



*"GOOD  
NEIGHBORS"*

**CITY OF FERNDALE  
MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended  
June 30, 2007**

**CITY OF FERNDALE  
MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**For the Year Ended  
June 30, 2007**

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**REHMANN ROBSON**

*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT**

November 26, 2007

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ferndale, Michigan*, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Ferndale, Michigan's* management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ferndale, Michigan*, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2007, on our consideration of the *City of Ferndale, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 15 and the Schedule of Funding Progress on Pages 61 through 63 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Ferndale, Michigan's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining individual fund financial statements and schedules and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Lehmann Johnson".

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

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

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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, 2007.

### Financial Highlights

- The total net assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31,572,488. Of this amount, \$19,821,693 is invested in capital assets, \$2,584,052 is restricted for debt service and other purposes, and \$9,166,743 may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's combined net assets in Primary Government activities increased \$1,121,939 as a result of this year's operations. Net assets of our Governmental activities increased by \$1,293,874 and net assets of our Business-type activities decreased by \$171,935.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$7,876,533 for an increase of \$1,113,716 in comparison with the prior year. Approximately 83% of this amount, or \$6,544,676 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, the unreserved and undesignated fund balance for the General Fund was \$3,960,624 or 23% of total General Fund expenditures.
- The City's total long-term debt increased by \$1,074,328 during the current fiscal year.
- Subsequent to the close of the fiscal year, the City was notified by Standard & Poor's that Ferndale qualified for an A+ credit rating based on their solid financial position.

### Overview of the Financial Statements

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

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

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

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

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

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

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

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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 fund, 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, special revenue, and debt service funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

2. **Proprietary funds** account for activities that operate similar to a business. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer system, which is considered to be a major fund of the City.
  - 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 a schedule

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

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concerning the City's progress in funding its obligation to provide pension benefits to its employees and to this Management Discussion and Analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

**Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Ferndale, assets exceeded liabilities by \$31,572,488 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (63%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that are 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.

	<b>City of Ferndale's Net Assets</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Current and other assets	\$ 12,934,303	\$ 10,546,927	\$ 3,700,981	\$ 2,889,365	\$ 16,635,284	\$ 13,436,292
Capital assets, net	20,698,470	22,737,032	35,794,376	33,601,324	56,492,846	56,338,356
Total assets	<u>33,632,773</u>	<u>33,283,959</u>	<u>39,495,357</u>	<u>36,490,689</u>	<u>73,128,130</u>	<u>69,774,648</u>
Current liabilities	5,536,285	4,417,089	1,783,735	1,288,972	7,320,020	5,706,061
Noncurrent liabilities	21,280,861	23,345,117	12,954,761	10,272,921	34,235,622	33,618,038
Total liabilities	<u>26,817,146</u>	<u>27,762,206</u>	<u>14,738,496</u>	<u>11,561,893</u>	<u>41,555,642</u>	<u>39,324,099</u>
Net assets:						
Invested in capital assets, net of related debt	(2,370,099)	(2,103,753)	22,191,792	22,840,660	19,821,693	20,736,907
Restricted assets	2,584,052	2,190,125	-	-	2,584,052	2,190,125
Unrestricted	6,601,674	5,435,381	2,565,069	2,088,136	9,166,743	7,523,517
Total net assets	<u>\$ 6,815,627</u>	<u>\$ 5,521,753</u>	<u>\$ 24,756,861</u>	<u>\$ 24,928,796</u>	<u>\$ 31,572,488</u>	<u>\$ 30,450,549</u>

An additional portion of the City's net assets (8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$9,166,743 or 29% may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

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

The City's net assets in Primary Government activities increased \$1,121,939 during the current fiscal year. Governmental activities account for an increase of \$1,293,874, and business-type activities account for a reduction of \$171,935 for the year ended.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenue:						
Program revenues:						
Charges for services	\$ 6,237,612	\$ 5,346,823	\$ 6,953,033	\$ 6,337,370	\$ 13,190,645	\$ 11,684,193
Operating grants and contributions	1,783,160	1,870,691	14,948	92,170	1,798,108	1,962,861
Capital grants and contributions	186,936	99,769	-	-	186,936	99,769
General revenues:						
Property taxes	13,904,433	14,273,061	-	-	13,904,433	14,273,061
State shared revenue	3,083,675	3,805,329	-	-	3,083,675	3,805,329
Grants and contributions not restricted to specific programs	22,282	59,050	-	-	22,282	59,050
Other	1,095,403	684,766	53,899	29,112	1,149,302	713,878
Total revenues	<u>26,313,501</u>	<u>26,139,489</u>	<u>7,021,880</u>	<u>6,458,652</u>	<u>33,335,381</u>	<u>32,598,141</u>
Expenses:						
General government	4,017,636	4,174,986	-	-	4,017,636	4,174,986
Public safety	11,072,493	10,739,704	-	-	11,072,493	10,739,704
Public works	3,601,895	3,401,079	-	-	3,601,895	3,401,079
Highways and streets	3,319,721	3,381,049	-	-	3,319,721	3,381,049
Community and economic development	133,615	139,664	-	-	133,615	139,664
Recreation and culture	1,811,204	1,686,207	-	-	1,811,204	1,686,207
Interest on long-term debt	1,063,063	1,044,601	-	-	1,063,063	1,044,601
Water and sewer	-	-	6,875,443	6,385,401	6,875,443	6,385,401
Auto parking	-	-	318,372	298,452	318,372	298,452
Total expenses	<u>25,019,627</u>	<u>24,567,290</u>	<u>7,193,815</u>	<u>6,683,853</u>	<u>32,213,442</u>	<u>31,251,143</u>
Increase in net assets before transfers	1,293,874	1,572,199	(171,935)	(225,201)	1,121,939	1,346,998
Transfers						
Increase (decrease) in net assets	1,293,874	1,572,199	(171,935)	(225,201)	1,121,939	1,346,998
Net assets-beginning	5,521,753	3,949,554	24,928,796	25,153,997	30,450,549	29,103,551
Net assets-ending	<u>\$ 6,815,627</u>	<u>\$ 5,521,753</u>	<u>\$ 24,756,861</u>	<u>\$ 24,928,796</u>	<u>\$ 31,572,488</u>	<u>\$ 30,450,549</u>

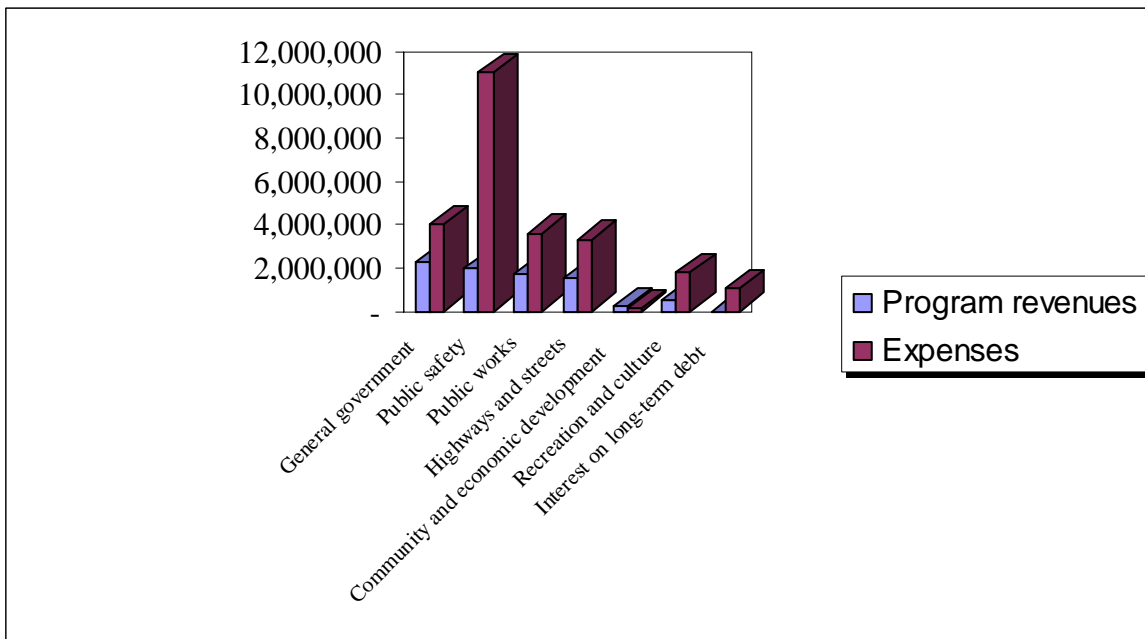
## CITY OF FERNDALE, MICHIGAN Management's Discussion and Analysis

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**Governmental activities** increased the City's net assets by \$1,293,874, accounting for the City's total increase in net assets. Key elements of this change are as follows:

- An increase of \$321,000 in Investment Earnings due to an increase in interest rates, a change in investment strategy, and a greater availability of funds to invest.
- Charges for services increased by approximately \$900,000 due to additional sidewalk project costs and the associated charges, increased fines and forfeitures, and increased intergovernmental revenues for providing contracted fire response services to a neighboring community.
- Property taxes decreased by approximately \$300,000 due to a decrease in the tax rate for debt service requirements from 6.2% in 2006 to 4.5% for the 2007 fiscal year.
- An increase of \$183,000 in Fines and Forfeitures due to the increased collection effort by the 43<sup>rd</sup> District Court.
- A reduction of \$47,000 in State collected and locally shared sales tax revenues due to further erosion of the statutory portion of the amount distributed by the State. The reduction in State Shared Revenues from six years ago is close to \$1.3 million.
- A reduction in Bad Debt due to the settlement of two large Michigan Tax Tribunal cases at the end of 2006.

### Expenses and Program Revenues – Governmental Activities

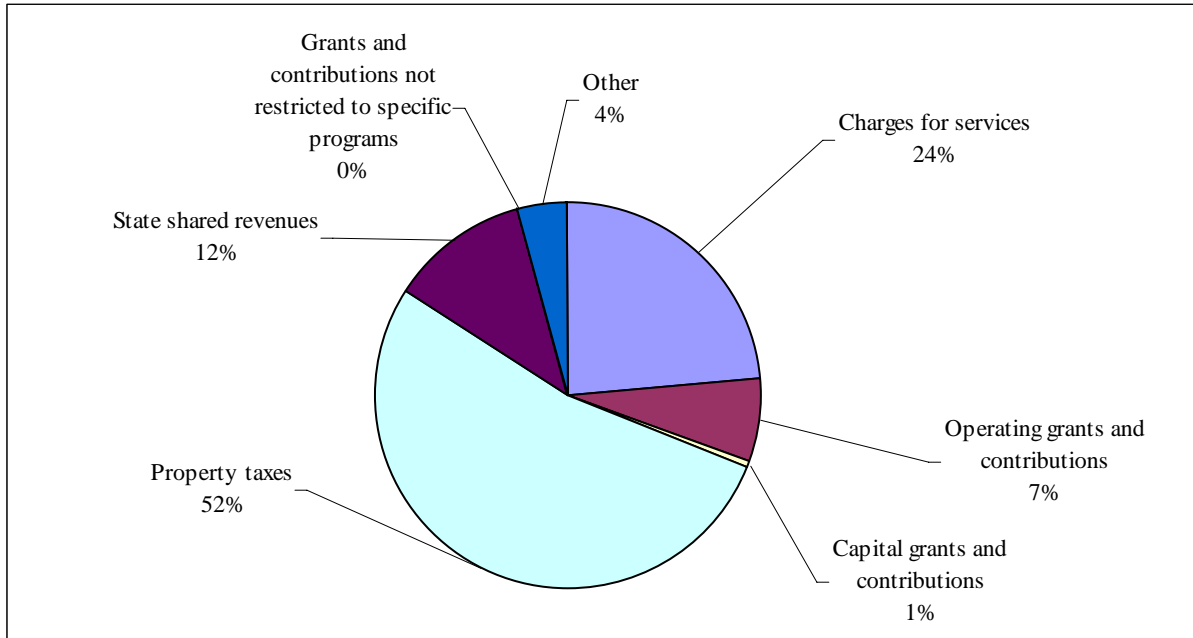


# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

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### Revenues by Source – Governmental Activities



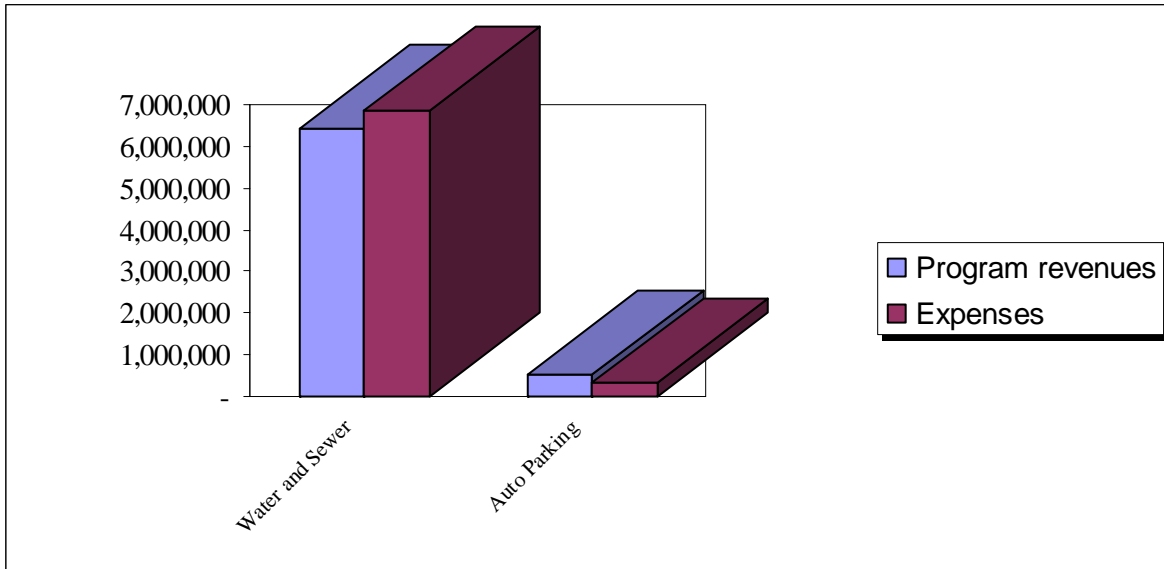
**Business-type Activities.** Business-type activities decreased the City's net assets by \$171,935 during the year. The key elements of this decrease are as follows:

- A reduction of \$324,123 in the Water/Sewer Fund despite an almost 17% increase in water/sewer rates to offset increased repair and maintenance on a system exceeding 75 years old.
  - An increase of \$141,000 in the Auto Parking Fund due mainly to one factor: increased hours and enforcement of parking meters due to the hiring of a second parking enforcement officer.
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## CITY OF FERNDALE, MICHIGAN Management's Discussion and Analysis

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



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### Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$7,876,533, an increase of \$1,113,716 in comparison with the prior year. Approximately 83% of this total amount, or \$6,544,676, constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Approximately 17% or \$1,310,082 is *unreserved, designated*. The remainder of fund balance, or \$21,775, is *reserved* to indicate that it is not available for new spending as it has already been committed for other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved and undesignated* fund balance of the general fund was \$3,960,624, while total fund balance was \$5,292,481. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 23% of total general fund expenditures, while total fund balance represents 30% of the same amount.

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

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The fund balance of the City's General Fund increased by \$1,190,080 during the current fiscal year. Notable changes increasing the expected balance include the following:

1. Property taxes increased approximately \$188,000 from mid-year expectations due to inflationary increases in valuations, new construction, and housing sales and transfers which uncap individual taxable values.
2. Interest earnings increased \$321,000 from the prior year due to greater diversification of the City's investments, continued improvement in interest rates, and greater availability of funds to invest.
3. An increase of \$183,000 in fines and forfeitures collected by the 43<sup>rd</sup> District Court from mid-year expectations due to the increased due diligence in their collection effort.

The Major Streets Fund accounts for activities, maintenance, and capital improvements of the City's 20+ miles of major streets. Unreserved and total fund balance was \$857,258 as of year-end. The fund balance was expected to increase by \$40,983 for the year, but increased only \$23,439. The change is mainly attributable to an increase in grant revenue contributed towards streetscaping costs and increased interest earnings, offset by a greater than expected increase to expenditures. The City completed its streetscaping projects at Nine Mile and Woodward including the installation of a major art piece, the *Crow's Nest*, as a gateway piece located in the median of the intersecting streets.

The Sanitation Fund has a fund balance of \$516,708, an increase of \$46,417 for the year. Operational costs were relatively stable between FY06 and FY07. The major reason for the increase to fund balance was the deferral of a capital project until 2008, the purchase and installation of a trash compactor at the East Breckenridge parking lot to handle the increased restaurant and other business needs in the Central Business District.

The Debt Service Fund has a total fund balance of \$412,700 all of which is reserved for the payment of debt service, a decrease from last year's total fund balance of \$425,018. The decrease of \$12,318 was a planned and budgeted use of fund balance.

**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 \$1,850,635. The decrease in total net assets for the fund was \$324,123 despite an almost 17% increase in water/sewer rates to the system's customers. The system's inability to keep up with its expenses is due primarily to the costs related to maintaining an aging infrastructure, the debt service costs related to the GWKuhn project and the loss of a major customer during 2006.

# CITY OF FERNDALE, MICHIGAN

## Management's Discussion and Analysis

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### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. The net increase in budgeted revenues of \$120,000 and net increase in budgeted expenditures of \$40,000 can be briefly summarized as follows:

Major Revenue items:

- a) Property taxes were increased more than \$30,000 based on the tax roll and Board of Review revisions.
- b) Federal Grants were increased almost \$150,000 in anticipation of two grants being sought, one in public safety and another in Recreation.
- c) Charges for Services were reduced over \$100,000, mostly due to the final scope of the sidewalk program for 2007.
- d) Investment earnings were increased \$60,000 based on a planned change in investment strategy and increased interest rates.

Major Expenditure items:

- e) Increases were made to each affected activity as collective bargaining agreements were reached with the City's labor units, totaling about \$200,000, offset by reductions due to staff vacancies caused by retirements and attrition.

### 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, 2007, amounted to \$56,492,845 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$154,489 or 0.3% which represents a decrease in governmental activities of \$2,038,563 or -9%, and an increase in business-type activities of \$2,193,051 or 7%.

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

- The completion of the installation of decorative streetscaping, additional downtown parking bays, and a major art piece at Woodward and Nine Mile Road – commemorating the City's history with an artist's rendition of a policeman directing traffic in a "Crow's Nest" facing towards the main shopping district - \$163,000.
- The completion of Channing Street's reconstruction, the only street not addressed with the proceeds from \$22M in Street improvement bonds - \$98,000, and the beginning of reconstruction work on Wordsworth - \$23,000.
- Improvements to the public safety communications and grounding system - \$49,000.

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

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- Purchases for the Police Department, including lockers, carpeting, jail cameras, computers, and recording device - \$64,000.
- Purchases for the Fire Department, including computers and software - \$20,000.
- Public alley restorations - \$85,000.
- Additions to the Municipal Library's book collection - \$44,000, and improvements to the interior design and collections shelving - \$37,000.
- Replacement of the City's phone system - \$132,000.
- Sewer lining work to the sewer under Eight Mile and Stratford - \$20,000.
- An upgrade to the water meter reading equipment and program - \$26,000.
- Continued work on the George W. Kuhn Drain project, financed by the 12-Town Drains District – Ferndale's portion for 2007 was over \$366,000.
- Water and sewer work including: upgrading the city's 50-year-old booster station, improving the Hilton Road pressure-reducing-valve vault, and replacing a water main on Allen from Eight Mile to Albany - \$3,283,000.
- Completion of the parking improvement and expansion project started in 2006 -\$174,000.
- The replacement of several pieces of Motor Pool equipment and 9 passenger or utility vehicles - \$337,000.

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Land	\$ 637,878	\$ 637,878	\$ 454,903	\$ 454,903	\$ 1,092,781	\$ 1,092,781
Construction in progress	-	-	3,282,566	12,367,977	3,282,566	12,367,977
Buildings	3,600,751	3,921,719	81,126	86,190	3,681,877	4,007,909
Equipment	1,116,475	953,029	57,714	79,716	1,174,189	1,032,745
Vehicles	786,931	755,564	40,130	208,417	827,061	963,981
Infrastructure	14,556,435	16,468,842	31,877,936	20,404,121	46,434,371	36,872,963
<b>Total</b>	<b>\$ 20,698,470</b>	<b>\$ 22,737,032</b>	<b>\$ 35,794,375</b>	<b>\$ 33,601,324</b>	<b>\$ 56,492,845</b>	<b>\$56,338,356</b>

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

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

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**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$36,671,153, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$23,068,569) and business-type activities (\$13,602,584) at year end.

**City of Ferndale's Outstanding Debt**

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Series III and IV GO bonds	\$ 800,000	\$ 1,600,000	\$ -	\$ -	\$ 800,000	\$ 1,600,000
2004 refunding bonds	12,265,000	13,085,000	-	-	12,265,000	13,085,000
Premium on refunding	277,145	307,939	-	-	277,145	307,939
2005 refunding bonds	9,145,000	9,190,000	-	-	9,145,000	9,190,000
Discount on 2005 refunding bonds	(167,728)	(186,364)	-	-	(167,728)	(186,364)
Public improvement bonds	749,152	844,152	-	-	749,152	844,152
Parks improvement bonds	-	-	-	-	-	-
MDOT traffic improvement bond	-	-	-	-	-	-
State revolving fund	-	-	3,103,426	-	3,103,426	-
GW Kuhn drain project	-	-	10,499,158	10,760,665	10,499,158	10,760,665
	<u>\$ 23,068,569</u>	<u>\$ 24,840,727</u>	<u>\$ 13,602,584</u>	<u>\$ 10,760,665</u>	<u>\$ 36,671,153</u>	<u>\$ 35,601,392</u>

Additional debt of \$233,724, related to the George W. Kuhn drain project was incurred during the fiscal year ended June 30, 2007. Total obligation debt decreased by \$495,231 due to payments on principal by the City and amortization of bond premiums during the year.

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 2006-07 fiscal year and will continue to be an ongoing concern as the City moves forward in future budget years.

- The combined impact of Headlee and Prop A – which has cut **in half** Ferndale's ability to collect tax revenues based on the City's authorized millage and the fair market value of its real and personal property.
- The continued uncertainty over the amount the State is willing to continue distributing to municipalities for statutory revenue sharing.

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

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- The continued concern over “Legacy” costs – retiree health care costs in times of double-digit medical inflation. Ferndale’s estimated unfunded liability for retiree health care costs as estimated in 2002 were about \$32M, for which approximately \$3.9M has been set aside to defray those costs. A revised actuarial valuation is planned for the winter of 2006-07 based on 2006 costs which is expected to reflect an increase of \$8M to \$12M in unfunded accrued liabilities.
  
- The one happy note subsequent to the close of the fiscal year was the notification by Standard and Poor’s that the City’s credit rating was being upgraded three steps - from a BBB+ to an A+. The notable reasons given by S&P for the change were the City’s proximity and access to employment opportunities in the greater Detroit area, its moderate wealth and income levels, its solid financial position, and its high debt offset by rapid amortization of direct debt. Management credits the City’s solid financial position to the City Council’s steadfast commitment to adopting a balanced annual budget based on realistic revenue projections and controlled expenditure increases.

### **Requests for Information**

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

***BASIC FINANCIAL  
STATEMENTS***

# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF NET ASSETS

**June 30, 2007**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	<b>Component Units</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,046,966	\$ 722,277	\$ 4,769,243	\$ 35,145
Investments	7,073,799	-	7,073,799	-
Receivables (net)	1,978,315	2,591,646	4,569,961	9,202
Internal balances	(370,480)	370,480	-	-
Due from primary government	-	-	-	20,736
Inventory	205,703	16,578	222,281	-
Non-depreciable capital assets	637,878	3,737,471	4,375,349	-
Depreciable capital assets, net	20,060,592	32,056,905	52,117,497	656,922
<b>Total assets</b>	<b>33,632,773</b>	<b>39,495,357</b>	<b>73,128,130</b>	<b>722,005</b>
<b>LIABILITIES</b>				
Accounts payable	2,041,671	966,898	3,008,569	38,257
Due to component unit	20,736	-	20,736	-
Accrued liabilities	1,338,720	169,014	1,507,734	3,109
Unearned revenue	63,000	-	63,000	-
Noncurrent liabilities:				
Due within one year	2,072,158	647,823	2,719,981	303
Due in more than one year	21,280,861	12,954,761	34,235,622	-
<b>Total liabilities</b>	<b>26,817,146</b>	<b>14,738,496</b>	<b>41,555,642</b>	<b>41,669</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	(2,370,099)	22,191,792	19,821,693	656,619
Restricted for:				
Public safety	169,268	-	169,268	-
Highways and streets	888,996	-	888,996	-
Public works	850,248	-	850,248	-
Community and economic developmer	132,772	-	132,772	-
Recreation and culture	130,068	-	130,068	-
Debt service	412,700	-	412,700	-
Unrestricted	6,601,674	2,565,069	9,166,743	23,717
<b>Total net assets</b>	<b>\$ 6,815,627</b>	<b>\$ 24,756,861</b>	<b>\$ 31,572,488</b>	<b>\$ 680,336</b>

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

# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
<b>Governmental activities</b>					
General government	\$ 4,017,636	\$ 2,152,001	\$ 71,346	\$ -	\$ (1,794,289)
Public safety	11,072,493	1,834,064	152,675	-	(9,085,754)
Public works	3,601,895	1,682,910	2,250	-	(1,916,735)
Highways and streets	3,319,721	105,785	1,254,504	186,936	(1,772,496)
Community and economic development	133,615	16,466	226,993	-	109,844
Recreation and culture	1,811,204	446,386	75,392	-	(1,289,426)
Interest on long-term debt	1,063,063	-	-	-	(1,063,063)
<b>Total governmental activities</b>	<b><u>25,019,627</u></b>	<b><u>6,237,612</u></b>	<b><u>1,783,160</u></b>	<b><u>186,936</u></b>	<b><u>(16,811,919)</u></b>
<b>Business-type activities</b>					
Water and sewer	6,875,443	6,431,841	14,948	-	(428,654)
Auto parking	318,372	521,192	-	-	202,820
<b>Total business-type activities</b>	<b><u>7,193,815</u></b>	<b><u>6,953,033</u></b>	<b><u>14,948</u></b>	<b><u>-</u></b>	<b><u>(225,834)</u></b>
<b>Total primary government</b>	<b><u>32,213,442</u></b>	<b><u>13,190,645</u></b>	<b><u>1,798,108</u></b>	<b><u>186,936</u></b>	<b><u>(17,037,753)</u></b>
<b>Component units</b>					
Downtown Development Authority	601,584	-	110,824	-	(490,760)
Brownfield Redevelopment Authority	156,106	2,000	-	-	(154,106)
	<b><u>\$ 757,690</u></b>	<b><u>\$ 2,000</u></b>	<b><u>\$ 110,824</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (644,866)</u></b>

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

**CITY OF FERNDALE, MICHIGAN**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2007**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Changes in net assets</b>				
Net (expense) revenue	#####	\$ (225,834)	#####	\$ (644,866)
General revenues				
Property taxes	13,904,433	-	13,904,433	553,145
State shared revenue	3,083,675	-	3,083,675	-
Grants and contributions not restricted to specific programs	22,282	-	22,282	-
Unrestricted investment earnings	788,922	132,078	921,000	5,381
Gain on sale of capital assets	228,302	-	228,302	-
Transfers - internal activities	78,179	(78,179)	-	-
<b>Total general revenues and transfers</b>	<b>18,105,793</b>	<b>53,899</b>	<b>18,159,692</b>	<b>558,526</b>
<b>Change in net assets</b>	<b>1,293,874</b>	<b>(171,935)</b>	<b>1,121,939</b>	<b>(86,340)</b>
Net assets, beginning of year - as restated	5,521,753	24,928,796	30,450,549	766,676
<b>Net assets, end of year</b>	<b>\$ 6,815,627</b>	<b>\$ 24,756,861</b>	<b>\$ 31,572,488</b>	<b>\$ 680,336</b>

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

**CITY OF FERNDALE, MICHIGAN**  
**BALANCE SHEET**  
**Governmental Funds**  
**June 30, 2007**

ASSETS	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ -	\$ 412,700	\$ 2,150,853	\$ 2,563,553
Investments	7,073,799	-	-	7,073,799
Inventory	3,130	-	-	3,130
Receivables				
Accounts receivable	381,915	-	-	381,915
Taxes-delinquent	129,757	51,244	24,129	205,130
Less: allowance for doubtful accounts	(105,919)	(43,238)	(19,008)	(168,165)
Interest and dividends	105,072	-	-	105,072
Due from other governments	1,128,482	-	297,272	1,425,754
Prepaid expenditures	6,867	-	-	6,867
<b>Total assets</b>	<b>\$ 8,723,103</b>	<b>\$ 420,706</b>	<b>\$ 2,453,246</b>	<b>\$ 11,597,055</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,712,395	\$ -	\$ 236,361	\$ 1,948,756
Accrued liabilities	1,044,990	-	40,412	1,085,402
Due to component unit	15,518	-	-	15,518
Deferred revenue	657,719	8,006	5,121	670,846
<b>Total liabilities</b>	<b>3,430,622</b>	<b>8,006</b>	<b>281,894</b>	<b>3,720,522</b>
<b>Fund balances</b>				
Reserved for				
Inventory	3,130	-	-	3,130
Prepays	6,867	-	-	6,867
Other purposes	11,778	-	-	11,778
Unreserved, designated	1,310,082	-	-	1,310,082
Unreserved, undesignated for				
General fund	3,960,624	-	-	3,960,624
Special revenue funds	-	-	2,171,352	2,171,352
Debt service	-	412,700	-	412,700
<b>Total fund balances</b>	<b>5,292,481</b>	<b>412,700</b>	<b>2,171,352</b>	<b>7,876,533</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,723,103</b>	<b>\$ 420,706</b>	<b>\$ 2,453,246</b>	<b>\$ 11,597,055</b>

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

# CITY OF FERNDALE, MICHIGAN

## RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

June 30, 2007

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Fund balances - total governmental funds	\$ 7,876,533
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	49,303,489
Deduct: accumulated depreciation	(29,791,191)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add: deferred revenues	607,846
Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service funds	2,420,469
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct: bonds payable	(23,068,569)
Deduct: compensated absences	(284,450)
Deduct: accrued interest on bonds payable	(248,500)
<b>Net assets of governmental activities</b>	<b><u><u>\$ 6,815,627</u></u></b>

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

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2007**

	<b>General</b>	<b>Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Property taxes	\$ 9,337,434	\$ 2,700,713	\$ 1,874,068	\$ 13,912,215
Licenses and permits	397,634	-	-	397,634
Intergovernmental	4,223,774	-	1,791,691	6,015,465
Charges for services	1,387,060	-	1,100,220	2,487,280
Fines and forfeitures	1,764,222	-	159,308	1,923,530
Investment earnings	617,494	15,883	102,207	735,584
Other	526,935	-	24,977	551,912
<b>Total revenues</b>	<b>18,254,553</b>	<b>2,716,596</b>	<b>5,052,471</b>	<b>26,023,620</b>
<b>Expenditures</b>				
Current				
General government	2,868,219	-	70,929	2,939,148
Public safety	10,931,715	-	15,373	10,947,088
Public works	978,251	-	2,349,009	3,327,260
Highways and streets	-	-	1,535,925	1,535,925
Community and economic development	-	-	63,723	63,723
Recreation and culture	1,003,661	-	619,419	1,623,080
Other functions	1,021,734	12,226	-	1,033,960
Debt service				
Principal	-	1,665,000	95,000	1,760,000
Interest and fees	3,264	1,051,688	37,987	1,092,939
Capital outlay	181,375	-	287,887	469,262
<b>Total expenditures</b>	<b>16,988,219</b>	<b>2,728,914</b>	<b>5,075,252</b>	<b>24,792,385</b>
<b>Revenues over (under) expenditures</b>	<b>1,266,334</b>	<b>(12,318)</b>	<b>(22,781)</b>	<b>1,231,235</b>
<b>Other financing sources (uses)</b>				
Transfers in	310,296	-	547,000	857,296
Transfers out	(590,000)	-	(589,117)	(1,179,117)
Proceeds from sale of capital assets	203,450	-	852	204,302
<b>Total other financing sources (uses)</b>	<b>(76,254)</b>	<b>-</b>	<b>(41,265)</b>	<b>(117,519)</b>
<b>Net change in fund balances</b>	<b>1,190,080</b>	<b>(12,318)</b>	<b>(64,046)</b>	<b>1,113,716</b>
Fund balances, beginning of year	4,102,401	425,018	2,235,398	6,762,817
<b>Fund balances, end of year</b>	<b>\$ 5,292,481</b>	<b>\$ 412,700</b>	<b>\$ 2,171,352</b>	<b>\$ 7,876,533</b>

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

## CITY OF FERNDALE, MICHIGAN

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

Year Ended June 30, 2007

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Net change in fund balances - total governmental funds	\$ 1,113,716
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Add: capital outlay	753,827
Deduct: depreciation expense	(2,787,411)

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

Deduct: net difference in deferred revenue	(7,782)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets.

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities and on refunding bonds	1,760,000
Add: net change in amortization of bond premiums and accrued interest	26,612

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

Add: net income from governmental activities in the internal service funds	505,027
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Less: increase in deferred revenue from state shared revenues	(62,156)
Less: increase in the accrual for compensated absences	(7,959)

<b>Change in net assets of governmental activities</b>	<b><u>\$ 1,293,874</u></b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Property taxes	\$ 9,115,328	\$ 9,149,851	\$ 9,337,434	\$ 187,583
Licenses and permits	480,600	436,500	397,634	(38,866)
Intergovernmental				
Federal grants	44,250	192,810	65,773	(127,037)
State grants	61,324	72,324	104,035	31,711
State shared revenue	3,200,000	3,193,000	3,145,831	(47,169)
Local reimbursements	903,582	898,456	908,135	9,679
Charges for services	1,459,962	1,348,171	1,387,060	38,889
Fines and forfeitures	1,510,000	1,510,000	1,764,222	254,222
Investment earnings	236,500	296,500	617,494	320,994
Other	425,417	456,049	526,935	70,886
<b>Total revenues</b>	<b><u>17,436,963</u></b>	<b><u>17,553,661</u></b>	<b><u>18,254,553</u></b>	<b><u>700,892</u></b>
<b>Expenditures</b>				
General government				
Council	32,892	39,842	44,281	4,439
District court	1,241,007	1,248,617	1,162,667	(85,950)
Manager	313,091	295,248	305,105	9,857
Finance	298,023	297,652	291,107	(6,545)
Clerk	255,821	258,821	255,409	(3,412)
Assessor/Treasurer	321,502	321,502	337,178	15,676
Elections	58,400	58,400	56,885	(1,515)
Attorney	355,000	330,000	305,915	(24,085)
Cable television	98,418	130,180	109,672	(20,508)
<b>Total general government</b>	<b><u>2,974,154</u></b>	<b><u>2,980,262</u></b>	<b><u>2,868,219</u></b>	<b><u>(112,043)</u></b>
Public safety				
Police	6,194,324	6,154,804	6,346,779	191,975
Fire	3,549,338	3,746,705	3,783,835	37,130
Inspection	683,926	684,926	709,528	24,602
Animal control and shelter	96,133	99,133	91,573	(7,560)
<b>Total public safety</b>	<b><u>\$ 10,523,721</u></b>	<b><u>\$ 10,685,568</u></b>	<b><u>\$ 10,931,715</u></b>	<b><u>\$ 246,147</u></b>

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

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**GENERAL FUND**

**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
Public works				
Department of public works	\$ 593,775	\$ 593,775	\$ 586,417	\$ (7,358)
Refuse and weed control	27,317	27,567	24,761	(2,806)
Sidewalk program	494,200	394,200	367,073	(27,127)
Total public works	<u>1,115,292</u>	<u>1,015,542</u>	<u>978,251</u>	<u>(37,291)</u>
Recreation and culture				
Recreation department	195,382	191,146	182,236	(8,910)
Dream cruise car show	130,800	129,650	104,225	(25,425)
Kulick Community Center	648,000	713,810	657,049	(56,761)
Martin Road Youth Center	48,070	46,901	60,151	13,250
Total recreation and culture	<u>1,022,252</u>	<u>1,081,507</u>	<u>1,003,661</u>	<u>(77,846)</u>
Other functions				
Liability insurance	630,000	545,000	449,681	(95,319)
Utilities	512,500	477,000	479,190	2,190
Other	432,400	355,000	92,863	(262,137)
Total other functions	<u>1,574,900</u>	<u>1,377,000</u>	<u>1,021,734</u>	<u>(355,266)</u>
Debt service				
Interest and fees	-	-	3,264	3,264
Capital outlay	51,506	162,918	181,375	18,457
Total expenditures	<u>17,261,825</u>	<u>17,302,797</u>	<u>16,988,219</u>	<u>(317,842)</u>
Revenues over (under) expenditures	<u>175,138</u>	<u>250,864</u>	<u>1,266,334</u>	<u>1,018,734</u>
<b>Other financing sources (uses)</b>				
Transfers in	261,715	254,715	310,296	(55,581)
Transfers out	(590,000)	(590,000)	(590,000)	-
Proceeds from sale of capital assets	30,000	170,625	203,450	(32,825)
Total other financing (uses)	<u>(298,285)</u>	<u>(164,660)</u>	<u>(76,254)</u>	<u>(88,406)</u>
<b>Net change in fund balances</b>	<b>(123,147)</b>	<b>86,204</b>	<b>1,190,080</b>	<b>1,103,876</b>
Fund balance, beginning of year	<u>4,102,401</u>	<u>4,102,401</u>	<u>4,102,401</u>	<u>-</u>
<b>Fund balance, end of year</b>	<b><u>\$ 3,979,254</u></b>	<b><u>\$ 4,188,605</u></b>	<b><u>\$ 5,292,481</u></b>	<b><u>\$ 1,103,876</u></b>

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

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2007**

	<b>Business-type Activities - Enterprise Fund</b>			<b>Governmental Activities</b>
	<b>Major Fund</b>	<b>Non Major Fund</b>	<b>Total</b>	<b>Internal Service Funds</b>
	<b>Water/ Sewer</b>	<b>Auto Parking</b>		
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 375,425	\$ 346,852	\$ 722,277	\$ 1,483,413
Accounts receivable	2,580,921	10,725	2,591,646	28,609
Inventories	16,578	-	16,578	175,706
Prepaid expenses	-	-	-	20,000
<b>Total current assets</b>	<b>2,972,924</b>	<b>357,577</b>	<b>3,330,501</b>	<b>1,707,728</b>
Noncurrent assets				
Capital assets	49,214,024	986,120	50,200,144	4,974,299
Less accumulated depreciator	(14,405,768)	-	(14,405,768)	(3,788,127)
<b>Total noncurrent assets:</b>	<b>34,808,256</b>	<b>986,120</b>	<b>35,794,376</b>	<b>1,186,172</b>
<b>Total assets</b>	<b>37,781,180</b>	<b>1,343,697</b>	<b>39,124,877</b>	<b>2,893,900</b>
<b>Liabilities</b>				
Current liabilities				
Accounts payable	957,054	9,844	966,898	92,915
Accrued liabilities	163,854	3,779	167,633	4,818
Customer deposits	1,381	-	1,381	-
Current portion of long-term deb	647,823	-	647,823	-
<b>Total current liabilities:</b>	<b>1,770,112</b>	<b>13,623</b>	<b>1,783,735</b>	<b>97,733</b>
Noncurrent liabilities				
Long term debt	12,954,761	-	12,954,761	-
<b>Total liabilities</b>	<b>14,724,873</b>	<b>13,623</b>	<b>14,738,496</b>	<b>97,733</b>
<b>Net assets</b>				
Investment in capital assets, net of related debt	21,205,672	986,120	22,191,792	1,186,172
Unrestricted	1,850,635	343,954	2,194,589	1,609,995
<b>Total net assets</b>	<b>\$ 23,056,307</b>	<b>\$ 1,330,074</b>	<b>24,386,381</b>	<b>\$ 2,796,167</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise fund:			370,480	
<b>Net assets of business type activities</b>			<b>\$ 24,756,861</b>	

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

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2007**

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Fund	Total	Internal Service Funds
	Water/ Sewer	Auto Parking		
<b>Operating revenues</b>				
Charges for services	\$ 5,813,097	\$ -	\$ 5,813,097	\$ 1,333,906
Parking meter receipts	-	521,192	521,192	-
Water penalties	180,167	-	180,167	-
Water meter repairs	260,631	-	260,631	-
Miscellaneous income	185,420	-	185,420	15,208
<b>Total operating revenues</b>	<b>6,439,315</b>	<b>521,192</b>	<b>6,960,507</b>	<b>1,349,114</b>
<b>Operating expenses</b>				
Personal services	1,106,956	122,675	1,229,631	192,745
General and administrative	95,923	18,062	113,985	678,221
Utilities	24,569	19,760	44,329	-
Rental expense	164,243	39,312	203,555	-
Contractual services	64,617	53,174	117,791	-
Water and sewer expense	3,034,212	-	3,034,212	-
Maintenance expense	310,574	9,679	320,253	-
Depreciation	1,773,687	55,710	1,829,397	342,461
Medical and benefit payments	-	-	-	95,865
<b>Total operating expenses</b>	<b>6,574,781</b>	<b>318,372</b>	<b>6,893,153</b>	<b>1,309,292</b>
Operating income (loss)	(135,466)	202,820	67,354	39,822
<b>Non-operating revenues (expenses)</b>				
Interest income	116,125	15,953	132,078	53,338
Interest expense	(312,256)	-	(312,256)	-
Gain on sale of capital assets	-	-	-	24,000
<b>Total non-operating revenues (expenses)</b>	<b>(196,131)</b>	<b>15,953</b>	<b>(180,178)</b>	<b>77,338</b>
Income before contributions and transfers	(331,597)	218,773	(112,824)	117,160
Capital contributions	7,474	-	7,474	-
Transfer in	-	-	-	400,000
Transfer out	-	(78,179)	(78,179)	-
<b>Change in net assets</b>	<b>(324,123)</b>	<b>140,594</b>	<b>(183,529)</b>	<b>517,160</b>
Net assets, beginning of year	23,380,430	1,189,480		2,279,007
<b>Net assets, end of year</b>	<b>\$ 23,056,307</b>	<b>\$ 1,330,074</b>		<b>\$ 2,796,167</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			11,594	
Change in net assets of business type activities			<b>\$ (171,935)</b>	

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

# CITY OF FERNDALE, MICHIGAN

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS

Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Non Major Fund	Total	Internal Service Funds
	Water/ Sewer	Auto Parking		
<b>Cash flows from operating activities</b>				
Cash received from customers and others	\$ 5,367,573	\$ 519,581	\$ 5,887,154	\$ -
Cash received from interfund services	-	-	-	1,337,414
Cash payments to employees	(1,045,177)	(124,572)	(1,169,749)	(196,689)
Cash payments to suppliers for goods and services	(3,212,895)	(232,444)	(3,445,339)	(785,434)
Cash payments for interfund services	(95,923)	(18,062)	(113,985)	-
<b>Net cash provided by operating activities</b>	<b>1,013,578</b>	<b>144,503</b>	<b>1,158,081</b>	<b>355,291</b>
<b>Cash flows from investing activities</b>				
Investment income	116,125	15,953	132,078	53,338
<b>Cash flows from capital and related financing activities</b>				
Purchase of capital assets	(3,848,595)	(173,854)	(4,022,449)	(337,486)
Bond/note interest payments	(312,256)	-	(312,256)	-
Proceeds from sale of capital assets	-	-	-	24,000
Proceeds from debt issuance	3,337,150	-	3,337,150	-
Repayments against long-term debt	(495,230)	-	(495,230)	-
Capital contribution	7,474	-	7,474	-
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(1,311,457)</b>	<b>(173,854)</b>	<b>(1,485,311)</b>	<b>(313,486)</b>
<b>Cash flows from non-capital financing activities</b>				
Transfers	-	(78,179)	(78,179)	400,000
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(181,754)</b>	<b>(91,577)</b>	<b>(273,331)</b>	<b>495,143</b>
Cash and cash equivalents, beginning of year	557,179	438,429	995,608	988,270
<b>Cash and cash equivalents, end of year</b>	<b>\$ 375,425</b>	<b>\$ 346,852</b>	<b>\$ 722,277</b>	<b>\$ 1,483,413</b>

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

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2007**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Non-Major</u>		<u>Total</u>	<u>Activities</u>
	<u>Major Fund</u>	<u>Fund</u>		<u>Internal</u>
	<u>Water/ Sewer</u>	<u>Auto Parking</u>		
<b>Reconciliation of operating income (loss)</b>				
<b>to net cash provided by operating activities</b>				
Operating income (loss)	\$ (135,466)	\$ 202,820	\$ 67,354	\$ 39,822
Adjustments to reconcile operating income (loss)				
to net cash provided by operating activities				
Depreciation	1,773,687	55,710	1,829,397	342,461
Changes in assets and liabilities				
Accounts receivable - customers	(1,281,057)	(1,611)	(1,282,668)	(11,700)
Due from other governments	212,149	-	212,149	-
Inventories	(2,834)	-	(2,834)	(15,055)
Accounts payable	400,320	(110,519)	289,801	3,707
Accrued liabilities	61,779	(1,897)	59,882	(3,944)
Deposits payable	(15,000)	-	(15,000)	-
<b>Net cash provided by operating activities</b>	<b><u>\$ 1,013,578</u></b>	<b><u>\$ 144,503</u></b>	<b><u>\$ 1,158,081</u></b>	<b><u>\$ 355,291</u></b>

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

**CITY OF FERNDALE, MICHIGAN**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2007**

	<b>Pension and Other Employee Benefit Trusts</b>	<b>Agency</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 572,037	\$ 196,518
Accrued interest receivable	297,909	-
Accounts receivable	15,189	966
Investments		
Mutual funds	5,581,554	-
Common stock	40,471,909	-
Corporate bonds	21,579,604	-
Total investments	67,633,067	-
<b>Total assets</b>	<b>68,518,202</b>	<b>\$ 197,484</b>
<b>Liabilities</b>		
Liabilities:		
Accounts payable	5,455	\$ -
Other liabilities	-	197,484
<b>Total liabilities</b>	<b>5,455</b>	<b>\$ 197,484</b>
<b>Net Assets</b>		
Held in trust for pension benefits and other purposes	\$ 68,512,747	

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

**CITY OF FERNDALE, MICHIGAN**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**Year Ended June 30, 2007**

	<b>Pension and Other Employee Benefit Trusts</b>
<b>Additions</b>	
Contributions	
Employer contributions	\$ 569,404
Plan member contributions	148,286
<b>Total contributions</b>	<b>717,690</b>
Investment income	
Net appreciation in fair value	6,513,940
Interest	1,310,510
Dividends	1,527,197
<b>Total investment income</b>	<b>9,351,647</b>
Less investment expense	(269,809)
Net investment income	9,081,838
<b>Total additions</b>	<b>9,799,528</b>
<b>Deductions</b>	
Benefits	3,675,997
Administrative expenses	59,972
<b>Total deductions</b>	<b>3,735,969</b>
Net increase (decrease) in plan net assets	6,063,559
Net assets held in trust for pension benefits - beginning of year	62,449,188
<b>Net assets held in trust for pension benefits and other purposes - end of year</b>	<b>\$ 68,512,747</b>

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

## CITY OF FERNDALE, MICHIGAN

### COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2007

	<b>Downtown Development Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>
<b>Assets</b>			
Cash	\$ -	\$ 35,145	\$ 35,145
Receivables, net	9,202	-	9,202
Due from primary government	20,736	-	20,736
Capital assets			
Depreciable, net	656,922	-	656,922
<b>Total assets</b>	<b>686,860</b>	<b>35,145</b>	<b>722,005</b>
<b>Liabilities</b>			
Accounts payable	23,615	14,642	38,257
Accrued liabilities	3,109	-	3,109
Noncurrent liabilities			
Due within one year	303	-	303
<b>Total liabilities</b>	<b>27,027</b>	<b>14,642</b>	<b>41,669</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	656,619	-	656,619
Unrestricted	3,214	20,503	23,717
<b>Total net assets</b>	<b>\$ 659,833</b>	<b>\$ 20,503</b>	<b>\$ 680,336</b>

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

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS**

**Year Ended June 30, 2007**

	<b>Downtown Development Authority</b>	<b>Brownfield Redevelopment Authority</b>	<b>Total</b>
<b>Expenses</b>			
Community and economic development	\$ 601,584	\$ 156,106	\$ 757,690
<b>Program revenues</b>			
Charges for services	-	2,000	2,000
Operating grants and contributions	110,824	-	110,824
<b>Total program revenues</b>	<b>110,824</b>	<b>2,000</b>	<b>112,824</b>
<b>General revenues</b>			
Property taxes	402,102	151,043	553,145
Unrestricted investment earnings	-	5,381	5,381
<b>Total general revenues</b>	<b>402,102</b>	<b>156,424</b>	<b>558,526</b>
Change in net assets	(88,658)	2,318	(86,340)
Net assets, beginning of year	748,491	18,185	766,676
<b>Net assets, end of year</b>	<b>\$ 659,833</b>	<b>\$ 20,503</b>	<b>\$ 680,336</b>

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

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

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

#### B. Basis of Presentation

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

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise fund:

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

Additionally, the City reports the following fund types:

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

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

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

*Pension trust funds.* These funds account for the activities of the Employees Retirement System as well as the Policemen and Firemen Retirement System, which accumulates

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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resources for retirement benefits and post-retirement health care payments to qualified employees.

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

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

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

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

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

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty 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,

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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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 assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

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

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

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

#### **Deposits and Investments**

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "cash and cash equivalents". The cash resources of the Employees Retirement System as well as the 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.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of 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 are recognized each year.

### **Receivables and Payables**

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

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

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

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

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

### **Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement cost of the 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 government 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 government 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 are 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. No such interest was incurred during the current fiscal year.

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

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### **Compensated Absences**

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

### **Long-term Obligations**

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

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

### **Fund Equity**

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

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

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the functional level for the general fund and the fund level for special revenue funds.

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

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

### **B. Excess of Expenditures Over Appropriations**

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2007, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public safety	\$ 10,685,568	\$10,931,715	\$246,147
Special Revenue:			
Major streets	824,655	867,402	42,747
Local streets	599,928	668,523	68,595
Community Development			
Block Grant	23,090	26,024	2,934
Library	693,529	700,183	6,654

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### 3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### A. Deposits, Investments and Securities Lending

*Summary of Deposit and Investment Balances.* Following is a reconciliation of deposit and investment balances as of June 30, 2007:

<u>Deposits &amp; Investments</u>	<u>Deposits</u>	<u>Investment</u>	<u>Other</u>	<u>Total</u>
<b>Governmental - wide financial</b>				
<b>statement captions:</b>				
Cash & cash equivalents	\$ 4,764,593	\$ -	\$ 4,650	\$ 4,769,243
Investments	1,957,135	5,116,664	-	7,073,799
<b>Fiduciary Fund Financial</b>				
<b>statement captions:</b>				
Cash & cash equivalents	196,516	572,039	-	768,555
Investments	-	67,633,067	-	67,633,067
<b>Component Unit</b>				
<b>statement captions:</b>				
Cash & cash equivalents	35,145	-	-	35,145
<b>Total</b>	<b>\$ 6,953,389</b>	<b>\$ 73,321,770</b>	<b>\$ 4,650</b>	<b>\$ 80,279,809</b>

#### Statutory Authority

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

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

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

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

### **Deposits and Investments**

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2007 the City had the following investments:

Type of Investment	RATING								Total
	AAA	AA	A	BBB	BB	B	CCC	NR	
<b>US Agencies</b>									
<5yrs	\$ 7,759,842	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,759,842
6-10yrs	4,597,973	-	-	-	-	-	-	-	4,597,973
>10yrs	3,401,585	-	-	-	-	-	-	-	3,401,585
<b>Commercial Paper</b>									
<5yrs	907,041	1,183,257	1,849,290	2,341,057	409,709	107,100	-	-	6,797,454
6-10yrs	306,767	68,612	897,821	1,866,833	168,025	103,950	-	-	3,412,008
>10yrs	178,456	-	103,865	385,082	-	-	55,088	-	722,491
<b>Mutual Funds</b>	-	-	-	-	-	-	-	6,153,591	6,153,591
<b>Stock</b>	-	-	-	-	-	-	-	40,471,909	40,471,909
<b>Other</b>	-	-	-	-	-	-	-	4,917	4,917
<b>Total</b>	<b>\$ 17,151,664</b>	<b>\$ 1,251,869</b>	<b>\$ 2,850,976</b>	<b>\$ 4,592,972</b>	<b>\$ 577,734</b>	<b>\$ 211,050</b>	<b>\$ 55,088</b>	<b>\$ 46,630,417</b>	<b>\$ 73,321,770</b>

### **Investment and Deposit Risk**

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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*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, 2007, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end \$6,218,561 of the City's bank balance of \$7,018,561 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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

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

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### B. Receivables

Receivables in the governmental activities are approximately 73 percent due from other governments, 20 percent accounts receivables, 2 percent taxes and special assessments and 5 percent accrued interest. Business-type activities receivables are 100 percent due from customers.

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

	<u>Unearned</u>	<u>Unavailable</u>	<u>Total</u>
Personal property taxes not yet received (general, sanitation, and debt service funds)	\$ -	\$ 36,966	\$ 36,966
State share revenue not received within 60 days of fiscal year end	-	570,880	570,880
Unearned fire service revenue	<u>63,000</u>	<u>-</u>	<u>63,000</u>
	<u><u>\$ 63,000</u></u>	<u><u>\$ 607,846</u></u>	<u><u>\$ 670,846</u></u>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### C. Capital Assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 637,878	\$ -	\$ -	\$ 637,878
Capital assets, being depreciated:				
Buildings	6,728,254	-	-	6,728,254
Equipment	3,745,362	396,451	(361,635)	3,780,178
Vehicles	4,362,765	322,824	(232,740)	4,452,849
Infrastructure	38,306,589	372,040	-	38,678,629
Total capital assets being depreciated	53,142,970	1,091,315	(594,375)	53,639,910
<b>Less accumulated depreciation for</b>				
Buildings	(2,806,535)	(320,968)	-	(3,127,503)
Equipment	(2,792,332)	(233,006)	361,635	(2,663,703)
Vehicles	(3,607,201)	(291,457)	232,740	(3,665,918)
Infrastructure	(21,837,747)	(2,284,447)	-	(24,122,194)
Total accumulated depreciation	(31,043,815)	(3,129,878)	594,375	(33,579,318)
Total capital assets being depreciated, net	22,099,155	(2,038,563)	-	20,060,592
<b>Governmental activities capital assets, net</b>	<b>\$22,737,033</b>	<b>\$ (2,038,563)</b>	<b>\$ -</b>	<b>\$20,698,470</b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

**Business-type activities**

Capital assets, not being depreciated -				
Land	\$ 454,903	\$ -	\$ -	\$ 454,903
Construction in progress	12,367,977	3,802,765	(12,888,175)	3,282,567
	12,822,880	3,802,765	(12,888,175)	3,737,470
Total capital assets not being depreciated				
Capital assets, being depreciated:				
Buildings	1,085,090	-	-	1,085,090
Equipment	977,198	25,685	-	1,002,883
Vehicles	394,627	-	-	394,627
Infrastructure	31,390,137	13,082,174	(193,509)	44,278,802
	33,847,052	13,107,859	(193,509)	46,761,402
Total capital assets being depreciated				
<b>Less accumulated depreciation for</b>				
Buildings	(998,900)	(5,064)	-	(1,003,964)
Equipment	(897,482)	(47,687)	-	(945,169)
Vehicles	(186,210)	(168,287)	-	(354,497)
Infrastructure	(10,986,016)	(1,608,359)	193,509	(12,400,866)
	(13,068,608)	(1,829,397)	193,509	(14,704,496)
Total accumulated depreciation				
Total capital assets being depreciated, net				
	20,778,444	11,278,462	-	32,056,906
<b>Business-type activities capital assets, net</b>				
	<b>\$ 33,601,324</b>	<b>\$ 15,081,227</b>	<b>\$ (12,888,175)</b>	<b>\$ 35,794,376</b>

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

Governmental activities	
General government	\$ 113,766
Public safety	122,955
Public works	303,775
Highways and streets	2,060,537
Recreation and culture	186,384
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	
	342,461
Total depreciation expense - governmental activities	<b><u>\$3,129,878</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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Business-type activities	
Water and sewer	\$1,773,687
Auto parking	<u>55,710</u>
Total depreciation expense - business-type activities	<b><u>\$1,829,397</u></b>

The City has an active construction project as of June 30, 2007. The City is a participating community in the George W. Kuhn drain project along with thirteen other local municipalities. The total cost of the project is currently estimated at approximately \$135,398,270 with the City's share of total projects costs at \$13,228,411.

As of June 30, 2007 the City's financial activity as it relates to this project is as follows:

<b><u>Project</u></b>	<b><u>Spent-to-Date</u></b>	<b><u>Remaining Commitment</u></b>
George W. Kuhn Drain	\$ 12,733,998	\$ 494,413

The project is being financed through the sale of drain bonds through the Oakland County Drain Commission and draw downs from the State of Michigan revolving fund. Future commitments related to construction in progress cannot readily be determined at this time due to the project management being conducted at Oakland County, Michigan.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 20, 2007, was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, being depreciated				
Equipment	\$ 68,015	\$ -	\$ -	\$ 68,015
Vehicles	37,103	-	-	37,103
Infrastructure	1,390,789	6,270	-	1,397,059
Total capital assets being depreciated	1,495,907	6,270	-	1,502,177
<b>Less accumulated depreciation for</b>				
Equipment	(48,881)	(1,468)		(50,349)
Vehicles	(17,632)	(3,710)	-	(21,342)
Infrastructure	(673,395)	(100,169)	-	(773,564)
Total accumulated depreciation	(739,908)	(105,347)	-	(845,255)
<b>Component unit activity capital assets, net</b>	<b>\$ 755,999</b>	<b>\$ (99,077)</b>	<b>\$ -</b>	<b>\$ 656,922</b>

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

At June 30, 2007, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund. There were no other interfund balances reported.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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

<b>Transfers Out</b>	<b>Transfers In</b>			<b>Total</b>
	<b>General</b>	<b>Non Major Governmental</b>	<b>Internal Service Fund</b>	
General Fund	\$ -	\$ 190,000	\$ 400,000	\$ 590,000
Non-Major Governmental Funds	232,117	357,000	-	589,117
Auto Parking	78,179	-	-	78,179
	<b>\$ 310,296</b>	<b>\$ 547,000</b>	<b>\$ 400,000</b>	<b>\$ 1,257,296</b>

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

### **E. Long-term Debt**

*General obligation bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities and business type activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government were \$43,624,457 to finance the repair and/or reconstruction of water, sewer and street infrastructure and \$933,152 to finance the City's boiler and HVAC improvements.

During the current fiscal year, the City made debt repayments against its General Obligation Bonds totaling \$1,760,000. No new General Obligation debt was issued in the current fiscal year.

*George W. Kuhn project bonds and revolving fund obligations* The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission, and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, Federal and State of Michigan grants and contributions from Oakland County, Michigan. The City along with thirteen other local community's are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's total obligation at the end of construction will be approximately \$13,228,411 or

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

9.77% of the projects total cost of \$135,398,270. Due to the current construction of the project, the sale of bonds are being incurred on an as needed basis and thus an accurate schedule of principal and interest payments cannot be determined at this time. Accordingly, it is not included in the following schedule of annual debt service requirements.

*State revolving fund.*

The City has obtained a \$3,475,000 state revolving fund loan to finance the cost of water mains and sewer lining expenditures incurred during the year. The loan acts like a line-of-credit to the City. As of June 30, 2007, \$3,103,426 has been drawn down. Repayment of this loan is scheduled to begin in fiscal year 2008.

<b>Purpose</b>	<b>Interest Rate</b>	<b>Amount</b>
<b>Governmental activities</b>		
Series III and IV general obligation bonds	5.0% - 6.6%	\$ 800,000
2004 refunding bonds	2.0% - 5.0%	12,265,000
2006 refunding bonds	2.5% - 4.0%	9,145,000
Public improvement general obligation bonds	4.3% - 4.4%	749,152
		<b><u>\$ 22,959,152</u></b>
<b>Business-type activities</b>		
George W. Kuhn drain project	2.0% - 5.0%	\$ 10,499,158
State revolving fund	2.125%	3,103,426
		<b><u>\$ 13,602,584</u></b>

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

	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest and Premium</b>
2008	\$ 2,060,000	\$ 999,920
2009	2,265,000	943,895
2010	2,485,000	847,220
2011	2,465,000	740,820
2012	2,685,000	634,820
2013 - 2027	10,999,152	1,290,627
	<b><u>\$ 22,959,152</u></b>	<b><u>\$ 5,457,302</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the State revolving fund are as follows:

	<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest and Premium</b>
2008	\$ 140,000	\$ 73,844
2009	145,000	70,868
2010	150,000	67,786
2011	150,000	64,600
2012	155,000	61,412
2013-2027	2,363,426	487,902
	<b>\$ 3,103,426</b>	<b>\$ 826,412</b>

### *Advance and Current Refundings*

The City has issued refunding bonds in previous years to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on \$25,000,000 of refunded debt. As a result, the refunded bonds are considered to be defeased. On June 30, 2007, total defeased debt of \$22,319,000 for the City remained outstanding.

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2007, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Primary Government</b>					
Governmental activities					
Series III and IV general obligation	\$ 1,600,000	\$ -	\$ (800,000)	\$ 800,000	\$ 800,000
2004 refunding bonds	13,085,000	-	(820,000)	12,265,000	1,120,000
2005 refunding bonds	9,190,000	-	(45,000)	9,145,000	45,000
Public improvement general obligation	844,152	-	(95,000)	749,152	95,000
Total general obligation debt	24,719,152	-	(1,760,000)	22,959,152	2,060,000
bonds	(186,364)	-	18,636	(167,728)	(18,636)
Premium on refunding bonds	307,939	-	(30,794)	277,145	30,794
Accrued compensated absences	276,490	3,445,961	(3,438,001)	284,450	-
	<b>\$ 25,117,217</b>	<b>\$ 3,445,961</b>	<b>\$ (5,210,159)</b>	<b>\$ 23,353,019</b>	<b>\$ 2,072,158</b>
<b>Business-type activities</b>					
George W. Kuhn Obligation	\$ 10,760,665	\$ 233,724	\$ (495,231)	\$ 10,499,158	\$ 507,823
State revolving fund	-	3,103,426	-	3,103,426	140,000
	<b>10,760,665</b>	<b>3,337,150</b>	<b>(495,231)</b>	<b>13,602,584</b>	<b>647,823</b>
<b>Component Unit</b>					
Capital Lease	\$ 3,696	\$ -	\$ (3,394)	\$ 302	\$ 302
	<b>\$ 3,696</b>	<b>\$ -</b>	<b>\$ (3,394)</b>	<b>\$ 302</b>	<b>\$ 302</b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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

### F. Segment Information – Enterprise Funds

The Water and Sewer Fund, is an individual fund that accounts entirely for the government’s water and wastewater activities. This fund is a segment and is reported as a major fund in the fund financial statements; therefore, segment disclosures herein are not required.

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

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

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

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

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

	<b>Other Reserved Fund Balance</b>	<b>Designated Fund Balance</b>
<b>Governmental activities</b>		
Accrued compensated absences	\$ -	\$ 284,450
Police in-service training	11,778	-
Court renovation	-	697,675
Fire equipment	-	82,275
Cable TV equipment	-	100,000
Technology equipment	-	100,000
Cable TV advance	-	34,419
Seniors’ memorial	-	11,263
	<u>\$ 11,778</u>	<u>\$1,310,082</u>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### 4. OTHER INFORMATION

#### A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City maintains an Internal Service Fund to account for and finance its risks of loss for workers' compensation claims. Workers' compensation is provided through purchased commercial insurance. For workers' compensation claims, the policy covers the City'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 - \$75,000 and property - \$11,000. 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 \$75,000, and the risk pool covers the next \$925,000. Excess commercial insurance is provided through the pool up to an additional \$9,000,000. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, there will be a reduction in the City's future contribution to the pool. Settled claims have not exceeded this commercial coverage in any of the past four years.

#### B. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by July 31<sup>st</sup> or if elected by the taxpayer, paid using an eight monthly installment method from July through February. As of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Oakland County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2006 levy, including industrial facilities was \$596,345,396. The government's general operating tax rate for fiscal 2006 - 2007 was 14.5448 mills with an additional 2.1815 mills for refuse collection, 4.5 mills for City debt, .9601 mills for the library and 2.1815 mills for sanitation.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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

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

### **C. Contingent Liabilities**

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

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

### **D. Employee Benefits**

#### **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 assigns the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

##### *Summary of Significant Accounting Policies*

The Ferndale Employees Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

### Contributions

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, 2006 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, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	81
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	71
<b>Total</b>	<b>155</b>

### Annual Pension Cost

For the year ended June 30, 2006, the City had no annual pension cost or required or actual contributions.

#### Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ -	100%	\$ -
June 30, 2006	-	100%	-
June 30, 2007	-	100%	-

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### Ferndale Policeman and Fireman Retirement System

#### Plan Description

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

#### Summary of Significant Accounting Policies

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

#### Contributions

Plan members are required to contribute between 1.6% and 5.35% of their annual covered salary. The City was not required to make a contribution for the year ended June 30, 2007. Per Chapter XIXB of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FPFRS are financed through investment earnings.

Membership of the FPFRS consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	88
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>44</u>
<b>Total</b>	<b><u>133</u></b>

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

### Annual Pension Cost

For the year ended June 30, 2007, the City's annual pension cost of \$148,286 was equal to the City's required and actual contributions.

### Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ -	100%	\$ -
June 30, 2006	-	100%	-
June 30, 2007	85,717	0%	85,717

### City Defined Contribution Pension Plan

The City of Ferndale Defined Contribution Pension Plan is held in trust and covers approximately 112 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 I.C.M.A.-R.C. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The defined contribution pension cost to the City for the fiscal year ending June 30, 2007 was \$530,805. The defined contribution pension cost to the employees was \$234,011. In addition, two roll-ins from other employers were received totaling \$618,097. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City contributions. Assets of the plan are valued at \$19,328,294 of which \$358,661 were loans to members.

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	12%	9%	5%	7%	10%
Employee Contribution	3%	3%	3%	3%	3%

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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### **43<sup>rd</sup> City Court Profit Sharing Pension Plan**

The 43<sup>rd</sup> City Court Profit Sharing Pension Plan is held in trust and covers 15 employees (12 current and 3 former) of the City Court. The plan is available to employees upon their first day of employment and benefits are fully vested upon the seventh year of service. The third party administrator for this plan is Watkins, Ross & Company. In a profit sharing pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The profit sharing pension cost to the 43<sup>rd</sup> City Court for the fiscal year ending June 30, 2007 was \$78,382. The defined contribution pension cost to the employees was \$0. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce City Court contributions. Assets of the plan are valued at \$1,618,859.

### **Retiree Health Care Plan**

The City of Ferndale, Michigan also sponsors a retiree health care plan (the "Plan"). The Plan is a single employer defined benefit public retiree health care plan established effective May 29, 2001. The purpose of the Plan is to provide former full-time retired employees and/or spouses with health care coverage during retirement. Benefits under the Plan are administered under a third party agreement with Blue Cross Blue Shield of Michigan. The Plan is maintained as a pension trust fund in the City of Ferndale financial statements. The Mayor and City Council have the authority to establish and amend benefit provisions.

The Plan is a non-contributory defined benefit plan that covers substantially all employees of the City as defined above. At June 30, 2002, the date of the latest actuarial valuation, participants in the Plan consisted of:

Retirees and beneficiaries receiving benefits	278
Active employees	<u>156</u>
<b>Total</b>	<b><u>434</u></b>

The employer contributes on an actuarially-determined basis for the normal cost of current active employees, in addition to a pay-as-you-go basis for retiree health care costs. Contributions to the Plan were \$569,404 for the fiscal year ended June 30, 2007.

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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The benefit obligation represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to June 30, 2002, the date of the most recent actuarial valuation. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and spouses and (2) active employees and their beneficiaries after retirement from service. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical insurance premium-cost data to estimate future annual premium costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2002. 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, (g) marital status, and (h) health care cost increases of 5.50% per year. The Plan assets consist of cash equivalents in short-term investments.

The Plan's unfunded accrued liability, which was determined by an actuary, is as follows at June 30, 2002:

Retirees and beneficiaries currently receiving benefits	\$18,757,425
Terminated employees not yet receiving benefits	251,643
Current employees	<u>6,292,264</u>
Total	25,301,332
Value of plan assets	<u>1,476,128</u>
<b>Unfunded Accrued Liability</b>	<b><u>\$23,825,204</u></b>

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be

# CITY OF FERNDALE, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS

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applicable in determining the actuarial present value of the postretirement accrued liability.

### **E. Joint Venture**

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of 12 municipalities in Oakland County and provides refuse 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, 2007, (the most recent data available,) the Authority reported a reduction in net assets in the amount of \$769,224 resulting in ending net assets in the amount of \$5,522,441. During the year ended June 30, 2007, the City expended \$530,288 in payments made to the Authority. Complete financial statements for the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

### **F. Restatement**

For the City's General fund, an adjustment was made to recognize revenue from the State of Michigan. The August payment of State share revenue, although not paid until September, is related to sales tax collected by the State through June 30, 2006, and as such the payment is receivable to the City as of June 30, 2006.

The net effect of this correction has caused the City's assets and revenues for 2006 to be understated. This correction has been recognized and has had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 4,888,717
Prior period adjustment	<u>633,036</u>
Beginning net assets, as restated	<u>\$ 5,521,753</u>

\* \* \* \* \*

***REQUIRED SUPPLEMENTARY  
INFORMATION***

# CITY OF FERNDALE, MICHIGAN

## Required Supplementary Information (Unaudited)

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

Trend Information

<b>Schedule of Funding Progress</b>						
<b>Actuarial Valuation Date June 30</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Attained Age# (b)</b>	<b>(Overfunded) Unfunded (AAL) (UAAL) (b/a)</b>	<b>Funded Ratio % (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as % of Covered Payroll ((b-a) / c)</b>
2001	\$ 19,416,086	\$ 11,772,304	\$ (7,643,782)	164.9%	\$ 135,998	-%
2002	18,944,647	10,817,132	(8,127,515)	175.1	96,460	-
2003	18,273,195	10,451,898	(7,821,297)	174.8	46,329	-
2004	18,202,445	12,582,349	(5,620,096)	144.7	2,750,539	-
2005	18,066,625	12,828,481	(5,238,144)	140.8	2,767,899	-
2006	18,423,039	11,891,917	(6,531,122)	154.9	3,117,728	-

<b>Schedule of Employer Contributions</b>				
<b>Fiscal Year Ended June 30</b>	<b>Contribution Rates as Percents of Valuation Payroll</b>	<b>Computed Dollar Contribution Based on Projected Payroll</b>	<b>Actual Annual Contributions</b>	<b>Percent of Required Contributions</b>
2002	\$ -	\$ -	\$ -	100%
2003	-	-	-	100
2004	-	-	-	100
2005	-	-	-	100
2006	-	-	-	100
2007	-	-	-	100

# CITY OF FERNDALE, MICHIGAN

## Required Supplementary Information (Unaudited)

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

#### Trend Information

<b>Schedule of Funding Progress</b>						
<b>Actuarial Valuation Date June 30</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Liability (AAL) Attained Age# (b)</b>	<b>(Overfunded) Unfunded (AAL) (UAAL) (b/a)</b>	<b>Funded Ratio % (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as % of Covered Payroll ((b-a) / c)</b>
2001	\$ 39,246,828	\$ 32,164,933	\$ (7,081,895)	122.0%	\$ 2,620,382	(270)%
2002	38,371,312	31,242,171	(7,129,141)	122.8	2,544,785	(280)
2003	36,737,847	31,315,210	(5,422,637)	117.3	2,616,156	(207)
2004	36,862,319	32,860,203	(4,002,116)	112.2	2,727,170	(147)
2005	37,456,032	34,311,824	(3,153,208)	109.2	2,880,620	(109)
2006	38,544,837	33,722,210	(4,785,794)	144.3	3,073,865	(156)

<b>Schedule of Employer Contributions</b>				
<b>Fiscal Year Ended June 30</b>	<b>Contribution Rates as Percents of Valuation Payroll</b>	<b>Computed Dollar Contribution Based on Projected Payroll</b>	<b>Actual Annual Contributions</b>	<b>Percent of Required Contributions</b>
2002	- %	\$ -	\$ -	100%
2003	-	-	-	100
2004	-	-	-	100
2005	-	-	-	100
2006	-	-	-	100
2007	2.82	85,717	-	0

# CITY OF FERNDALE, MICHIGAN

## Required Supplementary Information (Unaudited)

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	<u>FERS</u>	<u>FPERS</u>
Valuation Date	June 30, 2006	June 30, 2006
Actuarial Cost Method	Aggregate Level Dollar	Entry-Age
Amortization	Open	Level percent open
Remaining Amortization Period	10 years	10 years
Assets Valuation Method: Smoothed Market	4 years	4 years
Actuarial Assumptions: Investment Rate of Return	7.50%	7.50%
Additional Projected Salary: Increase	4.5-8.9%	4.5-7.5%
Includes inflation at	4.5%	4.5%
Cost of Living Adjustment	None	None

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

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2007**

	Special Revenue								Total Nonmajor Governmental Funds
	Local Streets	Major Streets	Sanitation	Drug Forfeiture	Community Development Block Grant	Library	Public Improvement	SMART Taxi Subsidy	
<b>Assets</b>									
Cash and cash equivalents	\$ 20,112	\$ 765,785	\$ 642,314	\$ 169,533	\$ 48,061	\$ 111,854	\$ 341,859	\$ 51,335	\$ 2,150,853
Receivables									
Taxes-delinquent	-	-	19,414	-	-	4,715	-	-	24,129
Less: allowance for doubtful accounts	-	-	(15,858)	-	-	(3,150)	-	-	(19,008)
Due from other governments	56,426	158,486	-	-	29,930	42,011	-	10,419	297,272
<b>Total assets</b>	<b>\$ 76,538</b>	<b>\$ 924,271</b>	<b>\$ 645,870</b>	<b>\$ 169,533</b>	<b>\$ 77,991</b>	<b>\$ 155,430</b>	<b>\$ 341,859</b>	<b>\$ 61,754</b>	<b>\$ 2,453,246</b>
<b>Liabilities</b>									
Accounts payable	\$ 36,512	\$ 55,444	\$ 114,536	\$ 265	\$ 4,960	\$ 16,325	\$ 8,319	\$ -	\$ 236,361
Accrued liabilities	8,288	11,569	11,070	-	-	7,472	-	2,013	40,412
Deferred revenue	-	-	3,556	-	-	1,565	-	-	5,121
<b>Total liabilities</b>	<b>44,800</b>	<b>67,013</b>	<b>129,162</b>	<b>265</b>	<b>4,960</b>	<b>25,362</b>	<b>8,319</b>	<b>2,013</b>	<b>281,894</b>
<b>Fund balance</b>									
Unreserved, undesignated	31,738	857,258	516,708	169,268	73,031	130,068	333,540	59,741	2,171,352
<b>Total liabilities and fund balance</b>	<b>\$ 76,538</b>	<b>\$ 924,271</b>	<b>\$ 645,870</b>	<b>\$ 169,533</b>	<b>\$ 77,991</b>	<b>\$ 155,430</b>	<b>\$ 341,859</b>	<b>\$ 61,754</b>	<b>\$ 2,453,246</b>

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**

**Year Ended June 30, 2007**

	Special Revenue								Total Nonmajor Governmental Funds
	Local Streets	Major Streets	Sanitation	Drug Forfeiture	Community Development		Public Improvement	SMART Taxi Subsidy	
					Block Grant	Library			
<b>Revenues</b>									
Property taxes	\$ -	\$ -	\$ 1,301,409	\$ -	\$ -	\$ 572,659	\$ -	\$ -	\$ 1,874,068
Intergovernmental									
Federal	-	130,196	-	-	141,767	-	-	-	271,963
State	343,635	1,054,715	-	-	-	17,473	-	85,226	1,501,049
Local	-	18,679	-	-	-	-	-	-	18,679
Charges for services	-	-	1,093,754	-	-	-	-	6,466	1,100,220
Fines and forfeitures	-	-	-	115,723	-	43,585	-	-	159,308
Investment earnings	-	44,251	16,607	10,167	1,839	7,231	20,179	1,933	102,207
Other	-	-	4,930	-	-	10,047	10,000	-	24,977
<b>Total revenues</b>	<b>343,635</b>	<b>1,247,841</b>	<b>2,416,700</b>	<b>125,890</b>	<b>143,606</b>	<b>650,995</b>	<b>30,179</b>	<b>93,625</b>	<b>5,052,471</b>
<b>Expenditures</b>									
Current									
General government	-	-	-	-	-	-	-	70,929	70,929
Public safety	-	-	-	15,373	-	-	-	-	15,373
Public works	-	-	2,349,009	-	-	-	-	-	2,349,009
Highways and streets	668,523	867,402	-	-	-	-	-	-	1,535,925
Community and economic development	-	-	-	-	26,024	-	37,699	-	63,723
Unreserved, undesignated	-	-	-	-	-	619,419	-	-	619,419
Debt service									
Principal	-	-	-	-	-	-	95,000	-	95,000
Interest and fees	-	-	-	-	-	-	37,987	-	37,987
Capital outlay	-	-	-	50,639	-	80,764	156,484	-	287,887
<b>Total expenditures</b>	<b>668,523</b>	<b>867,402</b>	<b>2,349,009</b>	<b>66,012</b>	<b>26,024</b>	<b>700,183</b>	<b>327,170</b>	<b>70,929</b>	<b>5,075,252</b>
<b>Revenues over (under) expenditures</b>	<b>(324,888)</b>	<b>380,439</b>	<b>67,691</b>	<b>59,878</b>	<b>117,582</b>	<b>(49,188)</b>	<b>(296,991)</b>	<b>22,696</b>	<b>(22,781)</b>
<b>Other financing sources (uses)</b>									
Transfers in	357,000	-	-	-	-	-	190,000	-	547,000
Transfers out	-	(357,000)	(21,274)	(95,000)	(115,843)	-	-	-	(589,117)
Proceeds from the sale of capital assets	-	-	-	-	-	852	-	-	852
<b>Total other financing sources (uses)</b>	<b>357,000</b>	<b>(357,000)</b>	<b>(21,274)</b>	<b>(95,000)</b>	<b>(115,843)</b>	<b>852</b>	<b>190,000</b>	<b>-</b>	<b>(41,265)</b>
<b>Net change in fund balances</b>	<b>32,112</b>	<b>23,439</b>	<b>46,417</b>	<b>(35,122)</b>	<b>1,739</b>	<b>(48,336)</b>	<b>(106,991)</b>	<b>22,696</b>	<b>(64,046)</b>
Fund balances, beginning of year	(374)	833,819	470,291	204,390	71,292	178,404	440,531	37,045	2,235,398
<b>Fund balances, end of year</b>	<b>\$ 31,738</b>	<b>\$ 857,258</b>	<b>\$ 516,708</b>	<b>\$ 169,268</b>	<b>\$ 73,031</b>	<b>\$ 130,068</b>	<b>\$ 333,540</b>	<b>\$ 59,741</b>	<b>\$ 2,171,352</b>

**CITY OF FERNDALE, MICHIGAN**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL**

**LOCAL STREETS**

**Year Ended June 30, 2007**

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Actual</b>
	<b>Original</b>	<b>Final</b>		<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
State grants and reimbursements	\$ 345,560	\$ 345,560	\$ 343,635	\$ (1,925)
Investment earnings	1,120	-	-	-
<b>Total revenues</b>	<b>346,680</b>	<b>345,560</b>	<b>343,635</b>	<b>(1,925)</b>
<b>Expenditures</b>				
Construction	156,000	67,210	121,446	54,236
Routine maintenance	455,718	455,718	494,061	38,343
Winter maintenance	67,000	67,000	47,311	(19,689)
Traffic service	10,000	10,000	5,705	(4,295)
<b>Total expenditures</b>	<b>688,718</b>	<b>599,928</b>	<b>668,523</b>	<b>68,595</b>
<b>Revenues under expenditures</b>	<b>(342,038)</b>	<b>(254,368)</b>	<b>(324,888)</b>	<b>(70,520)</b>
<b>Other financing sources</b>				
Transfers in	357,000	357,000	357,000	-
<b>Net change in fund balances</b>	<b>14,962</b>	<b>102,632</b>	<b>32,112</b>	<b>(70,520)</b>
Fund balance, beginning of year	(374)	(374)	(374)	-
<b>Fund balance, end of year</b>	<b>\$ 14,588</b>	<b>\$ 102,258</b>	<b>\$ 31,738</b>	<b>\$ (70,520)</b>

**CITY OF FERNDALE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**MAJOR STREETS**

**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Federal grants	\$ -	\$ 130,196	\$ 130,196	\$ -
State shared revenue	1,062,412	1,062,412	1,054,715	(7,697)
Local grants	-	-	18,679	18,679
Investment earnings	14,000	30,000	44,251	14,251
<b>Total revenues</b>	<b>1,076,412</b>	<b>1,222,608</b>	<b>1,247,841</b>	<b>25,233</b>
<b>Expenditures</b>				
Construction	-	130,196	163,119	32,923
Routine maintenance	600,359	600,359	580,587	(19,772)
Winter maintenance	79,400	79,400	69,342	(10,058)
Traffic service	14,700	14,700	54,354	39,654
<b>Total expenditures</b>	<b>694,459</b>	<b>824,655</b>	<b>867,402</b>	<b>42,747</b>
<b>Revenues over (under) expenditures</b>	<b>381,953</b>	<b>397,953</b>	<b>380,439</b>	<b>(17,514)</b>
<b>Unreserved, undesignated</b>				
Transfers out	(357,000)	(357,000)	(357,000)	-
<b>Net change in fund balances</b>	<b>24,953</b>	<b>40,953</b>	<b>23,439</b>	<b>(17,514)</b>
Fund balance, beginning of year	833,819	833,819	833,819	-
<b>Fund balance, end of year</b>	<b>\$ 858,772</b>	<b>\$ 874,772</b>	<b>\$ 857,258</b>	<b>\$ (17,514)</b>

**CITY OF FERNDALE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**SANITATION FUND**

**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Property taxes	\$ 1,287,690	\$ 1,285,800	\$ 1,301,409	\$ 15,609
Charges for services	1,071,951	1,092,451	1,093,754	1,303
Investment earnings	11,200	16,000	16,607	607
Other	1,500	1,500	4,930	3,430
<b>Total revenues</b>	<b><u>2,372,341</u></b>	<b><u>2,395,751</u></b>	<b><u>2,416,700</u></b>	<b><u>20,949</u></b>
<b>Expenditures</b>				
Operating	2,032,072	2,032,072	2,056,963	24,891
Personal	289,098	289,098	292,046	2,948
Capital outlay	100,000	60,000	-	(60,000)
<b>Total expenditures</b>	<b><u>2,421,170</u></b>	<b><u>2,381,170</u></b>	<b><u>2,349,009</u></b>	<b><u>(32,161)</u></b>
<b>Revenues over (under) expenditures</b>	<b><u>(48,829)</u></b>	<b><u>14,581</u></b>	<b><u>67,691</u></b>	<b><u>53,110</u></b>
<b>Other financing sources (uses)</b>				
Transfers out	(21,274)	(21,274)	(21,274)	-
<b>Net change in fund balances</b>	<b><u>(70,103)</u></b>	<b><u>(6,693)</u></b>	<b><u>46,417</u></b>	<b><u>53,110</u></b>
Fund balance, beginning of year	470,291	470,291	470,291	-
<b>Fund balance, end of year</b>	<b><u>\$ 400,188</u></b>	<b><u>\$ 463,598</u></b>	<b><u>\$ 516,708</u></b>	<b><u>\$ 53,110</u></b>

**CITY OF FERNDALE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**DRUG FORFEITURE**

**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Fines and forfeitures	\$ 80,000	\$ 80,000	\$ 115,723	\$ 35,723
Investment earnings	2,000	7,500	10,167	2,667
<b>Total revenues</b>	<b>82,000</b>	<b>87,500</b>	<b>125,890</b>	<b>38,390</b>
<b>Expenditures</b>				
Construction	-	52,258	50,639	(1,619)
Operating expenditures	18,500	18,500	15,373	(3,127)
<b>Total expenditures</b>	<b>18,500</b>	<b>70,758</b>	<b>66,012</b>	<b>(4,746)</b>
<b>Revenues over expenditures</b>	<b>63,500</b>	<b>16,742</b>	<b>59,878</b>	<b>43,136</b>
<b>Other financing uses</b>				
Transfers out	(95,000)	(95,000)	(95,000)	-
<b>Net change in fund balances</b>	<b>(31,500)</b>	<b>(78,258)</b>	<b>(35,122)</b>	<b>43,136</b>
Fund balance, beginning of year	204,390	204,390	204,390	-
<b>Fund balance, end of year</b>	<b>\$ 172,890</b>	<b>\$ 126,132</b>	<b>\$ 169,268</b>	<b>\$ 43,136</b>

**CITY OF FERNDALE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**COMMUNITY DEVELOPMENT BLOCK GRANT**  
**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
<b>Revenues</b>				
Intergovernmental				
Federal	\$ 87,065	\$ 87,065	\$ 141,767	\$ 54,702
Investment earnings	1,440	1,440	1,839	399
<b>Total revenues</b>	<b>88,505</b>	<b>88,505</b>	<b>143,606</b>	<b>55,101</b>
<b>Expenditures</b>				
Operating expenditures	23,090	23,090	26,024	2,934
<b>Revenues over (under) expenditures</b>	<b>65,415</b>	<b>65,415</b>	<b>117,582</b>	<b>52,167</b>
<b>Other financing sources (uses)</b>				
Transfers out	(65,415)	(65,415)	(115,843)	(50,428)
<b>Net change in fund balances</b>	<b>-</b>	<b>-</b>	<b>1,739</b>	<b>1,739</b>
Fund balance, beginning of year	71,292	71,292	71,292	-
<b>Fund balance, end of year</b>	<b>\$ 71,292</b>	<b>\$ 71,292</b>	<b>\$ 73,031</b>	<b>\$ 1,739</b>

**CITY OF FERNDALE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**LIBRARY**

**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Property taxes	\$ 563,538	\$ 565,900	\$ 572,659	\$ 6,759
Intergovernmental				
State	18,000	15,500	17,473	1,973
Fines and forfeitures	38,432	38,432	43,585	5,153
Investment earnings	750	4,500	7,231	2,731
Other	9,650	10,150	10,047	(103)
<b>Total revenues</b>	<b>630,370</b>	<b>634,482</b>	<b>650,995</b>	<b>16,513</b>
<b>Expenditures</b>				
Personal services	398,777	381,735	370,344	(11,391)
Operating expenditures	180,285	233,794	249,075	15,281
Capital outlay	46,000	78,000	80,764	2,764
<b>Total expenditures</b>	<b>625,062</b>	<b>693,529</b>	<b>700,183</b>	<b>6,654</b>
<b>Revenues over (under) expenditures</b>	<b>5,308</b>	<b>(59,047)</b>	<b>(49,188)</b>	<b>9,859</b>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	500	500	852	352
<b>Net change in fund balances</b>	<b>5,808</b>	<b>(58,547)</b>	<b>(48,336)</b>	<b>10,211</b>
Fund balance, beginning of year	178,404	178,404	178,404	-
<b>Fund balance, end of year</b>	<b>\$ 184,212</b>	<b>\$ 119,857</b>	<b>\$ 130,068</b>	<b>\$ 10,211</b>

**CITY OF FERNDALE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**PUBLIC IMPROVEMENT**

**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
<b>Revenues</b>				
Investment earnings	\$ 13,160	\$ 13,160	\$ 20,179	\$ 7,019
Other revenue	10,000	10,000	10,000	-
<b>Total revenues</b>	<b>23,160</b>	<b>23,160</b>	<b>30,179</b>	<b>7,019</b>
<b>Expenditures</b>				
Operating expenditures	90,288	90,288	37,699	(52,589)
Principal	90,000	90,000	95,000	5,000
Interest	37,762	37,762	37,987	225
Capital outlay	165,000	165,000	156,484	(8,516)
<b>Total expenditures</b>	<b>383,050</b>	<b>383,050</b>	<b>327,170</b>	<b>(55,880)</b>
<b>Revenues over (under) expenditures</b>	<b>(359,890)</b>	<b>(359,890)</b>	<b>(296,991)</b>	<b>62,899</b>
<b>Other financing sources (uses)</b>				
Transfers in	190,000	190,000	190,000	-
<b>Net change in fund balances</b>	<b>(169,890)</b>	<b>(169,890)</b>	<b>(106,991)</b>	<b>62,899</b>
Fund balance, beginning of year	440,531	440,531	440,531	-
<b>Fund balance, end of year</b>	<b>\$ 270,641</b>	<b>\$ 270,641</b>	<b>\$ 333,540</b>	<b>\$ 62,899</b>

**CITY OF FERNDALE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**

**SMART TAXI SUBSIDY**

**Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u>
				<u>Final Budget</u>
<b>Revenues</b>				
Intergovernmental				
State	\$ 68,161	\$ 84,514	\$ 85,226	\$ 712
Charges for services	4,518	4,518	6,466	1,948
Investment earnings	640	640	1,933	1,293
<b>Total revenues</b>	<b>73,319</b>	<b>89,672</b>	<b>93,625</b>	<b>3,953</b>
<b>Expenditures</b>				
Personal services	56,186	56,186	56,247	61
Operating expenditures	16,000	16,000	14,682	(1,318)
<b>Total expenditures</b>	<b>72,186</b>	<b>72,186</b>	<b>70,929</b>	<b>(1,257)</b>
<b>Net change in fund balances</b>	<b>1,133</b>	<b>17,486</b>	<b>22,696</b>	<b>5,210</b>
Fund balance, beginning of year	37,045	37,045	37,045	-
<b>Fund balance, end of year</b>	<b>\$ 38,178</b>	<b>\$ 54,531</b>	<b>\$ 59,741</b>	<b>\$ 5,210</b>

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING STATEMENT OF NET ASSETS**  
**INTERNAL SERVICE FUNDS**

**June 30, 2007**

	<b>Vehicle and Equipment Maintenance</b>	<b>Worker's Compensation</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 1,018,109	\$ 465,304	\$ 1,483,413
Accounts receivable	28,609	-	28,609
Inventory	175,706	-	175,706
Prepaid expenses	-	20,000	20,000
<b>Total current assets</b>	<b>1,222,424</b>	<b>485,304</b>	<b>1,707,728</b>
Noncurrent assets			
Capital assets	4,974,299	-	4,974,299
Less accumulated depreciation	(3,788,127)	-	(3,788,127)
Total noncurrent assets	1,186,172	-	1,186,172
<b>Total assets</b>	<b>2,408,596</b>	<b>485,304</b>	<b>2,893,900</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	48,373	44,542	92,915
Accrued liabilities	4,818	-	4,818
<b>Total current liabilities</b>	<b>53,191</b>	<b>44,542</b>	<b>97,733</b>
<b>Net assets</b>			
Investment in capital assets	1,186,172	-	1,186,172
Unrestricted	1,169,233	440,762	1,609,995
<b>Total net assets</b>	<b>\$ 2,355,405</b>	<b>\$ 440,762</b>	<b>\$ 2,796,167</b>

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**INTERNAL SERVICE FUNDS**

Year Ended June 30, 2007

	<b>Vehicle and Equipment Maintenance</b>	<b>Worker's Compensation</b>	<b>Total</b>
<b>Operating revenues</b>			
Charges for services	\$ 1,222,396	\$ 111,510	\$ 1,333,906
Miscellaneous fees	15,208	-	15,208
<b>Total operating revenues</b>	<b>1,237,604</b>	<b>111,510</b>	<b>1,349,114</b>
<b>Operating expenses</b>			
Personal services	192,745	-	192,745
General and administrative	635,453	42,768	678,221
Depreciation	342,461	-	342,461
Benefit and medical payments	-	95,865	95,865
<b>Total operating expenses</b>	<b>1,170,659</b>	<b>138,633</b>	<b>1,309,292</b>
<b>Operating income (loss)</b>	<b>66,945</b>	<b>(27,123)</b>	<b>39,822</b>
<b>Non-operating revenues</b>			
Investment earnings	33,336	20,002	53,338
Gain on sale of capital assets	24,000	-	24,000
<b>Total non-operating revenues</b>	<b>57,336</b>	<b>20,002</b>	<b>77,338</b>
Income before transfers	124,281	(7,121)	117,160
Transfers in	400,000	-	400,000
<b>Change in net assets</b>	<b>524,281</b>	<b>(7,121)</b>	<b>517,160</b>
Net assets, beginning of year	1,831,124	447,883	2,279,007
<b>Net assets, end of year</b>	<b>\$ 2,355,405</b>	<b>\$ 440,762</b>	<b>\$ 2,796,167</b>

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**

**Year Ended June 30, 2007**

	<b>Vehicle and Equipment Maintenance</b>	<b>Worker's Compensation</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Cash received from interfund services	\$ 1,225,904	\$ 111,510	\$ 1,337,414
Cash payments to employees	(196,689)	-	(196,689)
Cash payments to suppliers for goods and services	(638,735)	(146,699)	(785,434)
<b>Net cash provided by (used in) operating activities</b>	<b>390,480</b>	<b>(35,189)</b>	<b>355,291</b>
<b>Cash flows from investing activities</b>			
Investment income	33,336	20,002	53,338
<b>Cash flows from capital and related financing activities</b>			
Purchase of capital assets	(337,486)	-	(337,486)
Proceeds from sale of capital assets	24,000	-	24,000
<b>Net cash used in capital and related financing activities</b>	<b>(313,486)</b>	<b>-</b>	<b>(313,486)</b>
<b>Cash flows from non-capital financing activities</b>			
Transfers	400,000	-	400,000
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>510,330</b>	<b>(15,187)</b>	<b>495,143</b>
Cash and cash equivalents, beginning of year	507,779	480,491	988,270
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,018,109</b>	<b>\$ 465,304</b>	<b>\$ 1,483,413</b>

**Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities**

<b>Cash flows from operating activities</b>			
Operating income (loss)	\$ 66,945	\$ (27,123)	\$ 39,822
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	342,461	-	342,461
Changes in assets and liabilities			
Accounts receivable	(11,700)	-	(11,700)
Inventories	(15,055)	-	(15,055)
Accounts payable	11,773	(8,066)	3,707
Accrued liabilities	(3,944)	-	(3,944)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 390,480</b>	<b>\$ (35,189)</b>	<b>\$ 355,291</b>

**CITY OF FERNDALE, MICHIGAN**  
**COMBINING STATEMENT OF NET ASSETS**  
**PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS**

**June 30, 2007**

	<b>Employees Retirement System Fund</b>	<b>Policemen and Firemen Retirement System Fund</b>	<b>Post- Retirement Healthcare Fund</b>	<b>Total</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 140,917	\$ 431,120	\$ -	\$ 572,037
Accounts receivable	-	15,189	-	15,189
Accrued interest receivable	88,357	192,548	17,004	297,909
Investments				
Mutual funds	1,000,000	-	4,581,554	5,581,554
Common stock	12,535,724	27,936,185	-	40,471,909
Commercial paper	6,904,443	14,675,161	-	21,579,604
Total investments	<u>20,440,167</u>	<u>42,611,346</u>	<u>4,581,554</u>	<u>67,633,067</u>
<b>Total assets</b>	<b><u>20,669,441</u></b>	<b><u>43,250,203</u></b>	<b><u>4,598,558</u></b>	<b><u>68,518,202</u></b>
<b>LIABILITIES</b>				
Liabilities				
Accounts payable	3,910	-	1,545	5,455
<b>NET ASSETS</b>				
<b>Held in trust for pension benefits and other purposes</b>	<b><u>\$ 20,665,531</u></b>	<b><u>\$ 43,250,203</u></b>	<b><u>\$ 4,597,013</u></b>	<b><u>\$ 68,512,747</u></b>

# CITY OF FERNDALE, MICHIGAN

## COMBINING STATEMENT OF CHANGES IN NET ASSETS PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

Year Ended June 30, 2007

	<b>Employees Retirement System Fund</b>	<b>Policemen and Firemen Retirement System Fund</b>	<b>Post- Retirement Healthcare Fund</b>	<b>Total</b>
<b>Additions</b>				
Contributions				
Employer contributions	\$ -	\$ -	\$ 569,404	\$ 569,404
Plan member contributions	-	148,286	-	148,286
<b>Total contributions</b>	<b>-</b>	<b>148,286</b>	<b>569,404</b>	<b>717,690</b>
Investment income				
Net appreciation in fair value	2,118,172	4,395,768	-	6,513,940
Interest	359,964	757,252	193,294	1,310,510
Dividends	504,072	1,023,125	-	1,527,197
<b>Total investment income</b>	<b>2,982,208</b>	<b>6,176,145</b>	<b>193,294</b>	<b>9,351,647</b>
Less investment expense	(105,112)	(164,697)	-	(269,809)
<b>Net investment income</b>	<b>2,877,096</b>	<b>6,011,448</b>	<b>193,294</b>	<b>9,081,838</b>
<b>Total additions</b>	<b>2,877,096</b>	<b>6,159,734</b>	<b>762,698</b>	<b>9,799,528</b>
<b>Deductions</b>				
Benefits	1,163,220	2,454,795	57,982	3,675,997
Administrative expenses	19,305	36,567	4,100	59,972
<b>Total deductions</b>	<b>1,182,525</b>	<b>2,491,362</b>	<b>62,082</b>	<b>3,735,969</b>
Net increase in plan net assets	1,694,571	3,668,372	700,616	6,063,559
Net assets held in trust for pension benefits - beginning of year	18,970,960	39,581,831	3,896,397	62,449,188
<b>Net assets held in trust for pension benefits - end of year</b>	<b>\$ 20,665,531</b>	<b>\$ 43,250,203</b>	<b>\$ 4,597,013</b>	<b>\$ 68,512,747</b>

**CITY OF FERNDALE, MICHIGAN**

**COMBINING BALANCE SHEET  
AGENCY FUNDS**

**June 30, 2007**

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	<b>43rd District Court</b>	<b>Other</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 196,518	\$ -	\$ 196,518
Accounts receivable	-	966	966
<b>Total assets</b>	<b>\$ 196,518</b>	<b>\$ 966</b>	<b>\$ 197,484</b>
<b>LIABILITIES</b>			
Other liabilities	<b>\$ 196,518</b>	<b>\$ 966</b>	<b>\$ 197,484</b>

**CITY OF FERNDALE, MICHIGAN**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUND BALANCE SHEET**

June 30, 2007

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Taxes receivable	\$ 56,777	\$ -	\$ 56,777
Less allowance for uncollectibles	(47,575)	-	(47,575)
Due from primary government	15,518	5,218	20,736
Capital assets			
Equipment	-	68,015	68,015
Vehicles	-	37,103	37,103
Infrastructure	-	1,397,059	1,397,059
Less: accumulated depreciation	-	(845,255)	(845,255)
<b>Total assets</b>	<b>24,720</b>	<b>662,140</b>	<b>686,860</b>
<b>Liabilities</b>			
Accounts payable	23,615	-	23,615
Accrued liabilities	3,109	-	3,109
Deferred revenue	9,201	(9,201)	-
Noncurrent liabilities			
Due within one year	-	303	303
<b>Total liabilities</b>	<b>35,925</b>	<b>(8,898)</b>	<b>27,027</b>
<b>Fund balance/net assets</b>			
Undesignated (deficit)	(11,205)	11,205	-
<b>Total liabilities and fund balance</b>	<b>\$ 24,720</b>		
<b>Net assets</b>			
Invested in capital assets, net of related debt		\$ 656,619	\$ 656,619
Unrestricted		3,214	3,214
<b>Total net assets</b>		<b>\$ 659,833</b>	<b>\$ 659,833</b>

**CITY OF FERNDALE, MICHIGAN**

**DOWNTOWN DEVELOPMENT AUTHORITY  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET  
TO STATEMENT OF NET ASSETS**

**June 30, 2007**

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Fund balance - Downtown Development Authority \$ (11,205)

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

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

Add capital assets:

Infrastructure	1,397,059
Equipment	68,015
Vehicles	37,103
Deduct: accumulated depreciation	(845,255)

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

Add: deferred revenues	9,201
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Certain liabilities, such as obligations under capital leases, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: obligations under capital leases	(303)
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included under governmental activities in the primary governments statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	<u>5,218</u>
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**Net assets of component unit** \$ 659,833

**CITY OF FERNDALE, MICHIGAN**  
**DOWNTOWN DEVELOPMENT AUTHORITY**  
**STATEMENT OF ACTIVITIES AND**  
**GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE**

**Year Ended June 30, 2007**

	<b>Governmental</b>		<b>Statement</b>
	<b>Fund</b>	<b>Adjustments</b>	<b>of</b>
			<b>Activities</b>
<b>Revenues</b>			
Property taxes	\$ 405,487	\$ (3,385)	\$ 402,102
Intergovernmental:			
State grants	44,493	-	44,493
Contributions	66,331	-	66,331
<b>Total revenues</b>	<b>516,311</b>	<b>(3,385)</b>	<b>512,926</b>
<b>Expenditures/expenses</b>			
Personal services	131,998	-	131,998
Operating services	368,453	(540)	367,913
Capital outlay	6,270	(6,270)	-
Depreciation expense	-	105,347	105,347
Debt service			
Principal	-	(3,394)	(3,394)
Interest expense	-	(280)	(280)
<b>Total expenditures/expenses</b>	<b>506,721</b>	<b>94,863</b>	<b>601,584</b>
Excess (deficiency) of revenues over (under) expenditures/change in net assets	9,590	(98,248)	(88,658)
Beginning fund balance/net assets	(20,795)	769,286	748,491
<b>Ending fund balance/net assets (deficit)</b>	<b>\$ (11,205)</b>	<b>\$ 671,038</b>	<b>\$ 659,833</b>

**CITY OF FERNDALE, MICHIGAN**

**DOWNTOWN DEVELOPMENT AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2007**

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Net change in fund balances - component unit	\$ 9,590
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Amounts reported for *governmental activities* in the statement of activities are different because:

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

Add: purchases of capital assets	6,270
Deduct: depreciation expense	(105,347)

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

Add: principal payments on long-term liabilities and on refunding bonds	3,394
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest	280
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Adjustment to reflect consolidation of the internal service fund activities related to the downtown development authority.	540
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenues	<u>(3,385)</u>
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<b>Change in net assets of governmental activities</b>	<b><u><u>\$ (88,658)</u></u></b>
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**CITY OF FERNDALE, MICHIGAN**  
**BROWNFIELD REDEVELOPMENT AUTHORITY**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUND BALANCE SHEET**

June 30, 2007

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash	\$ 35,145	\$ -	\$ 35,145
<b>Liabilities</b>			
Accounts payable	14,642	-	14,642
<b>Fund balance/net assets</b>			
Undesignated	20,503	(20,503)	-
<b>Total liabilities and fund balance</b>	<u>\$ 35,145</u>		
<b>Net assets</b>			
Unrestricted		<u>\$ 20,503</u>	<u>\$ 20,503</u>

**CITY OF FERNDALE, MICHIGAN**  
**BROWNFIELD REDEVELOPMENT AUTHORITY**  
**STATEMENT OF ACTIVITIES AND**  
**GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE**

**Year Ended June 30, 2007**

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Property taxes	\$ 151,043	\$ -	\$ 151,043
Charges for services	2,000	-	2,000
Investment earnings	5,381	-	5,381
<b>Total revenues</b>	<b>158,424</b>	<b>-</b>	<b>158,424</b>
<b>Expenditures/expenses</b>			
Operating expenditures/expenses	156,106	-	156,106
<b>Net change in fund balances</b>	<b>2,318</b>	<b>-</b>	<b>2,318</b>
Beginning fund balance/net assets	18,185	-	18,185
<b>Ending fund balance/net assets</b>	<b>\$ 20,503</b>	<b>\$ -</b>	<b>\$ 20,503</b>

***SINGLE AUDIT***



**INDEPENDENT AUDITORS' 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**

November 26, 2007

To the Honorable Mayor and Council  
City of New 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* as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Ferndale, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in cursive script that reads "Lehmann Johnson".



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

November 26, 2007

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

**Compliance**

We have audited the compliance of the *City of Ferndale* with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Ferndale's management. Our responsibility is to express an opinion on the City of Ferndale's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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. Our audit does not provide a legal determination on the City of Ferndale's compliance with those requirements.

In our opinion, the City of Ferndale complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

## **Internal Control Over Compliance**

The management of the City of Ferndale is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ferndale's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

**City of Ferndale, Michigan**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Justice:</b>		
Bureau of Justice Assistance		
<i>Edward Byrne Memorial Formula Grant, Sobriety Court 72026-4-06-B</i>	16.579	\$ 5,697
<b>U.S. Drug Enforcement Administration:</b>		
<i>Organized Crime Drug Enforcement Task Forces (OCDETF)</i>	16.xxx	15,392
<i>Asset Forfeiture and Money Laundering Section</i>	16.580	48,119
<b>Public Safety Partnership and Community Policing Grants</b>		
<i>COPS in Schools Grant, CIS # SHWX0346</i>	16.710	31,250
Total U.S. Department of Justice		<u>100,458</u>
<b>U.S. Department of Homeland Security:</b>		
<i>FEMA Collapse Rescue Specialist Training</i>	97.004	8,304
<i>Homeland Security Conference</i>	97.067	1,046
<i>Search Specialist Course</i>	97.067	4,085
Total U.S. Department of Homeland Security		<u>13,435</u>
<b>U.S. Department of Transportation:</b>		
Pass through Michigan State Department of Transportation		
<i>Transportation and Community and System Preservation Pilot Program (TCSP)</i>	20.205	130,196
<b>U.S. Department of Housing and Urban Development:</b>		
Pass through Oakland County, Michigan		
<i>Community Development Block Grants / Entitlement Grants</i>	14.218	141,767
<b>Environmental Protection Agency, Ofc. of Ground &amp; Drinking Water</b>		
<i>Safe Drinking Water State Revolving Fund</i>	66.468	150,893
<i>Safe Drinking Water State Revolving Fund</i>		218,648
<i>Safe Drinking Water State Revolving Fund</i>		39,721
<i>Safe Drinking Water State Revolving Fund</i>		56,400
<i>Safe Drinking Water State Revolving Fund</i>		78,592
<i>Safe Drinking Water State Revolving Fund</i>		303,326
<i>Safe Drinking Water State Revolving Fund</i>		371,756
Total Environmental Protection Agency, Ofc. Of Ground & Drinking Water		<u>1,219,336</u>
<b>Total Expenditures of Federal Awards</b>		<b><u>\$ 1,605,192</u></b>

# THE CITY OF FERNDALE

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

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### 1. BASIS OF PRESENTATION

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

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

\* \* \* \* \*

**THE CITY OF FERNDALE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiency (ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes   X   no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiency (ies) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

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

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

**THE CITY OF FERNDALE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Save Drinking Water State Revolving Funds

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

Auditee qualified as low-risk auditee?      \_\_\_\_\_ yes      X   no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**SECTION IV - PRIOR YEAR FINDINGS**

No matters were reported

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