5 to 20 years, and some of the streets, water mains, and sewer lines are now ready to be reviewed again for major repairs and/or replacement. Staff will be analyzing this issue over the next year or two to determine the work that needs to be considered, prioritized, and funded in order to maintain the infrastructure at a level acceptable to the citizens.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City Manager April Lynch, 300 East Nine Mile Road, Ferndale, Michigan 48220-1797.

BASIC FINANCIAL STATEMENTS

City of Ferndale

STATEMENT OF NET POSITION

June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and investments	\$ 14,368,488	\$ 7,747,662	\$ 22,116,150	\$ 1,104,151
Accounts receivable	563,083	2,776,543	3,339,626	46,890
Accrued interest receivable	45,345	-	45,345	-
Due from other governmental units	760,655	2,698	763,353	-
Inventories	136,088	-	136,088	-
Prepays	108,067	-	108,067	-
Total current assets	15,981,726	10,526,903	26,508,629	1,151,041
Noncurrent assets				
Capital assets not being depreciated	1,204,502	998,657	2,203,159	-
Capital assets, net of accumulated depreciation	14,262,675	34,818,583	49,081,258	247,382
Total noncurrent assets	15,467,177	35,817,240	51,284,417	247,382
TOTAL ASSETS	31,448,903	46,344,143	77,793,046	1,398,423
LIABILITIES				
Current liabilities				
Accounts payable	1,424,936	974,117	2,399,053	33,760
Accrued liabilities	974,228	29,705	1,003,933	2,950
Accrued interest payable	103,368	85,795	189,163	-
Current portion of long-term debt	3,449,152	983,769	4,432,921	-
Current portion of compensated absences	16,000	-	16,000	-
Total current liabilities	5,967,684	2,073,386	8,041,070	36,710
Noncurrent liabilities				
Noncurrent portion of long-term debt	10,270,000	12,829,811	23,099,811	-
Noncurrent portion of compensated absences	501,307	-	501,307	-
Net other post-employment benefits obligation	447,650	-	447,650	-
Total noncurrent liabilities	11,218,957	12,829,811	24,048,768	-0-
TOTAL LIABILITIES	17,186,641	14,903,197	32,089,838	36,710
NET POSITION				
Net investment in capital assets	1,748,025	22,003,660	23,751,685	247,382
Restricted				
Highways and streets	269,836	-	269,836	-
Public works	314,592	-	314,592	-
Public safety	709,531	-	709,531	-
Recreation and culture	429,999	-	429,999	-
Community and economic development	-	-	-	1,114,331
Debt service	120,982	-	120,982	-
Unrestricted	10,669,297	9,437,286	20,106,583	-
TOTAL NET POSITION	\$ 14,262,262	\$ 31,440,946	\$ 45,703,208	\$ 1,361,713

See accompanying notes to financial statements.

City of Ferndale
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total	
Governmental activities							
General government	\$ 4,918,609	\$ 3,800,929	\$ 95,739	\$ (1,021,941)	\$ -	\$ (1,021,941)	\$ -
Public safety	11,473,812	1,622,211	649,083	(9,202,518)	-	(9,202,518)	-
Public works	2,985,487	1,359,917	-	(1,625,570)	-	(1,625,570)	-
Highways and streets	2,703,278	-	1,291,604	(1,411,674)	-	(1,411,674)	-
Recreation and culture	1,723,601	364,407	133,857	(1,225,337)	-	(1,225,337)	-
Community and economic development	9,248	-	57,780	48,532	-	48,532	-
Interest on long-term debt	671,120	-	-	(671,120)	-	(671,120)	-
Total governmental activities	24,485,155	7,147,464	2,228,063	(15,109,628)	-0-	(15,109,628)	-0-
Business-type activities							
Water and Sewer	8,296,195	10,241,695	-	-	1,945,500	1,945,500	-
Auto Parking	508,542	765,645	-	-	257,103	257,103	-
Total business-type activities	8,804,737	11,007,340	-0-	-0-	2,202,603	2,202,603	-0-
Total primary government	<u>\$ 33,289,892</u>	<u>\$ 18,154,804</u>	<u>\$ 2,228,063</u>	(15,109,628)	2,202,603	(12,907,025)	-0-
Component units							
Brownfield Redevelopment Authority	\$ 63,313	\$ 11,798	\$ -	-	-	-	(51,515)
Downtown Development Authority	695,150	250	121,951	-	-	-	(572,949)
Total component units	<u>\$ 758,463</u>	<u>\$ 12,048</u>	<u>\$ 121,951</u>	-0-	-0-	-0-	(624,464)
General revenues							
Property taxes				15,024,668	-	15,024,668	904,055
State shared revenue				2,342,517	-	2,342,517	-
Unrestricted investment earnings				(522,516)	(300,742)	(823,258)	(43,465)
Gain on sale for capital assets				92,610	-	92,610	-
Miscellaneous				530,436	-	530,436	-
Total general revenues				<u>17,467,715</u>	<u>(300,742)</u>	<u>17,166,973</u>	<u>860,590</u>
Change in net position				2,358,087	1,901,861	4,259,948	236,126
Restated net position, beginning of year				11,904,175	29,539,085	41,443,260	1,125,587
Net position, end of year				<u>\$ 14,262,262</u>	<u>\$ 31,440,946</u>	<u>\$ 45,703,208</u>	<u>\$ 1,361,713</u>

See accompanying notes to financial statements.

City of Ferndale
Governmental Funds
BALANCE SHEET
June 30, 2013

	General	Debt Service	Nonmajor Governmental Funds	Total
ASSETS				
Cash and investments	\$ 7,172,919	\$ 223,587	\$ 5,608,291	\$ 13,004,797
Accounts receivable	507,593	-	13,976	521,569
Accrued interest receivable	24,598	763	19,984	45,345
Due from other governmental units	521,006	-	239,649	760,655
Prepays	83,567	-	-	83,567
TOTAL ASSETS	<u>\$ 8,309,683</u>	<u>\$ 224,350</u>	<u>\$ 5,881,900</u>	<u>\$ 14,415,933</u>
LIABILITIES				
Accounts payable	\$ 709,216	\$ -	\$ 600,120	\$ 1,309,336
Accrued liabilities	945,940	-	22,409	968,349
TOTAL LIABILITIES	1,655,156	-0-	622,529	2,277,685
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	511,971	-	9,088	521,059
FUND BALANCES				
Nonspendable	83,567	-	-	83,567
Restricted	12,636	224,350	1,711,322	1,948,308
Committed	517,307	-	2,189,070	2,706,377
Assigned	9,783	-	1,349,891	1,359,674
Unassigned	5,519,263	-	-	5,519,263
TOTAL FUND BALANCES	<u>6,142,556</u>	<u>224,350</u>	<u>5,250,283</u>	<u>11,617,189</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 8,309,683</u>	<u>\$ 224,350</u>	<u>\$ 5,881,900</u>	<u>\$ 14,415,933</u>

See accompanying notes to financial statements.

City of Ferndale

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

June 30, 2013

Total fund balance - governmental funds \$ 11,617,189

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

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

The cost of capital assets is	\$ 57,593,575	
Accumulated depreciation is	<u>(44,297,478)</u>	
Capital assets, net		13,296,097

Other long-term assets are not available to pay for current period expenditures and, therefore, are considered unavailable in the funds.		521,059
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Internal service funds are used by management to charge the costs of certain activities to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

Net position of governmental activities accounted for in governmental activities internal service funds		3,615,394
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheet. Long-term liabilities at year-end consist of:

Bonds payable	(13,719,152)	
Compensated absences	(517,307)	
Accrued interest payable	(103,368)	
Net other post-employment benefits obligation	<u>(447,650)</u>	
		<u>(14,787,477)</u>

Net position of governmental activities		<u>\$ 14,262,262</u>
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City of Ferndale

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2013

	General	Debt Service	Nonmajor Governmental Funds	Total
REVENUES				
Property taxes	\$ 9,662,632	\$ 3,663,966	\$ 2,052,772	\$ 15,379,370
Licenses and permits	846,567	-	-	846,567
Intergovernmental	3,541,568	-	1,499,625	5,041,193
Charges for services	881,576	-	1,281,605	2,163,181
Fines and forfeits	2,691,897	-	63,000	2,754,897
Investment earnings	(283,699)	(8,802)	(230,016)	(522,517)
Other	941,363	-	52,860	994,223
TOTAL REVENUES	18,281,904	3,655,164	4,719,846	26,656,914
EXPENDITURES				
Current				
General government	4,578,520	61,929	34,387	4,674,836
Public safety	11,590,158	-	117,001	11,707,159
Public works	565,500	-	2,350,560	2,916,060
Highway and streets	-	-	1,372,369	1,372,369
Recreation and culture	511,187	-	888,856	1,400,043
Community and economic development	-	-	6,800	6,800
Debt service				
Principal	-	3,065,000	285,000	3,350,000
Interest and fees	-	462,877	172,650	635,527
Capital outlay	-	-	69,771	69,771
TOTAL EXPENDITURES	17,245,365	3,589,806	5,297,394	26,132,565
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,036,539	65,358	(577,548)	524,349
OTHER FINANCING SOURCES (USES)				
Transfers in	123,134	-	1,244,021	1,367,155
Transfers out	(1,244,021)	-	(123,134)	(1,367,155)
Transfers to escrow	-	(4,350,000)	-	(4,350,000)
Bond proceeds	-	4,465,000	-	4,465,000
Bond premium	-	(115,000)	-	(115,000)
Proceeds from sale of capital assets	92,610	-	2,467	95,077
TOTAL OTHER FINANCING SOURCES (USES)	(1,028,277)	-0-	1,123,354	95,077
NET CHANGE IN FUND BALANCES	8,262	65,358	545,806	619,426
Fund balances, beginning of year	6,134,294	158,992	4,704,477	10,997,763
Fund balances, end of year	<u>\$ 6,142,556</u>	<u>\$ 224,350</u>	<u>\$ 5,250,283</u>	<u>\$ 11,617,189</u>

See accompanying notes to financial statements.

City of Ferndale

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

Year Ended June 30, 2013

Net change in fund balances - total governmental funds \$ 619,426

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

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

Capital outlay	\$ 700,107	
Depreciation expense	<u>(2,120,483)</u>	
Excess of depreciation expense over capital outlay		(1,420,376)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	91,251
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Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities.	(239,738)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current period, these amounts consist of:

Debt principal retirement	7,700,000	
Bond proceeds	<u>(4,465,000)</u>	
		3,235,000

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

Decrease in accrued compensated absences	14,153	
Decrease in accrued interest payable	79,407	
(Increase) in other post-employment benefits obligation	<u>(21,036)</u>	
		<u>72,524</u>

Change in net position of governmental activities \$ 2,358,087

City of Ferndale

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2013

	Enterprise Funds			Governmental
	Water and Sewer	Nonmajor Auto Parking	Total	Activities Internal Service Funds
ASSETS				
Current assets				
Cash and investments	\$ 6,338,192	\$ 1,409,470	\$ 7,747,662	\$ 1,363,691
Accounts receivable	2,758,454	18,089	2,776,543	41,514
Due from other governmental units	2,698	-	2,698	-
Inventories	-	-	-0-	136,088
Prepays	-	-	-0-	24,500
Total current assets	9,099,344	1,427,559	10,526,903	1,565,793
Noncurrent assets				
Capital assets not being depreciated	543,754	454,903	998,657	-
Capital assets, net of accumulated depreciation	33,665,360	1,153,223	34,818,583	2,171,080
Total noncurrent assets	34,209,114	1,608,126	35,817,240	2,171,080
TOTAL ASSETS	43,308,458	3,035,685	46,344,143	3,736,873
LIABILITIES				
Current liabilities				
Accounts payable	815,459	158,658	974,117	115,600
Accrued liabilities	27,232	2,473	29,705	5,879
Accrued interest payable	85,795	-	85,795	-
Current portion of long-term debt	983,769	-	983,769	-
Total current liabilities	1,912,255	161,131	2,073,386	121,479
Noncurrent liabilities				
Noncurrent portion of long-term debt	12,829,811	-	12,829,811	-
TOTAL LIABILITIES	14,742,066	161,131	14,903,197	121,479
NET POSITION				
Net investment in capital assets	20,395,534	1,608,126	22,003,660	2,171,080
Unrestricted	8,170,858	1,266,428	9,437,286	1,444,314
TOTAL NET POSITION	\$ 28,566,392	\$ 2,874,554	\$ 31,440,946	\$ 3,615,394

See accompanying notes to financial statements.

City of Ferndale

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2013

	Enterprise Funds			Governmental
	Water and Sewer	Nonmajor Auto Parking	Total	Activities Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ 9,814,340	\$ -	\$ 9,814,340	\$ 1,558,966
Parking meter receipts	-	687,833	687,833	-
Water penalties	423,779	-	423,779	-
Water meter repairs	504	-	504	-
Miscellaneous income	3,072	77,812	80,884	-
TOTAL OPERATING REVENUES	10,241,695	765,645	11,007,340	1,558,966
OPERATING EXPENSES				
Personal services	917,552	145,831	1,063,383	341,975
General and administrative	88,074	76,863	164,937	480,694
Utilities	59,915	22,901	82,816	28,524
Rental expense	139,564	55,129	194,693	36,266
Contractual services	45,511	80,772	126,283	79,737
Water and sewer expense	4,309,215	-	4,309,215	-
Maintenance expense	253,930	2,736	256,666	166,141
Depreciation	2,119,016	124,310	2,243,326	506,163
Medical and benefit payments	-	-	-0-	109,893
Other	413	-	413	14,265
TOTAL OPERATING EXPENSES	7,933,190	508,542	8,441,732	1,763,658
OPERATING INCOME (LOSS)	2,308,505	257,103	2,565,608	(204,692)
NONOPERATING REVENUES (EXPENSES)				
Interest income	(246,177)	(54,565)	(300,742)	(35,046)
Interest expense	(363,005)	-	(363,005)	-
TOTAL NONOPERATING (EXPENSES)	(609,182)	(54,565)	(663,747)	(35,046)
CHANGE IN NET POSITION	1,699,323	202,538	1,901,861	(239,738)
Net position, beginning of year	26,867,069	2,672,016	29,539,085	3,855,132
Net position, end of year	<u>\$ 28,566,392</u>	<u>\$ 2,874,554</u>	<u>\$ 31,440,946</u>	<u>\$ 3,615,394</u>

See accompanying notes to financial statements.

City of Ferndale

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

	Enterprise Funds			Governmental
	Water and Sewer	Nonmajor Auto Parking	Total	Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers and others	\$ 9,573,719	\$ 762,023	\$ 10,335,742	\$ -
Cash received from interfund services	-	-	-	1,541,665
Cash payments to employees	(999,360)	(224,278)	(1,223,638)	(343,605)
Cash payments to suppliers for goods, services	(4,647,946)	(174,283)	(4,822,229)	(1,009,408)
Cash payments for interfund services	(139,564)	(55,129)	(194,693)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,786,849	308,333	4,095,182	188,652
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of capital assets	(543,754)	(520,548)	(1,064,302)	(222,740)
Interest paid	(369,082)	-	(369,082)	-
Payments on borrowings	(958,285)	-	(958,285)	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,871,121)	(520,548)	(2,391,669)	(222,740)
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment income received	(246,177)	(54,565)	(300,742)	(35,046)
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS	1,669,551	(266,780)	1,402,771	(69,134)
Cash and investments, beginning of year	4,668,641	1,676,250	6,344,891	1,432,825
Cash and investments, end of year	\$ 6,338,192	\$ 1,409,470	\$ 7,747,662	\$ 1,363,691
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 2,308,505	\$ 257,103	\$ 2,565,608	\$ (204,692)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	2,119,016	124,310	2,243,326	506,163
(Increase) decrease in:				
Accounts receivable	(668,268)	(3,622)	(671,890)	(17,301)
Due from other governmental units	292	-	292	-
Inventories	-	-	-	12,632
Increase (decrease) in:				
Accounts payable	21,038	(67,874)	(46,836)	(106,520)
Accrued liabilities	6,266	(1,584)	4,682	(1,630)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 3,786,849	\$ 308,333	\$ 4,095,182	\$ 188,652

See accompanying notes to financial statements.

City of Ferndale

Fiduciary Funds

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	<u>Trust Funds</u>	<u>Agency Funds</u>
	Pension and Other Post- Employment Benefits	Ferndale Arts and Cultural Commission
ASSETS		
Cash and cash equivalents	\$ 678,402	\$ 1,454
Accrued interest receivable	144,198	-
Investments		
Debt securities	24,163,595	-
Equity securities	41,335,127	-
Real estate investment trust	<u>3,157,565</u>	<u>-</u>
 TOTAL ASSETS	 69,478,887	 <u>\$ 1,454</u>
LIABILITIES		
Other liabilities	<u>-</u>	<u>\$ 1,454</u>
NET POSITION		
Held in trust for pension benefits and other purposes	<u>\$ 69,478,887</u>	

City of Ferndale

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2013

	<u>Trust Funds</u> <u>Pension and</u> <u>Other Post-</u> <u>Employment</u> <u>Benefits</u>
ADDITIONS	
Contributions	
Employer contributions	\$ 1,588,208
Plan member contributions	<u>136,847</u>
Total contributions	1,725,055
Investment income	
Change in fair value of investments	5,489,313
Interest	1,565,128
Dividends	494,718
Less investment expense	<u>(252,816)</u>
Net investment income	<u>7,296,343</u>
TOTAL ADDITIONS	9,021,398
DEDUCTIONS	
Benefits	3,556,212
Administrative expenses	<u>42,902</u>
TOTAL DEDUCTIONS	<u>3,599,114</u>
CHANGE IN NET POSITION	5,422,284
Net position, beginning of year	<u>64,056,603</u>
Net position, end of year	<u><u>\$ 69,478,887</u></u>

See accompanying notes to financial statements.

City of Ferndale

Component Units

STATEMENT OF NET POSITION

June 30, 2013

	<u>Brownfield Redevelopment</u>	<u>Downtown Development Authority</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and investments	\$ 799,983	\$ 304,168	\$ 1,104,151
Accounts receivable	43,122	-	43,122
Accrued interest receivable	<u>2,730</u>	<u>1,038</u>	<u>3,768</u>
Total current assets	845,835	305,206	1,151,041
Noncurrent assets			
Capital assets, net of accumulated depreciation	<u>-</u>	<u>247,382</u>	<u>247,382</u>
TOTAL ASSETS	845,835	552,588	1,398,423
LIABILITIES			
Current liabilities			
Accounts payable	-	33,760	33,760
Accrued liabilities	<u>-</u>	<u>2,950</u>	<u>2,950</u>
TOTAL LIABILITIES	<u>-0-</u>	<u>36,710</u>	<u>36,710</u>
NET POSITION			
Net investment in capital assets	-	247,382	247,382
Restricted	<u>845,835</u>	<u>268,496</u>	<u>1,114,331</u>
TOTAL NET POSITION	<u><u>\$ 845,835</u></u>	<u><u>\$ 515,878</u></u>	<u><u>\$ 1,361,713</u></u>

See accompanying notes to financial statements.

City of Ferndale
Component Units
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Brownfield Redevelopment Authority	Downtown Development Authority	Total
Governmental activities						
Brownfield Redevelopment Authority	\$ 63,313	\$ 11,798	\$ -	\$ (51,515)	\$ -	\$ (51,515)
Downtown Development Authority	695,150	250	121,951	-	(572,949)	(572,949)
Totals	<u>\$ 758,463</u>	<u>\$ 12,048</u>	<u>\$ 121,951</u>	(51,515)	(572,949)	(624,464)
General revenues						
Property taxes				346,878	557,177	904,055
Unrestricted investment earnings				(31,491)	(11,974)	(43,465)
Total general revenues				<u>315,387</u>	<u>545,203</u>	<u>860,590</u>
Change in net position				263,872	(27,746)	236,126
Net position, beginning of year				<u>581,963</u>	<u>543,624</u>	<u>1,125,587</u>
Net position, end of year				<u>\$ 845,835</u>	<u>\$ 515,878</u>	<u>\$ 1,361,713</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39 and No. 61); and Michigan Committee on Governmental Accounting and Auditing Statement No. 4, these financial statements present the financial activities of the City of Ferndale (primary government) and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Discretely Presented Component Units

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

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

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

3. Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of 14 municipalities in Oakland County and provides refuse collection and disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2013, the Authority reported an increase in net position in the amount of \$249,722 resulting in ending net position of \$6,952,733. During the year ended June 30, 2013, the City expended \$1,766,818 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 County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

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

The City reports the following major governmental funds:

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

The City reports the following major enterprise fund:

- a. The Water and Sewer Fund accounts for the activities of the City's water distribution, water treatment, sewage disposal, and sewage treatment systems.

Additionally, the City reports the following fund types:

- a. Special revenue funds account for revenue sources that are legally restricted by third parties outside the City or enabling legislation to expenditures for specific purposes not including major capital projects.
- b. Capital projects funds account for revenue sources and uses related to major capital project initiatives by the City.
- c. Enterprise funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.
- d. Internal service funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes vehicle and equipment maintenance in the motor pool and personnel-related services including workers' compensation and unemployment costs.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - Continued

FUND FINANCIAL STATEMENTS - CONTINUED

- e. Pension trust funds account for the activities of the Employees' Retirement System, the Policemen and Firemen Retirement System, and the Other Post-Employment Benefits Trust Fund, which accumulates resources for retirement benefits and other post-employment benefits (OPEB) including health care payments to qualified employees.
- f. Agency funds account for assets held for other governments in an agency capacity.

5. Measurement Focus/Basis of Accounting

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

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

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

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

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured.

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

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Budgets and Budgetary Accounting

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

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

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

7. Cash and Investments

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

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

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

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

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

8. Receivables

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Inventories

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

10. Prepays

Prepaid expenditures in the governmental and proprietary funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaid expenditures are equally offset by nonspendable fund balance which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

11. Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities, business-type activities, or component units columns in the government-wide financial statements. As a general rule, the City defines capital assets as assets with an initial, individual cost of more than \$5,000 for land and improvements, \$10,000 for buildings, infrastructure, and utility systems along with an estimated useful life in excess of 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 back-trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Actual historical cost was used as available. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects when constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10 - 20
Buildings and building improvements	25 - 40
Public domain infrastructure	15 - 40
Water and wastewater system infrastructure	25 - 40
Vehicles	2 - 20
Office equipment	3 - 10
Machinery and equipment	5 - 10

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. 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.

13. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

14. Deferred Outflows/Inflows of Resources

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

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

15. Fund Equity

In accordance with Government Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*", the City classified governmental fund balances as follows:

Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

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

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the City Council and that do not lapse at year-end.

Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Used for all governmental funds, with the exception of the General Fund, for any remaining positive amounts not classified as non-spendable, restricted, or committed.

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

15. Fund Equity - Continued

The City uses restricted or committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit this, such as a grant agreement requiring equal spending between the grantor and the City. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of fund balance when expenditures are made.

The City has established a policy to maintain a minimum unassigned fund balance for the General Fund at a level of 12% of annual expenditures. This is to provide sufficient cash flow for City operations and minimize the potential for short term tax anticipation borrowing. Should the level of unassigned fund balance for the General Fund fall below this target level, the City Council must approve and adopt a plan to restore fund balance to this minimum level within 24 months unless this plan would cause undue hardship to the City in which a longer time frame may be established.

16. Property Taxes

The City's property taxes are levied each July 1st on the taxable valuation of property located in the City as of the preceding December 31st, the lien date. Property taxes are payable without penalty and interest if paid in full by July 31st or if elected by the taxpayer, paid using an eight monthly installment method from July through February. As of March 1st of the succeeding year, unpaid real property taxes are sold to and collected by Oakland County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Property taxes are recognized in the fiscal year in which they are levied.

The City is permitted by state statute to levy taxes up to 20 mills (\$20 per \$1,000 of assessed valuation) for general governmental services other than the payment of principal and interest on long-term debt. They are also permitted to levy additional mills specifically designated for operating, refuse, district library, public relations, and debt service. For the year ended June 30, 2013, the City levied 18.0448 mills for general governmental services, 2.1815 mills for refuse, 1.9601 mills for district library, .1000 mills for public relations, and 7.2850 mills for debt service. The total taxable value for the 2012 levy for property within the City was \$519,680,220.

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

17. Estimates

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

18. Interfund Transfers

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

19. Restricted Net Position

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

20. Federal Programs

Federal programs are accounted for in the funds to which the programs pertain. The single audit reports and financial data will be issued under separate cover as supplementary information to the basic financial statements.

21. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read. Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

NOTE B: CASH AND INVESTMENTS

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

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

Deposits

There is a custodial credit risk related to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2013, the carrying amount of the City's deposits was \$1,556,623 and the bank balance was \$2,034,520. The financial statements include \$3,750 of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2013, the City accounts were insured by the FDIC for \$1,744,386 and the amount of \$290,134 was uninsured and uncollateralized.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND INVESTMENTS - CONTINUED

Deposits - Continued

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

Investments

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2013, the City had the following investments:

Investment Type	Weighted Average Maturity					Total
	Less than 1 year	1-5	6-10	More than 10 years	Not Applicable	
Pooled Investments	\$ -	\$ 507,377	\$ 438,660	\$ 247,158	\$ 5,390,469	\$ 6,583,664
U.S. Government	1,713,403	4,663,267	2,828,713	2,165,921	-	11,371,304
Corporate bonds	711,230	5,485,467	3,589,367	2,267,777	-	12,053,841
Foreign bonds	110,215	920,507	824,303	-	-	1,855,025
Stocks	-	-	-	-	32,873,814	32,873,814
Asset backed securities	-	-	402,562	8,681,207	-	9,083,769
Municipal bonds	842,779	-	2,068,549	4,113,734	-	7,025,062
Mutual funds	-	-	-	-	6,862,511	6,862,511
REIT	-	-	-	-	3,287,081	3,287,081
TOTAL	\$ 3,377,627	\$ 11,576,618	\$ 10,152,154	\$ 17,475,797	\$ 48,413,875	\$ 90,996,071

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, 2013, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

Investment Type	AAA	AA	A	BBB	BB	B	Not Rated	Total
Pooled Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,583,664	\$ 6,583,664
U.S. Government	-	2,084,482	-	-	-	-	9,286,822	11,371,304
Corporate bonds	783,845	1,692,654	4,324,331	4,148,496	466,307	161,562	476,646	12,053,841
Foreign bonds	-	284,628	907,525	550,534	112,338	-	-	1,855,025
Stocks	-	-	-	-	-	-	32,873,814	32,873,814
Municipal bonds	3,272,895	3,414,443	-	337,724	-	-	-	7,025,062
Asset backed securities	-	-	-	-	-	-	9,083,769	9,083,769
Mutual funds	-	-	-	-	-	-	6,862,511	6,862,511
REIT	-	-	-	-	-	-	3,287,081	3,287,081
TOTAL	\$ 4,056,740	\$ 7,476,207	\$ 5,231,856	\$ 5,036,754	\$ 578,645	\$ 161,562	\$ 68,454,307	\$ 90,996,071

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND INVESTMENTS - CONTINUED

Custodial Credit Risk of Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the investments listed above, there is no custodial credit risk, as these investments are uninsured, unregistered, and held by a counterparty in the City's name or are uncategorized as to credit risk.

Interest Rate Risk

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

Concentration of Credit Risk

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

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

The cash and investments referred to above have been reported as cash and investments in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2013.

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and investments	<u>\$ 22,116,150</u>	<u>\$ 1,104,151</u>	<u>\$ 69,336,143</u>	<u>\$ 92,556,444</u>

NOTE C: TAXES RECEIVABLE

In the current year the City allowed for 100% of the delinquent personal property taxes to be uncollectible. The following is detail of the amounts in the General Fund, Debt Service Fund, nonmajor governmental funds, and the Downtown Development Authority (component unit).

<u>Receivable</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Downtown Development Authority</u>
Delinquent property taxes	\$ 148,004	\$ 42,713	\$ 24,281	\$ 25,370
Allowance for uncollectible accounts	<u>(148,004)</u>	<u>(42,713)</u>	<u>(24,281)</u>	<u>(25,370)</u>
Net receivable	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

Primary Government

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 687,878	\$ -	\$ -	\$ 687,878
Construction in progress	-	516,624	-	516,624
Subtotal	687,878	516,624	-0-	1,204,502
Capital assets being depreciated				
Infrastructure	40,347,363	57,699	-	40,405,062
Buildings	12,004,712	74,836	-	12,079,548
Equipment	4,507,429	58,167	(22,109)	4,543,487
Vehicles	6,016,127	215,521	-	6,231,648
Subtotal	62,875,631	406,223	(22,109)	63,259,745
Less accumulated depreciation for:				
Infrastructure	(34,918,295)	(1,492,948)	-	(36,411,243)
Buildings	(4,735,624)	(467,068)	-	(5,202,692)
Equipment	(2,781,888)	(229,347)	22,109	(2,989,126)
Vehicles	(3,956,726)	(437,283)	-	(4,394,009)
Subtotal	(46,392,533)	(2,626,646)	22,109	(48,997,070)
Net capital assets being depreciated	16,483,098	(2,220,423)	-0-	14,262,675
Capital assets, net	<u>\$ 17,170,976</u>	<u>\$ (1,703,799)</u>	<u>\$ -0-</u>	<u>\$ 15,467,177</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 131,751
Public safety	81,759
Public works	398,383
Highways and streets	1,644,134
Recreation and culture	367,955
Community and economic development	2,664
Total depreciation expense	<u>\$ 2,626,646</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE D: CAPITAL ASSETS - CONTINUED

Primary Government - Continued

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 454,903	\$ -	\$ -	\$ 454,903
Construction in progress	-	543,754	-	543,754
Subtotal	454,903	543,754	-0-	998,657
Capital assets being depreciated				
Infrastructure	56,584,602	520,548	-	57,105,150
Buildings	1,085,091	-	-	1,085,091
Equipment	1,929,122	-	-	1,929,122
Vehicles	128,127	-	-	128,127
Subtotal	59,726,942	520,548	-0-	60,247,490
Less accumulated depreciation for:				
Infrastructure	(21,726,400)	(2,145,585)	-	(23,871,985)
Buildings	(1,029,321)	(5,070)	-	(1,034,391)
Equipment	(301,733)	(92,671)	-	(394,404)
Vehicles	(128,127)	-	-	(128,127)
Subtotal	(23,185,581)	(2,243,326)	-0-	(25,428,907)
Net capital assets being depreciated	36,541,361	(1,722,778)	-0-	34,818,583
Capital assets, net	<u>\$ 36,996,264</u>	<u>\$ (1,179,024)</u>	<u>\$ -0-</u>	<u>\$ 35,817,240</u>

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

Water and sewer	\$ 2,119,016
Auto parking	124,310
Total depreciation expense	<u>\$ 2,243,326</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE D: CAPITAL ASSETS - CONTINUED

Component Unit

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Downtown Development Authority				
Capital assets being depreciated				
Infrastructure	\$ 1,512,681	\$ 61,324	\$ -	\$ 1,574,005
Equipment	50,400	-	-	50,400
Vehicles	23,140	-	-	23,140
Subtotal	1,586,221	61,324	-0-	1,647,545
Less accumulated depreciation for:				
Infrastructure	(1,237,167)	(90,803)	-	(1,327,970)
Equipment	(46,634)	(2,419)	-	(49,053)
Vehicles	(23,140)	-	-	(23,140)
Subtotal	(1,306,941)	(93,222)	-0-	(1,400,163)
Net capital assets being depreciated	279,280	(31,898)	-0-	247,382
Capital assets, net	\$ 279,280	\$ (31,898)	\$ -0-	\$ 247,382

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2013:

Primary Government

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Amounts Due Within One Year
Governmental Activities					
General obligation bonds					
Public Improvement Bonds	\$ 239,152	\$ -	\$ (115,000)	\$ 124,152	\$ 124,152
2003 Unlimited tax refunding bonds	5,805,000	-	(5,805,000)	-0-	-
2005 Unlimited tax refunding bonds	4,955,000	-	(1,210,000)	3,745,000	1,200,000
2007 Unlimited tax bonds	1,750,000	-	(400,000)	1,350,000	400,000
2008 Limited tax bonds (library)	4,205,000	-	(170,000)	4,035,000	185,000
2013 Unlimited tax refunding bonds	-	4,465,000	-	4,465,000	1,540,000
Compensated absences	531,460	2,123	(16,276)	517,307	16,000
Total Governmental Activities	17,485,612	4,467,123	(7,716,276)	14,236,459	3,465,152
Business-type Activities					
George W. Kuhn Drain Bonds	8,598,599	-	(623,285)	7,975,314	638,769
State Revolving Loan Fund					
2006 Michigan Municipal Bond Authority	2,723,451	-	(155,000)	2,568,451	160,000
2007 Michigan Municipal Bond Authority	2,049,815	-	(110,000)	1,939,815	110,000
2008 Michigan Municipal Bond Authority	1,400,000	-	(70,000)	1,330,000	75,000
Total Business-type Activities	14,771,865	-0-	(958,285)	13,813,580	983,769
TOTAL PRIMARY GOVERNMENT	\$ 32,257,477	\$ 4,467,123	\$ (8,674,561)	\$ 28,050,039	\$ 4,448,921

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE E: LONG-TERM DEBT - CONTINUED

Governmental Activities

General Obligation Bonds

\$993,152 Public Improvement bonds dated July 15, 2004, due in a final installment of \$124,152 on October 1, 2014, with interest of 4.5 percent.	\$ 124,152
\$9,205,000 2005 Unlimited Tax General Obligation Refunding Bonds, dated March 1, 2005, due in annual installments ranging from \$1,200,000 to \$1,280,000 through April 1, 2016, with interest of 4.00 percent.	3,745,000
\$3,000,000 2007 Unlimited Tax General Obligations Bonds, dated December 1, 2007, due in annual installments ranging from \$400,000 to \$500,000 through April 1, 2016, with interest of 4 percent.	1,350,000
\$4,700,000 2008 General Obligation Limited Tax Bonds (Library Facilities), dated April 9, 2008, due in annual installments ranging from \$185,000 to \$390,000 through May 1, 2027, with interest ranging from 3.25 percent to 4.00 percent.	4,035,000
\$4,465,000 2013 Unlimited Tax General Obligation Refunding Bonds, dated January 8, 2013, due in annual installments ranging from \$1,435,000 to \$1,540,000 through April 1, 2016, with interest of 1.28 percent.	<u>4,465,000</u>
	<u><u>\$ 13,719,152</u></u>

Business-type Activities

George W. Kuhn Drain Bonds

The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission, and financed through the sale of drain bonds, drawdowns from the State of Michigan revolving fund, Federal and State of Michigan grants, and contributions from Oakland County, Michigan. The City, along with thirteen other local communities, is obligated for the payment of principal and interest of the outstanding debt. The City is obligated for varying percentages of each of the county bond issuances.	<u><u>\$ 7,975,314</u></u>
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Revenue Bonds

\$3,475,000 Michigan Municipal Bond Authority Series 2006, dated September 21, 2006, due in annual installments ranging from \$160,000 to \$205,000 through April 1, 2027, with an interest rate of 2.125 percent.	\$ 2,568,451
\$2,470,000 Michigan Municipal Bond Authority Series 2007, dated September 27, 2007, due in annual installments ranging from \$110,000 to \$149,815 through April 1, 2028, with an interest rate of 2.125 percent.	1,939,815
\$1,670,000 Michigan Municipal Bond Authority Series 2008, dated June 23, 2008, due in annual installments ranging from \$75,000 to \$105,000 through April 1, 2028, with an interest rate of 2.50 percent.	<u>1,330,000</u>
	<u><u>\$ 5,838,266</u></u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE E: LONG-TERM DEBT - CONTINUED

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick/vacation time. The dollar amounts of these vested rights including related payroll taxes, which have been recorded in the government-wide financial statements, amounted to \$517,307 at June 30, 2013. For the governmental activities, compensated absences are generally liquidated by the General Fund.

Advance and Current Refundings

On January 8, 2013, the City defeased a portion of the 2003 Unlimited Tax Refunding Bonds which were due and payable through April 1, 2016. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The City issued 2013 General Obligation Refunding Bonds in the amount of \$4,465,000. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. As a result of the advance refunding, the City decreased its total debt service requirements by \$244,009, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$237,083.

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all debt service payments on the old bonds.

Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 2013, \$8,150,000 of bonds outstanding from current and prior year refunding are considered defeased.

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

Year Ending June 30,	Governmental Activities		Business-type Activities			
	General Obligation Bonds		Drain Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 3,449,152	\$ 423,327	\$ 638,769	\$ 214,147	\$ 345,000	\$ 629,051
2015	3,420,000	328,015	654,775	196,848	355,000	121,438
2016	3,415,000	232,743	673,762	179,046	360,000	113,613
2017	230,000	136,250	692,250	160,726	370,000	105,663
2018	245,000	128,200	709,730	141,866	375,000	97,501
2019-2023	1,465,000	481,800	3,664,308	408,109	2,020,000	358,979
2024-2028	1,495,000	152,200	893,033	34,717	2,013,266	126,740
2029	-	-	48,687	-	-	-
	<u>\$ 13,719,152</u>	<u>\$ 1,882,535</u>	<u>\$ 7,975,314</u>	<u>\$ 1,335,459</u>	<u>\$ 5,838,266</u>	<u>\$ 1,552,985</u>

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F: DETAILS OF FUND BALANCE CLASSIFICATIONS

As previously discussed in Note A, the City reports constraints on fund balance in four different categories; Nonspendable, Restricted, Committed, and Assigned. The following schedule provides the detail related to these classifications:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Fund balances				
Nonspendable				
Prepays	\$ 83,567	\$ -	\$ -	\$ 83,567
Restricted				
Police in-service training	12,636	-	-	12,636
Debt service	-	224,350	-	224,350
Highways and streets	-	-	269,836	269,836
Sanitation	-	-	314,592	314,592
Public safety	-	-	696,895	696,895
Recreation and culture	-	-	429,999	429,999
Committed				
Employee benefits	517,307	-	-	517,307
Capital projects	-	-	2,189,070	2,189,070
Assigned				
Highways and streets	-	-	1,230,333	1,230,333
Senior memorial	9,783	-	-	9,783
Capital projects	-	-	119,558	119,558
Unassigned	5,519,263	-	-	5,519,263
TOTAL FUND BALANCES	<u>\$ 6,142,556</u>	<u>\$ 224,350</u>	<u>\$ 5,250,283</u>	<u>\$ 11,617,189</u>

NOTE G: INTERFUND TRANSFERS

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

Transfers to General Fund from:	
Nonmajor governmental funds	<u>\$ 123,134</u>
Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 1,244,021</u>

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

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE H: OPERATING LEASES

The City leases vehicles and other equipment under non-cancellable operating leases. Total costs for such leases were \$31,643 for the year ended June 30, 2013. The future minimum lease payments for these leases are as follows:

<u>Year Ending June 30,</u>	
2014	\$ 13,396
2015	6,609
2016	<u>2,086</u>
Total minimum lease payments	<u>\$ 22,091</u>

NOTE I: RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City maintains an Internal Service Fund to account for and finance its risks of loss for workers' compensation claims. Workers' compensation is provided through purchased commercial insurance. For workers' compensation claims, the policy covers the City's claims up to \$350,000 per occurrence. The City is self-insured for the following risks up to the maximum amount per claim as follows: general liability - \$150,000, and property - \$16,000. The City is insured for those automobile claims that consist of employee injuries and City vehicle damage. There have been no significant reductions in insurance coverage from the prior year.

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

NOTE J: CONTINGENT LIABILITIES

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE K: DEFINED BENEFIT PENSION PLANS

FERNDALE EMPLOYEES RETIREMENT SYSTEM

Plan Description

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

Summary of Significant Accounting Policies

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

Funding Policy

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, 2012, 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, 2012, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	70
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>47</u>
Total	<u>118</u>

Annual Pension Cost

For year ended June 30, 2013, the City’s annual pension cost was \$-0-. The estimated annual required contribution was determined as part of an actuarial valuation at June 30, 2011, using the aggregate actuarial cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 7.0 percent investment rate of return (b) projected salary increases of 3.0 percent annually, attributable to inflation (c) additional salary increases ranging from 0.0% to 4.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. When applicable, the unfunded actuarial liability is being amortized as a level dollar amount over a period of ten (10) years on an open basis.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE K: DEFINED BENEFIT PENSION PLANS - CONTINUED

FERNDALE EMPLOYEES RETIREMENT SYSTEM - CONTINUED

Annual Pension Cost - Continued

Schedule of Funding Progress:

	2010	As of June 30, 2011	2012
Actuarial value of assets	\$ 17,604,523	\$ 17,171,817	\$ 16,667,751
Actuarial accrued liability (AAL)	10,598,838	10,142,177	9,850,252
Overfunded AAL (OAAL)	(7,005,685)	(7,029,640)	(6,817,499)
Funded ratio	166.1%	169.3%	169.2%
Annual covered payroll	2,262,010	2,082,022	2,313,052
Ratio of OAAL to covered payroll	-	-	-

Schedule of employer contributions:

	2011	Year Ended June 30, 2012	2013
Annual pension cost	\$ -	\$ -	\$ -
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM

Plan Description

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

Summary of Significant Accounting Policies

The Ferndale Policemen and Firemen 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.

Funding Policy

Plan members are required to contribute between 1.6% and 5.35% of their annual covered salary. The City was required to make a contribution of 23.68% of annual covered salary or \$761,235 for the year ended June 30, 2013, according to the valuation received for the year ended June 30, 2011. Per Chapter XIXB of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FPFRS are financed through investment earnings.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE K: DEFINED BENEFIT PENSION PLANS - CONTINUED

FERNDALE POLICEMEN AND FIREMEN RETIREMENT SYSTEM - CONTINUED

Funding Policy - Continued

Membership of the FPFERS consisted of the following at June 30, 2012, the date of the latest actuarial valuation:

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

Annual Pension Cost

For year ended June 30, 2013, the City's annual pension cost was \$713,792. The estimated annual required contribution was determined as part of an actuarial valuation at June 30, 2011, using the individual entry age method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 7.25 percent investment rate of return (b) projected salary increases of 4.0 percent annually, attributable to inflation (c) additional salary increases ranging from 0.0% to 3.0% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. When applicable, the unfunded actuarial liability is being amortized as a level percentage of payroll over a period of twenty-seven (27) years on a closed basis.

Schedule of Funding Progress:

	2010	As of June 30, 2011	2012
Actuarial value of assets	\$ 36,064,885	\$ 35,706,349	\$ 35,906,254
Actuarial accrued liability (AAL)	39,027,883	38,840,216	40,213,216
Underfunded AAL (UAAL)	2,962,998	3,133,867	4,306,962
Funded ratio	92.4%	91.9%	89.3%
Annual covered payroll	2,746,203	2,990,216	2,769,266
Ratio of UAAL to covered payroll	107.9%	104.8%	155.5%

Schedule of employer contributions:

	Year Ended June 30,		
	2011	2012	2013
Annual pension cost	\$ 673,877	\$ 692,086	\$ 713,792
Percentage of APC contributed	103%	100%	100%
Net pension obligation	-	-	-

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE L: DEFINED CONTRIBUTION PENSION PLANS

CITY OF FERNDALE DEFINED CONTRIBUTION PENSION PLAN

The City of Ferndale Defined Contribution Pension Plan is held in trust and covers approximately 110 employees of the City. The plan is available to employees upon their first day of employment and benefits are fully vested upon the fifth year of service. The third party administrator for this plan is International City Manager's Association - Retirement Corporation ("ICMA-RC"), which qualifies under the Internal Revenue Code Section 401(a). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City contributions.

The required contributions were \$230,425 by employees and \$524,347 by the City.

The City's contribution rate structure is as follows:

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

43rd CITY COURT PROFIT SHARING PENSION PLAN

The 43rd City Court Profit Sharing Pension Plan is held in trust and covers current employees of the City Court. The plan is available to employees upon their first day of employment and benefits are fully vested upon the seventh year of service. The third party administrator for this plan is John Hancock. In a profit sharing pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The profit sharing pension cost to the 43rd District Court for the fiscal year ending June 30, 2013, was \$86,335. The defined contribution pension cost to the employees was \$0. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City Court contributions.

NOTE M: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City provides certain healthcare benefits for retired employees in accordance with the bargaining group agreements and other requirements. Substantially all of the City's full-time employees may become eligible for those benefits if they reach normal retirement age while working for the City. The City's contribution for future healthcare benefits is accounted for in the Other Post-Employment Benefits Trust Fund. Current healthcare premiums are paid directly from the General Fund.

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

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE M: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

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

Membership in the plan at June 30, 2010, (latest actuarial report) is as follows:

Retirees and beneficiaries receiving benefits	165
Active plan members	<u>93</u>
Total	<u><u>258</u></u>

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, 2013, the City made payments for postemployment health benefit claims of approximately \$2,587,678 paid out of the General Fund and \$874,416 paid to the Other Post-Employment Benefits Fund for future health care benefits. This was equal to the estimated required contribution and represents approximately 49% of covered payroll.

The Plan is a non-contributory defined benefit plan that covers substantially all employees of the City as defined above. The funding progress of the Plan as of June 30, 2010, the most recent biennial valuation date, is as follows:

Actuarial value of assets	\$ 8,243,946
Actuarial value of liabilities ("AAL")	43,243,505
Unfunded AAL ("UAAL")	34,999,559
Funded ratio	19.1%

The assets in the plan as of June 30, 2013, were \$11,940,951.

Actuarial Methods and Assumptions

Actuarial valuations require the use of estimates relating to the value of reported amounts and assumptions about the probability of an occurrence of an event many years into the future. This includes assumptions about employment, mortality, and health care cost trends. Funded status amounts of the plan and employer required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The benefits projection is based on the plan as understood by the employer and the plan members (the substantive plan) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions include an annual healthcare cost trend of 9% in 2010, reduced by decrements to an ultimate rate of 4.5% after ten years. The UAAL is being amortized as a level dollar amount closed over a 28 year period for all groups except Fire in which a level percent of payroll over an open 30 year method is used.

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2010. Significant actuarial assumptions used in determining the Plan's unfunded accrued liability included (a) a rate of return on the investment (net of investment expense) of 7.5% per year compounded annually, (b) projected salary increases of 4.5% per year, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.4% per year, depending on age, attributable to seniority/merit, (d) future life expectancy, based on age and sex, (e) rate of retirement, (f) rate of separation from active membership, and (g) marital status.

City of Ferndale

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE M: OTHER POST EMPLOYMENT BENEFITS - CONTINUED

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

Annual required contribution (ARC)	\$ 3,451,134
Interest on net OPEB obligation	<u>31,996</u>
Annual OPEB cost	3,483,130
Contributions made	<u>3,462,094</u>
Increase in net OPEB obligation	21,036
Net OPEB obligation - beginning of year	<u>426,614</u>
Net OPEB obligation - end of year	<u><u>\$ 447,650</u></u>

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Annual OPEB cost	\$ 3,174,512	\$ 3,329,958	\$ 3,483,130
Percentage contributed	94%	98%	99%
Net OPEB obligation	365,825	426,614	447,650

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

	<u>2008</u>	<u>2010</u>
Actuarial value of assets	\$ 5,458,377	\$ 8,243,946
Actuarial accrued liability (AAL)	42,468,935	43,243,505
Unfunded AAL (UAAL)	37,010,558	34,999,559
Funded ratio	12.9%	19.1%

NOTE N: RESTATEMENT OF NET POSITION

Beginning net position for governmental activities was reduced by \$517,367 to record the effects of changes in accounting principles due to the implementation of GASB Statement No. 65 (\$90,753) and to correct prior period understatement of the other post-employment benefits obligation (\$426,614).

NOTE O: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 61, *The Financial Reporting Entity Omnibus* was implemented in the current period. This statement, an amendment to Statement No. 14 and Statement No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement clarifies the reporting of equity interests in legally separate organizations.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE O: CHANGES IN ACCOUNTING PRINCIPLES - CONTINUED

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement incorporates deferred outflows of resources and the deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This GASB Statement also provides a new format to certain financial statements to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position/fund balance.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

These statements impacted the format and reporting of the statement of net position and the balance sheet at the government-wide level and at the fund level, respectively.

NOTE P: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. The statement will establish accounting and financial reporting requirements related to defined benefit pension plans and specify the required approach to measuring the pension liability of employers. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. This statement will be effective for the City's 2013-2014 fiscal year.

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

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The Statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The Statement also requires: (1) a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required, (2) an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released, and (3) a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The City is currently evaluating the impact this standard will have on the financial statements when adopted for the 2013-2014 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of Ferndale

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 9,841,000	\$ 9,736,000	\$ 9,662,632	\$ (73,368)
Licenses and permits	836,050	834,320	846,567	12,247
Intergovernmental	3,505,835	3,693,573	3,541,568	(152,005)
Charges for services	989,500	873,000	881,576	8,576
Fines and forfeits	2,050,000	2,560,000	2,691,897	131,897
Investment earnings	200,000	85,000	(283,699)	(368,699)
Other	1,097,700	1,059,200	941,363	(117,837)
TOTAL REVENUES	18,520,085	18,841,093	18,281,904	(559,189)
EXPENDITURES				
Current				
General government	4,593,131	4,410,287	4,578,520	(168,233)
Public safety	12,009,307	12,020,446	11,590,158	430,288
Public works	862,486	556,400	565,500	(9,100)
Recreation and culture	611,051	584,696	511,187	73,509
TOTAL EXPENDITURES	18,075,975	17,571,829	17,245,365	326,464
EXCESS OF REVENUES OVER EXPENDITURES	444,110	1,269,264	1,036,539	(232,725)
OTHER FINANCING SOURCES (USES)				
Transfers in	58,850	59,736	123,134	63,398
Transfers out	(510,000)	(1,395,000)	(1,244,021)	150,979
Proceeds from sale of capital assets	20,000	66,000	92,610	26,610
TOTAL OTHER FINANCING SOURCES (USES)	(431,150)	(1,269,264)	(1,028,277)	240,987
NET CHANGE IN FUND BALANCE	12,960	-0-	8,262	8,262
Fund balance, beginning of year	6,134,294	6,134,294	6,134,294	-0-
Fund balance, end of year	<u>\$ 6,147,254</u>	<u>\$ 6,134,294</u>	<u>\$ 6,142,556</u>	<u>\$ 8,262</u>

City of Ferndale

DEFINED BENEFIT PENSION PLANS

Defined Benefit Pension Trust -
Ferndale Employees' Retirement System

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Attained Age (b)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a) / c)
2007	\$ 19,139,718	\$ 11,592,792	\$ (7,546,926)	165.1%	\$ 3,182,522	-
2008	19,389,860	11,325,326	(8,064,534)	171.2%	3,242,529	-
2009	18,478,980	11,212,824	(7,266,156)	164.8%	3,244,254	-
2010	17,604,523	10,598,838	(7,005,685)	166.1%	2,262,010	-
2011	17,171,817	10,142,177	(7,029,640)	169.3%	2,082,022	-
2012	16,667,751	9,850,252	(6,817,499)	169.2%	2,313,052	-

Schedule of Employer Contributions

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

City of Ferndale

DEFINED BENEFIT PENSION PLANS - CONTINUED

Defined Benefit Pension Trust -
City of Ferndale Policemen and Firemen Retirement System

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Attained Age (b)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a) / c)
2007	\$ 40,554,657	\$ 34,970,161	\$ (5,584,496)	116.0%	\$ 2,994,676	-
2008	41,388,619	37,775,851	(3,612,768)	109.6%	3,076,765	-
2009	37,049,165	38,363,400	1,314,235	96.6%	3,116,613	42.2%
2010	36,064,885	39,027,883	2,962,998	92.4%	2,746,203	107.9%
2011	35,706,349	38,840,216	3,133,867	91.9%	2,990,216	104.8%
2012	35,906,254	40,213,216	4,306,962	89.3%	2,769,266	155.5%

Schedule of Employer Contributions

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

City of Ferndale

OTHER POST-EMPLOYMENT BENEFITS

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

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)
2008	\$ 5,458,377	\$ 42,468,935	\$ 37,010,558	12.9%
2010	8,243,946	43,243,505	34,999,559	19.1%
2012 ⁽¹⁾	TBD	TBD	TBD	TBD

Schedule of Employer Contributions

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

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

City of Ferndale

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2013

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

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

During the year ended June 30, 2013, the City incurred expenditures in the General Fund and Special Revenue Funds in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
General government	\$ 4,410,287	\$ 4,578,520	\$ 168,233
Public works	556,400	565,500	9,100
Library Fund	1,132,610	1,211,040	78,430
CDBG Fund	88,090	129,934	41,844

OTHER SUPPLEMENTARY INFORMATION

City of Ferndale

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2013

	<u>Special</u>			
	<u>Major Streets</u>	<u>Local Streets</u>	<u>Sanitation</u>	<u>Drug Forfeiture</u>
ASSETS				
Cash and investments	\$ 1,133,799	\$ 587,917	\$ 460,448	\$ 694,525
Accounts receivable	-	9,088	4,888	-
Accrued interest receivable	4,177	2,314	1,575	2,370
Due from other governmental units	139,558	53,532	-	-
TOTAL ASSETS	<u>\$ 1,277,534</u>	<u>\$ 652,851</u>	<u>\$ 466,911</u>	<u>\$ 696,895</u>
LIABILITIES				
Accounts payable	\$ 413,490	\$ 2,428	\$ 145,803	\$ -
Accrued liabilities	4,208	1,002	6,516	-
TOTAL LIABILITIES	417,698	3,430	152,319	-0-
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	9,088	-	-
FUND BALANCES				
Restricted	269,836	-	314,592	696,895
Committed	-	-	-	-
Assigned	590,000	640,333	-	-
TOTAL FUND BALANCES	<u>859,836</u>	<u>640,333</u>	<u>314,592</u>	<u>696,895</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 1,277,534</u>	<u>\$ 652,851</u>	<u>\$ 466,911</u>	<u>\$ 696,895</u>

Library	Revenue		Capital Projects Fund		Total
	Community Development Block Grant	SMART Transportation	Public Improvement		
\$ 360,577	\$ -	\$ 45,947	\$ 2,325,078	\$ 5,608,291	
-	-	-	-	13,976	
1,231	224	157	7,936	19,984	
26,428	5,057	15,074	-	239,649	
<u>\$ 388,236</u>	<u>\$ 5,281</u>	<u>\$ 61,178</u>	<u>\$ 2,333,014</u>	<u>\$ 5,881,900</u>	
\$ 8,341	\$ 5,281	\$ 391	\$ 24,386	\$ 600,120	
9,469	-	1,214	-	22,409	
17,810	5,281	1,605	24,386	622,529	
-	-	-	-	9,088	
370,426	-	59,573	-	1,711,322	
-	-	-	2,189,070	2,189,070	
-	-	-	119,558	1,349,891	
<u>370,426</u>	<u>-0-</u>	<u>59,573</u>	<u>2,308,628</u>	<u>5,250,283</u>	
<u>\$ 388,236</u>	<u>\$ 5,281</u>	<u>\$ 61,178</u>	<u>\$ 2,333,014</u>	<u>\$ 5,881,900</u>	

City of Ferndale

Nonmajor Governmental Funds

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

Year Ended June 30, 2013

	Special			
	Major Streets	Local Streets	Sanitation	Drug Forfeiture
REVENUES				
Property taxes	\$ -	\$ -	\$ 1,081,257	\$ -
Intergovernmental	968,290	323,313	33,141	47,204
Charges for services	-	-	1,256,325	-
Fines and forfeits	-	-	-	17,021
Investment earnings	(48,175)	(26,686)	(18,170)	(27,340)
Other	-	13,938	1,500	-
TOTAL REVENUES	920,115	310,565	2,354,053	36,885
EXPENDITURES				
Current				
General government	-	-	-	-
Public safety	-	-	-	117,001
Public works	-	-	2,350,560	-
Highway and streets	1,115,442	256,927	-	-
Recreation and culture	-	-	-	-
Community and economic development	-	-	-	-
Debt service				
Principal	-	-	-	-
Interest and fees	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	1,115,442	256,927	2,350,560	117,001
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(195,327)	53,638	3,493	(80,116)
OTHER FINANCING SOURCES (USES)				
Transfers in	300,000	110,000	-	-
Transfers out	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	300,000	110,000	-0-	-0-
NET CHANGE IN FUND BALANCES	104,673	163,638	3,493	(80,116)
Fund balances, beginning of year	755,163	476,695	311,099	777,011
Fund balances, end of year	<u>\$ 859,836</u>	<u>\$ 640,333</u>	<u>\$ 314,592</u>	<u>\$ 696,895</u>

		Revenue		Capital Projects Fund	
Library	Community Development Block Grant	SMART Transportation	Public Improvement	Total	
\$ 971,515	\$ -	\$ -	\$ -	\$ 2,052,772	
9,424	57,780	60,473	-	1,499,625	
20,900	-	4,380	-	1,281,605	
45,979	-	-	-	63,000	
(13,725)	(2,584)	(1,809)	(91,527)	(230,016)	
37,422	-	-	-	52,860	
1,071,515	55,196	63,044	(91,527)	4,719,846	
-	-	-	34,387	34,387	
-	-	-	-	117,001	
-	-	-	-	2,350,560	
-	-	-	-	1,372,369	
832,389	-	56,467	-	888,856	
-	6,800	-	-	6,800	
170,000	-	-	115,000	285,000	
161,888	-	-	10,762	172,650	
46,763	-	-	23,008	69,771	
1,211,040	6,800	56,467	183,157	5,297,394	
(139,525)	48,396	6,577	(274,684)	(577,548)	
-	-	-	834,021	1,244,021	
-	(123,134)	-	-	(123,134)	
2,467	-	-	-	2,467	
2,467	(123,134)	-0-	834,021	1,123,354	
(137,058)	(74,738)	6,577	559,337	545,806	
507,484	74,738	52,996	1,749,291	4,704,477	
\$ 370,426	\$ -0-	\$ 59,573	\$ 2,308,628	\$ 5,250,283	

City of Ferndale

Internal Services Funds

COMBINING STATEMENT OF NET POSITION

June 30, 2013

	<u>Motor Pool</u>	<u>Human Resources</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and investments	\$ 1,001,302	\$ 362,389	\$ 1,363,691
Accounts receivable	40,277	1,237	41,514
Inventories	136,088	-	136,088
Prepays	-	24,500	24,500
	<u>1,177,667</u>	<u>388,126</u>	<u>1,565,793</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	<u>2,171,080</u>	-	<u>2,171,080</u>
	3,348,747	388,126	3,736,873
TOTAL ASSETS			
LIABILITIES			
Current liabilities			
Accounts payable	44,690	70,910	115,600
Accrued liabilities	<u>4,373</u>	<u>1,506</u>	<u>5,879</u>
	<u>49,063</u>	<u>72,416</u>	<u>121,479</u>
TOTAL LIABILITIES			
NET POSITION			
Net investment in capital assets	2,171,080	-	2,171,080
Unrestricted	<u>1,128,604</u>	<u>315,710</u>	<u>1,444,314</u>
	<u>\$ 3,299,684</u>	<u>\$ 315,710</u>	<u>\$ 3,615,394</u>
TOTAL NET POSITION			

City of Ferndale

Internal Services Funds

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

Year Ended June 30, 2013

	<u>Motor Pool</u>	<u>Human Resources</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 1,208,966	\$ 350,000	\$ 1,558,966
OPERATING EXPENSES			
Personal services	231,861	110,114	341,975
General and administrative	439,163	41,531	480,694
Utilities	28,524	-	28,524
Rental expense	36,266	-	36,266
Contractual services	27,454	52,283	79,737
Maintenance expense	166,141	-	166,141
Depreciation	506,163	-	506,163
Medical and benefit payments	-	109,893	109,893
Other	-	14,265	14,265
	<u>1,435,572</u>	<u>328,086</u>	<u>1,763,658</u>
TOTAL OPERATING EXPENSES			
OPERATING INCOME (LOSS)	(226,606)	21,914	(204,692)
NONOPERATING REVENUES			
Interest income	<u>(35,046)</u>	<u>-</u>	<u>(35,046)</u>
CHANGE IN NET POSITION	(261,652)	21,914	(239,738)
Net position, beginning of year	<u>3,561,336</u>	<u>293,796</u>	<u>3,855,132</u>
Net position, end of year	<u>\$ 3,299,684</u>	<u>\$ 315,710</u>	<u>\$ 3,615,394</u>

City of Ferndale

Internal Services Funds

COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

	Motor Pool	Human Resources	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from interfund services	\$ 1,192,902	\$ 348,763	\$ 1,541,665
Cash payments to employees	(233,596)	(110,009)	(343,605)
Cash payments to suppliers for goods and services	(665,695)	(343,713)	(1,009,408)
	<u>293,611</u>	<u>(104,959)</u>	<u>188,652</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
	293,611	(104,959)	188,652
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(222,740)	-	(222,740)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income received	(35,046)	-	(35,046)
	<u>35,825</u>	<u>(104,959)</u>	<u>(69,134)</u>
NET INCREASE (DECREASE) IN CASH AND INVESTMENTS			
	35,825	(104,959)	(69,134)
Cash and investments, beginning of year	<u>965,477</u>	<u>467,348</u>	<u>1,432,825</u>
Cash and investments, end of year	<u>\$ 1,001,302</u>	<u>\$ 362,389</u>	<u>\$ 1,363,691</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (226,606)	\$ 21,914	\$ (204,692)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	506,163	-	506,163
(Increase) decrease in:			
Accounts receivable	(16,064)	(1,237)	(17,301)
Inventories	12,632	-	12,632
Increase (decrease) in:			
Accounts payable	19,221	(125,741)	(106,520)
Accrued liabilities	(1,735)	105	(1,630)
	<u>293,611</u>	<u>(104,959)</u>	<u>188,652</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
	<u>\$ 293,611</u>	<u>\$ (104,959)</u>	<u>\$ 188,652</u>

City of Ferndale

Fiduciary Funds

COMBINING STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	Employees' Retirement System	Policemen and Firemen Retirement System	Other Post- Employment Benefits	Total
ASSETS				
Cash and cash equivalents	\$ 63,267	\$ 607,285	\$ 7,850	\$ 678,402
Accrued interest receivable	51,025	93,146	27	144,198
Investments				
Debt securities	7,050,433	17,113,162	-	24,163,595
Equity securities	10,034,240	19,367,813	11,933,074	41,335,127
Real estate investment trust	1,077,382	2,080,183	-	3,157,565
TOTAL ASSETS	18,276,347	39,261,589	11,940,951	69,478,887
LIABILITIES				
	-	-	-	-0-
NET POSITION				
Held in trust for pension benefits and other purposes	<u>\$ 18,276,347</u>	<u>\$ 39,261,589</u>	<u>\$ 11,940,951</u>	<u>\$ 69,478,887</u>

City of Ferndale

Fiduciary Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2013

	Employees' Retirement System	Policemen and Firemen Retirement System	Other Post- Employment Benefits	Total
ADDITIONS				
Contributions				
Employer contributions	\$ -	\$ 713,792	\$ 874,416	\$ 1,588,208
Plan member contributions	-	136,847	-	136,847
Total contributions	-0-	850,639	874,416	1,725,055
Investment income				
Net change in fair value of investments	1,925,713	3,564,067	(467)	5,489,313
Interest	206,447	669,533	689,148	1,565,128
Dividends	138,187	356,531	-	494,718
Less investment expense	(85,542)	(150,371)	(16,903)	(252,816)
Net investment income	2,184,805	4,439,760	671,778	7,296,343
TOTAL ADDITIONS	2,184,805	5,290,399	1,546,194	9,021,398
DEDUCTIONS				
Benefits	982,948	2,573,264	-	3,556,212
Administrative expenses	13,012	29,890	-	42,902
TOTAL DEDUCTIONS	995,960	2,603,154	-0-	3,599,114
CHANGE IN NET POSITION	1,188,845	2,687,245	1,546,194	5,422,284
Net position, beginning of year	17,087,502	36,574,344	10,394,757	64,056,603
Net position, end of year	\$ 18,276,347	\$ 39,261,589	\$ 11,940,951	\$ 69,478,887

City of Ferndale, Michigan

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2013

City of Ferndale, Michigan

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Ferndale's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Ferndale's major federal programs for the year ended June 30, 2013. The City of Ferndale's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Ferndale's major federal programs based on our audit of the types of compliance requirements referred to above. 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Ferndale's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Ferndale complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the City of Ferndale is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Ferndale's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferndale, Michigan as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 12, 2013, which contained a qualified opinion on the governmental activities financial statements and unmodified opinions on the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 12, 2013

City of Ferndale, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Passed through Oakland County, Michigan:			
Community Development Block Grant	14.218	N/A	\$ 57,780
U.S. DEPARTMENT OF JUSTICE			
Passed through Oakland County, Michigan:			
Edward Byrne Memorial Assistance Grant Program	16.738		
Organized Crime Drug Enforcement Task Forces (OCDETF)		N/A	22,614
Justice Assistance Grant - Other		N/A	<u>7,511</u>
			30,125
EXECUTIVE OFFICE OF THE PRESIDENT			
Passed through Oakland County, Michigan:			
High Intensity Drug Trafficking Areas Program (HIDTA)	95.001	N/A	4,763
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct funding through FEMA:			
Assistance to Firefighters Grant	97.044		
Staffing for Adequate Fire and Emergency Response (SAFER) ^(a)		N/A	<u>432,435</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 525,102</u> _(b)

City of Ferndale, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ferndale, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note B.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (b) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Denotes program tested as a "major program".
- (b) The following reconciles the federal revenues reported in the June 30, 2013, fund financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

Intergovernmental revenue (per financial statements)	\$ 5,041,193
<u>Add:</u> Unavailable revenue not reported in the fund financial statements	111,933
<u>Less:</u> Portions of grant funding considered "State/Local" funding	<u>(4,628,024)</u>
	<u>\$ 525,102</u>

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ferndale, Michigan as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 12, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the schedule of findings and questioned costs as 2013-1 and 2013-2 to be material weaknesses.

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

Compliance and Other Matters

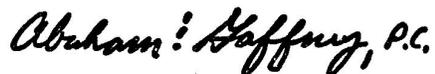
As part of obtaining reasonable assurance about whether the City of Ferndale's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as 2013-3.

Response to Findings

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

Purpose of this Report

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



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

December 12, 2013

City of Ferndale, Michigan
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes 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: Unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
97.044	Assistance to Firefighters' Grant

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

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

2013-1 OTHER POST-EMPLOYMENT BENEFITS ACTUARIAL VALUATION

Condition: During the course of our audit, and through discussions with management, it was noted that the City's actuarial valuation for the other post-employment benefits plan for June 30, 2012, has not been completed.

Criteria: Governmental Accounting Standards Board Statement No. 45 requires that an actuarial valuation be completed every two (2) years for plans with more than two hundred (200) participants.

Cause: Census data was not obtained and submitted to the actuary on a timely basis for completion of the valuation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2013

Section II - Financial Statement Findings - Continued

2013-1 OTHER POST-EMPLOYMENT BENEFITS ACTUARIAL VALUATION - CONTINUED

Effect: Because the valuation of the City's other post-employment benefits and related obligation represents a significant estimate in the City's financial statements, and these amounts have not been properly determined for the current year, the opinion on the financial statements has been modified with regard to these matters.

Recommendation: We recommend the City review its procedures as it relates to the maintenance and collection of census data for the purpose of actuarial valuation to ensure that data is obtained and submitted to the actuary in a timely manner in the future.

Corrective Action Response: The census data has since been compiled and delivered to the City's actuary. The OPEB valuation will be completed in the near future.

2013-2 INVESTMENT ACCOUNT RECONCILIATIONS

Condition: During our audit, we noted that one of the City's investment accounts had not been reconciled with the general ledger in a timely manner.

Criteria: The account reconciliation process is an important part of the City's internal control and accounting procedures. The purpose of reconciliations is to ensure that general ledger account balances are supported by underlying transaction detail or third-party information. They also provide an important internal control, in that any differences identified between the underlying detail and an account balance through the reconciliation process may be indicative of an erroneous entry having been posted.

Cause: Unknown.

Effect: Throughout the year, financial reporting related to investment performance was not materially accurate. Significant investment losses were required to be recorded in the general ledger after the end of the fiscal year for the year-end account balances to reflect the fair value of the City's investments.

Recommendation: We recommend that investment account reconciliations be performed on a periodic basis and that all investment accounts requiring adjustment to the general ledger be addressed in a timely manner.

Corrective Action Response: The City has outsourced the finance director position and has already begun reconciling this account, along with every other City bank and investment account, on a monthly basis.

2013-3 UNFAVORABLE BUDGET VARIANCES

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

Criteria: State statutes provide that the City adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. State statutes also require the City Council to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined".

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended June 30, 2013

Section II - Financial Statement Findings - Continued

2013-3 UNFAVORABLE BUDGET VARIANCES - CONTINUED

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

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

Section III - Federal Award Findings and Questioned Costs

None noted.

City of Ferndale, Michigan

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended June 30, 2013

FINDINGS/NONCOMPLIANCE

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

No prior audit findings.

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

2012-1 UNFAVORABLE BUDGET VARIANCES

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

Resolution: A similar issue was noted this year and is reported under finding 2013-1. We do not consider this issue resolved.

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

No prior audit findings.



FERNDALE

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December 12, 2013

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This representation letter is provided in connection with your audit(s) of the financial statements of the City of Ferndale, which comprise 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 as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 12, 2013, the following representations made to you during your audit:

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 20, 2012, including our responsibility for the preparation and fair presentation of the financial statements and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable.
- 6) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

- 7) All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.
- 8) The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 11) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, other matters, and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 12) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
- 13) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 14) Except as made known to you, we have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 15) Except as made known to you, we have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
- 16) Except as made known to you, we have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 17) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 18) We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

Government - specific

- 19) We have made available to you all financial records and related data [and all audit or relevant monitoring reports, if any, received from funding sources].
- 20) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 21) We have taken timely and appropriate steps to remedy fraud, violations of laws, regulations, contracts, or grant agreements, or abuse that you have reported to us.
- 22) We have a process to track the status of audit findings and recommendations.
- 23) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 24) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 25) The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 26) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 27) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 28) The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 29) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 30) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
- 31) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 32) The financial statements properly classify all funds and activities.
- 33) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 34) Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 35) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 36) Provisions for uncollectible receivables have been properly identified and recorded.
- 37) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 38) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

- 39) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 40) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 41) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
- 42) The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
- 43) We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 44) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 45) With respect to the combining and individual fund financial statements:
 - a) We acknowledge our responsibility for presenting the other supplementary information in accordance with accounting principles generally accepted in the United States of America, and we believe the other supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the other supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
- 46) With respect to federal award programs:
 - a) We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b) We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c) If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor's report thereon.
 - d) We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and included in the SEFA made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
 - e) We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relevant to federal programs and related activities.
- h) We have received no requests from a federal agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement*, relating to federal awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal awards.
- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in *OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p) There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- r) Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s) The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.

- t) We have charged costs to federal awards in accordance with applicable cost principles.
- u) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
- v) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- w) We are responsible for preparing and implementing a corrective action plan for each audit finding.

Signature: April Mynck Signature: _____
Title: City Manager Title: _____