



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

City of Ferndale

For the period January 1, 2020 through December 31, 2021

Published June 8, 2023

Report No. 1032711



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

June 8, 2023

Mayor and City Council
City of Ferndale
Ferndale, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The Office of the Washington State Auditor takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for City operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

Attached is our independent audit report on the City's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and value your cooperation during the audit.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

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AUDIT RESULTS

Results in brief

This report describes the overall results and conclusions for the areas we examined. In most of the areas we examined, City operations complied, in all material respects, with applicable state laws, regulations, and its own policies, and provided adequate controls over safeguarding of public resources.

As referenced above, we identified areas where the City could make improvements. These recommendations are included with our report and in a separate confidential communication as findings.

Because public distribution of tests performed and the related results over information technology (IT) security could increase the risk to the City's IT security, distribution of that information has been limited to management and the governing body of the City and is kept confidential under RCW 42.56.420.

In keeping with general auditing practices, we do not examine every transaction, activity, policy, internal control, or area. As a result, no information is provided on the areas that were not examined.

About the audit

This report contains the results of our independent accountability audit of the City of Ferndale from January 1, 2020 through December 31, 2021.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the Washington State Auditor to examine the financial affairs of all local governments. Our audit involved obtaining evidence about the City's use of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters. The procedures performed were based on our assessment of risks in the areas we examined.

Based on our risk assessment for the years ended December 31, 2021 and 2020, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. We examined the following areas during this audit period:

- Accounts receivable – utility billing
- Selected IT security policies, procedures, practices and controls protecting financial systems – user access
- Self-insurance for unemployment
- Open public meetings – compliance with minutes, meetings and executive session requirements
- Financial condition – reviewing for indications of financial distress

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

City of Ferndale January 1, 2020 through December 31, 2021

2021-001 The City lacked adequate internal controls and monitoring over significant accounting systems to ensure safeguarding of public resources.

Background

The City provides water, sanitary sewer, and storm sewer utility services to about 8,456 accounts. The Mayor appoints management to oversee the City's daily operations and its 80 employees. For fiscal years 2020 and 2021, the City receipted utility revenues of \$8,962,230 and \$10,271,937, respectively.

Residents rely on the City to establish effective internal controls to safeguard public resources and to ensure compliance with laws and policies.

Description of Condition

In July 2021, the City notified our Office regarding a potential loss of public funds, as required by state law, and hired an external party to investigate the suspected loss. The investigation and City's review identified the following weaknesses in its utility billing process:

- The City's utility billing software does not require secondary approval to adjust utility accounts.
- Adjustment reports related to utility billing were not adequately reviewed.
- Utility billing staff can remove meters from routes without secondary approval.
- The City did not have a process in place to ensure all elements of utility billing were included for all accounts and all clients who had an active meter were appropriately billed.

The City has been working on addressing these control weaknesses.

We further reviewed the City's utility billing processes and found the following weaknesses still exist:

- The City has not completed an inventory of all meters.
- Utility billing employees provided adjustment reports to reviewers rather

than reviewers obtaining the adjustment reports themselves.

- Utility billing employees could modify elements of customer accounts without secondary review or approval.
- The City's controls do not ensure that accounts are billed in agreement with contracts.

Cause of Condition

The City did not dedicate sufficient resources to establish strong internal controls that would ensure it bills utility accounts accurately.

Further, the City experienced turnover in utility billing positions over the past decade, which resulted in lost knowledge, lost efficiency in the process, and incorrect guidance being provided to new employees in the position.

We also noted significant deficiencies in user access to the City's utility billing software. We have included the related recommendations in a separate communication as a finding. Because public distribution of work performed and the related results could increase the risk to the City's IT security, distribution of that information has been limited to City management and the governing body and may be kept from public distribution under RCW 42.56.420.

Effect of Condition

Without adequate internal controls, public funds are at risk of misappropriation, misuse or loss that City management would not be able to detect timely, if at all.

The City reviewed its utility accounts and determined it underbilled 52 of them for a total of \$231,419 between 2007 and 2021. Of this amount, the City wrote off \$35,754 as uncollectable. The remaining amount has been collected or has been contracted through payment plans to be collected over time.

Our audit specifically identified an additional account that the City did not bill in agreement with its contract. The City estimates it underbilled this account \$57,027 between 2012 and 2022.

Recommendation

We recommend the City strengthen internal controls over utility billing by:

- Performing an independent, timely review of all utility billing adjustments
- Ensuring reviewers are printing the utility adjustment reports to confirm that all parameters are included, and no modifications have been made

- Performing a complete inventory of all meters to ensure all customers are billed for their usage
- Implementing compensating controls to ensure applicable elements for utilities are included for all customer accounts
- Reviewing utility contracts to ensure customers are billed in agreement with their contracts

City's Response

The City would like to express appreciation to the State Auditor's Office for their work. The City has completed a comprehensive review of utility accounts and supports the Auditor's findings and recommended actions. Upon recognizing these potential risks in Summer 2021, the City self-reported concerns to the Washington State Auditor's Office and initiated internal reviews of its processes and procedures. Subsequently the City established a variety of internal controls intended to improve the City's processes, including revised policies and the planned introduction of new financial software. The City Finance Department, in coordination with the City Administrator, IT, and other departments, will develop procedures to ensure that all State Auditor recommendations are thoroughly reviewed, and that additional internal controls associated with utility billing are implemented by the end of Q4 2023. The City Council has authorized the acquisition of new or upgraded financial software, including utility billing modules, and this software is expected to be integrated by the end of Q4 2023 as well.

Auditor's Remarks

We appreciate the City's commitment to resolve this finding and thank the City for its cooperation and assistance during the audit. We will review the corrective action taken during our next regular audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting, requires the State Auditor to prescribe the system of accounting and reporting for local governments.

The *Budgeting, Accounting and Reporting System (BARS) Manual*, 3.1.3, Internal Control, requires each local government to establish and maintain an effective system of internal controls that provides reasonable assurance that the government will achieve its objectives.

RELATED REPORTS

Financial

Our opinion on the City's financial statements is provided in a separate report, which includes the City's financial statements. That report is available on our website, <http://portal.sao.wa.gov/ReportSearch>.

INFORMATION ABOUT THE CITY

The City of Ferndale was incorporated in 1907 and serves about 15,970 Whatcom County residents. The City has approximately 80 employees who provide an array of services including water, sewer, storm drainage, police, Municipal Court and planning.

The City is administered by a mayor-council form of government with an elected, seven-member Council and an independently elected Mayor. For fiscal year 2021, the City reported \$38,686,228 in revenues.

Contact information related to this report

Address:	City of Ferndale 2095 Main Street P.O. Box 936 Ferndale, WA 98248
Contact:	Jori Burnett, City Administrator
Telephone:	(360) 384-4302
Website:	https://www.cityofferndale.org/

Information current as of report publish date.

Audit history

You can find current and past audit reports for the City of Ferndale at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

Stay connected at sao.wa.gov

- [Find your audit team](#)
- [Request public records](#)
- Search BARS Manuals ([GAAP](#) and [cash](#)), and find [reporting templates](#)
- Learn about our [training workshops](#) and [on-demand videos](#)
- Discover [which governments serve you](#) — enter an address on our map
- Explore public financial data with the [Financial Intelligence Tool](#)

Other ways to stay in touch

- Main telephone:
(564) 999-0950
- Toll-free Citizen Hotline:
(866) 902-3900
- Email:
webmaster@sao.wa.gov



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Ferndale

For the period January 1, 2021 through December 31, 2021

Published June 8, 2023

Report No. 1032710



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

June 8, 2023

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

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, 2021 through December 31, 2021

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, 2021, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated May 31, 2023.

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 state law 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.

REPORT ON 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) as a basis for designing 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 d0escribed above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We noted certain other matters that we have reported to the management of the City in a separate letter dated May 31, 2023.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

May 31, 2023

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Ferndale January 1, 2021 through December 31, 2021

Mayor and City Council
City of Ferndale
Ferndale, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Ferndale, as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the financial section of our report.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying 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, 2021, on the basis of accounting described in Note 1.

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, 2021, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management 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 state law and the BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and

Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements. 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 as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2023 on our consideration of the City's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

May 31, 2023

FINANCIAL SECTION

City of Ferndale January 1, 2021 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2021
Notes to Financial Statements – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	001 Current Expense Fund	101 Street	102 Park Mitigation
Beginning Cash and Investments					
308	Beginning Cash and Investments	31,755,452	8,629,349	290,974	577,328
388 / 588	Net Adjustments	239,130	(3,211)	-	-
Revenues					
310	Taxes	13,351,826	10,414,084	-	-
320	Licenses and Permits	1,481,156	1,474,244	-	-
330	Intergovernmental Revenues	6,375,622	580,129	300,603	-
340	Charges for Goods and Services	17,093,190	1,635,860	24,600	162,581
350	Fines and Penalties	129,265	119,957	-	-
360	Miscellaneous Revenues	255,169	143,947	579	338
Total Revenues:		38,686,228	14,368,221	325,782	162,919
Expenditures					
510	General Government	2,765,825	2,432,048	-	-
520	Public Safety	5,554,512	5,554,512	-	-
530	Utilities	6,314,222	-	-	-
540	Transportation	1,937,191	329,406	1,131,378	-
550	Natural/Economic Environment	661,106	619,180	-	-
560	Social Services	116,949	93,949	-	-
570	Culture and Recreation	610,243	606,780	-	-
Total Expenditures:		17,960,048	9,635,875	1,131,378	-
Excess (Deficiency) Revenues over Expenditures:		20,726,180	4,732,346	(805,596)	162,919
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	12,513,088	-	-	-
397	Transfers-In	3,448,699	1,059,814	1,037,734	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	26,430	(3,081)	9,993	-
Total Other Increases in Fund Resources:		15,988,217	1,056,733	1,047,727	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	14,640,957	993,391	274,143	-
591-593, 599	Debt Service	4,042,529	-	-	-
597	Transfers-Out	3,448,697	1,337,990	126,350	185,898
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	56,194	55,451	-	-
Total Other Decreases in Fund Resources:		22,188,377	2,386,832	400,493	185,898
Increase (Decrease) in Cash and Investments:		14,526,020	3,402,247	(158,362)	(22,979)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	10,564,397	-	-	554,350
50841	Committed	-	-	-	-
50851	Assigned	23,927,828	-	132,612	-
50891	Unassigned	12,028,387	12,028,387	-	-
Total Ending Cash and Investments		46,520,612	12,028,387	132,612	554,350

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, 2021

		104 Traffic Mitigation	106 Criminal Justice	107 Local Criminal Justice	113 Transportation Benefit
Beginning Cash and Investments					
308	Beginning Cash and Investments	1,058,185	8,247	116,792	1,220,230
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	335,829	797,413
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	22,012	-	-
340	Charges for Goods and Services	521,185	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	876	-	-	1,084
Total Revenues:		522,061	22,012	335,829	798,497
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	6,839	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		6,839	-	-	-
Excess (Deficiency) Revenues over Expenditures:		515,222	22,012	335,829	798,497
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	212,959	25,000	270,000	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		212,959	25,000	270,000	-
Increase (Decrease) in Cash and Investments:		302,263	(2,988)	65,829	798,497
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	1,360,448	5,259	182,621	2,018,727
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		1,360,448	5,259	182,621	2,018,727

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, 2021

		114 Complete Streets	115 American Rescue Plan Act (ARPA)	198 Hotel Motel	214 Street/Parks/La nd Debt Service
Beginning Cash and Investments					
308	Beginning Cash and Investments	9,545	-	105,842	11,045
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	54,948	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	2,081,265	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	-	44	-
Total Revenues:		-	2,081,265	54,992	-
Expenditures					
510	General Government	-	362	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	41,926	-
560	Social Services	-	23,000	-	-
570	Culture and Recreation	-	-	3,463	-
Total Expenditures:		-	23,362	45,389	-
Excess (Deficiency) Revenues over Expenditures:		-	2,057,903	9,603	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	115,585
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	115,585
Other Decreases in Fund Resources					
594-595	Capital Expenditures	9,545	42,145	-	-
591-593, 599	Debt Service	-	-	-	120,897
597	Transfers-Out	-	-	8,000	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		9,545	42,145	8,000	120,897
Increase (Decrease) in Cash and Investments:		(9,545)	2,015,758	1,603	(5,312)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	2,015,758	107,447	5,733
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		-	2,015,758	107,447	5,733

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, 2021

		215 Labounty LID 2006-1 Bond	216 LaBounty LID 2006-1 Bond Guarantee	217 LaBounty GO Bond Debt Service	218 2010 Limited Tax General
Beginning Cash and Investments					
308	Beginning Cash and Investments	32,830	29,800	153	(230,676)
388 / 588	Net Adjustments	-	-	-	263,317
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	4,045
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	18,557	31	-	1
Total Revenues:		18,557	31	-	4,046
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		18,557	31	-	4,046
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	77,066	297,646
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	77,066	297,646
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	36,612	-	77,067	319,760
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		36,612	-	77,067	319,760
Increase (Decrease) in Cash and Investments:		(18,055)	31	(1)	(18,068)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	14,775	29,831	153	14,573
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		14,775	29,831	153	14,573

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, 2021

		219 2011 Limited Tax General Oblig	220 2013 Library LTGO Bond	301 Real Estate Excise Tax - First 1/4 Perc	302 Real Estate Excise Tax - Second 1/4 Perc
Beginning Cash and Investments					
308	Beginning Cash and Investments	1,996	296	897,191	1,420,620
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	64,322	842,615	842,615
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	2	-	493	971
Total Revenues:		2	64,322	843,108	843,586
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		2	64,322	843,108	843,586
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	158,800	122,163	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		158,800	122,163	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	158,800	186,072	-	-
597	Transfers-Out	-	-	876,554	62,876
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		158,800	186,072	876,554	62,876
Increase (Decrease) in Cash and Investments:		2	413	(33,446)	780,710
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	1,999	709	863,745	2,201,330
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		1,999	709	863,745	2,201,330

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, 2021

		310 Metalworks Skate Park	370 Thornton Road Construction	401 Water	402 Sewer
Beginning Cash and Investments					
308	Beginning Cash and Investments	-	447,620	7,475,394	7,559,481
388 / 588	Net Adjustments	-	-	(4,089)	(15,433)
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	6,912	-
330	Intergovernmental Revenues	-	2,376,761	599	877,236
340	Charges for Goods and Services	-	-	4,930,157	7,160,446
350	Fines and Penalties	-	-	4,231	4,154
360	Miscellaneous Revenues	-	-	58,558	7,376
Total Revenues:		-	2,376,761	5,000,457	8,049,212
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	2,366,672	2,917,824
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	2,366,672	2,917,824
Excess (Deficiency) Revenues over Expenditures:		-	2,376,761	2,633,785	5,131,388
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	250,000	-	12,263,088
397	Transfers-In	15,662	-	7,370	7,505
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		15,662	250,000	7,370	12,270,593
Other Decreases in Fund Resources					
594-595	Capital Expenditures	15,662	1,899,265	242,036	10,219,958
591-593, 599	Debt Service	-	251,845	961,119	1,817,644
597	Transfers-Out	-	-	67,718	108,360
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	743	-
Total Other Decreases in Fund Resources:		15,662	2,151,110	1,271,616	12,145,962
Increase (Decrease) in Cash and Investments:		-	475,651	1,369,539	5,256,019
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	-	442,864	703,663
50841	Committed	-	-	-	-
50851	Assigned	-	923,271	8,397,981	12,096,404
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		-	923,271	8,840,845	12,800,067

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, 2021

		407 Storm & Flood Control	510 Computer Repair & Replacement	550 Equip. Maint. & Replacement
Beginning Cash and Investments				
308	Beginning Cash and Investments	1,730,623	97,166	265,421
388 / 588	Net Adjustments	(1,454)	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	129,799	2,977	196
340	Charges for Goods and Services	1,671,068	270,248	717,045
350	Fines and Penalties	923	-	-
360	Miscellaneous Revenues	901	-	21,411
Total Revenues:		1,802,691	273,225	738,652
Expenditures				
510	General Government	-	258,027	75,388
520	Public Safety	-	-	-
530	Utilities	1,029,726	-	-
540	Transportation	-	-	469,568
550	Natural/Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		1,029,726	258,027	544,956
Excess (Deficiency) Revenues over Expenditures:		772,965	15,198	193,696
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	5,680	-	543,674
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	19,518
Total Other Increases in Fund Resources:		5,680	-	563,192
Other Decreases in Fund Resources				
594-595	Capital Expenditures	216,703	12,223	715,886
591-593, 599	Debt Service	112,713	-	-
597	Transfers-Out	166,992	-	-
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		496,408	12,223	715,886
Increase (Decrease) in Cash and Investments:		282,237	2,975	41,002
Ending Cash and Investments				
50821	Nonspendable	-	-	-
50831	Restricted	40,412	-	-
50841	Committed	-	-	-
50851	Assigned	1,970,994	100,144	306,422
50891	Unassigned	-	-	-
Total Ending Cash and Investments		2,011,406	100,144	306,422

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, 2021

		Total for All Funds (Memo Only)	Custodial
308	Beginning Cash and Investments	11,264	11,264
388 & 588	Net Adjustments	-	-
310-390	Additions	141,475	141,475
510-590	Deductions	144,594	144,594
	Net Increase (Decrease) in Cash and Investments:	(3,119)	(3,119)
508	Ending Cash and Investments	8,145	8,145

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, 2021

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 second-class city with a mayor-council form of government. The City of Ferndale is a general-purpose local 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 presented using classifications that are similar to the ending balance classification 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 a custodian on behalf of others.

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 4 - 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 in excess of 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 separation or retirement employees do receive partial payment (typically 25%) for unused sick leave depending on applicable contract. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 6 – Long-Term Debt

G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed 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 the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of:

102 Park Mitigation	\$554,350
104 Traffic Mitigation	1,360,448
106 Criminal Justice Fund	5,259
107 Local Criminal Justice	182,621
113 Transportation Benefit District	2,018,727
115 American Resue Plan Act (AR	2,015,758
198 Hotel/Motel	107,447
214 Streets/Parks Debt Service	5,733
215 LaBounty LID 2006-1 Bond Redemption	14,775
216 LaBounty LID 2006-1 Bond Guarantee	29,831
217 LaBounty GO Bond Redemption	153
218 2010 GO Bond Redemption	14,573
219 2011 GO Bond Redemption	1,999
220 2013 GO Library Bond Redemption	709
301 Real Estate Excise Tax First 1/4% REET 1	863,745
302 Real Estate Excise Tax Second 1/4% REET 2	2,201,330
401 Water	442,864
402 Sewer	703,663
407 Storm	40,412
651 Court Activity	8,145
TOTAL	<u><u>\$10,572,542</u></u>

The Proprietary fund restricted cash balances in 401 Water, 402 Sewer, and 407 Storm are unspent 2014 revenue bond proceeds and the required Parity Bond Reserve amounts. The Proprietary fund committed cash balance in 402 Sewer is committed through an ordinance for debt service for a loan for the waste water treatment plant upgrade. All the other funds listed above are restricted by the very nature of the title of the

fund.

Note 2 – Budget Compliance

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 these 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 fund (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 Non-expenditures.

The appropriated and actual 2021 expenditures for the legally adopted budgets were as follows:

<u>Fund Number and Name</u>	<u>Final Appropriated Amounts</u>	<u>Actual Expenditures</u>	<u>Variance</u>
001 Current Expense (General Fund)	\$12,084,773	\$11,855,771	\$229,002
002 General Fund Contingency Reserve	0	0	0
003 Facilities Capital Reserve	50,000	50,000	0
004 LEOFF 1 Police Retiree	100,000	33,665	66,335
005 Solid Waste Tax	3,114,745	1,839,925	1,274,820
007 Pioneer Pavilion Community Center Ops	47,844	31,555	16,289
101 Streets	2,476,223	1,531,871	944,351
102 Park Mitigation	321,215	185,897	135,318
104 Traffic Mitigation	700,000	219,798	480,202
106 Criminal Justice Fund	25,000	25,000	0
107 Local Criminal Justice	270,000	270,000	0
113 Ferndale Trans. Benefit District	100,000	0	100,000
114 Complete Streets	9,545	9,545	0
115 American Rescue Plan Act (ARPA)	113,000	65,507	47,493
198 Hotel/Motel	54,000	53,388	612
214 Streets/Parks Debt Service	120,897	120,897	0
215 LaBounty LID 2006-1 Bond Redemption	36,612	36,612	0
216 LaBounty LID 2006-1 Bond Guarantee	10,000	0	10,000
217 LaBounty GO Bond Redemption	79,720	77,066	2,654
218 2010 GO Bond Redemption	319,990	319,760	230
219 2011 GO Bond Redemption	158,800	158,800	0
220 2014 GO Library Bond Redemption	186,073	186,072	1
301 Real Estate Excise Tax First 1/4% REET 1	923,052	876,554	46,498
302 Real Estate Excise Tax Second 1/4% REET 2	675,000	62,876	612,124

<u>Fund Number and Name</u>	Final Appropriated Amounts	Actual Expenditures	Variance
310 Metalworks Skate Park	100,000	15,662	84,338
370 Thornton Road Overpass Construction	10,000,000	2,151,110	7,848,890
401 Water	5,323,235	3,489,755	1,833,480
402 Sewer	5,466,910	5,135,936	330,974
403 Sewer Revenue Bonds	1,584,298	1,568,754	15,544
404 Sewer Revenue Bonds Reserve	0	0	0
405 WWTP Debt Service	0	0	0
407 Storm & Flood Control	3,270,173	1,521,894	1,748,280
408 Utility Loan Service	189,945	189,065	880
409 CCWA Water Debt Service	32,419	32,419	0
413 Water Treatment Plant Upgrade (WTP)	2,730,000	109,440	2,620,560
414 Shop Well 2	475,000	3,524	471,476
415 Waste Water Treatment Plant Construction (WWTP)	30,850,000	10,936,046	19,913,954
510 Computer Repair & Maint.	319,000	270,248	48,752
550 Equipment Repair & Maint.	1,348,019	1,260,843	87,176
650 Court Agency	234,000	132,342	101,658
651 Court Activity	48,000	12,252	35,748
TOTAL EXPENDITURES	\$83,947,487	\$44,839,849	\$39,107,638

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's legislative body.

Note 3 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The City received substantially more sales tax and solid waste revenue than budgeted, in 2020 and 2021. The City's general fund total revenues are above the budgeted amounts. The City has continued all services with some employees working remotely. The City opened its facilities to the public with limited hours on June 1, 2021. On June 14, 2021, the City extended the hours open to the public to the regular hours prior to the pandemic. The City retained all staff throughout the pandemic.

Note 4 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at December 31, 2021 are as follows:

<u>Type of deposit or investment</u>	<u>City of Ferndale's own investments</u>	<u>Deposits and investments held by the City as custodian for other local governments, individuals, or private organizations</u>
Bank deposits	\$26,906,924	\$8,145
L.G.I.P.	\$19,613,687	
TOTAL	\$46,520,611	\$8,145

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.

A. Investments in the State Local Government Investment Pool (LGIP)

The City of Ferndale is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

B. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the city would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The city deposits and certificates of deposit are mostly covered by the federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the city or its agent in the government's name.

Note 5 – Joint Ventures, Component units and foundations:

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.

The Whatcom Council of Governments (WCOG) was formed on February 23, 1966, and operates under the laws of the state of Washington applicable to a regional planning agency (RCW 36.64.080). The Council is a special purpose government which provides a mutual forum to identify, discuss, study, and bring into focus regional challenges and opportunities. The Council's current primary function is providing staff support for regional transportation planning activities in Whatcom County. The Council is governed by a board composed of

elected officials representing the cities of: Bellingham, Blaine, Everson, Ferndale, Lynden, Nooksack and Sumas; Whatcom County; the Lummi Indian Nation; the Port of Bellingham; and the Lake Whatcom Water & Sewer District.

The current interlocal agreement reaffirming the formation of the Council and current bylaws are available at: <https://wcog.org/about/agreements/>

The budget, revenue and expenditure information of WCOG is contained within the Financial Statement and Federal Single Audit Reports available at: <https://wcog.org/about/audits/>

The following statement includes the City's share of net equity.

Whatcom Council of Governments

12/31/2021

GASB Statement No. 14

Calculation of Joint Venture Equity Interest

Assets

A/P Checking (Key Bank)	\$7,275	
General Fund (Whatcom County)	5,367	
Petty Cash (Key Bank)	3,000	
Investment Pool (Whatcom County)	309,370	
Postage Meter prepaid postage	1,200	
Building Lease Security Deposit	2,500	
Accounts Receivable	259,295	
Furniture & Equipment (FMV)	<u>20,000</u>	
Total Assets		\$608,007

Liabilities

Accounts Payable	\$10,690	
Accrued Vacation Leave	51,262	
Payroll Liabilities	4,270	
Building Lease (remaining term)	6/30/2024	176,633
Copier Lease (remaining term)	8/23/2022	<u>1,423</u>

Total Liabilities	244,278
Net Equity	<u>\$363,729</u>

Current Year Voting Member Entities	Current Year Dues	% of Current Year Dues	Share of Net Equity
Bellingham	\$55,147	33.95%	\$123,486
Blaine	3,320	2.04%	7,420
Everson	1,714	1.06%	3,856
Ferndale	8,752	5.39%	19,605
Lummi Nation	3,219	1.98%	7,202
Lynden	8,856	5.45%	19,823
Nooksack	982	0.60%	2,182
Sumas	982	0.60%	2,182
Whatcom County (unincorporated)	54,912	33.80%	122,940
Port of Bellingham	24,572	15.13%	55,032
Total Dues Received	\$162,456	100.00%	<u>\$363,728</u>

Note 6 – Long-Term Debt

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2021.

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

Year(s)	General Obligation Bonds Principal	General Obligation Bonds Interest	General Obligation Bonds Total D/S
2022	\$721,155	\$119,982	\$841,137
2023	736,789	96,571	\$833,360
2024	580,724	70,955	\$651,679
2025	605,710	53,736	\$659,446

2026	457,796	35,748	\$493,544
2027-2031	1,463,000	55,923	\$1,518,923
TOTALS	\$4,565,174	\$432,915	\$4,998,089

	Revenue	Revenue	Revenue
	Debt	Debt	Debt
Year(s)	Principal	Interest	Total D/S
2022	\$1,185,000	\$464,907	\$1,649,907
2023	1,158,491	438,127	1,596,618
2024	1,192,491	407,467	1,599,958
2025	1,226,491	371,382	1,597,873
2026	1,202,990	334,136	1,537,125
2027-2031	6,761,000	1,056,253	7,817,253
2032-2036	2,786,000	147,930	2,933,930
TOTALS	\$15,512,462	\$3,220,201	\$18,732,663

	Other	Other	Other
	Debt	Debt	Debt
Year(s)	Principal	Interest	Total D/S
2022	\$122,991	\$9,752	\$132,743
2023	118,770	7,112	125,882
2024	1,032,734	863,892	1,896,625
2025	1,344,361	552,187	1,896,548
2026	1,370,528	525,944	1,896,472
2027-2031	6,976,308	2,223,788	9,200,095
2032-2036	7,493,850	1,511,643	9,005,492
2037-2041	8,247,343	727,348	8,974,691
2042-2044	2,639,226	53,181	2,692,407
TOTALS	\$29,346,110	\$6,474,847	\$35,820,957

A. Unused Lines of Credit

At fiscal year end, the city had \$9,000,000 available in unused lines of credit.

Note 7 – Other Disclosures

A. Contingencies and Litigations

The City is awaiting court ruling on its motion for summary judgment regarding litigation pertaining to a piece of property in Ferndale. There are tort-based claims included, which qualify for indemnity by the City's insurance.

B. Construction Commitment

The City has active construction projects as of December 31, 2021. The projects include:

1. Thornton Street Overpass
2. Wastewater Treatment Plant upgrade
3. Water Treatment Plant upgrade

At year-end, the City's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Thornton Street Overpass	\$ 15,919,174	\$ 5,747,826
Wastewater Treatment Plant	\$ 31,431,267	\$ 2,250,101
Water Treatment Plant	\$ 450,934	\$ 3,244,066

Of the committed balance of \$5,747,826, for the Thornton Street Overpass, the City has received a grant for the full amount from the Connecting Washington Program.

Of the committed balance of \$2,250,101, for the Wastewater Treatment Plant, the City has received a loan for the full amount from Department of Ecology.

Of the committed balance of \$3,244,066, for the Water Treatment Plant, the City procured a loan for the full amount in 2020.

Note 8 – Other Postemployment Benefits

A. LEOFF I Retiree Medical Plan

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City as required by RCW 41.26.080. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2021, the plan had three members, all retirees. As of December 31, 2021, the City's total OPEB liability was \$1,728,644, as calculated using the alternative measurement method. For the year ended December 31, 2021, the City paid \$33,665 in benefits.

Note 9 – 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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR may be obtained by writing to:

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

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

At June 30, 2021 (the measurement date of the plans), the City of Ferndale's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities (09), was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$198,252	0.026615%	\$325,031
PERS 2/3	\$317,297	0.033496%	(3,336,741)
PSERS 2	\$5,912	0.012114%	(\$27,831)
LEOFF 1		0.004864%	(\$166,619)
LEOFF 2	\$109,217	0.054788%	(\$3,182,314)

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.

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.

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 2021 the City of Ferndale contributed \$118,950 to the DCP.

Note 10 - 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 2021 was \$.90000 per \$1,000 on an assessed valuation of \$2,034,650,393 for a total regular levy of \$1,831,205.

In 2021, the City levied also \$.03179 per \$1000 for City of Ferndale's library for a total additional levy of \$63,910.

Note 11 - 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 166 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, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the 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 for property, automobile physical damage, fidelity, inland marine, and boiler and machinery

coverage 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 \$400 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 12 – 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, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through Intermediary Insurance Services. 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC 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 the report for the fiscal year ending December 31, 2018. 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.

**City of Ferndale
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.81	PWTF LOAN-STORM	9/1/2024	23,684	-	23,684	-
263.91	Whatcom Co. Public Util. Impr. Fund Parks Loan	8/30/2027	463,649	-	63,317	400,332
263.96	Water Booster Pump Station Bond	6/1/2028	515,000	-	50,000	465,000
263.96	Land Purchase	12/1/2028	355,000	-	40,000	315,000
263.96	Heavy Equipment	6/1/2026	233,408	-	34,315	199,093
263.96	Minor Equipment	6/1/2021	12,515	-	12,515	-
251.11	LaBounty Road Bond	6/1/2023	74,170	-	74,170	-
251.11	Facilities BAB Bonds - 2020 LTGO Refunding	12/1/2030	2,925,000	-	276,000	2,649,000
251.11	Facilities LTGO BQ Bonds 2011	12/1/2025	720,000	-	130,000	590,000
263.81	PWTF LOAN-STORM	6/1/2032	368,691	-	30,724	337,967
251.11	Facilities LTGO BQ Bonds 2013A	11/1/2023	174,762	-	54,963	119,799
251.11	Facilities LTGO BQ Bonds 2013B	11/1/2023	332,433	-	105,151	227,282
263.94	Thornton Cashmere Valley Bank - Line of Credit		-	250,000	250,000	-
263.83	DWSRF CCWA	10/1/2036	162,321	-	30,796	131,525
263.83	Department of Ecology WWTP Construction	4/30/2043	18,717,739	11,163,088	-	29,880,827
Total General Obligation Debt/Liabilities:			25,078,372	11,413,088	1,175,635	35,315,825
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/31/2021	536,983	485,732	510,008	512,707
264.30	Pension Liabilities	12/31/2021	1,302,524	-	977,493	325,031
264.40	OPEB Liabilities	12/31/2021	1,560,039	168,605	-	1,728,644
252.11	Water & Sewer Bonds 2011	11/1/2021	295,000	-	295,000	-
252.11	Water & Sewer Bonds 2011B Refunding	11/1/2031	3,890,000	-	22,000	3,868,000
252.11	Sewer & Storm Bonds 2014	11/1/2033	6,680,000	-	415,000	6,265,000
252.11	Rev Bonds Water & Sewer - WTP & Shop Well #2	6/1/2035	5,569,000	-	324,000	5,245,000
263.95	WWTP Construction Peoples Bank - Line of Credit		-	1,100,000	1,100,000	-
Total Revenue and Other (non G.O.) Debt/Liabilities:			19,833,546	1,754,337	3,643,501	17,944,382
Assessment Debt/Liabilities (with commitments)						
253.11	LaBounty Road LID Bonds	12/1/2025	78,815	-	32,112	46,703

**City of Ferndale
Schedule of Liabilities
For the Year Ended December 31, 2021**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
	Total Assessment Debt/Liabilities (with commitments):		78,815	-	32,112	46,703
	Total Liabilities:		44,990,733	13,167,425	4,851,248	53,306,910

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

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