

Washington State Auditor's Office
Financial Statements and Federal Single Audit Report

City of Ferndale
Whatcom County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010452

Issue Date
September 23, 2013



WASHINGTON
TROY KELLEY
STATE AUDITOR



**Washington State Auditor
Troy Kelley**

September 23, 2013

Mayor and City Council
City of Ferndale
Ferndale, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Ferndale's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY
STATE AUDITOR

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Whatcom County
January 1, 2012 through December 31, 2012**

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Federal Summary

**City of Ferndale
Whatcom County
January 1, 2012 through December 31, 2012**

The results of our audit of the City of Ferndale are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City's compliance with requirements applicable to its major federal program.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following was a major program during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The City qualified as a low-risk auditee under OMB Circular A-133.

Independent Auditor's Report on Internal
Control over Financial Reporting and on
Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing
Standards*

**City of Ferndale
Whatcom County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Ferndale
Ferndale, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the City of Ferndale, Whatcom County, Washington, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 10, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR

September 10, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

**City of Ferndale
Whatcom County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Ferndale
Ferndale, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of the City of Ferndale, Whatcom County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report 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 "Troy X. Kelley". The signature is written in a cursive style with a large, stylized "X" between the first and last names.

TROY KELLEY
STATE AUDITOR

September 10, 2013

Independent Auditor's Report on Financial Statements

**City of Ferndale
Whatcom County
January 1, 2012 through December 31, 2012**

Mayor and City Council
City of Ferndale
Ferndale, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Ferndale, Whatcom County, Washington, for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Ferndale, for the year ended December 31, 2012, on the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared in accordance with the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a basis of accounting other than accounting principles generally accepted in the United State of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.


Purpose of this Report

The report is intended for the information and use of the management, the Mayor and City Council, federal awarding agencies and pass-through entities of the City. 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and

grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

TROY KELLEY
STATE AUDITOR

September 10, 2013

Financial Section

**City of Ferndale
Whatcom County
January 1, 2012 through December 31, 2012**

FINANCIAL STATEMENTS

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FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		Total for All funds*	001 General	101 Street	102 Park Mitigation
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	1,139,370	42,235	0	0
30880	Beg Fund Bal-Unreserved	8,291,170	1,348,822	31,815	34,158
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	7,004,937	6,339,736	0	0
320	Licenses & Permits	608,782	608,782	0	0
330	Intergovernmental Revenues	3,397,483	456,022	408,751	0
340	Charges for Goods and Services	8,434,517	764,513	7,800	122,275
350	Fines & Penalties	159,910	159,910	0	0
360	Miscellaneous Revenues	751,924	109,112	1,272	24
Total Operating Revenues:		20,357,552	8,438,075	417,823	122,300
Operating Expenditures					
510	General Government	1,857,474	1,758,692	0	0
520	Public Safety	4,624,763	4,541,031	0	0
530	Utilities And Environment	2,692,095	201,059	0	0
540	Transportation	1,621,312	0	781,997	0
550	Economic Environment	497,206	497,206	0	0
560	Mental & Physical Health	2,808	2,808	0	0
570	Culture And Recreation	465,305	401,114	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		11,760,962	7,401,911	781,997	0
Net Operating Increase (Decrease):		8,596,590	1,036,165	-364,174	122,300
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	2,711,033	1,210,319	4,000	0
391-393	Debt Proceeds	362,075	0	0	0
397	Transfers-In	2,337,131	181,300	560,000	0
Total Nonoperating Revenues:		5,410,239	1,391,619	564,000	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	2,673,985	1,085,985	203,000	0
591-593	Debt Service	2,792,073	0	31	0
594-595	Capital Expenditures	8,065,878	21,212	5,796	0
597	Transfers-Out	2,337,131	1,155,055	0	97,911
Total Nonoperating Expenditures:		15,869,067	2,262,252	208,827	97,911
Increase (Decrease) in Cash and Investments		-1,862,238	165,532	-9,001	24,389
Ending Cash and Investments					
50810	End Fund Bal-Reserved	1,114,889	20,470	0	0
50880	End Fund Balance-Unreserved	6,453,411	1,536,118	22,814	58,547

The accompanying notes are an integral part of this Statement.

BARS Code		104 Traffic Mitigation	106 Criminal Justice	107 Local Criminal Justice	111 RE Excise Tax - REET 1
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	25,941	421	1,926	126,005
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	172,417	208,329
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	123,424	0	0
340	Charges for Goods and Services	414,479	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	2	0	0	194
Total Operating Revenues:		414,480	123,424	172,417	208,523
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	83,731	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		0	83,731	0	0
Net Operating Increase (Decrease):		414,481	39,693	172,417	208,523
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	110,000	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	0	0	38,061
Total Nonoperating Revenues:		0	110,000	0	38,061
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	110,000	0	0
591-593	Debt Service	0	16	0	0
594-595	Capital Expenditures	0	31,119	0	0
597	Transfers-Out	431,250	6,800	162,000	170,458
Total Nonoperating Expenditures:		431,250	147,936	162,000	170,458
Increase (Decrease) in Cash and Investments		-16,769	1,758	10,417	76,126
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	9,172	2,178	12,343	202,131

The accompanying notes are an integral part of this Statement.

BARS Code		112 RE Excise Tax - REET 2	113 Transportaion Benefit District .2% Sales Tax Rev.	198 Hotel Motel	213 1998 City Hall LTGO Bond Redemption.
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	9,101	0	18,195	596
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	208,329	0	76,126	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	60,000	0	0
340	Charges for Goods and Services	0	0	0	8,985
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	4	0	32	117
Total Operating Revenues:		208,333	60,000	76,158	9,102
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	64,191	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		0	0	64,191	0
Net Operating Increase (Decrease):		208,333	60,000	11,967	9,102
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	6,151	0	0	68,973
Total Nonoperating Revenues:		6,151	0	0	68,973
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	0	0	0	66,351
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	214,145	40,000	9,500	0
Total Nonoperating Expenditures:		214,145	40,000	9,500	66,351
Increase (Decrease) in Cash and Investments		339	20,000	2,467	11,724
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	9,440	20,000	20,661	12,321

The accompanying notes are an integral part of this Statement.

BARS Code		214 Street/Parks/Land Debt Service	215 Labounty LID 2006-1 Bond Redemption	216 LaBounty LID 2006-1 Bond Guarantee	217 LaBounty GO Bond Debt Service
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	40,101	0
30880	Beg Fund Bal-Unreserved	1,943	2,756	0	94
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	146	56,230	84	31
Total Operating Revenues:		146	56,230	84	31
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		0	0	0	0
Net Operating Increase (Decrease):		146	56,230	84	31
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	355,805	2,800	0	30,052
Total Nonoperating Revenues:		355,805	2,800	0	30,052
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	355,804	52,468	0	30,052
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	0	3,000	2,800	0
Total Nonoperating Expenditures:		355,804	55,468	2,800	30,052
Increase (Decrease) in Cash and Investments		147	3,562	-2,716	31
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	37,385	0
50880	End Fund Balance-Unreserved	2,090	6,319	0	125

The accompanying notes are an integral part of this Statement.

BARS Code		218 2010 Limited Tax General Obligation Bond Redemptio	219 2011 Limited Tax General Oblig Bond Redemption	306 Second Ave Extension Constr	307 New Library Construction
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	1,601	28,931	6,151	38,061
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	87,070	0	0	0
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	626	120	0	0
Total Operating Revenues:		87,696	120	0	0
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		0	0	0	0
Net Operating Increase (Decrease):		87,696	120	0	0
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	0	0	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	355,519	75,970	0	0
Total Nonoperating Revenues:		355,519	75,970	0	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	0	0	0
591-593	Debt Service	440,008	103,784	0	0
594-595	Capital Expenditures	0	0	0	0
597	Transfers-Out	0	0	6,151	38,061
Total Nonoperating Expenditures:		440,008	103,784	6,151	38,061
Increase (Decrease) in Cash and Investments		3,207	-27,694	-6,151	-38,061
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	4,808	1,237	0	0

The accompanying notes are an integral part of this Statement.

BARS Code		308 Main St-3rd TO Church Constr	346 Church Road Construction	370 Thornton Road Construction	375 Public Safety Building Constr
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	0	0	0	0
30880	Beg Fund Bal-Unreserved	290,611	489,679	0	2,597,083
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	1,111,435	230,437	0	25,381
340	Charges for Goods and Services	0	0	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	0	384	0	7,022
Total Operating Revenues:		1,111,435	230,821	0	32,403
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities And Environment	0	0	0	0
540	Transportation	0	0	0	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		0	0	0	0
Net Operating Increase (Decrease):		1,111,435	230,821	0	32,403
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	800,000	0	15,000	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	615,000	0	40,000	0
Total Nonoperating Revenues:		1,415,000	0	55,000	0
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	400,000	0	15,000	0
591-593	Debt Service	745	0	12	0
594-595	Capital Expenditures	2,352,805	534,027	19,519	2,262,929
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		2,753,550	534,027	34,531	2,262,929
Increase (Decrease) in Cash and Investments		-227,115	-303,206	20,469	-2,230,526
Ending Cash and Investments					
50810	End Fund Bal-Reserved	0	0	0	0
50880	End Fund Balance-Unreserved	63,496	186,474	20,469	366,557

The accompanying notes are an integral part of this Statement.

BARS Code		401 Water	402 Sewer	407 Storm & Flood Control	510 Computer Repair & Replacement
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	161,034	896,000	0	0
30880	Beg Fund Bal-Unreserved	1,475,029	1,427,319	289,948	27,139
38880/58880	Prior Period Adjustments, net	0	0	0	0
Operating Revenues					
310	Taxes	0	0	0	0
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	0	0	894,963	0
340	Charges for Goods and Services	2,852,163	3,411,356	852,946	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	3,824	13,277	25	156,884
Total Operating Revenues:		2,855,987	3,424,633	1,747,933	156,884
Operating Expenditures					
510	General Government	0	0	0	98,781
520	Public Safety	0	0	0	0
530	Utilities And Environment	1,230,774	1,260,262	0	0
540	Transportation	0	0	438,325	0
550	Economic Environment	0	0	0	0
560	Mental & Physical Health	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		1,230,774	1,260,262	438,325	98,781
Net Operating Increase (Decrease):		1,625,213	2,164,371	1,309,608	58,103
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	4,000	4,000	560,000	0
391-393	Debt Proceeds	0	10,000	352,075	0
397	Transfers-In	0	0	0	7,500
Total Nonoperating Revenues:		4,000	14,000	912,075	7,500
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	400,000	0	460,000	0
591-593	Debt Service	489,779	1,219,422	33,601	0
594-595	Capital Expenditures	806,449	448,513	1,513,346	65,602
597	Transfers-Out	0	0	0	0
Total Nonoperating Expenditures:		1,696,228	1,667,935	2,006,947	65,602
Increase (Decrease) in Cash and Investments		-67,015	510,436	214,737	1
Ending Cash and Investments					
50810	End Fund Bal-Reserved	135,269	921,765	0	0
50880	End Fund Balance-Unreserved	1,433,778	1,911,990	504,682	27,139

The accompanying notes are an integral part of this Statement.

BARS Code		550 Equip. Maint. & Replacement
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	17,844
38880/58880	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	0
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	402,515
Total Operating Revenues:		402,515
Operating Expenditures		
510	General Government	0
520	Public Safety	0
530	Utilities And Environment	0
540	Transportation	400,990
550	Economic Environment	0
560	Mental & Physical Health	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		400,990
Net Operating Increase (Decrease):		1,525
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	3,714
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		3,714
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	4,560
597	Transfers-Out	0
Total Nonoperating Expenditures:		4,560
Increase (Decrease) in Cash and Investments		679
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	18,523

The accompanying notes are an integral part of this Statement.

CITY OF FERNDALE, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012

THE FOLLOWING NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS.

NOTE-1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ferndale 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 basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Ferndale was incorporated on March 19, 1907 and operates under the laws of the state of Washington applicable to a Category 2 (Cities with population under 25,000) type of government. The City of Ferndale is a general purpose government and provides public safety, street improvements, parks, water/sewer/storm utilities, and general administrative services. The City of Ferndale contracts with Whatcom County Fire Protection District #7 for fire protection and with the Whatcom County Library System (to which it is also annexed) for library services. The City contracts with Sanitary Service of Bellingham for garbage collection and disposal.

The City of Ferndale uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the City of Ferndale are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprise its cash, investments, revenues and expenditures, as appropriate. The City of Ferndale's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Ferndale:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund (Fund number 001)

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

Special Revenue Funds (Funds in the 100 series)

These funds account for revenues that are legally restricted or designated to finance particular activities of the City of Ferndale.

Debt Service Funds (Funds in the 200 series)

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

Capital Projects Funds (Funds in the 300 series)

These funds account for financial resources which are designated for the acquisition or construction of general governmental capital projects.

Permanent Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds (Fund number 401 Water, Fund number 402 Sewer, Fund number 407 Storm & Flood, and Fund number 408 Utility Debt Service)

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

Internal Service Funds (Funds in the 500 series)

The funds account for operations that provide goods or services to other departments or funds of the City of Ferndale on a costs-reimbursement basis.

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account for assets that the City of Ferndale holds for others in an agency capacity.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law (see RCW 35.33.151).

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.

This state law requires the City to keep the books open through January 20th of the succeeding year for non-payroll expenditures (referred to as the "open period").

As noted above, revenues are generally truly recognized on the cash basis - January 1 through December 31 – except under certain circumstances where Federal grant revenues are received during the open period, were budgeted in the prior year, and an allowable grant expenditure was made during the open period or earlier.

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

Annual appropriated budgets are adopted for all funds. Annual appropriated budgets are adopted at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations 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, and 005 are rolled up into one General Fund per Statement C-4 Financial Statements. Other fund numbers listed below (403, 404, 408, and 412) are included in consolidated enterprise funds (401, 402, and 407) rollups. Also, certain transfers in and transfers out are eliminated for consolidation purposes, and therefore total expenditures listed below appropriately do not agree with the Financial Statement C-4 Total Expenditures and Other Uses plus Nonexpenditures.

The appropriated (Budgeted) and Actual Expenditures for the legally adopted 2012 budgets follow:

		<u>Budgeted</u> <u>Expenditures</u>	<u>Actual</u> <u>Expenditures</u>	<u>\$</u> <u>Variance</u>
<u>Current Expense/001</u>				
Council				
Salary/Benefits/Payroll Taxes		\$50,481	\$47,852	\$2,629
Non-Labor		<u>870</u>	<u>357</u>	<u>513</u>
	Council	51,351	48,209	3,142
Court				
Salary/Benefits/Payroll Taxes		131,498	120,551	10,947
Non-Labor		<u>152,478</u>	<u>155,576</u>	<u>(3,098)</u>
	Court	283,976	276,127	7,849
Administration				
Salary/Benefits/Payroll Taxes		198,203	189,637	8,566
Non-Labor		<u>6,600</u>	<u>11,769</u>	<u>(5,169)</u>
	Administration	204,803	201,406	3,397
Clerk/Treasurer				
Salary/Benefits/Payroll Taxes		315,071	297,318	17,753
Non-Labor		<u>27,590</u>	<u>39,841</u>	<u>(12,251)</u>
	Clerk/Treasurer	342,661	337,159	5,502
	Legal Services	125,000	117,751	7,249
General Government				
Non-Labor - General		496,049	433,206	62,843
Non-Labor - Insurance		299,570	291,006	8,564
Non-Labor - Unemployment Payments		20,000	18,827	1,173
Non-Labor - AWC Insurance RMSA Payment		35,000	35,000	0
Capital		<u>21,800</u>	<u>21,212</u>	<u>588</u>
	General Government	872,419	799,251	73,168
Law Enforcement				
Salary/Benefits/Payroll Taxes - Except O.T. &				
Legal Settlement		1,997,945	1,993,340	4,605
Overtime - General		110,000	126,787	(16,787)
Overtime - Stonegarden Grant		0	0	0
Overtime - Traffic Safety		0	3,954	(3,954)
Overtime - Special Events		0	9,572	(9,572)

Salary/FICA/Medicare - Legal Settlement	21,530	21,530	0
Facility:			
Rent	17,550	13,798	3,752
Other	12,660	24,937	(12,277)
Total Facility	30,210	38,735	(8,525)
Computer/Equip. Rent Non-Labor	132,000	205,930	(73,930)
Other Non-Labor	326,143	281,062	45,081
Capital	0	0	0
Law Enforcement	2,617,828	2,680,910	(63,082)
Fire District Contract	1,151,242	1,151,242	0
Detention			
Salary/Benefits/Payroll Taxes	95,607	94,177	1,430
Jail Contract Non-Labor	270,000	266,348	3,652
Jail Credits Non-Labor	(70,272)	(82,210)	11,938
Other Non-Labor	3,665	2,639	1,026
Detention	299,000	280,954	18,046
Building Inspection			
Salary/Benefits/Payroll Taxes	250,292	240,537	9,755
Computer/Equip. Rent Non-Labor	15,600	15,859	(259)
Other Non-Labor	10,000	9,988	12
Capital	0	0	0
Building Inspection	275,892	266,384	9,508
Emergency	108,505	108,245	260
Clean Air	3,924	3,924	0
Engineering			
Salary/Benefits/Payroll Taxes	91,925	87,637	4,288
Non-Labor	26,000	30,205	(4,205)
Engineering	117,925	117,842	83
General Bldg. Maint.			
Salary/Benefits/Payroll Taxes	38,555	39,036	(481)
Equip. Rent Non-Labor	0	5,607	(5,607)
Other Non-Labor	40,200	34,650	5,550
Capital	0	0	0
General Bldg. Maint.	78,755	79,293	(538)
Parks			
Salary/Benefits/Payroll Taxes	264,213	248,965	15,248
Equip/Computer Rent Non-Labor	43,200	72,107	(28,907)
Other Non-Labor	68,100	80,042	(11,942)
Capital	0	0	0
Parks	375,513	401,114	(25,601)
Mental/Physical Health	3,000	2,809	191
Community Development Dept. 019			
Salary/Benefits/Payroll Taxes	374,953	381,399	(6,446)
Vehicle/Computer Rent Non-Labor	28,800	16,587	12,213
Other Non-Labor	76,700	74,340	2,360
Capital	0	0	0
Community Development Dept. 019	480,453	472,326	8,127
Community Development 2020 Dept. 020			
Salary/Benefits/Payroll Taxes	0	0	0
Other Non-Labor	25,000	24,881	119
Community Development 2020 Dept. 020	25,000	24,881	119
Transfers/Interfund Loans	1,109,880	1,109,880	0
Current Expense Fund No. 001 - Total Expenses	8,527,127	8,479,707	47,420

<u>Gen. Fund Contingency Reserve/002</u>	0	0	0
<u>Facilities Capital Reserve/003</u>	21,800	21,800	0
<u>LEOFF 1 Reserve/004</u>	56,340	53,296	3,044
<u>Solid Waste Tax/005</u>	1,412,530	1,372,530	40,000
<u>Street/101</u>			
Expenses:			
Administration			
Salary/Benefits/Payroll Taxes	97,756	91,061	6,695
Central Services, Computer/Equip. Rent Non-Labor	171,113	148,723	22,390
Interfund Loan Repayment	203,000	203,000	0
Other Non-Labor	38,042	51,545	(13,503)
	Administration	509,911	494,329
			15,582
Sidewalks			
Salary/Benefits/Payroll Taxes	22,772	22,569	203
Non-Labor	3,000	4,906	(1,906)
	Sidewalks	25,772	27,475
			(1,703)
Roadway			
Salary/Benefits/Payroll Taxes	164,501	159,551	4,950
Other Non-Labor	35,000	39,695	(4,695)
	Roadway	199,501	199,246
	Street Lights	200,000	192,857
			7,143
Traffic Control			
Salary/Benefits/Payroll Taxes	31,487	22,793	8,694
Non-Labor	19,000	17,610	1,390
Capital	0	0	0
	Traffic Control	50,487	40,403
			10,084
Snow & Ice			
Salary/Benefits/Payroll Taxes	29,483	8,157	21,326
Non-Labor	10,200	3,872	6,328
	Snow & Ice	39,683	12,029
			27,654
Street Cleaning			
Salary/Benefits/Payroll Taxes	16,769	17,914	(1,145)
Non-Labor	500	775	(275)
	Street Cleaning	17,269	18,689
	Capital Projects	0	5,796
			(5,796)
Street Fund No. 101 - Total Expenses	1,042,623	990,824	51,799
<u>Park Mitigation/102</u>	97,911	97,911	0
<u>Traffic Mitigation/104</u>	431,250	431,250	0
<u>Criminal Justice/106</u>	231,750	231,667	83
<u>Local Criminal Justice/107</u>	162,000	162,000	0
<u>Real Estate Excise Tax REET 1/111</u>	170,458	170,458	0
<u>Real Estate Excise Tax REET 2/112</u>	214,145	214,145	0

<u>Transportation Benefit Dist. .2% Sales Tax Rev./113</u>	99,090	40,000	59,090	
<u>Hotel Motel Tax/198</u>	74,134	73,691	443	
<u>1998 LTGO Bonds (City Hall)/213</u>	66,352	66,351	1	
<u>Street/Parks/Land Debt Service/214</u>	355,805	355,804	1	
<u>LaBounty LID 2006-1 Bond Debt Service/215</u>	55,469	55,468	1	
<u>LaBounty LID 2006-1 Bond Guarantee/216</u>	2,800	2,800	0	
<u>LaBounty GO Bond Debt Service/217</u>	30,052	30,052	0	
<u>2010 GO Bond Debt Service/218</u>	504,424	504,424	0	
<u>2011 GO Bond Debt Service/219</u>	103,969	103,784	185	
<u>Main St. - 3rd to Church Constr./308</u>	2,876,012	2,753,550	122,462	
<u>Church Road Construction/346</u>	697,475	534,026	163,449	
<u>Thornton Road Construction/370</u>	105,000	34,531	70,469	
<u>Public Safety Bldg Constr/375</u>	2,521,197	2,262,929	258,268	
<u>Water/401</u>				
Expenses/Transfers/Interfund Loans:				
Administration				
Salary/Benefits/Payroll Taxes	177,851	156,885	20,966	
Cent. Svcs, B&O Tax, Computer/Equip.Rent Non-Labor	320,255	262,960	57,295	
Other Non-Labor	39,900	37,536	2,364	
	Administration	538,006	457,381	80,625
Maintenance				
Salary/Benefits/Payroll Taxes	234,326	228,620	5,706	
Non-Labor	50,900	80,005	(29,105)	
	Maintenance	285,226	308,625	(23,399)
Operations				
Salary/Benefits/Payroll Taxes	149,564	166,384	(16,820)	
Water Purchases from PUD Non-Labor	21,859	21,859	0	
PSE Electricity Non-Labor	130,000	131,452	(1,452)	
Other Non-Labor	108,750	145,072	(36,322)	
	Operations	410,173	464,767	(54,594)
	Capital	1,044,687	806,450	238,237
	Transfers/Loans/Misc	863,297	863,297	0
Total Expenses/Transfers/Interfund Loans		3,141,389	2,900,520	240,869

Sewer/402

Expenses/Transfers/Interfund Loans:

Administration

Salary/Benefits/Payroll Taxes	134,749	131,934	2,815
Cent. Svcs, B&O Tax, Computer/Equip.Rent Non-Labor	283,499	166,373	117,126
Other Non-Labor	17,969	19,675	(1,706)

Administration

Maintenance	436,217	317,982	118,235
Salary/Benefits/Payroll Taxes	253,603	245,323	8,280
Non-Labor	58,676	46,714	11,962

Maintenance

Operations

Salary/Benefits/Payroll Taxes	149,564	149,152	412
PSE Electricity Non-Labor	150,000	213,245	(63,245)
Sludge Removal Non-Labor	222,000	145,109	76,891
Other Non-Labor	106,690	142,737	(36,047)

Operations

Capital

Transfers/Debt Service/Loans/Misc

	628,254	650,243	(21,989)
	687,921	448,513	239,408
	1,245,185	1,245,185	0

Total Expenses/Transfers/Interfund Loans	3,309,856	2,953,960	355,896
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<u>95/96/05 Bond Redemption/403</u>	1,235,409	1,235,409	0
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<u>95/96/05 Bond Reserve/404</u>	12,000	9,057	2,943
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Storm & Flood Control/407

Expenses/Transfers/Loan Debt Service

Salary/Benefits/Payroll Taxes	259,419	247,510	11,909
Cent. Svcs, B&O Tax, Computer/Equip.Rent Non-Labor	113,141	78,102	35,039
Non-Labor - Other	210,215	112,713	97,502
Capital	577,642	462,495	115,147
Transfers/Debt Service/Loans	33,155	33,155	0

Expenses/Transfers/Loan Debt Service

	1,193,572	933,975	259,597
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<u>Utility Loan Service/408</u>	442,531	442,531	0
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<u>Storm Regional Pond/Debt Service/412</u>	1,513,715	1,511,298	2,417
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<u>Computer Repair/Replace/510</u>	181,561	164,384	17,177
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Equipment Maint./Replace/550

Expenses:

Salary/Benefits/Payroll Taxes	94,096	93,619	477
Central Services Non-Labor	28,759	15,256	13,503
Insurance Non-Labor	60,000	60,000	0
Op Supplies / Parts Non-Labor	65,000	62,658	2,342
Gas/Oil Non-Labor	125,000	127,704	(2,704)
Contract R&M Non-Labor	15,000	24,485	(9,485)
Other Non-Labor	34,625	17,268	17,357
Capital	0	4,560	(4,560)
Total Expenses:	422,480	405,550	16,930

Budgeted amounts are authorized to be transferred between departments within any fund/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 City Council.

d. Cash

It is the City of Ferndale's policy to invest all temporary cash surpluses. The amount is included in the net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on cash in the City of Ferndale's investment accounts is prorated to the various funds.

e. Deposits

The City of Ferndale's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

f. Investments See Note 3.

g. Derivatives and Similar Transactions

The City of Ferndale does not currently have any such transactions.

h. Capital Assets

Capital assets are assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 1 year. The capital assets of the City of Ferndale are recorded as expenditures when purchased.

i. Compensated Absences

Vacation leave may be accumulated generally up to 10 days at year-end and full vacation balances without limit are payable upon separation or retirement.

Sick leave may be accumulated up to a maximum of 1,080 hours. Generally, upon separation or retirement employees do not receive payment for unused sick leave. However, employees retiring into the state retirement system will receive 25% of the value of unused sick leave upon retirement.

j. Long-Term Debt See Note 6.

k. Other Financing Sources or Uses

Transfers Out are common entries especially in the Park Mitigation, Traffic Mitigation, Real Estate Excise Tax and Solid Waste Utility Tax funds.

l. Risk Management See Note 8.

m. Reserved Fund Balance

The balance of reserved cash, as at December 31, 2012, is \$1,114,889. The amounts by fund per the financial statements schedules C-4 are as follows:

General Fund \$20,470
LaBounty LID 2006-1 Bond Guarantee Fund \$37,385
Water Enterprise Fund \$135,269
Sewer Enterprise Fund \$921,765

All but the General Fund amounts are required per Assessment Bonds, State Loan documents, and Enterprise Funds Revenue Parity Bonds.

NOTE-2-COMPLIANCE, AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the City of Ferndale.

NOTE-3-INVESTMENTS

The City of Ferndale's investments are either insured, registered or held by the City of Ferndale or its agent in the City's name.

Investments by type (all are the City's own investments) at December 31, 2012, including market value, are as follows:

Local Government Investment Pool (WA State): \$1,904,387 (Market Value is the same)

FNMA Bonds CUSIP 31398A3L4: \$501,328 (Market Value is \$503,432)

FNMA Bonds CUSIP 3136FPEX1: \$496,698 (Market Value is \$491,298)

FedFrmCr Bonds CUSIP 3133EADK1: \$500,784 (Market Value is \$500,565)

Subtotal \$1,498,810 (Market Value is \$1,495,295)

Total Investments \$3,403,197 (Market Value is \$3,399,682)

NOTE-4-PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes 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 the City of Ferndale. Delinquent taxes are considered fully collectable because a lien affixes to the property after taxes are levied.

The City of Ferndale's regular levy for the year 2012 was \$1.986435 per \$1,000 on an assessed valuation of \$1,089,663,156 for a total regular levy of \$2,164,545.

NOTE-5-INTERFUND LOANS AND ADVANCES

The following table displays Interfund Loan activity during 2012:

Borrowing Fund	Lending Fund	Balance 1/1/2012	New Loans	Repayments	Balance 12/31/2012
Thornton Road Constr. 370	Current Expense 001	\$0	\$15,000	\$15,000	\$0
Main St. 3rd to Church Constr. 308	Current Expense 001	\$0	\$400,000	\$400,000	\$0
Criminal Justice 106	Current Expense 001	\$0	\$110,000	\$110,000	\$0
Street 101	LEOFFI Police Retiree 004	\$203,000	\$0	\$203,000	\$0
Main St. 3rd to Church Constr. 308	Water 401	\$150,000	\$400,000	\$0	\$550,000
Regional Storm Pond Constr. 412	Current Expense 001	\$100,000	\$560,000	\$460,000	\$200,000
	TOTALS	\$453,000	\$1,485,000	\$1,188,000	\$750,000

NOTE-6-LONG TERM DEBT

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the City of Ferndale and summarizes the City of Ferndale's debt transactions for 2012. Debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

Year(s)	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2012	\$883,116	\$1,551,945	\$348,874	\$2,783,935
2013	887,071	1,570,094	371,800	2,828,965
2014	868,918	1,590,466	180,509	2,639,893
2015	853,123	1,613,613	145,596	2,612,332
2016	762,667	1,636,460	143,681	2,542,808
2017-2021	3,493,706	3,119,461	1,064,969	7,678,136
2022-2026	3,419,642	2,364,625	588,764	6,373,031
2027-2031	1,776,742	2,360,306	162,963	4,300,011
2032-2036	0	0	18,543	18,543
TOTALS	\$12,944,985	\$15,806,970	\$3,025,699	\$31,777,654

NOTE-7-PENSION PLANS

Substantially all City of Ferndale full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Ferndale's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

a. Public Employees' Retirement System (PERS)

The state legislature established PERS in 1947 under Chapter 41.40 RCW. PERS is a cost-sharing multiple-employer system. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges); employees of legislative committees; college and university employees not in national higher education retirement programs; judges of district and municipal courts; noncertificated employees of school districts; and employees of local government. Approximately 50 percent of PERS members are state employees.

PERS contains 3 plans. Participants who joined the system by September 30, 1977, are Plan 1 members. Those joining thereafter are enrolled in Plan 2 or 3. Participants in Plan 3 had from September of 2002 until May of 2003 to opt for Plan 3. Retirement benefits are financed from employee and employer contributions and investment earnings. Plans 1 and 2 are defined benefit plans. Plan 3 is a combined defined benefit and defined contribution plan.

Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with 5 years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the final average salary per year of service, capped at 60 percent.

Plan 2 and 3 members may retire at the age of 65 with a minimum of 5 years of service, or at 55 with a minimum of 20 years of service, with an allowance of 2 percent per year of service of the final average salary. Plan 2 and 3 retirements prior to 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually.

Each biennium the legislature establishes Plan 1 employer contribution rates and Plan 2 and 3 employer and employee contribution rates. Employee contribution rates for Plan 1 are established by legislative statute and do not vary from year to year. The employer and employee contribution rates for Plan 2 and 3 are developed by the Office of State Actuary to fully fund the system. All employers are required to contribute at the level established by the legislature. The methods used to determine the contribution requirements were established under state statute.

b. Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF was established in 1970 by the legislature under Chapter 41.26 RCW. LEOFF is a cost-sharing multiple-employer retirement system. Membership includes all full-time, fully compensated, local law enforcement officers and fire fighters. Retirement benefits are financed by employee and employer contributions, investment earnings and legislative appropriation. LEOFF is comprised solely of non-state employees.

The LEOFF system contains 2 plans. Participants who joined the system by September 30, 1977, are Plan I members. Those who joined thereafter are enrolled in Plan II. Retirement benefits are vested after completion of 5 years of eligible service.

Plan I participants are eligible to retire with a minimum of 5 years of service at age 50. The benefit per year of service is as follows:

<u>Term of Service</u>	<u>Percent Of Final Average</u>
20+	2.0%
10-20	1.5
5-10	1.0

The final average salary is based on salary received during the last 2 years of service. Substantial disability and death benefits are provided by the plan. Retirement benefits are indexed to the Seattle area consumer price index.

Plan II participants are eligible to retire at the age of 50 with a minimum of 20 years of service or at 58 with a minimum of 5 years of service. Retirement benefits prior to age 58 are actuarially reduced. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest 5 year period. Death and disability benefits are also provided. These benefit provisions are established under the authority of legislative statute.

Employer and employee contribution rates for Plan II are developed by the Office of State Actuary to fully fund the system. Plan II employers and employees are required to pay at the level established by the legislature. The methods used to determine the contribution requirements were established under the authority of legislative statute.

c. Public Safety Employees' Retirement System (PSERS)

The state legislature established PSERS Plan 2 in 2004, and is a cost-sharing multiple-employer system. Membership in the system includes certain public employees whose jobs contain a high degree of physical risk to their own personal safety, but are not eligible for membership in the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF). Members of the Public Employees' Retirement System (PERS) Plan 2 or 3, working in PSERS positions on or before July 1, 2006, may elect to prospectively begin PSERS membership.

NOTE-8-RISK MANAGEMENT

The City of Ferndale is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2012, 91 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. AWC RMSA, itself, pays out of its own funds all claims up to \$250,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$10 million. The excess property coverage is purchased through Lexington with limits up to \$250 million, using the Pool's broker, Arthur J. Gallagher Risk Management Services. Since AWC RMSA is a cooperative program, there is a joint liability among the participating members.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors which is comprised of elected officials of participating members.

NOTE-9-CASH BALANCES AS AT DEC. 31, 2012

The Year-End 2012 cash balances include General Fund Petty Cash/Change Funds for Finance, Court, and Police; and Court Checking Account General Ledger balance:

General Fund: \$950 Petty Cash/Change Funds

Court Agency Fund: \$16,533 Court Checking Account Funds

The above amounts are not included in Schedule 11.

NOTE-10-OPEB – LEOFF1 Retiree Other-Than-Pension Post-Employment Benefits

The City of Ferndale has a commitment to pay for post employment benefits for three (3) retired Police Officer employees who belong to the Washington State Department of Retirement Systems LEOFF1 program. These benefits include unlimited medical, limited dental, and unlimited nursing care (including in-home assistance, assisted living, and certified nursing facility care). The three retired employees received benefits during the year and \$53,295 was paid out for those benefits in 2012. The LEOFF1 Police Retiree Fund No. 004 had a cash balance at 12/31/12 of \$242,628.

NOTE-11- Ferndale Transportation Benefit District (TBD)

The Ferndale Transportation Benefit District was formed in 2012 following a successful vote of the people. A .2% sales tax was added to the existing 8.5% sales tax – so the new Ferndale sales tax rate is 8.7%. Funds started being received monthly from the Department of Revenue in September 2012. Annual revenues are budgeted at \$300,000. The City Council serves as the TBD board. Road projects are listed in priority order, and approved annually by the TBD board. The TBD is a separate legal entity, with its own separate EIN, UBI, P.O. mailbox, checking account, accounting software and checks, and annual audit.

Schedule of Liabilities
For the year ended December 31, 2012

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2012	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance December 31, 2012
General Obligations								
	251.11	1998 City Hall	12/1/2013	125,000	0	60,000	58219	65,000
	263.81	PWTF Loan Storm	9/1/2024	94,735	0	7,895	58219	86,840
	263.91	Street Lights KeyBank	7/29/2015	128,530	0	34,220	58211	94,310
	263.91	Whatcom Co. Loan	8/30/2027	993,015	0	55,377	58219	937,638
	263.96	Water Booster Pump	6/1/2028	1,030,000	0	45,000	58219	985,000
	263.81	PWTF Loan Church Road Pre-CN	7/1/2013	375,000	0	187,500	58219	187,500
	263.81	PWTF Loan Sewer Planning	7/1/2015	84,000	10,000	28,000	58219	66,000
	263.96	Land Purchase	12/1/2028	635,000	0	25,000	58219	610,000
	251.11	LaBounty Road Bond	12/1/2023	272,229	0	17,243	58219	254,986
	251.11	Facilities Bond 2010	12/1/2030	4,805,000	0	195,000	58219	4,610,000
	251.11	Vactor Truck Bonds 2010	12/1/2015	245,000	0	60,000	58219	185,000
	251.11	Facilities Bond 2011	12/1/2025	1,625,000	0	30,000	58219	1,595,000
	263.81	PWTF Loan Storm	6/1/2032	0	352,075	0	58219	352,075
	259.11	Compensated Absences	12/31/2013	250,622	278,005	214,961	58219	313,666
		Total General Obligations:		10,663,131	640,080	960,196		10,343,015
Revenue Obligations								
	263.82	PWTF Loan Sewer	7/1/2018	1,157,140	0	165,305	58219	991,835
	263.82	SRF Loan Sewer	8/1/2019	938,074	0	100,192	58219	837,882
	252.11	Sewer Refunded	11/1/2016	3,575,000	0	615,000	58219	2,960,000
	252.11	Water and Sewer Bonds	11/1/2031	6,245,000	0	160,000	58219	6,085,000
		Total Revenue Obligations:		11,915,214	0	1,040,497		10,874,717
Assessment Obligations								
	253.11	LaBounty Road LID Bonds	12/1/2025	397,001	0	29,799	58219	367,202
		Total Assessment Obligations:		397,001	0	29,799		367,202
		Total Liabilities:		22,975,346	640,080	2,030,492		21,584,934

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2012

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award I.D. Number	Expenditures			Foot Note Ref.
				From Pass-Through Awards	From Direct Awards	Total Amount	
Bureau Of Justice Assistance, Department Of Justice/	Bulletproof Vest Partnership Program	16.607	N/A		912	912	
Federal Highway Administration (fhwa), Department Of Transportation/WA State DOT	Highway Planning and Construction	20.205	LA-7772	230,437		230,437	
Federal Highway Administration (fhwa), Department Of Transportation/WA State DOT	Highway Planning and Construction	20.205	LA-7759	2,773		2,773	
Total CFDA 20.205				233,210	0	233,210	
Department Of Energy/WA State Dept. of Commerce	ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	F10-52110-029	123,828		123,828	3
Department Of Homeland Security/WA State Military Department	Homeland Security Preparedness Technical Assistance Program	97.007	E012-201	83,731		83,731	
Department Of Homeland Security/Whatcom County Sheriff's Office	Homeland Security Grant Program	97.067	201111003	48,818		48,818	
Department Of Homeland Security/Whatcom County Sheriff's Office	Homeland Security Grant Program	97.067	20121001	8,425		8,425	
Department Of Homeland Security/Whatcom County Sheriff's Office	Homeland Security Grant Program	97.067	201007004	17,786		17,786	
Total CFDA 97.067				75,029	0	75,029	
Total Federal Awards Expended:				515,798	912	516,710	

The accompanying Notes to the Schedule of Expenditures of Federal Awards is an integral part of this statement.

City of Ferndale

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012**

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the City of Ferndale's financial statements. The City of Ferndale uses the cash basis of accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Ferndale's portion, are more than shown.

NOTE 3 - AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Expenditures for this program were funded by ARRA.



ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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Director of State and Local Audit
Deputy Director of State and Local Audit
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