



**Office of the Washington State Auditor**  
**Pat McCarthy**

# **Financial Statements Audit Report**

## **City of Ferndale**

**For the period January 1, 2018 through December 31, 2018**

**Published November 25, 2019**

**Report No. 1025093**





**Office of the Washington State Auditor  
Pat McCarthy**

November 25, 2019

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,

A handwritten signature in black ink that reads "Pat McCarthy".

Pat McCarthy  
State Auditor  
Olympia, WA

## TABLE OF CONTENTS

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.....	4
Independent Auditor's Report on Financial Statements.....	7
Financial Section.....	10
About the State Auditor's Office.....	33

**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  
January 1, 2018 through December 31, 2018**

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, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City’s financial statements, and have issued our report thereon dated November 18, 2019.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s

internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

November 18, 2019

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Ferndale January 1, 2018 through December 31, 2018

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, for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 10.

#### 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 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 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 cash and investments of the City of Ferndale, and its changes in cash and investments, for the year ended December 31, 2018, 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, 2018, 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 conducted for the purpose of forming opinions on the financial statements taken as a whole. The 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 November 18, 2019 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.



Pat McCarthy

State Auditor

Olympia, WA

November 18, 2019

## **FINANCIAL SECTION**

### **City of Ferndale January 1, 2018 through December 31, 2018**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2018  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018  
Notes to Financial Statements – 2018

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2018

**City of Ferndale**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>Total for All Funds (Memo Only)</b>	<b>001 Current Expense Fund</b>	<b>101 Street</b>	<b>102 Park Mitigation</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	3,681,182	-	-	267,449
30880	Unreserved	9,871,746	3,705,410	347,389	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	9,459,709	7,809,933	-	-
320	Licenses and Permits	765,814	758,614	-	-
330	Intergovernmental Revenues	2,097,450	450,824	1,018,868	-
340	Charges for Goods and Services	10,964,900	953,153	17,800	141,214
350	Fines and Penalties	237,383	172,520	-	-
360	Miscellaneous Revenues	400,515	200,239	1,612	3,569
Total Revenues:		23,925,772	10,345,283	1,038,280	144,784
<b>Expenditures</b>					
510	General Government	2,154,680	1,919,561	-	-
520	Public Safety	4,608,052	4,608,052	-	-
530	Utilities	4,895,845	-	-	-
540	Transportation	1,971,852	479,416	1,088,847	-
550	Natural and Economic Environment	714,618	671,400	-	-
560	Social Services	83,674	83,674	-	-
570	Culture and Recreation	556,726	550,096	-	-
Total Expenditures:		14,985,448	8,312,199	1,088,847	-
Excess (Deficiency) Revenues over Expenditures:		8,940,324	2,033,084	(50,567)	144,783
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	4,239,396	392,646	2,134,717	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	119,883	80,631	-	-
381, 395, 398	Other Resources	55,000	-	-	-
Total Other Increases in Fund Resources:		4,414,278	473,277	2,134,717	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	6,523,975	316,245	2,396,858	-
591-593, 599	Debt Service	2,485,967	-	-	-
597	Transfers-Out	4,239,396	1,375,452	34,675	110,216
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	57,878	19,251	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		13,307,216	1,710,949	2,431,533	110,216
<b>Increase (Decrease) in Cash and Investments:</b>		<b>47,387</b>	<b>795,412</b>	<b>(347,383)</b>	<b>34,567</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	3,563,787	-	-	302,016
5088000	Unreserved	10,036,526	4,500,822	6	-
<b>Total Ending Cash and Investments</b>		<b>13,600,313</b>	<b>4,500,822</b>	<b>6</b>	<b>302,016</b>

The accompanying notes are an integral part of this statement.

**City of Ferndale**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>104 Traffic Mitigation</b>	<b>106 Criminal Justice</b>	<b>107 Local Criminal Justice</b>	<b>113 Transportation Benefit</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	780,540	7,912	77,456	230,053
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	263,723	520,886
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	18,023	-	-
340	Charges for Goods and Services	350,208	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	4,321	-	-	-
Total Revenues:		354,529	18,023	263,723	520,886
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	3,340	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		3,340	-	-	-
Excess (Deficiency) Revenues over Expenditures:		351,189	18,023	263,723	520,886
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	899,316	25,000	268,000	461,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		899,316	25,000	268,000	461,000
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(548,127)</b>	<b>(6,977)</b>	<b>(4,277)</b>	<b>59,886</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	232,413	935	73,180	289,938
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>232,413</b>	<b>935</b>	<b>73,180</b>	<b>289,938</b>

**City of Ferndale**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>198 Hotel Motel</b>	<b>214 Street/Parks/La nd Debt Service</b>	<b>215 Labounty LID 2006-1 Bond</b>	<b>216 LaBounty LID 2006-1 Bond Guarantee</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	50,557	11,027	135,901	28,403
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	78,172	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	7	23,428	532
Total Revenues:		78,172	7	23,428	532
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	43,218	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	6,630	-	-	-
Total Expenditures:		49,848	-	-	-
Excess (Deficiency) Revenues over Expenditures:		28,324	7	23,428	532
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	124,897	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	124,897	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	124,897	39,718	-
597	Transfers-Out	11,500	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		11,500	124,897	39,718	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>16,824</b>	<b>7</b>	<b>(16,290)</b>	<b>532</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	67,381	11,034	119,611	28,935
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>67,381</b>	<b>11,034</b>	<b>119,611</b>	<b>28,935</b>

**City of Ferndale**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>217 LaBounty GO Bond Debt Service</b>	<b>218 2010 Limited Tax General</b>	<b>219 2011 Limited Tax General Oblig</b>	<b>220 2013 Library LTGO Bond</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	149	3,187	2,760	1,680
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	63,387
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	66,168	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2	14	42	2
Total Revenues:		2	66,182	42	63,389
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		2	66,182	42	63,389
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	26,720	363,631	161,204	122,162
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		26,720	363,631	161,204	122,162
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	26,720	427,628	161,775	186,072
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		26,720	427,628	161,775	186,072
<b>Increase (Decrease) in Cash and Investments:</b>		<b>2</b>	<b>2,185</b>	<b>(529)</b>	<b>(521)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	150	5,373	2,230	1,159
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>150</b>	<b>5,373</b>	<b>2,230</b>	<b>1,159</b>

**City of Ferndale**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>301 Real Estate Excise Tax - First 1/4 Perce</b>	<b>302 Real Estate Excise Tax - Second 1/4 Perc</b>	<b>309 Star Park Design and Construction</b>	<b>347 Main &amp; LaBounty and Walgreens</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	198,350	666,689	43,424	905
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	361,804	361,804	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2,614	7,070	-	3
Total Revenues:		364,418	368,875	-	3
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		364,418	368,874	-	3
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	227,685	343,146	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		227,685	343,146	-	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>136,733</b>	<b>25,728</b>	<b>-</b>	<b>3</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	335,083	692,418	43,424	908
5088000	Unreserved	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>335,083</b>	<b>692,418</b>	<b>43,424</b>	<b>908</b>

**City of Ferndale**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>370 Thornton Road Construction</b>	<b>401 Water</b>	<b>402 Sewer</b>	<b>407 Storm &amp; Flood Control</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	32,461	398,206	703,663	40,412
30880	Unreserved	-	1,914,781	3,012,885	667,921
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	7,200	-	-
330	Intergovernmental Revenues	462,235	-	-	81,332
340	Charges for Goods and Services	-	3,103,625	4,398,200	1,298,808
350	Fines and Penalties	-	64,612	251	-
360	Miscellaneous Revenues	-	99,869	50,025	6,500
Total Revenues:		462,235	3,275,307	4,448,476	1,386,640
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	2,122,662	2,130,844	642,339
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	2,122,662	2,130,844	642,339
Excess (Deficiency) Revenues over Expenditures:		462,235	1,152,644	2,317,632	744,301
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	204,757	182,096	7,483	5,759
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	12,361	26,890	-
381, 395, 398	Other Resources	-	-	55,000	-
Total Other Increases in Fund Resources:		204,757	194,457	89,374	5,759
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	484,134	1,236,493	974,713	538,544
591-593, 599	Debt Service	-	535,092	884,255	99,810
597	Transfers-Out	-	226,826	156,580	100,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	11,737	26,890	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		484,134	2,010,148	2,042,439	738,354
<b>Increase (Decrease) in Cash and Investments:</b>		<b>182,858</b>	<b>(663,047)</b>	<b>364,566</b>	<b>11,706</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	215,318	398,206	703,663	40,412
5088000	Unreserved	-	1,251,735	3,377,451	679,627
<b>Total Ending Cash and Investments</b>		<b>215,318</b>	<b>1,649,941</b>	<b>4,081,114</b>	<b>720,039</b>



**City of Ferndale**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>510 Computer Repair &amp; Replacement</b>	<b>550 Equip. Maint. &amp; Replacement</b>
<b>Beginning Cash and Investments</b>			
30810	Reserved	-	-
30880	Unreserved	-	223,360
388 / 588	Prior Period Adjustments, Net	-	-
<b>Revenues</b>			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	184,375	517,517
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	-	664
Total Revenues:		184,375	518,181
<b>Expenditures</b>			
510	General Government	175,119	60,000
520	Public Safety	-	-
530	Utilities	-	-
540	Transportation	-	400,250
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		175,119	460,250
Excess (Deficiency) Revenues over Expenditures:		9,256	57,931
<b>Other Increases in Fund Resources</b>			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	513,324
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	-	-
Total Other Increases in Fund Resources:		-	513,324
<b>Other Decreases in Fund Resources</b>			
594-595	Capital Expenditures	9,255	567,731
591-593, 599	Debt Service	-	-
597	Transfers-Out	-	-
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
581	Other Uses	-	-
Total Other Decreases in Fund Resources:		9,255	567,731
<b>Increase (Decrease) in Cash and Investments:</b>		<b>1</b>	<b>3,524</b>
<b>Ending Cash and Investments</b>			
5081000	Reserved	-	-
5088000	Unreserved	-	226,884
<b>Total Ending Cash and Investments</b>		<b>-</b>	<b>226,884</b>

**City of Ferndale**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2018**

		<b>Total for All Funds (Memo Only)</b>	<b>Agency</b>
308	Beginning Cash and Investments	20,300	20,300
388 & 588	Prior Period Adjustment, Net	3,075	3,075
310-390	Additions	203,808	203,808
510-590	Deductions	218,888	218,888
	Net Increase (Decrease) in Cash and Investments:	(15,080)	(15,079)
508	Ending Cash and Investments	8,295	8,295

*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, 2018**

**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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. 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.

### 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.

#### Custodial 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. Cash and Investments

See Note 3, Deposits and Investments.

#### D. Capital Assets

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

#### E. 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.

#### F. Long-Term Debt

See Note 5, Debt Service Requirements.

- G. 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	\$302,016
104 Traffic Mitigation	232,413
106 Criminal Justice Fund	935
107 Local Criminal Justice	73,180
113 Transportation Benefit District	289,938
198 Hotel/Motel	67,381
214 Streets/Parks Debt Service	11,034
215 LaBounty LID 2006-1 Bond Redemption	119,611
216 LaBounty LID 2006-1 Bond Guarantee	28,935
217 LaBounty GO Bond Redemption	150
218 2010 GO Bond Redemption	5,373
219 2011 GO Bond Redemption	2,230
220 2013 GO Library Bond Redemption	1,159
301 Real Estate Excise Tax First 1/4% REET 1	335,083
302 Real Estate Excise Tax Second 1/4% REET 2	692,418
309 Star Park Construction	43,424
347 Main & LaBounty and Walgreens Roundabouts Construction	908
370 Thornton Road Construction	215,318
401 Water	398,206
402 Sewer	703,663

407 Storm

	40,412
<b>TOTAL</b>	<b>\$3,563,787</b>

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 the other funds listed above are restricted by the very nature of the title of the fund.

#### 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.

### **Note 2 – Budget Compliance**

#### A. 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.

Certain funds listed below are eliminated for Statement C-4 consolidation purposes. For example, fund numbers 002, 003, 004, 005 and 007 are rolled up into one General Fund per Statement C-4 Financial Statements. Other fund numbers listed below (403, 404, 405, 408, and 409) are included in consolidated enterprise funds (401, 402, and 407) rollups. Also, certain transfers in and transfers out are eliminated for consolidation purposes, and therefore total expenditures listed below appropriately do not agree with the Financial Statement C-4 Total Expenditures and Other Uses plus Nonexpenditures.

The appropriated and actual 2018 expenditures for the legally adopted budgets were as follows:

<b><u>Fund Number and Name</u></b>	<b><u>Final Appropriated Amounts</u></b>	<b><u>Actual Expenditures</u></b>	<b><u>Variance</u></b>
001 Current Expense (General Fund)	\$10,955,027	\$10,023,148	\$931,879
101 Streets	3,872,812	3,520,378	352,434
102 Park Mitigation	110,216	110,216	0
104 Traffic Mitigation	1,010,000	902,656	107,344
106 Criminal Justice Fund	25,000	25,000	0
107 Local Criminal Justice	268,000	268,000	0
113 Ferndale Trans. Benefit District	461,000	461,000	0
198 Hotel/Motel	62,500	61,348	1,152
214 Streets/Parks Debt Service	124,897	124,897	0
215 LaBounty LID 2006-1 Bond Redemption	39,718	39,718	0

<b>Fund Number and Name</b>	<b>Final Appropriated Amounts</b>	<b>Actual Expenditures</b>	<b>Variance</b>
216 LaBounty LID 2006-1 Bond Guarantee	0	0	0
217 LaBounty GO Bond Redemption	26,720	26,720	0
218 2010 GO Bond Redemption	427,678	427,628	50
219 2011 GO Bond Redemption	162,076	161,775	301
220 2014 GO Library Bond Redemption	186,072	186,072	0
301 Real Estate Excise Tax First 1/4% REET 1	228,557	227,685	872
302 Real Estate Excise Tax Second 1/4% REET 2	375,000	343,146	31,854
309 Star Park Construction	0	0	0
347 Main & LaBounty Roundabout Construction	0	0	0
370 Thornton Road Overpass Construction	1,500,000	484,134	1,015,866
401 Water	4,957,994	4,132,810	825,184
402 Sewer	4,989,759	4,173,283	816,476
407 Storm & Flood Control	1,653,930	1,380,693	273,237
510 Computer Repair & Maint.	193,640	184,375	9,265
550 Equipment Repair & Maint.	1,087,186	1,027,981	59,205
650 Court Agency	225,000	218,889	6,111
<b>TOTAL EXPENDITURES</b>	<b>\$32,942,782</b>	<b>\$28,511,552</b>	<b>\$4,431,231</b>

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.

### **Note 3 – Deposits and Investments**

It is the City of Ferndale'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, 2018 are as follows:

<b><u>Type of Investment</u></b>	<b><u>City of Ferndale's Own Investments</u></b>
L.G.I.P.	\$8,326,024

#### **Note 4 - 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 2018 was \$.93543 per \$1,000 on an assessed valuation of \$1,392,149,216 for a total regular levy of \$1,302,262

The City of Ferndale's voted bond levy for the year 2018 was \$63,910.

#### **Note 5 - Interfund Loans**

The City of Ferndale did not have any interfund loan activity in 2018.

#### **Note 6 – Debt Service Requirements**

##### **A. Debt Service**

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, 2018.

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

	<b>General Obligation Bonds Principal</b>	<b>General Obligation Bonds Interest</b>	<b>General Obligation Bonds Total D/S</b>
<b>Year(s)</b>			
2019	631,212	304,483	935,695
2020	624,505	292,870	917,375
2021	648,996	262,929	911,925
2022	683,738	230,712	914,450
2023	703,755	198,450	902,205
2024-2028	2,355,000	566,394	2,921,394
2029-2033	665,000	63,144	728,144
2034-2038	0	0	0
<b>TOTALS</b>	<b>\$6,312,206</b>	<b>\$1,918,982</b>	<b>\$8,231,188</b>

  

	<b>Revenue Debt Principal</b>	<b>Revenue Debt Interest</b>	<b>Revenue Debt Total D/S</b>
<b>Year(s)</b>			
2019	700,491	475,956	1,176,447



2020	715,491	456,752	1,172,243
2021	740,491	433,047	1,173,538
2022	765,491	408,491	1,173,982
2023	785,491	382,648	1,168,139
2024-2028	4,407,453	1,443,289	5,850,742
2029-2033	4,692,453	201,834	4,894,287
2034-2038	91,471	1,830	93,301
<b>TOTALS</b>	<b>\$12,898,832</b>	<b>\$3,803,848</b>	<b>\$16,702,679</b>

<b>Year(s)</b>	<b>Other Debt Principal</b>	<b>Other Debt Interest</b>	<b>Other Debt Total D/S</b>
2019	170,556	38,862	209,418
2020	173,601	33,774	207,375
2021	176,766	28,562	205,328
2022	166,916	23,548	190,464
2023	169,680	18,747	188,427
2024-2028	597,470	26,230	623,700
2029-2033	122,896	768	123,664
2034-2038	0	0	0
<b>TOTALS</b>	<b>\$1,577,885</b>	<b>\$170,491</b>	<b>\$1,748,376</b>

<b>Year(s)</b>	<b>All Debt Principal</b>	<b>All Debt Interest</b>	<b>All Debt Total D/S</b>
2019	\$1,502,259	\$819,301	\$2,321,560
2020	\$1,513,597	783,396	\$2,296,993
2021	\$1,566,253	724,538	\$2,290,791
2022	\$1,616,145	662,751	\$2,278,896
2023	\$1,658,926	599,845	\$2,258,771
2024-2028	\$7,359,923	2,035,913	\$9,395,836
2029-2033	\$5,480,349	265,746	\$5,746,095
2034-2038	\$91,471	1,830	\$93,301
<b>TOTALS</b>	<b>\$20,788,923</b>	<b>\$5,893,320</b>	<b>\$26,682,243</b>

#### B. Debt Refunding

The City of Ferndale issued \$620,000 of revenue refunding bonds to retire \$690,000 of existing 2008 series bonds. This refunding was undertaken to reduce total debt service payments over the next ten years by \$70,518.

#### C. Prior Period Correction

The City of Ferndale consolidated the Central City Water Association (CCWA) in 2015. The consolidation

was funded by a Drinking Water State Revolving Loan with payments assessed to the CCWA customers for the debt service payments, until paid in full. The City of Ferndale also received the remaining cash assets from CCWA. In 2017, the cash received was \$260,000. In the 2017 Schedule 9, the \$260,000 was reported as an addition and reduction to the debt, when it should have been recorded as only a reduction. The correction was made on the 2018 Schedule 9 to reflect the correct balance, a \$260,000 reduction in the remaining balance.

#### **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 \$28,371 was paid out for those benefits in 2018. The LEOFF Plan 1 Police Retiree Fund No. 004 had a cash balance at 12/31/18 of \$641,767.

#### **Note 8 – 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](http://www.drs.wa.gov).

At June 30, 2018 (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:

	Employer Contributions	Allocation %	Liability
PERS 1	\$159,181	.023814%	\$1,063,541
PERS 2/3	\$232,077	.030077%	\$513,538
PSERS 2	\$4,457	.016876%	\$209
<b>Total Pension Liabilities</b>	<b>\$395,715</b>		<b>\$1,577,288</b>

#### LEOFF Plan 1

The City of Ferndale also participates in 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 2018.

	Allocation %	(Asset)
LEOFF 1	.004563%	<b>(\$82,841)</b>

#### 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	.052244%	<b>(\$1,060,667)</b>

#### B. Defined Contribution Pension Plans

The City of Ferndale participates in a Deferred Compensation Program (DCP) administered by the Washington State Department of Retirement Systems (DRS). DCP is an IRC Section 457 plan.

The DCP is an employer-sponsored, cost sharing, tax deferred retirement plan. The cost-sharing contribution rates, for employees and employers, are determined by contractual agreements per employee. In 2018 the City of Ferndale contributed \$77,416 to the DCP.

### **Note 9 - 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 160 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, errors or omissions, stop gap, employment practices and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregate and sublimits. 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 coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

In-house services include risk management consultation, loss control field services, and claims and litigation administration. WCIA contracts for certain claims investigations, consultants for personnel and land use issues, insurance brokerage, actuarial, 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, reinsurance and other 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.

The City of Ferndale self-insures for unemployment compensation. Reserves are adequate to cover any potential expenditures.

### **Note 10 – Health & Welfare**

The city of Ferndale is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2018, 257 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities

or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

#### **Note 11 – Other Disclosures**

##### **A. Construction Commitment**

The City of Ferndale has a significant dollar value active road project, Thornton Road Overpass. The design work started in 2016 and continued through 2017. The construction will begin in 2019, and is expected to last two years. The total project is \$25 million, which includes design and construction. The City is upgrading and expanding the Wastewater Treatment Plant. Design work started in 2016, The construction will begin in 2020, and is expected to last two years. The total project is estimated to be \$26 million. Several Water, Sewer, and Storm Proprietary funds projects are ongoing.

##### **B. Contingencies and Litigations**

City of Ferndale has a pending matter involving a traffic accident between a Ferndale police officer and another motorist, which resulted in injuries to the motorists. At this time, no lawsuit has been filed against the City. The matter has been referred to the City's insurance pool, Washington Cities Insurance Authority (WCIA). The City believes any potential loss would be covered by WCIA.

There is a pending matter in which a former City employee has asserted claims of breach of contract, and age and health discrimination against the City. At this time, no lawsuit has been filed.

C. Joint Venture Equity Interest

The City of Ferndale has a joint venture interest with Whatcom Council of Governments. The following statement includes the City's share of net equity.

**Whatcom Council of Governments 12/31/2018**

GASB Statement No. 14

Calculation of Joint Venture Equity Interest

Prepared by: Ron Cubellis, Deputy Executive Director

**Assets**

General Fund (Whatcom County)	\$ 248,442	
A/P Checking (Key Bank)	14,942	
Petty Cash (Key Bank)	2,750	
Investment Pool (Whatcom County)	72,815	
Postage Meter prepaid postage	1,200	
Building Lease Security Deposit	2,500	
Accounts Receivable	143,859	
Furniture & Equipment (FMV)	<u>20,000</u>	
Total Assets		\$ 506,508

**Liabilities**

Accounts Payable	\$ 89,265	
Accrued Vacation Leave	41,466	
Payroll Liabilities	1,317	
Sales/Use Tax Payable	17	
Building Lease (remaining term) 6/30/2020	99,467	
Copier Lease (remaining term) 2/28/2021	11,679	
Phone System (Lease remaining term) 8/23/2022	<u>8,494</u>	
Total Liabilities		<u>251,705</u>

**Net Equity**

\$ 254,803

Voting Member Entities	2018 Dues	% of Dues	Share of Net Equity
City of Bellingham	\$ 51,598	33.98%	\$ 86,574
City of Blaine	3,020	1.99%	5,067
City of Everson	1,565	1.03%	2,626
City of Ferndale	8,015	5.28%	13,448
City of Lynden	8,104	5.34%	13,597
City of Nooksack	887	0.58%	1,488
City of Sumas	935	0.62%	1,569
Lake Whatcom Water & Sewer District	229	0.15%	384
Lummi Nation	3,024	1.99%	5,074
Port of Bellingham	22,935	15.10%	38,481
Whatcom County (unincorporated)	<u>51,551</u>	<u>33.95%</u>	<u>86,495</u>
Totals	\$151,863	100.00%	<u>\$254,803</u>

**City of Ferndale  
Schedule of Liabilities  
For the Year Ended December 31, 2018**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
263.81	PWTF LOAN-STORM	9/1/2024	47,366	-	7,895	39,471
263.91	Whatcom Co. Public Util. Impr. Fund Parks Loan	8/30/2027	648,042	-	60,551	587,491
263.96	Water Booster Pump Station	6/1/2028	745,000	620,000	745,000	620,000
263.96	Land Purchase	12/1/2028	475,000	-	40,000	435,000
263.96	Heavy Equipment	12/1/2028	327,142	-	29,928	297,214
263.96	Minor Equipment	6/1/2026	46,700	-	10,915	35,785
251.11	LaBounty Road Bond	6/1/2023	141,989	-	22,700	119,289
251.11	Facilities BAB Bonds 2010	12/1/2030	3,575,000	-	225,000	3,350,000
251.11	Facilities LTGO BQ Bonds 2011	12/1/2025	1,090,000	-	120,000	970,000
263.81	PWTF LOAN-STORM	6/1/2032	460,863	-	30,724	430,139
251.11	Facilities LTGO BQ Bonds 2013A	9/24/2023	334,240	-	51,052	283,188
251.11	Facilities LTGO BQ Bonds 2013B	9/24/2023	637,611	-	97,633	539,978
263.83	DWSRF CCWA	10/1/2036	319,320	-	33,387	285,933
<b>Total General Obligation Debt/Liabilities:</b>			<b>8,848,273</b>	<b>620,000</b>	<b>1,474,785</b>	<b>7,993,488</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences	12/31/2017	379,930	371,037	298,377	452,590
263.88	PWTF LOAN - SEWER	7/1/2018	165,305	-	165,305	-
252.11	Water & Sewer Bonds 2011	11/1/2031	4,860,000	-	265,000	4,595,000
252.11	Sewer & Storm Bonds 2014	11/1/2033	7,860,000	-	385,000	7,475,000
264.30	Pension Liabilities		2,203,767	-	626,479	1,577,288
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>15,469,002</b>	<b>371,037</b>	<b>1,740,161</b>	<b>14,099,878</b>
<b>Assessment Debt/Liabilities (with commitments)</b>						
253.11	LaBounty Road LID Bonds	12/1/2025	233,216	-	26,401	206,815
<b>Total Assessment Debt/Liabilities (with commitments):</b>			<b>233,216</b>	<b>-</b>	<b>26,401</b>	<b>206,815</b>
<b>Total Liabilities:</b>			<b>24,550,491</b>	<b>991,037</b>	<b>3,241,347</b>	<b>22,300,181</b>



## 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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