



Washington State Auditor's Office

Government that works for citizens

Financial Statements Audit Report

City of Ferndale

Whatcom County

For the period January 1, 2015 through December 31, 2015

Published May 2, 2016

Report No. 1016577





Washington State Auditor's Office

May 2, 2016

Mayor and City Council
City of Ferndale
Ferndale, Washington

Report on Financial Statements

Please find attached our report on the City of Ferndale's financial statements.

We are issuing this report in order to provide information on the City's financial condition.

Sincerely,

JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

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

**City of Ferndale
Whatcom County
January 1, 2015 through December 31, 2015**

Mayor and City Council
City of Ferndale
Ferndale, Washington

We have audited, 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, the financial statements of the City of Ferndale, Whatcom County, Washington, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated April 26, 2016.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's 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*.

PURPOSE OF THIS REPORT

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

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in blue ink that reads "Jan M. Jutte". The signature is written in a cursive style with a large initial "J" and "M".

JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

April 26, 2016

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Ferndale Whatcom County January 1, 2015 through December 31, 2015

Mayor and City Council
City of Ferndale
Ferndale, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Ferndale, Whatcom County, Washington, for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City of Ferndale has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Ferndale, for the year ended December 31, 2015, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Ferndale, as of December 31, 2015, or the

changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2016 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



JAN M. JUTTE, CPA, CGFM
DEPUTY STATE AUDITOR
OLYMPIA, WA

April 26, 2016

FINANCIAL SECTION

**City of Ferndale
Whatcom County
January 1, 2015 through December 31, 2015**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2015
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015
Notes to Financial Statements – 2015

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2015

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

		Total for All Funds (Memo Only)	001 General	101 Street
Beginning Cash and Investments				
30810	Reserved	9,701,891	-	-
30880	Unreserved	4,862,761	2,349,213	36,760
388 & 588	Prior Period Adjustments, Net	-	-	-
Operating Revenues				
310	Taxes	8,488,716	7,623,774	-
320	Licenses and Permits	603,554	603,554	-
330	Intergovernmental Revenues	1,918,363	327,668	273,171
340	Charges for Goods and Services	9,749,693	920,753	440,397
350	Fines and Penalties	155,802	155,802	-
360	Miscellaneous Revenues	387,444	208,664	20,218
Total Operating Revenues:		<u>21,303,571</u>	<u>9,840,215</u>	<u>733,786</u>
Operating Expenditures				
510	General Government	1,822,234	1,631,625	-
520	Public Safety	5,516,032	5,516,032	-
530	Utilities	3,435,337	-	-
540	Transportation	1,663,438	354,415	964,146
550	Natural and Economic Environment	605,507	567,027	-
560	Social Services	70,073	70,073	-
570	Culture and Recreation	426,655	426,655	-
598	Miscellaneous Expenses	-	-	-
Total Operating Expenditures:		<u>13,539,277</u>	<u>8,565,828</u>	<u>964,146</u>
Net Operating Increase (Decrease):		<u>7,764,295</u>	<u>1,274,388</u>	<u>(230,360)</u>
Nonoperating Revenues				
370-380, 395 & 398	Other Financing Sources	500,604	304,742	-
391-393	Debt Proceeds	-	-	-
397	Transfers-In	2,334,447	260,700	675,328
Total Nonoperating Revenues:		<u>2,835,051</u>	<u>565,442</u>	<u>675,328</u>
Nonoperating Expenditures				
580, 596 & 599	Other Financing Uses	472,051	175,892	-
591-593	Debt Service	3,990,774	-	-
594-595	Capital Expenditures	4,625,185	5,303	441,546
597	Transfers-Out	2,334,448	1,265,829	-
Total Nonoperating Expenditures:		<u>11,422,458</u>	<u>1,447,023</u>	<u>441,546</u>
Net Increase (Decrease) in Cash and Investments:		<u>(823,112)</u>	<u>392,806</u>	<u>3,422</u>
Ending Cash and Investments				
5081000	Reserved	7,636,186	-	-
5088000	Unreserved	6,105,353	2,742,019	40,182
Total Ending Cash and Investments		<u>13,741,539</u>	<u>2,742,019</u>	<u>40,182</u>

The accompanying notes are an integral part of this statement.

102 Park Mitigation	104 Traffic Mitigation	106 Criminal Justice	107 Local Criminal Justice	Transportation Benefit District .2% Sale	198 Hotel Motel
58,089	296,390	196	959	-	5,924
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	211,114	-	60,528
-	-	-	-	-	-
-	-	15,840	-	-	-
107,682	195,386	-	-	121,863	-
-	-	-	-	-	-
73	441	-	-	-	-
107,755	195,827	15,840	211,114	121,863	60,528
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	38,480
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	38,480
107,755	195,827	15,840	211,114	121,863	22,048
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
97,162	296,710	14,000	200,000	-	9,200
97,162	296,710	14,000	200,000	-	9,200
10,593	(100,883)	1,840	11,114	121,863	12,848
68,682	195,507	2,036	12,073	-	18,772
-	-	-	-	121,863	-
68,682	195,507	2,036	12,073	121,863	18,772

The accompanying notes are an integral part of this statement.

214 Street/Parks/Land Debt Service	215 Labounty LID 2006-1 Bond Redemption	216 LaBounty LID 2006-1 Bond Guarantee	217 LaBounty GO Bond Debt Service	218 2010 Limited Tax General Obligation Bond	219 2011 Limited Tax General Oblg Bond Rede
2,056	8,353	30,467	91	90	1,930
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	74,474	-
-	-	-	-	-	-
-	-	-	-	-	-
52	49,663	45	2	286	98
52	49,663	45	2	74,760	98
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
52	49,663	45	2	74,760	98
-	-	-	-	-	-
-	-	-	-	-	-
149,098	2,500	-	26,720	358,577	159,738
149,098	2,500	-	26,720	358,577	159,738
-	-	-	-	-	-
148,232	56,441	-	26,720	433,322	159,616
-	-	-	-	-	-
-	2,500	2,500	-	-	-
148,232	58,941	2,500	26,720	433,322	159,616
918	(6,778)	(2,455)	2	15	220
2,974	1,575	28,012	93	105	2,150
-	-	-	-	-	-
2,974	1,575	28,012	93	105	2,150

The accompanying notes are an integral part of this statement.

220 2013 Library LTGO Bond Redemption	301 Real Estate Excise Tax - First 1/4 Perce	302 Real Estate Excise Tax - Second 1/4 Perc	305 Pioneer Park Pavilion Constr	307 New Library Construction	308 Main St-3rd TO Church Constr
2,292	119,677	53,156	33,814	8,988	539
-	-	-	-	-	-
-	-	-	-	-	-
63,421	265,463	264,415	-	-	-
-	-	-	-	-	-
-	-	-	-	46,160	-
-	-	-	-	-	-
-	-	-	-	-	-
27	71	219	-	4,557	-
<u>63,449</u>	<u>265,534</u>	<u>264,635</u>	<u>-</u>	<u>50,716</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>63,449</u>	<u>265,534</u>	<u>264,635</u>	<u>-</u>	<u>50,716</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
122,162	-	50,000	185,166	2,748	1,710
<u>122,162</u>	<u>-</u>	<u>50,000</u>	<u>185,166</u>	<u>2,748</u>	<u>1,710</u>
-	-	-	-	46,160	-
186,073	-	-	-	9	-
-	-	-	218,980	16,284	2,250
-	305,247	91,300	-	-	-
<u>186,073</u>	<u>305,247</u>	<u>91,300</u>	<u>218,980</u>	<u>62,453</u>	<u>2,250</u>
(462)	(39,713)	223,335	(33,814)	(8,989)	(540)
1,830	79,964	276,491	(0)	(0)	(0)
-	-	-	-	-	-
<u>1,830</u>	<u>79,964</u>	<u>276,491</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>

The accompanying notes are an integral part of this statement.

309 Star Park Design and Construction	346 Church Road Construction	LaBounty and Walgreens Roundabout	370 Thornton Road Construction	401 Water	402 Sewer
23,037	13,598	50,010	211,250	135,269	8,608,160
-	-	-	-	302,578	1,712,055
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	745,379	-	25,329	34,805	34,805
-	-	-	-	2,845,515	3,376,212
-	-	-	-	-	-
14,355	-	238	287	2,484	84,506
14,355	745,379	238	25,617	2,882,805	3,495,523
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,456,807	1,421,668
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	1,456,807	1,421,668
14,355	745,379	238	25,617	1,425,998	2,073,855
-	175,000	-	-	-	20,000
-	-	-	-	-	-
50,000	-	290,000	-	-	-
50,000	175,000	290,000	-	-	20,000
-	250,000	-	-	-	-
-	127	-	-	505,128	2,372,289
950	620,745	111,984	89,900	241,725	2,106,925
-	50,000	-	-	-	-
950	920,872	111,984	89,900	746,853	4,479,215
63,405	(493)	178,254	(64,283)	679,145	(2,385,359)
86,442	13,105	228,263	146,966	135,269	6,298,322
-	-	-	-	981,723	1,636,533
86,442	13,105	228,263	146,966	1,116,992	7,934,855

The accompanying notes are an integral part of this statement.

407 Storm & Flood Control	510 Computer Repair & Replacement	550 Equip. Maint. & Replacement
37,556	-	-
400,770	15,139	46,246
-	-	-
-	-	-
-	-	-
340,731	-	-
977,890	138,425	625,569
-	-	-
1,051	-	106
<u>1,319,672</u>	<u>138,425</u>	<u>625,675</u>
-	130,609	60,000
-	-	-
556,861	-	-
-	-	344,877
-	-	-
-	-	-
-	-	-
<u>556,861</u>	<u>130,609</u>	<u>404,877</u>
<u>762,811</u>	<u>7,816</u>	<u>220,798</u>
-	-	862
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>862</u>
-	-	-
102,817	-	-
537,737	7,107	223,747
-	-	-
<u>640,554</u>	<u>7,107</u>	<u>223,747</u>
<u>122,257</u>	<u>709</u>	<u>(2,087)</u>
37,556	-	-
523,027	15,848	44,158
<u>560,583</u>	<u>15,848</u>	<u>44,158</u>

The accompanying notes are an integral part of this statement.

City of Ferndale
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2015

	Total for All Funds (Memo Only)	613 Transportation Benefit District	650 Court Agency	651 Energy Grant Loan Loss Reserve
308 Beginning Cash and Investments	175,145	139,290	27,210	8,645
388 & 588 Prior Period Adjustments, Net	-	-	-	-
310-360 Revenues	410,223	410,223	-	-
380-390 Other Increases and Financing Sources	164,239	-	164,239	-
510-570 Expenditures	549,513	549,513	-	-
580-590 Other Decreases and Financing Uses	164,213	-	164,213	-
Net Increase (Decrease) in Cash and Investments:	(139,264)	(139,290)	26	-
508 Ending Cash and Investments	35,881	-	27,236	8,645

The accompanying notes are an integral part of this statement.

City of Ferndale, WA
Notes to the Financial Statements
For the Twelve Months Ended December 31, 2015

Note 1 - Summary of Significant Accounting Policies

The City of Ferndale was incorporated on March 19, 1907 and operates under the laws of the state of Washington applicable to a Category 2 City. The City of Ferndale is a general purpose government and provides public safety, street maintenance and street improvements, parks, water/sewer/storm utilities, and general administrative services.

The City of Ferndale reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on a cash basis of accounting as described below.
- Component units are required to be disclosed, but are not included in the financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

This fund is the primary operating fund of the government. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the government.

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

These funds account for financial resources which are restricted, committed, or assigned for the acquisition or construction of capital facilities or other capital assets.

Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

PROPRIETARY FUND TYPES:

Enterprise Funds

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others.

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the City of Ferndale also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The City of Ferndale adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for all funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

Budgeted amounts are authorized to be transferred between departments within any fund and object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the Ferndale City Council.

D. Cash and Investments

See Note 2, Deposits and Investments.

E. Capital Assets

Capital assets are assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. The capital assets and inventory are recorded as capital expenditures when purchased.

F. Compensated Absences

Vacation leave may be accumulated up to several different days depending on the applicable labor contract and is payable upon separation or retirement.

Sick leave may be accumulated up to several different days depending on the applicable labor contract. Upon retirement employees do receive partial payment (typically 25%) for unused sick leave. Payments are recognized as expenditures when paid.

G. Long-Term Debt See Note 5, Debt Service Requirements.

H. Other Financing Sources or Uses

The City of Ferndale's Other Financing Sources or Uses consist of Bond and Loan Proceeds, and Interfund Loan Proceeds and Repayments.

I. Risk Management

The city of Ferndale is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 175 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

- J. Reserved Portion of Ending Cash and Investments – Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Ferndale City Council. When expenditures that meet restrictions are incurred, the City of Ferndale intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

102 Park Mitigation	\$68,682
104 Traffic Mitigation	195,507
106 Criminal Justice Fund	2,035
107 Local Criminal Justice	12,073
198 Hotel/Motel	18,772
214 Streets/Parks Debt Service	2,974
215 LaBounty LID 2006-1 Bond Redemption	1,575
216 LaBounty LID 2006-1 Bond Guarantee	28,012
217 LaBounty GO Bond Redemption	93
218 2010 GO Bond Redemption	105
219 2011 GO Bond Redemption	2,150
220 2014 GO Library Bond Redemption	1,830
301 Real Estate Excise Tax First 1/4% REET 1	79,964
302 Real Estate Excise Tax Second 1/4% REET 2	276,491
309 Star Park Construction	86,442
346 Church Road Construction	13,105
347 Main & LaBounty and Walgreens Roundabouts Construction	228,263
370 Thornton Road Construction	146,966
401 Water	135,269
402 Sewer	6,298,322
407 Storm	37,556
TOTAL	\$7,636,186

The largest fund containing reserved cash balances is the 402 Sewer Proprietary fund (unspent 2014 revenue bond proceeds and the required Parity Bond Reserve amounts). All of the other funds listed above are restricted by the very nature of the title of the fund.

Note 2 – Deposits and Investments

It is the city’s policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the city or its agent in the government’s name. Investments are reported at original cost.

Investments by type at December 31, 2015 are as follows:

<u>Type of Investment</u>	<u>City of Ferndale's Own Investments</u>
L.G.I.P.	\$2,986,491
FFCB Bonds	500,898
FHLB Bonds	500,652
FANNIE MAE Bonds	<u>7,627,016</u>
TOTAL	\$11,615,057

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property tax revenues are recognized when cash is received by City of Ferndale. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Ferndale’s regular levy for the year 2015 was \$2.10530 per \$1,000 on an assessed valuation of \$1,162,486,960 for a total regular levy of \$2,447,382.

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2015:

<u>Borrowing Fund</u>	<u>Lending Fund</u>	<u>Balance 1/1/2015</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance 12/31/2015</u>
Library Construction 307	LEOFF1 Police Retiree 004	\$46,160	\$0	\$46,160	\$0
Church Road Construction 346	Cur. Exp. 001	\$75,000	\$175,000	\$250,000	\$0
TOTALS		\$121,160	\$175,000	\$296,160	\$0

Note 5 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Ferndale and summarizes the City’s debt transactions for year ended December 31, 2015.

The debt service requirements for general obligation bonds, revenue bonds and other debt are as follows:

Year(s)	General Obligation	General Obligation	General Obligation
	Bonds	Bonds	Bonds
	Principal	Interest	Total D/S
2016	\$590,097	\$355,310	\$945,407
2017	585,730	356,220	941,950
2018	611,559	334,317	945,876
2019	626,212	312,758	938,970
2020	629,505	301,008	930,513
2021-2025	3,151,489	1,027,792	4,179,281
2026-2030	1,970,000	338,224	2,308,224
2031-2035	0	0	0
TOTALS	\$8,164,592	\$3,025,629	\$11,190,221

Year(s)	Revenue	Revenue	Revenue
	Debt	Debt	Debt
	Principal	Interest	Total D/S
2016	\$1,605,305	\$554,591	\$2,159,896
2017	795,305	505,237	1,300,542
2018	815,310	488,434	1,303,744
2019	670,000	470,468	1,140,468
2020	685,000	451,569	1,136,569
2021-2025	3,800,000	1,882,912	5,682,912
2026-2030	4,615,000	1,060,987	5,675,987
2031-2035	2,300,000	162,738	2,462,738
TOTALS	\$15,285,920	\$5,576,936	\$20,862,856

Year(s)	Other	Other	Other
	Debt	Debt	Debt
	Principal	Interest	Total D/S
2016	\$125,394	\$30,848	\$156,242
2017	126,276	27,974	154,250
2018	127,169	25,089	152,258
2019	128,079	22,189	150,268
2020	129,001	19,276	148,277
2021-2025	635,316	51,374	686,690
2026-2030	291,041	5,019	296,060
2031-2035	61,448	231	61,679
TOTALS	\$1,623,724	\$182,000	\$1,805,724

Year(s)	All Debt Principal	All Debt Interest	All Debt Total D/S
2016	\$2,320,796	\$940,749	\$3,261,545
2017	\$1,507,311	889,431	\$2,396,742
2018	\$1,554,038	847,840	\$2,401,878
2019	\$1,424,291	805,415	\$2,229,706
2020	\$1,443,506	771,853	\$2,215,359
2021-2025	\$7,586,805	2,962,078	\$10,548,883
2026-2030	\$6,876,041	1,404,230	\$8,280,271
2031-2035	\$2,361,448	162,969	\$2,524,417
TOTALS	\$25,074,236	\$8,784,565	\$33,858,801

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all City of Ferndale’s full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans including Public Employees’ Retirement System (PERS 1 and PERS 2/3), Public Safety Employees’ Retirement System (PSERS), and Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF).

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

Department of Retirement Systems
Communications Unit
P.O. Box 48380
Olympia, WA 98540-8380

Also, the DRS CAFR may be downloaded from the DRS website at www.drs.wa.gov.

At June 30, 2015 (the measurement date of the plans), the City of Ferndale’s proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability
PERS 2/3	.029299%	\$1,046,870
PSERS 2	.021981%	\$4,012
Total Pension Liabilities		\$1,050,882

LEOFF Plan 1

The City of Ferndale has in the past participated in the LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent. There were no active LEOFF Plan 1 City of Ferndale employees in 2015.

LEOFF Plan 2

The City of Ferndale also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

	Allocation %	(Asset)
LEOFF 2	.057117%	(\$587,049)

Note 7 – OPEB – LEOFF Plan 1 Retiree Other-Than-Pension Post-Employment Benefits

The City of Ferndale has a commitment to pay for post-employment benefits for employees that belong to the LEOFF Plan 1 Washington State Department of Retirement Systems retirement plan. These benefits include unlimited medical, limited dental, unlimited vision, and unlimited nursing care. **Three** Police Officer retirees received benefits during the year and \$57,085 was paid out for those benefits in 2015. The LEOFF Plan 1 Police Retiree Fund No. 004 had a cash balance at 12/31/15 of \$378,773.

Note 8 – Other Disclosures – Component Unit – Ferndale Transportation Benefit District

The Ferndale Transportation Benefit District (TBD) was formed in 2012 following a successful vote of the people. A .2% sales tax was added to the existing 8.5% sales tax – so the total Ferndale sales tax rate is 8.7%. Funds started being received monthly from the Department of Revenue in September, 2012. Annual revenues for 2016 are budgeted at \$386,250. The City Council serves as the TBD board. Road projects are listed in priority order, and approved annually by the TBD board. The TBD is a separate legal entity, with its own separate EIN, UBI, P.O. mailbox, checking account, accounting software and checks, and tri-annual audit. See Schedule C-5 for the TBD Financial Statements.

Beginning in 2016, the TBD is folded into the City of Ferndale accounts as Fund Number 113.

Note 9 – Other Disclosures – Construction Commitment

The City of Ferndale has no significant dollar value active road or general facilities construction projects as of December 31, 2015. Several Water, Sewer, and Storm Proprietary funds projects are ongoing.

**City of Ferndale
Schedule of Liabilities
For the Year Ended December 31, 2015**

<u>ID. No.</u>	<u>Description</u>	<u>Due Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
General Obligations						
263.81	PWTF Loan-Storm	9/1/2024	71,051	-	7,895	63,156
263.91	KeyBank LTGO Bond Street Lights	7/29/2015	21,030	-	21,030	-
263.91	Whatcom Co. Public Util Impr Fund Parks Loan	8/30/2027	824,380	-	57,906	766,474
263.96	Water Booster Pump Station	6/1/2028	895,000	-	50,000	845,000
263.96	Land Purchase	12/1/2028	555,000	-	30,000	525,000
251.11	LaBounty Road Bond	6/1/2023	208,614	-	23,172	185,442
251.11	Facilities BAB Bonds 2010	12/1/1930	4,210,000	-	205,000	4,005,000
251.11	Vactor Truck BAB Bonds 2010	12/1/2015	65,000	-	65,000	-
251.11	Facilities LTGO BQ Bonds 2011	12/1/2025	1,430,000	-	110,000	1,320,000
263.81	PWTF Loan - Storm	6/1/1932	553,035	-	30,724	522,311
251.11	Library Facilities LTGO BQ Bonds 2013A	9/24/2023	496,721	-	55,215	441,506
251.11	Library Facilities LTGO BQ Bonds 2013B	9/24/2023	948,286	-	105,567	842,719
Total General Obligations:			10,278,117	-	761,509	9,516,608
Revenue Obligations						
259.12	Compensated Absences	12/31/2015	328,947	336,339	306,176	359,110
263.82	PWTF Loan - Sewer	7/1/2018	661,225	-	165,305	495,920
263.82	SRF Loan - Sewer	8/1/2019	623,929	-	623,929	-
252.11	Sewer Bonds 2005 Refunded	11/1/2016	1,585,000	-	765,000	820,000
252.11	Water & Sewer Bonds 2011	11/1/1931	5,610,000	-	245,000	5,365,000
252.11	Sewer & Storm Bonds 2014	11/1/1933	8,965,000	-	360,000	8,605,000
264.30	Pension Liabilities	12/31/2015	-	1,050,882	-	1,050,882
Total Revenue Obligations:			17,774,101	1,387,221	2,465,410	16,695,912
Assessment Obligations						
253.11	LaBounty Road LID Bonds	12/1/2025	302,200	-	39,185	263,015
Total Assessment Obligations:			302,200	-	39,185	263,015
Total Liabilities:			28,354,418	1,387,221	3,266,104	26,475,535

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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