



City of Ferndale, Washington Financial Management Policies

BUDGET POLICIES & 6-YEAR FINANCIAL PLAN	2
REVENUE, EXPENDITURE & RESERVE POLICIES	5
CAPITAL IMPROVEMENT PLAN (CIP) POLICIES.....	7
DEBT MANAGEMENT POLICY.....	10
CASH MANAGEMENT & INVESTMENT POLICY	12
ACCOUNTING & FINANCIAL REPORTING POLICY	19
GENERAL UTILITY POLICIES.....	21
PURCHASING CARDS/ CREDIT CARDS	27
SMALL AND ATTRACTIVE ASSETS	30
UTILITY BILL COLLECTIONS POLICY	35

City of Ferndale
Financial Management Policies
Element #1

BUDGET POLICIES & 6-YEAR FINANCIAL PLAN

BACKGROUND, PURPOSE & CONTEXT

The stewardship of public funds is one of the greatest responsibilities given to the officials and managers of the City of Ferndale. Therefore, the establishment and maintenance of fiscal policies enables the City to protect public interests and maintain public trust. This document incorporates policies used by the City to meet its obligations and operate in a financially prudent manner. These policies have been established to provide general fiscal guidelines and are intended to provide direction in the management of the City's financial affairs.

OVERALL FINANCIAL PLANNING

The City shall develop and maintain a 6-year financial forecast that estimates resources and expenditure behavior for the five (5) years beyond the current budget period. This forecast will provide the City's decision makers with an indication of the long-term fiscal impact of current policy and budget decisions. This planning tool will recognize the effects of economic cycles on the demand for services. To this end, the forecast should differentiate between revenue associated with one-time activities and revenue derived as a result of base economic growth.

Due to the importance of the 6-year financial forecast and its interplay with the budgeting process, it shall be the policy of the City of Ferndale to update the 6-year financial forecast concurrent with the City mid-year financial report so the information is available for the annual budget process that begins in the fall of each year.

GENERAL BUDGET POLICIES

The budget is the central financial planning document which embodies all operating revenue and expenditure decisions. It establishes the level of services to be provided by each department and embodies the City Council's collective prioritization of service delivery options. To this end, the City has established the following general budget guidelines:

Operating Deficits – Current revenues will be sufficient to support current expenditures. Revenue estimates will be realistic and debt financing will not be used to support current operating expenses.

Interfund Loans & Transfers – Any interfund transfers and/or loans will be completed only after specific Council approval or inclusion in the approved annual budget.

Resources Greater than Budgeted Expenditures – Resources (fund balances) greater than budgeted expenditures in any fund shall be considered “one-time” resources and shall not be used to fund ongoing service delivery programs.

Budget Adoption Level – Budget adoption by the City Council shall be at the fund level. Any changes in appropriations at the fund level shall require City Council approval.

Full Time Equivalent (FTE) Budgeting – As a tool for Council consideration, all adopted budgets of the City will list the actual and proposed FTE allocation on a department/fund basis.

Public Safety Services – Public safety is a top priority, and as such, unmet needs in this area should have a priority over other service areas.

Current Service Levels – To aid in the prudent management of City affairs, City service levels will be established, monitored, and reviewed so a determination of required resources (both personnel and non-personnel) can be made for the ensuing budget year.

New Programs that are Primarily Funded by Additional Fees or Grants – New programs that are funded through a specific dedicated and/or restricted revenue source (i.e., non-tax revenue), will receive consideration.

Expenditures that Delay Future Cost Increases – When practical, resources should be allocated for selective expenditures whose purpose is to avoid even larger costs in the future.

Expenditures that Forestall Adding Permanent Staff - Recognizing that personnel-related expenditures represent the largest portion of the City's budget, methods to increase efficiency should receive priority funding if it can forestall the addition of permanent staff.

Future Fiscal Effect of Programs or Personnel – Whenever programs or personnel are proposed, the current and future fiscal impact (as reflected in the 6-year financial forecast) shall be determined and reported to the City Council to aid in their deliberations.

Commitments that Can Reasonably be Maintained Over the Long Term – Funding for new programs and services should be limited to the extent that they can be funded over the near-to-long-term given the current revenue stream.

Overhead and Full Cost Allocation – Department and Fund budgets shall be prepared in a manner that reflects the full cost of providing services.

Maintenance of Quality Service Programs – If expenditure reductions are necessary, elimination of selective services is preferable to across-the-board cuts.

Distinguished Budget Presentation – The City will seek to comply with the suggested criteria of the Government Finance Officers Association in producing a budget document that meets the Distinguished Budget Presentation program.

FORMULATION & APPROVAL OF BUDGETS

State law designates the timeline for budget formulation and adoption. The City of Ferndale will adhere to these guidelines while striving to complete the budget adoption process prior to the December 31 deadline. It shall also be the policy of the City to target adoption of the ensuing year budget by the end of November annually.

BUDGET LINE-ITEM TRANSFERS

The transfer of line-item budget authority shall be done administratively and approved by the Mayor when the following circumstances exist:

- The transfer does not alter the Department's (within Current Expense) or the Fund's total expenditures
- The transfer does not allow for the purchase of additional Capital Expenditures or Personnel
- The transfer equals less than 25% of the Department/Fund expenditure budget
- The transfer does not authorize a project, expenditure, or item not originally included within the approved budget.

Transfers between Departments and/or between Funds are not permitted. For those transfers that fit into the above criteria, City staff will report any such transfers to the City Council during the quarterly financial report. In addition, any transfers that exceed the administrative threshold listed above will only be considered during the City's quarterly budget amendment public hearing process or sooner if circumstances dictate.

BUDGET AMENDMENTS

Amending the City budget occurs whenever the requested changes will cause the existing appropriation levels for the Fund to change. This situation generally occurs when the City Council authorizes additional appropriation throughout the year. Budget amendments are completed through an ordinance that amends the original budget and states the sources of funding for the incremental appropriations.

It is the policy of the City of Ferndale to bring to the attention of the City Council, as they become apparent, any and all expenditures that are deemed necessary but not included in the original budget. In those instances, City staff will inform the Council if the additional expenditures can be accomplished within the existing budgetary authority of the fund or if a budget amendment is necessary. Nothing shall preclude City Administration from bringing to the attention of the Council any emergency expenditure that requires the expenditure of funds not included in the budget.

Furthermore, it is the intent of the City to include all additionally authorized expenditures in monthly budget amendments. City staff will review the need for budget amendments with the City Council and prepare budget amendments to the extent that they become necessary.

City of Ferndale
Financial Management Policies
Element #2

REVENUE, EXPENDITURE & RESERVE POLICIES

REVENUE POLICY

1. All revenues will be conservatively estimated as a basis for preparation of the annual budget.
2. Current revenues will be sufficient to support current expenditures.
3. All fees for service shall be reviewed on an annual basis.
4. Revenues of a limited or indefinite term will be used for capital projects or one-time operating expenditures to ensure that no ongoing service program is lost when such revenues are reduced or discontinued.
5. Grant applications to fund new service programs will be reviewed with due consideration being given to whether locally generated revenues will be required to support these programs when outside funding is no longer available.
6. Whenever possible, charges for services shall be set at an amount that reflects the actual cost of service delivery.

EXPENDITURE POLICY

1. Expenditures approved by the City Council define the City's spending limits for the upcoming fiscal year. The City will maintain an operating philosophy of cost control and responsible financial management.
2. Budgeted annual expenditures will be maintained within the limitations of annual revenues.
3. All interfund borrowings shall only be completed following approval by the City Council.
4. Short-term borrowings (less than 5 years and less than \$20,000) will not be done without full financial analysis and the Council shall be informed of all such borrowings. Such borrowings may include commercial lines of credit, equipment loans, and capital leases.
5. All long-term borrowings (greater than 5 years and \$20,000) shall include full life-cycle financial analysis and prior approval by the City Council.

6. All authorized positions will be budgeted for a full year and with the maximum allowable benefit rate unless specifically designated by the City Council as a partial-year position.

RESERVE & CONTINGENCY POLICY

Adequate reserve levels are a necessary component of the City's overall financial management strategy and a key factor in external agencies' measurement of the City's financial strength. Prudent use of reserve funds enable the City to defray future costs, take advantage of matching funds, and other beneficial (but limited) opportunities. Reserve funds provide the city with the ability to exercise flexible financial planning in developing future capital projects. Reserve funds are necessary to enable the City to deal with unforeseen emergencies.

General Fund Contingency Reserve – The City will establish a General Fund Contingency Reserve to meet any unforeseen municipal expense. This Fund will be considered a “rainy day” fund for the City. Annual contributions to this fund will be budgeted from Current Expense Fund resources. All expenditures from this fund shall have prior approval of the City Council. The target reserve fund balance shall be 10% of the Current Expense Fund's annual budgeted revenues (excluding transfers in and interfund loan repayments). By December 31, 2018, the target reserve fund balance (defined above) shall grow to 20% if new major retail sales come on line after 2012.

Facilities Capital Reserve – The City will establish a Facilities Capital Reserve Fund to address unforeseen City facilities capital expenditures. Annual contributions to the Facilities Capital Reserve Fund will be budgeted from Real Estate Excise Tax resources and/or Current Expense Fund resources. All expenditures from this fund shall have prior approval of the City Council. The target reserve fund balance shall be \$300,000. By December 31, 2018, the target reserve fund balance (defined above) shall grow to \$500,000 if new major retail sales come on line after 2012.

Unreserved Fund Balances – It is the City's policy to maintain an unreserved fund balance within all operating funds in a reasonable amount for emergency or unforeseen needs. The target ending fund balance shall be at least 10% of the budgeted revenues (excluding transfers in and interfund loan repayments) for the Current Expense Fund and at least 5% of the above defined budgeted revenues for the other City operating funds. For the Current Expense Fund, by December 31, 2018, the target reserve fund balance (defined above) shall grow to 20% if new major retail sales come on line after 2012.

Debt Service Funds – It is the City's policy to maintain, as a target, a one (1) year average annual debt service payment reserve for all debt except assessment debt, by December 31, 2018, if new major retail sales come on line after 2012.

City of Ferndale
Financial Management Policies
Element #3

CAPITAL IMPROVEMENT PLAN (CIP) POLICIES

CAPITAL IMPROVEMENT PLAN POLICIES

Ferndale's city government is accountable for a considerable investment in buildings, parks, roads, sewers, equipment, and other capital investments. The preservation, maintenance, and future improvement of these facilities are a primary responsibility of the City. Planning and implementing sound capital improvement policies and programs today will help the City avoid emergencies and major costs in the future. A number of important policy considerations are the basis for the Capital Improvement Plan (CIP).

1. The City will establish and implement a comprehensive multi-year CIP.
2. For each project on the CIP, both the anticipated costs (one-time or multi-year) and the anticipated revenue sources shall be listed.
3. The CIP will be prepared and updated annually.
4. Financial analysis of funding sources will be conducted for all proposed capital improvement projects to determine the adequacy and potentiality of revenues.
5. The CIP will be consistent with the Capital Facilities Element of the Comprehensive Plan.

Relationship of Long-Range Plans to the CIP – Virtually all of the projects included in the CIP are based upon formal long-range plans that have been adopted by the City Council. This ensures that the City's CIP, which is the embodiment of the recommendations of these individual planning studies, is responsive to the officially stated direction of the City Council. Examples of these long-range plans include: the City's 6-Year Street Plan; Water, Sewer, and Storm Comprehensive Plans.

CIP Coordinating Team – The CIP Coordinating Team is a cross-departmental team which participates in the review and recommendation of the CIP program to the City Council. The Team will review proposed capital projects in regards to accurate costing (design, capital, and operating) congruence with City objectives, and prioritize projects by a set of deterministic criteria. The Public Works Director will serve as the lead for the Team.

Establishing CIP Priorities – The City uses the following basic CIP project prioritization and selection process:

1. CIP priorities are established by staff in conjunction with City Council priorities and input from citizens, and associated City boards and commissions (if applicable).

2. Designated personnel within City departments recommend project expenditure plans to the CIP Coordinating Team.
3. The Finance Department determines revenue projections.
4. The CIP Coordinating Team evaluates the various CIP projects and selects those with the highest priority.
5. A Preliminary CIP is developed and is recommended to the City Council.
6. The City Council reviews the Preliminary CIP, holds a public hearing(s) as necessary, considers possible alterations, and then officially adopts the CIP.
7. Within available funding, the highest priority CIP projects are then selected and included in the annual budget.

Types of Projects Included in the CIP

The CIP will display, to the extent possible, all major capital improvement projects in which the City is involved. It is difficult to define precisely what characteristics a project would have before it is included or excluded in the CIP. However the following criteria will be used to guide the CIP Coordinating Team in determining projects for City Council review and approval:

1. A CIP project is generally defined to be any project that possesses ALL of the following characteristics:
 - A. The project or sum of components exceeds an estimated cost of \$50,000; and
 - B. Involves totally new physical construction, reconstruction designed to gradually and systematically replace an existing system on a piecemeal basis, replacement of a major component of an existing facility, or acquisition of land or structures; and
 - C. Involves City funding in whole or in part, or involves no City funds but is the City's responsibility for implementation, such as 100% grant-funded projects or 100% LID funded projects; and
 - D. Involves the skills and construction needs beyond those needed for a general repair and/or maintenance project.

Timing of CIP Preparation

The CIP shall be monitored on an on-going basis and shall be revised annually in conjunction with the annual budget of the City. The annual process of CIP development shall begin in May of each year when work on the City's 6-year Street Plan is begun. The annual CIP shall be included in the preliminary and final budget document of the City.

Predesign & Cost Estimations

For some projects, it is difficult to develop accurate cost estimates when no preliminary engineering or community contact has been performed. To address this problem, some CIP projects are initially proposed and funded for only preliminary engineering and planning work whose completion will refine the anticipated project construction costs

Project Timing, Cost and Scope

Every effort will be made to accurately estimate all project start dates, completion dates, cost and scope. The predictability of project timing may be important to specific private developers, such as the provision for street improvements or the extension of water and/or sewer lines, without

which development could not occur. As such, once a project has been included in the CIP, project scheduling is a priority.

CIP Maintenance & Operating Costs

CIP projects shall have a funding plan for maintenance and operating costs identified in the project description. These costs will be included in the City's long-range financial plan.

Preserve Existing Capital Infrastructure Before Building New Facilities

It is the City's policy to ensure that adequate resources are allocated to preserve the City's existing infrastructure before targeting resources toward building new facilities that also have maintenance obligations. This policy addresses the need to protect the City's investment in capital facilities and to avoid embarking on a facility enhancement program which, together with the existing facilities, we cannot afford to adequately maintain.

Balanced CIP Plan

The CIP is a balanced six-year plan. This means that for the entire six-year period, revenues will be equal to project expenditures and all sources of revenues to fund the projects will be specifically identified.

It is possible that, in specific years, expenditures will be more than revenues and that interim financing will be proposed to fund the shortfall. Over the life of the six-year plan however, all planned interim financing will be repaid and all plan expenditures, including interest costs, will be provided for with identified revenues. Any project funding plan, in which interim financing and/or debt is NOT retired within the current six-year plan, must have specific City Council approval to move forward.

Use of Debt in the CIP

The CIP is viewed as a long-term program that will continually address capital requirements far into the future. As such, the use of long-term debt should be minimized, allowing the City to put money into actual projects rather than into interest payments to financial institutions. There may be exceptions to this policy for extraordinary circumstances where debt must be incurred to achieve major City goals that otherwise could not be achieved, or would have to wait an unacceptably long time. Issuance of long-term debt must receive City Council authorization. Any debt envisioned to fund elements of the CIP shall include a description of the dedicated funding for serving debt payments.

Development of "Mini CIP" list

Realizing that a complete listing of all anticipated capital improvement projects serves the needs of the City, it is the policy of the City to maintain a "mini CIP" consisting of projects that, due to their dollar amount (less than \$50,000), are not included on the annual CIP. This mini CIP list will include those project that otherwise would be included on the CIP if not for there relatively low dollar cost. This list will be for management use and will not include anticipated funding sources or detailed timelines.

City of Ferndale
Financial Management Policies
Element #4

DEBT MANAGEMENT POLICY

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy perspective, the City of Ferndale uses debt in two ways: 1) As a mechanism to equalize the cost of needed improvements between present and future citizens; and 2) As a mechanism to reduce the annual costs of substantial public improvements.

The basic objectives of the City's debt management policies are to:

1. Achieve the lowest possible cost of borrowing.
2. Ensure access to capital markets to adequately provide the long-term financial needs of the City.
3. Be received by the markets as a strong and sound credit which has fully demonstrated its commitment to meet all obligations in a timely fashion.
4. Monitor and control capital spending in such a way so that capital market entry can be planned.
5. Maintain a level and structure of outstanding indebtedness that does not lead to erratic and excessive debt service requirements, thereby avoiding unnecessary strain on the operating budgets.
6. To smooth the use of debt so that debt service payments will be predictable and manageable part of the operating budget.
7. To plan for entry into the capital markets to coincide with the long-term financial needs of the City as presented in the Capital Improvement Plan.

To carry out these objectives, the following debt management policies are adopted:

1. City Council approval is required prior to the issuance of debt.
2. The City will use the services of certified and credible legal counsel and underwriting firms in the preparation of all long-term debt representations.
3. The City will not use long-term debt to support current operations.
4. Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.

5. Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
6. The repayment term for long-term shall be for a period not to exceed a conservative estimate of the asset's useful life.
7. Noncapital furnishings, supplies, and personnel will not be financed from long-term debt proceeds.
8. When restructuring its current outstanding debt, the City will use refunding bonds or other instruments where appropriate.
9. To assure the greatest degree of equity and specific benefit, assessment debt will be issued in place of general obligation debt where feasible.
10. Under most circumstances, the maturity of assessment debt shall not exceed 15 years and the maturity of general obligation debt shall not exceed 20 years.
11. To be considered for long-term debt financing, the project shall be included on the City's Capital Improvement Plan.

City of Ferndale
Financial Management Policies
Element #5

CASH MANAGEMENT & INVESTMENT POLICY

1. Purpose

The purpose of this Policy is:

- To establish investment objectives and parameters necessary to safeguard public funds entrusted to the City of Ferndale.
- To articulate the intent of the City Council's governance of City investments.
- To communicate clear policy and strategy guidelines for City investment administration.
- To demonstrate to citizens, taxpayers and voters a transparent and accountable stewardship plan.

2. Policy

It is the policy of the City of Ferndale to invest public funds in a manner which, giving first regard to safety and liquidity, will provide the highest investment return while meeting the daily cash flow demands of the City and conforming to all state and local statutes governing the investment of public funds.

3. Scope

The investment policy applies to all financial assets of the City of Ferndale. These funds are accounted for in the City's Comprehensive Annual Financial Report and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Debt Service Funds
- Enterprise Funds
- Internal Service Funds

Except for funds in certain restricted and special funds, the City of Ferndale commingles its funds to maximize investment earnings and to increase efficiencies regarding investing pricing, safekeeping, and administration.

4. Authority to Invest

Delegation of Authority. This policy provides for accountability and transparency to City Council, who authorizes the Finance Director or their designee, to engage in investment-related transactions within this policy without prior approval. The Finance Committee may review and conduct oversight of transactions and quarterly reporting prior to City Council review and approval. Management responsibility for the investment program is delegated by the Mayor to the Finance Director, who shall establish procedures for investment activities and a system of controls consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director shall be responsible for all transactions undertaken.

5. Objectives

While the City recognizes that no investment is without some element of risk, the prime objectives of the City of Ferndale's investment activities shall be the suitability of every investment to the financial requirements of the City, considering, in this specific priority order:

- **Safety:** Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of principal in the overall portfolio while remaining in compliance with the RCWs. Each investment transaction shall be conducted in a manner to avoid principal loss arising from security default, institution default, broker-dealer default, safekeeping fraud, or the avoidable loss on the premature sale of an investment.
- **Liquidity:** The investment portfolio will be structured to meet all expected obligations (including anticipated capital projects as defined by the City's six-year CIP) in a timely manner, to avoid premature sales of an investment at a loss of principal. This is to be achieved by comparing investment maturities with forecasted cash flows and maintaining sufficient liquidity for contingencies across all funds. A 3-to 5-year historical liquidity trend history, combining the City's main checking account, LGIP, and the investment portfolio, will clearly indicate annual seasonal low cashflows.
- **Yield, or Return on investment:** The investment portfolio shall be designed with the objective of attaining as high a rate of return as prudently possible having first satisfied the objectives of Safety and Liquidity.

6. Prudence

The standard of prudence to be used by investment officials shall be the "prudent investor standard," which, as enacted by State Statute (RCW 11.100.020), says:

- 1) A trustee shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. In satisfying this standard, the trustee shall exercise reasonable care, skill, and caution.
- 2) A trustee's investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.
- (3) Among the circumstances that a trustee shall consider in investing and managing trust assets are the following as are relevant to the trust or its beneficiaries:

- (a) General economic conditions
- (b) The possible effect of inflation or deflation
- (c) The expected tax consequences of investment decisions or strategies
- (d) The role that each investment or course of action plays within the overall portfolio, which may include financial assets, interests in closely held enterprises, tangible and intangible personal property, and real property
- (e) The expected total return from income and the appreciation of capital
- (f) Other resources of the beneficiaries
- (g) Needs for liquidity, regularity of income, and preservation or appreciation of capital
- (h) An asset's special relationship or special value, if any, to the purposes of the trust or to one or more of the beneficiaries

(4) A trustee shall make a reasonable effort to verify facts relevant to the investment and management of trust assets.

(5) A trustee may invest in any kind of property or type of investment consistent with the standards of this section.

(6) A trustee who has special skills or expertise or is named trustee in reliance upon the trustee's representation that the trustee has special skills or expertise, has a duty to use those special skills or expertise.

Investment officers acting in accordance with the written procedures and exercising due diligence shall be relieved of personal responsibility for individual security's credit risk or marketplace changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

7. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from, or disclose, personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Officers and employees shall subordinate their personal interests to those of the City, particularly regarding the time of purchases and sales.

- **Disclosure.** Investment officials and employees shall disclose in writing to the City Administrator any material financial interests in the financial institutions to conduct business within this jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the portfolio. Officers and employees shall refrain from, or disclose, any personal investment transactions with the same agents with whom business is conducted on behalf of the city and shall avoid, or disclose, transactions that might impair public confidence.

8. Authorized Financial Dealers and Institutions

- **Brokers.** When establishing a new relationship with a broker/dealer, to be eligible to do business with City, a broker/dealer must provide a Broker/Dealer Questionnaire that includes the following: audited financial statements, current securities-related licensing; proof of registration and licenses held with the Financial Industry Regulatory Authority (FINRA); proof of registration with the State of Washington Securities Division; provide current active municipal client references; and certification of having read the City's current investment policy.
- **Banks.** Banking services, depository accounts and certificates of deposit, as required by state law, (RCW 39.58), may be contracted only with those institutions approved by the Washington Public Deposit Protection Commission (PDPC)

9. Authorized Investments.

State statutes permit local governments in the state of Washington only the specific investments permitted by state law, limited to the following:

- A. The primary investment instruments expected to be utilized in the City's Investment Portfolio are:

- State of Washington Local Government Investment Pool (LGIP), the public funds investment accounts for investment and reinvestment by the state treasurer; RCW 43.250.040.
- Treasuries. Certificates, notes, or bonds of the United States, or other obligations of the United States or its agencies, or of any corporation wholly owned by the government of the United States; or United States dollar denominated bonds, notes, or other obligations that are issued or guaranteed by supranational institutions, provided that, at the time of investment, the institution has the United States government as its largest shareholder; RCW 39.59.040 (4).
- Agencies. U.S. Government Agency obligations and U.S. Government Sponsored Enterprises (GSE's, which may include Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Tennessee Valley Authority (TVA)) or the obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the federal reserve system; RCW 39.59.040 (5)
- Non-negotiable Certificates of Deposit of financial institutions which are qualified public depositories as defined by RCW 39.59 and in accordance with the restrictions therein.
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B. The following secondary investment instruments are not expected to be routinely utilized in the City's Investment Portfolio but are also authorized by State statute and should be disclosed and explained in monthly reporting:

- Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
- General obligation bonds of a state other than the State of Washington and general obligation bonds of a local government of a state other than the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.
- Corporate notes purchased on the secondary market; with a minimum credit quality rating of upper medium investment grade - at least A by Standard and Poor's, A2 by Moody's, or A by Fitch - on the date of purchase. RCW 39.59.040 (8) and Washington State Investment Board Policy No. 2.05.500.

10. Prohibited Investments

Equities (stocks), Collateralized mortgage obligations, Money market mutual funds, Inverse Floaters, Negotiable Certificates of Deposit, Repurchase and Reverse Repurchase Agreements, and Cryptocurrency are not authorized.

Any investment type not expressly permitted in this policy is ineligible.

11. Diversification

Investments in securities shall not exceed the following percentages of the portfolio at time of purchase:

State Local Government Investment Pool	100%
Treasury Securities	
Government Sponsored Agency Securities	100%, (40% per issuer)
Corporate notes	
Commercial Paper	15%, lesser of 2% or \$1 million per issuer
Same-State/Local Securities	
Certificates of deposit	10%, lesser of 2% or \$250,000 per issuer
Other-State/Local Securities	5%, lesser of 2% or \$1 million per issuer

12. Maximum Maturities

- Staggered maturities are to be a component of the diversified investment strategy, employed to minimize reinvestment risk due to rate fluctuations building a reasonably laddered maturity schedule
- The average maturity of the portfolio will not exceed 2.5 years, including cash in depository accounts and the state investment pool. (For the purposes of this calculation, the maturity date of callable securities will be the final maturity date)
- The expected and final maturity of any security will not exceed 5 years at time of purchase unless otherwise authorized or specified by Council

13. Collateralization

Depository Collateral. State statute (RCW 39.58) requires that all deposits of public funds be made with qualified public depositaries, protected through the actions of the Public Deposit Protection Commission (PDPC), comprised of the State Treasurer, Governor and Lieutenant Governor. State law requires that all deposits of public funds over and above federally insured amounts (including Certificates of Deposit) be collateralized in accordance with regulations of the PDPC. All collateral is regulated by the PDPC. The PDPC ensures public funds deposited in banks are protected should a financial institution become insolvent. The names of authorized public depositaries may be found on the State Treasury website.

14. Safekeeping and Custody

Security transactions entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis.

Securities will be held by a third-party custodian designated by the Finance Director, or their designee, and evidenced by safekeeping reports which will be reconciled monthly to the portfolio. Third-party custodial reports shall be required monthly, to list, at a minimum, each individual security, CUSIP, purchase date, cost, market value, par value, and maturity date.

15. Internal Controls

The Office of the State Auditor requires that in accordance with RCW 43.09.260, the City must undergo annual financial examinations performed by State Auditors. Investment management is to be included as part of the annual independent audit to ensure compliance with this investment policy.

The City's internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or unanticipated changes in financial markets. Controls which the City deems important include, but are not limited to:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Written confirmation of authority for investments and wire transfers
- Supervisory authority of employee actions
- Minimize the number of authorized investment officials

16. Performance Standards / Benchmark

The Investment portfolio will be designed to obtain a market average return rate during economic cycles, taking into account investment risk constraints and cash flow needs. A market benchmark will be established to compare risk and return of each investment portfolio. The earnings benchmark will be the Local Government Investment Pool and longer-term rates such as the average two-year treasury rate over time.

17. Reporting & Disclosure

Quarterly Reports. The Finance Director shall make a quarterly report on all treasury activity to the Finance Committee. (RCW 35.39.032)

The treasury report should provide a summary of the current investment portfolio, and the individual transactions executed to show holdings and activities during the reporting period conform to the investment policy. The report should include the following:

- An asset listing showing par value, cost and market value, type of investment, issuer, days to maturity and interest rate of each security
- Average days to maturity of the portfolio
- Maturity distribution of the portfolio and distribution by type of investment
- Credit quality of portfolio holdings
- Average weighted yield to maturity of portfolio on investments
- Performance comparison to benchmark

18. Investment Strategy

Buy and Hold. As a strategy, the City of Ferndale's investment holdings will not be actively traded. Investments purchased with the intent of providing investment income shall be intended to be held to maturity. The portfolio will be structured in a way that provides liquidity while minimizing risk of loss. Securities may be sold before they mature if market conditions present

an opportunity for the City to capture a benefit or to avoid a risk, but the strategy will be primarily buy-and-hold.

Portfolio Segmenting. The Safety Segment of the Portfolio is held primarily in the City's depository bank. The Liquidity Segment of the portfolio is held primarily in the State LGIP. The Yield Segment of the portfolio is invested in a laddered portfolio comprised of Agencies, Treasuries and other authorized investments.

19. Investment Policy Review, Approval and Adoption

The City of Ferndale's investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed annually by the Finance Director and any significant modifications must be approved by City Council.

City of Ferndale
Financial Management Policies
Element #6

ACCOUNTING & FINANCIAL REPORTING POLICY

The City of Ferndale recognizes the need for ensuring accountability for the collection, management, and expenditure of all public funds under its jurisdiction. To this end, a basic City accounting system and policy has evolved with a number of critical objectives including:

- Accountability for money and property under control of the city
- Compliance with governing laws, ordinances, and procedures
- Providing timely and accurate information on the financial status of the City
- Maintaining financial systems to monitor expenditures, revenues, and financial performance of all municipal programs
- Reporting and providing information to City officials, City Council, and taxpayers.

To further these objectives, the following policies are adopted:

1. The City of Ferndale will establish and maintain a high standard of accounting practices. The City reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting, and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.
2. A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.
3. The City will meet the financial reporting standards set by the Governmental Accounting Standards Board (GASB) for Cash Basis Cities.
4. Full disclosure will be provided in all City financial reports and bond representations.
5. An annual audit will be performed by the State Auditor's Office to include the issuance of a financial opinion.
6. A comprehensive accounting system will be maintained to provide all financial information necessary to effectively operate the City.

7. The City will meet the financial reporting standards set by the Governmental Accounting Standards Board (GASB) for Cash Basis Cities.
8. Full disclosure will be provided in all City financial reports and bond representations.
9. An annual audit will be performed by the State Auditor's Office to include the issuance of a financial opinion.

City of Ferndale
Financial Management Policies
Element #7

GENERAL UTILITY POLICIES

The City will establish enterprise funds (i.e. – utility funds) when the following conditions exist:

1. The intent of the City is that all costs of providing service should be financed primarily through user charges, and
2. The fund purpose will be to account for City-operated utility services.

Fiscal Stewardship – It is incumbent on utility fund management that complete and accurate fiscal management of utility operations be provided to allow management to make prudent fiscal decisions.

Self-sufficient Funding – Each utility shall remain a self-supporting enterprise fund. The revenues of each utility fund come from customer charges based upon established rates. State law requires that utility funds be only used for utility purposes. Since each utility has somewhat differing service areas, it is essential for rate payer equity that they are kept financially separate and accountable.

Comprehensive Planning Policies – Comprehensive Plans for Water and Sewer Utilities shall be completed or updated every six (6) years, using a 20-year planning horizon or greater and considering life-cycle costs to identify funding needs. Comprehensive Storm, Flood, and Surface Water Plans will be completed and updated as required using similar criteria for planning infrastructure needs.

Capital Investment Program Policies – The Utilities CIP will provide sufficient funds from a variety of sources for implementation of both short-term and long-term capital projects identified in each Comprehensive Plan and the City-wide CIP as approved by the City Council.

Funding Levels – Funding for capital investments shall be sustained at a level sufficient to meet the projected 20 year capital improvement needs as outlined in the Comprehensive Plan(s). The primary on-going source for future capital improvement needs shall be from Capital Connection Fees.

Funding from rate revenues shall fund current operations and to the extent possible, debt service. Rate revenue shall be set at a level that can sustain operational costs as determined by the 6-year financial forecast model.

Use of Debt – The utilities should fund future capital investments from amassed Capital Connection Fees to the extent possible. Customers will pay less over the long-term if debt is avoided. However, the use of ultra low interest debt such as the Public Works Trust Fund loans, by offering repayment terms below market rates, below investment earnings, or even inflation, should be viewed as a form of extreme low interest financing. When available, such sources should be preferred over other forms of debt funding and may be used instead of using existing

capital reserves. In those instances where capital reserves would generate more in interest earnings than the alternative cost of the loan, the City's customers would be assumed to benefit from incurring such debt.

Debt Service Funds – Utility Debt Service Funds will maintain, as a target, a one (1) year average annual debt service payment reserve.

Operating Reserves – For all utility funds, an operating reserve shall be established – See the UTILITY OPERATING RESERVE POLICIES section for more information. This operating reserve shall be carried as beginning/ending fund balance within each utility fund. Sources of operating reserves shall primarily be from rate revenue in excess of current operating needs.

Capital Improvement Reserves – For all utility funds, a capital improvement reserve shall be established – See the UTILITY CAPITAL RESERVE POLICIES section for more information. Revenues of the Utility Reserve Fund may include one-time transfers from the utility operating funds, unplanned revenues from other sources, Capital Connection Fees, and interest earned on existing monies.

Monies from the Utility Reserve Fund shall be used for improvements identified in the Utility CIP. Because these funds are invested, they may be loaned for other purposes provided repayment is made at appropriate interest rates.

The intent of the Utility Reserve Fund will be to accumulate large levels of funds in advance of major expenditures. These funds will provide rate stability over the long-term when used for capital improvement purposes and should not be used for rate relief since this could lead to the need for the use of excessive debt to fund the actual capital improvement needs when they occur.

UTILITY SYSTEM EXPANSION AND CONNECTION POLICIES

Responsibilities – Those seeking or who are required to have utility service are responsible for extending and/or upgrading the existing utility system(s) prior to connecting. The extensions or upgrades must be constructed to City standards and requirements. This can be accomplished through the use of a Developer Extension Agreement together, when appropriate, with a Latecomer Agreement.

When the cost to extend and/or upgrade the system to accommodate development or redevelopment is beyond the means of a single developer and when there is benefit to areas in addition to those to be served by the extension/upgrade, the City may employ alternative means of financing the improvement including the formation of Local Improvement Districts and/or through the use of capital surcharge fees.

Cost Recovery – All utilities shall establish fees and charges to recover utility costs related to development services and capital facilities that provide services to a property developer. The intent of this policy is to fully recover these costs, so as to reimburse the general rate payer. The utility may enter into Latecomer Agreements with developers for recovery of their costs for capital improvements, which benefit other properties in accordance with State law. The utility shall add an administrative charge for this service.

Use of Revenues – All capital-related revenues such as Capital Connection Fees, Latecomer Agreement administrative charges, and interest earned on these funds, if possible, will be deposited into the Utility Capital Reserve Fund.

UTILITY RATE POLICIES

Rate Levels – Rates shall be set at a level sufficient to cover current and future expenses and operating reserves consistent with these policies and long-term financial forecasts. Changes in rate levels should be gradual and uniform. Cost increases or decreases for wholesale services shall be passed directly through to Ferndale customers. At the end of the budget cycle, fund balances that are greater than anticipated may be transferred into the Utility Capital Reserve.

Debt Service Coverage Requirements – Existing revenue bond covenants legally require the City's utilities to generate more in rate revenue than is needed to actually cover the required debt service – this is referred to as “debt coverage”. While there are different debt coverage ratios, the more restrictive ratio relates to coverage without the inclusion of Capital Connection revenues. With this said, it is the policy of the City to set the debt service coverage ratio (excluding connection fees) at a minimum of 1.25 and a target of 2.00 for all debt. This policy will help ensure that the necessary coverage requirements are met, and that sufficient coverage is available if the utility needs to incur additional debt.

Frequency of Rate Increases – Utility rates shall be evaluated annually and adjusted to meet budgeted expenses including wholesale cost increases and to achieve financial policy objectives.

Utility Rate Equity – The rate structure shall fairly allocate costs among the different customer classes. Funding of the long-term CIP also provides for rates that fairly spread costs over current and future customers.

Rate Uniformity – Rates shall be uniform for all utility customers of the same class and level of service throughout the service area. However, special rates or surcharges may be established for specific areas both within and outside of the current Ferndale City limits.

Rate Assistance – Rate assistance programs shall be provided for specific low-income customers as permitted by State law

GENERAL UTILITY RESERVE POLICIES

It shall be the policy of the City of Ferndale to have two (2) separate utility reserve funds – an Operating Reserve Fund that will be included in beginning/ending fund balance within the utility fund and a Capital Reserve Fund that will be a separate fund from the utility fund.

Realizing that funding for both the Operating Reserve Fund and the Capital Reserve Fund may come from rate revenues as well as other sources, the management of the utilities and the resulting customer rates and other charges will need to be sufficient to cover: A) current year operating needs, B) current year contributions to Operating Reserves, and C) current year contributions to Capital Reserves.

UTILITY OPERATING RESERVE POLICIES

Operating Reserve Fund These reserves shall be carried as beginning and ending cash and investments and as such, will become part of the annual determination of total resources available for appropriation. Setting aside these budgeted resources in the fund's beginning/ending fund balance will help ensure continued rate stability and will protect utility customers from service disruptions that might otherwise result in unforeseen economic or emergency events.

The operating reserves are defined in terms of the following three (3) separate components:

- Working Capital Reserve – Used to accommodate normal cyclical financial fluctuations within the bimonthly billing cycle and during the budget year. By having a Working Capital Reserve within beginning/ending fund balance, we can assure the utility's ability to fully pay all vouchers submitted for payment on a timely basis.
- Operating Contingency Reserve – Protects against adverse financial performance due to variations in revenues or expenses. Since utility revenues are directly related to variations in water demand, an Operating Contingency Reserve protects the financial health of the utility brought about by unforeseen changes in utility demand.
- Plant Emergency Reserve – Provides financial resources for protection against system failure at some reasonable level. This reserve component of beginning/ending fund balance is not meant to provide funds to recover from a major disaster (flood, earthquake, etc.) but is rather embedded in fund balance to provide funds in the event of a major break or component failure.

Operating Reserve Levels – The following Operating Reserve minimums and targets are established for the three (3) components listed above:

- Working Capital Reserve – A minimum of one (1) month's average utility expenses and a target of three (3) month's average utility expenses is set for this component.
- Operating Contingency Reserve – A minimum of (1) month's average utility expenses and a target of two (2) month's average utility expenses is set for this component.
- Plant Emergency Reserve – A minimum of (1) month's average utility expenses and a target of two (2) month's average utility expenses is set for this component.

Management of Operating Reserves – A working range of operating reserves is established with a minimum and maximum target level. Management of reserves will be based on the level of reserves with respect to the following thresholds. The primary source of operating reserves shall be rate revenue.

- Above Target – Operating reserve levels will be reduced back to the target level by transferring excess to the Capital Reserve Fund or modifying the utility rates.
- Between Minimum and Target – Rate increases would be imposed sufficient to ensure that: 1) operating reserves would not fall below the minimum; and 2) operating reserves would recover 50% of the shortfall from target levels in a normal year.
- Below Minimum – Rate increases would be imposed sufficient to ensure that even with adverse financial performance, operating reserves would return to at least the minimum at the end of the following year. To meet this “worst case” standard, a year of normal performance would be likely to recover operating reserve levels rapidly to target levels.
- Negative Balance – Reserves would be borrowed from another fund to meet operating reserve needs (working capital). Similar to the “below minimum” scenario, rate increases would be imposed sufficient to ensure that even with adverse financial performance, operating reserves would return from the negative balance to at least the minimum target at the end of the following year, which would allow for loan repayment within that time frame.

UTILITY CAPITAL RESERVE POLICIES

Capital Reserve Fund – The utilities annual budget recommendations (including estimated number of new connections) shall provide funding for capital reserves. The purpose of capital reserves shall be for the ongoing expansion and/or major maintenance and improvement to the utility’s infrastructure. Infrastructure expansion is primarily driven by expanded customer base while major improvements and maintenance to existing infrastructure are a function of age and use. The primary source of capital reserves shall be from Capital Connection Charges.

The capital reserves are defined in terms of the following two (2) separate components:

Infrastructure Expansion – Driven primary by population increases, the need to fund future system expansion has brought about the institution of Capital Connection Fees. Under this funding scenario, “growth is paying for growth”.

Infrastructure Maintenance/Improvement – The replacement and/or improvement to existing infrastructure is primarily driven by the age of the system and usage by the existing customer base. As a result, the funding of infrastructure should be derived primarily from rate revenue and secondarily from Capital Connection Fees.

Capital Reserve Levels – The following Capital Reserve minimums and targets are established for the two (2) components listed above:

- Infrastructure Expansion Capital Reserve – A minimum of 50% of the annual Capital Connection Charges is established with a maximum target of 100% of the annual Capital Connection Charges. There is no maximum amount set for Infrastructure Expansion Capital Reserve balances.
- Infrastructure Maintenance/Improvement Capital Reserve – A minimum annual contribution of 10% of the annual expenditure budget and a target of 20% of the annual expenditure budget is set for this component. A maximum balance of 50% of the utility fund's annual expenditure budget is set for Infrastructure Maintenance/Improvement Capital Reserve balances.

Management of Capital Reserves – A working range of capital reserves are established with a minimum and maximum target level. Management of reserves will be based on the level of reserves with respect to the following thresholds:

- Above Target – No action will be taken on rates or Capital Connection Charge amounts. Excess Capital Connection Charges may remain in the operating fund to mitigate rate increases, while maintaining bond coverage covenant requirements.
- Between Minimum and Target – Rate increases or increases in the Capital Connection Charge would be imposed sufficient to ensure that annual contributions to the capital reserves would not fall below the minimum.
- Below Minimum – Capital Connection Charges and/or Rates would be increased so that, given revised estimations of actual annual new connections; the minimum annual contributions to the Capital Reserve Fund would be achieved.

Establishment of Minimum Operating and Capital Reserve Targets – Monetary targets and estimated new connections needed to achieve the minimum annual reserve amounts will be reviewed and adjusted annually as part of the City budget process.

City of Ferndale
Financial Management Policies
Element #8

PURCHASING CARDS/ CREDIT CARDS

APPLICABLE TO: All City Departments, employees, temporary and contracted employees, city approved volunteers, and elected officials.

APPLICABLE STATUTES

RCW 43.09.2855 authorizes local governments to use credit cards for official government purchases and acquisitions. It requires that the legislative body adopts a system to manage card and associated transactions and prohibits cash advances on the cards.

1. POLICY STATEMENT

The City seeks to establish a Purchase Credit Card Program that results in an efficient and effective method of making purchases and payments. By using Purchasing Cards, the City has the opportunity to increase efficiency and cut costs by significantly reducing the use of paper purchase orders and paper checks. In addition to eliminating the cost incurred by ordering supplies and stamps, using Purchasing Cards should also reduce staff time, increase efficiency, and reduce errors. Purchase card programs consistent with State contracts have shown to result in a more concise and improved process as compared to traditional purchasing methods, via a streamlined coding and approval method from employee to Department Head.

2. PURPOSE

The purpose of this policy is to establish guidelines for the operation of the Purchase Card program, identify the roles and responsibilities of personnel involved in the management of Purchase Cards, to protect against, and reduce risk of fraud, and to ensure that the use of Purchase Cards follows compliance with procurement and contracting requirements and state and federal laws and regulations.

3. PROGRAM ADMINISTRATION

The City Administrator designates authority to the Finance Director, and more specifically, to the Deputy Treasurer, for the purpose of:

- Establishing the rules and procedures of the Purchase Card program.
- Issuing credit cards.
- Managing user compliance with rules and procedures and terminating credit cards when necessary.
- The Finance Director has the authority to assume all Program Administration responsibilities, or to re-designate some or all of these responsibilities within the Finance Department. The City Administrator retains all authority to designate responsibilities to other departments, or to assume all responsibilities.

Only the Finance Director or Deputy Treasurer is authorized to approve and establish credit card accounts for the City of Ferndale.

4. ELIGIBILITY

With Department Head approval, a Purchase Card may be issued to any employee, regardless of employment status (full-time, part-time, or probationary employee). Each cardholder must sign a Cardholder Agreement before the credit card is issued.

5. PURCHASE LIMITS

The cardholder limit will be set as deemed necessary for ongoing business needs. A Department Head may request a limit to be reviewed and approved by the Finance Department if appropriate. In general, the Finance Department will seek to maintain ongoing limits necessary to meet business needs and will seek to approve time-limited spending limit increases for specific one-time purchases, rather than to increase ongoing spending limits based on unique or one-time expenditures.

It is vital that the City takes immediate steps when fraud is identified or suspected. The Finance Department has the authority to suspend any card without notice in case of fraud or suspected fraud. All final decisions to revoke a card from a cardholder will be the authority of the City Administrator. The use of temporary and digital cards (also known as Ghost cards) may be issued on a limited basis and when a cardholder has a one-time purchase. The Finance Department has the ability to set restrictions on purchase limits and valid date ranges before expiration. Ghost cards may also be issued for certain vendors such as, but not limited to, utilities, fuel and reoccurring monthly expenditures.

All purchase card purchases shall be made consistent with established City spending limits, i.e., the use of a purchasing card shall not eliminate the responsibility of the purchaser to receive necessary approvals for purchases above the spending limit described by the City's overall purchasing policies.

6. CARDHOLDER LIABILITY

The use of the Purchase Card is limited to authorized purchases on behalf of the City of Ferndale. All purchases must be in compliance with the City of Ferndale's Purchasing Policies, the Ferndale Municipal Code, and state and federal laws.

In addition, Purchase Cards must not be used in any manner below:

- Splitting purchases to circumvent the daily or monthly purchase limits on a card or to avoid competitive bidding limits
- Cash Advances or ATM Withdrawals
- Items for personal use
- Alcoholic beverages
- Illegal purchases, wagers, or similar activities

7. REQUIRED DOCUMENTATION

The cardholder is responsible for obtaining original receipts, order confirmations, or any other supporting documentation for each purchase made with a Purchase Card. The documentation

must include details of what was purchased along with the date and total cost. A digital or hard copy of the receipt or order confirmation is sufficient, and no other materials will be required, i.e. purchase order or voucher. The City shall retain any Purchase Card documentation relating to the credit card transactions for six years. Each department will be responsible for keeping digital or hard copies of backup documentation in an organized way that best suits the department or should coordinate with the Finance Department to ensure that a centralized storage location for backup documentation addresses the needs of the respective departments, the Washington State Auditor's office, and other applicable laws and regulations. All backup documentation should be available upon request.

8. AUDIT

All credit card transactions and receipts are subject to review by the Finance Department, as well as auditors checking for compliance. Periodic reviews or audits may be performed to protect against and reduce the risk of fraud.

9. FRAUDULENT USE OF CREDIT CARD

Any fraudulent use of the Purchase Card by others must be reported immediately to US Bank, the Department Head and the Finance Department. Purchase Cards are considered the property of the City of Ferndale, and every effort must be made to protect the credit card and its usage.

Any fraudulent use of the Purchase Card by an employee may be subject to disciplinary measures up to and including termination, legal action, suspension and/or revocation of the card and/or direct payroll deduction for any unauthorized or personal charges made on the Purchase Card. The City Administrator will have sole authority to determine the severity of disciplinary action regarding fraudulent charges on a Purchase Card.

I hereby acknowledge receipt of a copy of the “CITY PURCHASE CREDIT CARDS POLICY” dated 4/17/2023 and acknowledge my responsibility to review and be familiar with the contents thereof.

Employee Signature

Employee Printed Name

Date

*(Return one signed copy of this form to the City Clerk's Office/Human Resources.)***City of Ferndale, Washington**

City of Ferndale
Financial Management Policies
Element #9

SMALL AND ATTRACTIVE ASSETS
POLICY AND PROCEDURES

1. POLICY

It is the policy of the City to maintain accountability over all tangible assets that may have the likelihood of disappearing without being immediately noticed. Each department should maintain records to be verified during a physical inventory audit at least once a year and provide an electronic list to the Finance Director or their designee(s) for monitoring differences between years.

2. PURPOSE

A small and attractive asset system gathers information allowing investigation of assets missing that would otherwise not be immediately noticed. The system should provide adequate stewardship over its resources through control and accountability.

3. GENERAL

Small and attractive assets are defined by the City as assets that do not meet the minimum capitalization threshold. These assets have a purchase price of over \$750, but less than \$5,000, and have a life expectancy of more than one year and are considered either concealable or portable, meaning the assets are small enough to fit into one's pocket, bag, briefcase or backpack, or are medium-sized and can be easily carried. Examples include laptops, tablets, video and sound equipment, police weapons, tools and equipment, and cell phones. Assets that are considered small and attractive, and kept as spares for quick installation to keep operations running are subject to reporting requirements- regardless of whether they are immediately installed.

Assets that are not tracked by this category, but which meet some of the definitions for small and attractive assets include but are not limited to installed electronics or other equipment which require tools for removal. Assets which are tracked on the IT inventory shall not be covered by this policy.

The City's IT provider shall submit a list of IT-managed assets, including where possible, the physical location of such assets to the City Administrator and Finance Director by April 1st of every calendar year. This list shall be distributed to Department Heads or their designee(s), and it shall be the responsibility of the Department Head or their designee(s) to physically locate all IT assets that have not previously been located by the IT provider.

4. RESPONSIBILITY OF DEPARTMENT HEAD OR DESIGNEE(S)

Department Heads or their designee(s) shall coordinate a physical inventory once per calendar year by an assigned employee from the Finance Department to maintain separation and accountability. An electronic copy of the audited physical inventory list will be provided to

the Finance Director upon completion. Department Heads or their designee(s) are responsible for ensuring proper disposal and recording of assets in accordance with city policy.

5. ASSET IDENTIFICATION

The list will contain the serial number, model number, or other identifying information. Whenever feasible, each piece of property will be tagged, engraved, or marked with the City's name. Such markings will be removed or obliterated only when the asset is properly recorded and removed from the inventory for any reason.

6. PROCEDURES

A. Additions

Each Department Head or their designee(s) shall be responsible for maintaining small and attractive assets inventory lists for their department. At a minimum, the list must include asset description, unique identifier (such as a serial number), purchase date, cost, vendor, location, and both a disposal method and date (when applicable). Departments shall note “small and attractive” on invoices, vouchers, or by comment (if purchased with a city purchase card), to indicate the purchase was added to the department inventory list.

The Finance Department will verify that purchases appearing to be small and attractive have been properly noted (on invoice, voucher, or purchase card comment), but will not be responsible for verifying that accurate and complete information is added to department lists. The Finance Department will maintain a condensed master list of all department assets and will only be required to list an asset description, purchase date, cost, and department location. The master list will be used to reconcile annual department lists during a physical inventory audit to monitor differences between years.

B. Deletions

Assets previously acquired will eventually be disposed of and need to be removed from the department's inventory list. Deletions may be required due to the sale of an asset, scrapping, mysterious disappearance (lost or stolen), damaged beyond salvage, or involuntary conversion (fire, flood, etc.). The Department Head or their designee(s) controlling the asset is the only one authorized to remove an asset from their inventory list. Assets disappearing mysteriously may require additional reporting to the Police Department, City Administrator, Finance Director, Administrative Services Director, and insurance company.

Deletions occurring due to natural disasters would require reporting to the insurance company for an eventual reimbursement claim. It will be considered good practice for departments to review their small and attractive assets list for items that may have changed considerably in value over time and are no longer within the monetary threshold to replace.

Department Heads or their designee(s) must obtain an Asset Disposal form from the Deputy City Clerk for proper disposal of an asset (Exhibit A).

C. Lost or Stolen Assets

Whenever an asset has mysteriously disappeared and all efforts have failed to recover it, the controlling Department Head or Designee(s) shall notify the Police Chief, City Administrator, Finance Director, and Administrative Services Director. Ninety days after notification, if the

asset has not been found, the Department Head or their designee(s) will send a memo informing all previously mentioned parties and complete the necessary forms.

Department Heads or their designee(s) must obtain an Asset Disposal form from the Deputy City Clerk for proper disposal of an asset (Exhibit A).

D. Transfers

Occasional transfers of property between departments or funds may occur. The original controlling department or fund is accountable for all assets and for initiating a notice of transfer. Interdepartmental transfers involving a proprietary fund (i.e. Water/Sewer/Stormwater) must include a monetary transfer. The sale price will be fair market value, which may result in a gain or a loss on sale of fixed assets. Interdepartmental transfers or intergovernmental (i.e. City to County or State) do not require the City to declare the asset surplus or provide public notice.

Department Heads or their designee(s) must obtain an Asset Transfer form from the Deputy City Clerk for proper reporting of transfer (Exhibit B).

E. Donated Assets

Assets are sometimes donated to the City and should only be added to the list of small and attractive assets when valued between \$750 and \$5,000. If the donation is cash and intended to be used in conjunction with the construction of a specific asset, the donation is reported as revenue in governmental funds; in proprietary funds, such donations are treated as contributed capital. Proper accounting coding should be confirmed with the Finance Department.

F. Exclusions

All water meters, regardless of size or purchase price, are excluded from the Small and Attractive Assets policy. Water meters are classified as fixed or capital assets and are therefore managed under separate asset tracking and accounting procedures in accordance with the City's capital asset management policies.

CITY OF FERNDALE

ASSET DISPOSAL FORM



Name: _____ Department: _____ Date: _____

1. ASSET DETAIL

Item Description: _____ Serial Number: _____

Manufacturer: _____ Year & Model: _____

Barcode Number: _____ City ID Number: _____ License Plate Number: _____

Explain why assets are being disposed: _____

When Section 1 is complete, sign below in Section 4 and forward form and pictures to Finance for approval processing.

2. DISPOSAL DETAIL

Disposal Method: _____ Date Disposed: _____

Proceeds or Costs of Disposal (Circle which is appropriate): \$ _____

City Council Order/Auction Lot Number/Receipt Number (Attach order, auction lot form, receipt, or title if applicable):

If asset was lost or stolen, detail the investigation and its results. Attach more pages as needed:

3. DISPOSAL APPROVAL

Finance Director DATE: _____

Mayor or City Administrator DATE: _____

When disposal is approved, Finance will forward a copy of the form back to Department Director; Director will forward form and asset to Clerk for storage until disposal is complete.

4. COMMUNICATION DETAIL

Department Head or Designee (signature): _____ Date _____

Finance received from department by (signature): _____ Date _____

Asset & form received by Clerk by (signature): _____ Date _____

Asset disposed in accounting system by (signature): _____ Date _____

CITY OF FERNDALE

ASSET TRANSFER FORM



Name: _____ Department: _____ Date: _____

1. ASSET DETAIL

Item Description: _____ Serial Number: _____

Manufacturer: _____ Year & Model: _____

Barcode Number: _____ City ID Number: _____ License Plate Number: _____

Explain reason for transfer: _____

When Section 1 is complete, sign below in Section 3 and forward form to Finance.

2. TRANSFER DETAIL

Transfer To (department): _____ Transfer From (department): _____

Transfer Date: _____

Value of Transfer (if applicable): \$ _____

3. COMMUNICATION DETAIL

Department Head or Designee (signature): _____ Date _____

Department Head or Designee (signature): _____ Date _____

Finance Department (signature): _____ Date _____

City of Ferndale
Financial Management Policies
Element #10

UTILITY BILL COLLECTIONS POLICY

1. PURPOSE STATEMENT

The City shall make reasonable attempts to collect all monies in compliance with city policy and procedure and pursuant to RCW 19.16.500, public bodies are authorized to retain collection agencies to collect public debts. If such attempts are unsuccessful, the Finance Director or designee shall have the authority to refer delinquent accounts including, but not limited to, fees, taxes, penalties and interest of the City or any of its departments to an agency for collection and to write off accounts that have been actively pursued for over a year in an amount not to exceed \$500 per account. This write-off option shall be utilized only after it has been determined by the Finance Director that the account is uncollectible, is not referable to a collection agency, and there is no cost-effective means of collecting the account. Prior to assigning any account to a collection agency, the director, or designee shall ensure that the procedural requirements of RCW 19.16.500 or any future amendments or successor statute, have been met. The City may also elect to refer the matter to counsel for collection through an appropriate civil action. In either event, all costs of collection shall be paid by the defaulting party.

2. POLICY

It is the policy of the City to collect all amounts identifiable as due and owing in connection with utility services. The City reserves the right to collect such charges on the basis of joint and several liability, from the owner of premises served, or from any person otherwise determined to be legally responsible for the charges concerned, as detailed in FMC 13.04.

If a utility customer has been underbilled, the Finance Director shall review the total amount of charges and/or fees underbilled, the length of time the billing was uncollected, and the circumstances surrounding the underbilling. Based on the Finance Director's review, the City shall decide on a case-by-case basis on the amount, if any, owing from the utility customer.

Underbilling or underpayment because of customer errors, when the customer knew or should have known of the error, or other reasons not the result of city error shall be collected in full. Underbilling or underpayment resulting from city error may be adjusted upon consideration of the following criteria:

- A.** When it appears that a customer or other person from whom payment is sought did not know and had no reason to know of the error, charges accruing more than one year from the discovery of the error, along with fees, interest, and penalties may be waived. In general, the public is presumed to know that a reasonable charge for utility services rendered must be paid.
- B.** There is "reason to know" of a billing error when the bill on its face is significantly below regular charges, or when there are no charges being made to premises that are receiving service. Customers have a duty to make prompt inquiries with the City utility

billings office when they get such a bill inconsistent with the utility service to their premises. If the Finance Director determines that the customer had “reason to know” of the underbilling and failed to properly notify the City, the full amount accruing up to six years prior to the date when the underbilling was or should have been discovered may be collected in compliance with RCW 4.16.040(2) or any future amendments or successor statute.

3. PROCEDURE

In all cases of underbilling or underpayment, regardless of whether the error originated with the customer or the City, the repayment options shall be applied consistently for the purpose of collection. If the outstanding balance is \$5,000 or greater, customers will be provided with three repayment options:

A. Payment in Full: The customer may remit the entire outstanding balance in a single payment within 30 days of mutual acceptance, unless otherwise demonstrated by the customer in writing and approved by the Finance Director or their designee.

B. Monthly Payment Schedule: Alternatively, the customer may opt for a monthly repayment plan. The duration of this plan shall correspond to the length of time over which the underbilling occurred. For example, if the underbilling spans three years (36 months), the customer will be allowed up to three years (36 months) to repay the balance.

- Monthly payments will be invoiced separately from the customer’s utility account.
- Payments must be made by cash or check.
- Additional payments toward the principal to reduce or pay off the balance ahead of schedule are welcomed and encouraged.
- All repayment plans will be subject to interest at a reasonable market rate, as determined by the current Local Government Investment Pool (LGIP) rate in effect. This rate will be reviewed and updated annually with the January rate.
- After six months of non-payment the City will consider the payment plan in default and subject to additional enforcement as listed in section C.

C. Enforcement via Property Lien: If one of the repayment options—Option A: Payment in Full and Option B: Monthly Payment Schedule—is not selected, the alternative will be a lien on the property initiated by the City for the total outstanding balance. This amount will include, but is not limited to, the underbilled amount, applicable recording fees, and any late fees, as applicable.

The treatment of liens will vary based on the status of the property:

- **Vacant Properties with Inactive Meters:** If a lien is placed on vacated property where the utility meter is turned off and/or locked, the account will continue to accrue late penalties, and the customer will be responsible for paying all associated charges.
- **Active Properties with Current Utility Accounts:** If a lien is placed on an active property where the customer remains current on their ongoing utility charges, the lien will be recorded in the amount of the underbilling and any applicable recording fees. In this case, no late fees will accrue on the current utility account.

The City reserves the right to place a lien on the property if the customer defaults on their selected repayment plan (either Option A or Option B).

For outstanding balances under \$5,000, repayment terms will be determined at the discretion of the Finance Director or their designee. In such cases, the City will make every reasonable effort to work with the customer to establish a payment plan that is within their means while ensuring collection of the balance due.

Where an account is overbilled or overpaid, the refund period granted administratively is up to one year from the time the error is reported to the City utility billings office, except overpayments or overbillings because of customer fault which shall be reported by the customer within 60 days. Refunds approved by the Finance Director are administered by crediting the utility account for the premises served when under \$1,000 and in the form of a check when more than \$1,000. All refunds will be forfeited by the customer if after a year from the time of error the overbilling or overpayment has not been reported to the City.

The City reserves all defenses, offsets and claims allowable in contract or law.