



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

City of Ferndale

Whatcom County

For the period January 1, 2013 through December 31, 2013

Published September 18, 2014

Report No. 1012586





**Washington State Auditor
Troy Kelley**

September 18, 2014

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, 2013 through December 31, 2013**

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Federal Summary

**City of Ferndale
Whatcom County
January 1, 2013 through December 31, 2013**

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 Cluster - 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, 2013 through December 31, 2013**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 11, 2014.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to

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

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

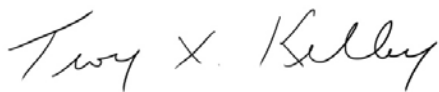
COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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



TROY KELLEY
STATE AUDITOR

September 11, 2014

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, 2013 through December 31, 2013**

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, 2013. 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, 2013.

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 cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR

September 11, 2014

Independent Auditor's Report on Financial Statements

**City of Ferndale
Whatcom County
January 1, 2013 through December 31, 2013**

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, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 14.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Ferndale, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Ferndale, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014 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.



TROY KELLEY
STATE AUDITOR

September 11, 2014

Financial Section

**City of Ferndale
Whatcom County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013
Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

| BARS Code | | Total for All funds* | 001 General | 101 Street | 102 Park Mitigation |
|--|----------------------------------|----------------------|------------------|----------------|---------------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 1,114,889 | 20,470 | 0 | 0 |
| 30880 | Beg Fund Bal-Unreserved | 6,433,411 | 1,536,118 | 22,814 | 58,547 |
| 38800/58800 | Prior Period Adjustments, net | 0 | 0 | 0 | 0 |
| Operating Revenues | | | | | |
| 310 | Taxes | 7,237,625 | 6,551,281 | 0 | 0 |
| 320 | Licenses & Permits | 656,841 | 656,841 | 0 | 0 |
| 330 | Intergovernmental Revenues | 3,302,149 | 291,919 | 761,375 | 0 |
| 340 | Charges for Goods and Services | 8,463,767 | 796,277 | 16,800 | 139,996 |
| 350 | Fines & Penalties | 166,649 | 162,227 | 0 | 0 |
| 360 | Miscellaneous Revenues | 1,197,697 | 97,248 | 16,902 | 56 |
| Total Operating Revenues: | | 21,024,727 | 8,555,792 | 795,077 | 140,053 |
| Operating Expenditures | | | | | |
| 510 | General Government | 1,843,053 | 1,616,176 | 0 | 0 |
| 520 | Public Safety | 4,800,148 | 4,800,148 | 0 | 0 |
| 530 | Utilities | 3,036,898 | 0 | 0 | 0 |
| 540 | Transportation | 1,330,020 | 178,682 | 793,780 | 0 |
| 550 | Natural and Economic Environment | 542,570 | 483,493 | 0 | 0 |
| 560 | Social Services | 55,781 | 55,781 | 0 | 0 |
| 570 | Culture And Recreation | 453,433 | 453,433 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | 12,061,904 | 7,587,714 | 793,780 | |
| Net Operating Increase (Decrease): | | 8,962,825 | 968,079 | 1,297 | 140,052 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 2,458,816 | 323,958 | 4,000 | 0 |
| 391-393 | Debt Proceeds | 1,738,807 | 0 | 0 | 0 |
| 397 | Transfers-In | 2,108,719 | 218,445 | 601,129 | 0 |
| Total Nonoperating Revenues: | | 6,306,342 | 542,403 | 605,129 | |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 2,430,815 | 240,815 | 0 | 0 |
| 591-593 | Debt Service | 2,842,760 | 0 | 0 | 0 |
| 594-595 | Capital Expenditures | 6,725,310 | 41,594 | 557,361 | 0 |
| 597 | Transfers-Out | 1,932,146 | 975,794 | 0 | 117,301 |
| Total Nonoperating Expenditures: | | 13,931,031 | 1,258,203 | 557,361 | 117,301 |
| Increase (Decrease) in Cash and Investments | | 1,338,136 | 252,280 | 49,065 | 22,751 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 2,849,258 | 4,659 | 0 | 81,299 |
| 50880 | End Fund Balance-Unreserved | 6,037,180 | 1,804,207 | 71,879 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 104 Traffic Mitigation | 106 Criminal Justice | 107 Local Criminal Justice | 198 Hotel Motel |
|--|----------------------------------|------------------------|----------------------|----------------------------|-----------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 0 | 0 | 0 | 0 |
| 30880 | Beg Fund Bal-Unreserved | 9,172 | 2,178 | 12,343 | 20,661 |
| 38800/58800 | Prior Period Adjustments, net | 0 | 0 | 0 | 0 |
| Operating Revenues | | | | | |
| 310 | Taxes | 0 | 0 | 187,253 | 64,844 |
| 320 | Licenses & Permits | 0 | 0 | 0 | 0 |
| 330 | Intergovernmental Revenues | 0 | 157,654 | 0 | 0 |
| 340 | Charges for Goods and Services | 400,688 | 0 | 0 | 0 |
| 350 | Fines & Penalties | 0 | 0 | 0 | 0 |
| 360 | Miscellaneous Revenues | 28 | 0 | 0 | 0 |
| Total Operating Revenues: | | 400,716 | 157,654 | 187,253 | 64,844 |
| Operating Expenditures | | | | | |
| 510 | General Government | 0 | 0 | 0 | 0 |
| 520 | Public Safety | 0 | 0 | 0 | 0 |
| 530 | Utilities | 0 | 0 | 0 | 0 |
| 540 | Transportation | 0 | 0 | 0 | 0 |
| 550 | Natural and Economic Environment | 0 | 0 | 0 | 59,077 |
| 560 | Social Services | 0 | 0 | 0 | 0 |
| 570 | Culture And Recreation | 0 | 0 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | | | | 59,077 |
| Net Operating Increase (Decrease): | | 400,716 | 157,654 | 187,253 | 5,767 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 0 | 115,000 | 0 | 0 |
| 391-393 | Debt Proceeds | 0 | 0 | 0 | 0 |
| 397 | Transfers-In | 0 | 0 | 0 | 0 |
| Total Nonoperating Revenues: | | | 115,000 | | |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 0 | 115,000 | 0 | 0 |
| 591-593 | Debt Service | 0 | 56 | 0 | 0 |
| 594-595 | Capital Expenditures | 0 | 139,656 | 0 | 0 |
| 597 | Transfers-Out | 207,361 | 15,000 | 169,860 | 9,500 |
| Total Nonoperating Expenditures: | | 207,361 | 269,712 | 169,860 | 9,500 |
| Increase (Decrease) in Cash and Investments | | 193,355 | 2,942 | 17,393 | -3,733 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 202,527 | 5,120 | 29,736 | 16,928 |
| 50880 | End Fund Balance-Unreserved | 0 | 0 | 0 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 213 1998 City Hall LTGO Bond Redemption. | 214 Street/Parks/Land Debt Service | 215 Labounty LID 2006-1 Bond Redemption | 216 LaBounty LID 2006-1 Bond Guarantee |
|--|-------------------------------------|--|--|---|--|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 0 | 0 | 0 | 37,385 |
| 30880 | Beg Fund Bal-Unreserved | 12,321 | 2,090 | 6,319 | 0 |
| 38800/58800 | 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 | 9,129 | 0 | 0 | 0 |
| 350 | Fines & Penalties | 0 | 0 | 4,422 | 0 |
| 360 | Miscellaneous Revenues | 75 | 143 | 71,149 | 55 |
| Total Operating Revenues: | | 9,204 | 143 | 75,571 | 55 |
| Operating Expenditures | | | | | |
| 510 | General Government | 0 | 0 | 0 | 0 |
| 520 | Public Safety | 0 | 0 | 0 | 0 |
| 530 | Utilities | 0 | 0 | 0 | 0 |
| 540 | Transportation | 0 | 0 | 0 | 0 |
| 550 | Natural and Economic Environment | 0 | 0 | 0 | 0 |
| 560 | Social Services | 0 | 0 | 0 | 0 |
| 570 | Culture And Recreation | 0 | 0 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | | | | |
| Net Operating Increase (Decrease): | | 9,204 | 143 | 75,571 | 55 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 0 | 0 | 0 | 0 |
| 391-393 | Debt Proceeds | 0 | 0 | 0 | 0 |
| 397 | Transfers-In | 46,945 | 352,062 | 4,500 | 0 |
| Total Nonoperating Revenues: | | 46,945 | 352,062 | 4,500 | |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 0 | 0 | 0 | 0 |
| 591-593 | Debt Service | 68,470 | 352,241 | 60,382 | 0 |
| 594-595 | Capital Expenditures | 0 | 0 | 0 | 0 |
| 597 | Transfers-Out | 0 | 0 | 4,500 | 4,500 |
| Total Nonoperating Expenditures: | | 68,470 | 352,241 | 64,882 | 4,500 |
| Increase (Decrease) in Cash and Investments | | -12,321 | -36 | 15,189 | -4,445 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 0 | 2,054 | 21,508 | 32,940 |
| 50880 | End Fund Balance-Unreserved | 0 | 0 | 0 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 217 LaBounty GO Bond Debt Service | 218 2010 Limited Tax General Obligation Bond Redemptio | 219 2011 Limited Tax General Oblig Bond Redemption | 301 RE Excise Tax - REET 1 |
|--|-------------------------------------|---|---|--|-------------------------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 0 | 0 | 0 | 0 |
| 30880 | Beg Fund Bal-Unreserved | 125 | 4,808 | 1,237 | 202,131 |
| 38800/58800 | Prior Period Adjustments, net | 0 | 0 | 0 | 0 |
| Operating Revenues | | | | | |
| 310 | Taxes | 0 | 0 | 0 | 217,124 |
| 320 | Licenses & Permits | 0 | 0 | 0 | 0 |
| 330 | Intergovernmental Revenues | 0 | 78,505 | 0 | 0 |
| 340 | Charges for Goods and Services | 0 | 0 | 0 | 0 |
| 350 | Fines & Penalties | 0 | 0 | 0 | 0 |
| 360 | Miscellaneous Revenues | 9 | 183 | 91 | 9,081 |
| Total Operating Revenues: | | 9 | 78,688 | 91 | 226,205 |
| Operating Expenditures | | | | | |
| 510 | General Government | 0 | 0 | 0 | 0 |
| 520 | Public Safety | 0 | 0 | 0 | 0 |
| 530 | Utilities | 0 | 0 | 0 | 0 |
| 540 | Transportation | 0 | 0 | 0 | 0 |
| 550 | Natural and Economic Environment | 0 | 0 | 0 | 0 |
| 560 | Social Services | 0 | 0 | 0 | 0 |
| 570 | Culture And Recreation | 0 | 0 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | | | | |
| Net Operating Increase (Decrease): | | 9 | 78,688 | 91 | 226,205 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 0 | 0 | 0 | 0 |
| 391-393 | Debt Proceeds | 0 | 0 | 0 | 0 |
| 397 | Transfers-In | 30,052 | 357,280 | 108,038 | 0 |
| Total Nonoperating Revenues: | | 30,052 | 357,280 | 108,038 | |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 0 | 0 | 0 | 125,000 |
| 591-593 | Debt Service | 30,095 | 440,686 | 108,037 | 0 |
| 594-595 | Capital Expenditures | 0 | 0 | 0 | 0 |
| 597 | Transfers-Out | 0 | 0 | 0 | 175,964 |
| Total Nonoperating Expenditures: | | 30,095 | 440,686 | 108,037 | 300,964 |
| Increase (Decrease) in Cash and Investments | | -34 | -4,718 | 92 | -74,759 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 91 | 90 | 1,329 | 127,372 |
| 50880 | End Fund Balance-Unreserved | 0 | 0 | 0 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 302 RE Excise Tax - REET 2 | 307 New Library Construction | 308 Main St-3rd TO Church Constr | 346 Church Road Construction |
|--|-------------------------------------|-------------------------------|---------------------------------|-------------------------------------|---------------------------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 0 | 0 | 0 | 0 |
| 30880 | Beg Fund Bal-Unreserved | 9,440 | 0 | 63,496 | 186,474 |
| 38800/58800 | Prior Period Adjustments, net | 0 | 0 | 0 | 0 |
| Operating Revenues | | | | | |
| 310 | Taxes | 217,124 | 0 | 0 | 0 |
| 320 | Licenses & Permits | 0 | 0 | 0 | 0 |
| 330 | Intergovernmental Revenues | 0 | 344,802 | 679,362 | -19,030 |
| 340 | Charges for Goods and Services | 0 | 0 | 0 | 0 |
| 350 | Fines & Penalties | 0 | 0 | 0 | 0 |
| 360 | Miscellaneous Revenues | 8,906 | 345,263 | 1,641 | 0 |
| Total Operating Revenues: | | 226,030 | 690,065 | 681,003 | -19,030 |
| Operating Expenditures | | | | | |
| 510 | General Government | 0 | 51,052 | 0 | 0 |
| 520 | Public Safety | 0 | 0 | 0 | 0 |
| 530 | Utilities | 0 | 0 | 0 | 0 |
| 540 | Transportation | 0 | 0 | 0 | 0 |
| 550 | Natural and Economic Environment | 0 | 0 | 0 | 0 |
| 560 | Social Services | 0 | 0 | 0 | 0 |
| 570 | Culture And Recreation | 0 | 0 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | | 51,052 | | |
| Net Operating Increase (Decrease): | | 226,030 | 639,013 | 681,003 | -19,030 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 0 | 500,000 | 0 | 0 |
| 391-393 | Debt Proceeds | 0 | 1,600,000 | 0 | 0 |
| 397 | Transfers-In | 0 | 0 | 182,324 | 50,000 |
| Total Nonoperating Revenues: | | | 2,100,000 | 182,324 | 50,000 |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 0 | 250,000 | 550,000 | 0 |
| 591-593 | Debt Service | 0 | 260 | 604 | 0 |
| 594-595 | Capital Expenditures | 0 | 1,368,137 | 376,220 | 118,016 |
| 597 | Transfers-Out | 159,144 | 0 | 0 | 93,222 |
| Total Nonoperating Expenditures: | | 159,144 | 1,618,397 | 926,823 | 211,238 |
| Increase (Decrease) in Cash and Investments | | 66,886 | 1,120,616 | -63,497 | -180,268 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 76,326 | 1,120,616 | 0 | 6,206 |
| 50880 | End Fund Balance-Unreserved | 0 | 0 | 0 | 0 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 370 Thornton Road | 375 Public Safety Building Constr | 401 Water | 402 Sewer |
|--|----------------------------------|-------------------|-----------------------------------|------------------|------------------|
| Beginning Cash and Investments | | | | | |
| 30810 | Beg Fund Bal-Reserved | 0 | 0 | 135,269 | 921,765 |
| 30880 | Beg Fund Bal-Unreserved | 20,469 | 366,557 | 1,433,778 | 1,911,990 |
| 38800/58800 | 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 | 977,744 | 29,818 | 0 | 0 |
| 340 | Charges for Goods and Services | 0 | 0 | 2,950,223 | 3,275,879 |
| 350 | Fines & Penalties | 0 | 0 | 0 | 0 |
| 360 | Miscellaneous Revenues | 0 | 157 | 6,085 | 7,395 |
| Total Operating Revenues: | | 977,744 | 29,975 | 2,956,308 | 3,283,274 |
| Operating Expenditures | | | | | |
| 510 | General Government | 0 | 0 | 0 | 0 |
| 520 | Public Safety | 0 | 0 | 0 | 0 |
| 530 | Utilities | 0 | 0 | 1,287,397 | 1,281,571 |
| 540 | Transportation | 0 | 0 | 0 | 0 |
| 550 | Natural and Economic Environment | 0 | 0 | 0 | 0 |
| 560 | Social Services | 0 | 0 | 0 | 0 |
| 570 | Culture And Recreation | 0 | 0 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 | 0 |
| Total Operating Expenditures: | | | | 1,287,397 | 1,281,571 |
| Net Operating Increase (Decrease): | | 977,744 | 29,975 | 1,668,911 | 2,001,703 |
| Nonoperating Revenues | | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 350,000 | 0 | 554,000 | 354,200 |
| 391-393 | Debt Proceeds | 0 | 0 | 0 | 0 |
| 397 | Transfers-In | 150,444 | 0 | 0 | 0 |
| Total Nonoperating Revenues: | | 500,444 | | 554,000 | 354,200 |
| Nonoperating Expenditures | | | | | |
| 580, 596, 599 | Other Financing Uses | 350,000 | 0 | 0 | 350,000 |
| 591-593 | Debt Service | 68 | 0 | 501,497 | 1,246,322 |
| 594-595 | Capital Expenditures | 1,148,589 | 333,108 | 811,500 | 1,193,241 |
| 597 | Transfers-Out | 0 | 0 | 0 | 0 |
| Total Nonoperating Expenditures: | | 1,498,657 | 333,108 | 1,312,997 | 2,789,563 |
| Increase (Decrease) in Cash and Investments | | -20,469 | -303,133 | 909,914 | -433,660 |
| Ending Cash and Investments | | | | | |
| 50810 | End Fund Bal-Reserved | 0 | 63,424 | 135,269 | 921,765 |
| 50880 | End Fund Balance-Unreserved | 0 | 0 | 2,343,692 | 1,478,330 |

The accompanying notes are an integral part of this Statement.

| BARS Code | | 407 Storm & Flood Control | 510 Computer Repair & Replacement | 550 Equip. Maint. & Replacement |
|--|----------------------------------|---------------------------|-----------------------------------|---------------------------------|
| Beginning Cash and Investments | | | | |
| 30810 | Beg Fund Bal-Reserved | 0 | 0 | 0 |
| 30880 | Beg Fund Bal-Unreserved | 504,682 | 27,139 | 18,523 |
| 38800/58800 | Prior Period Adjustments, net | 0 | 0 | 0 |
| Operating Revenues | | | | |
| 310 | Taxes | 0 | 0 | 0 |
| 320 | Licenses & Permits | 0 | 0 | 0 |
| 330 | Intergovernmental Revenues | 0 | 0 | 0 |
| 340 | Charges for Goods and Services | 874,775 | 0 | 0 |
| 350 | Fines & Penalties | 0 | 0 | 0 |
| 360 | Miscellaneous Revenues | 195 | 132,262 | 500,773 |
| Total Operating Revenues: | | 874,970 | 132,262 | 500,773 |
| Operating Expenditures | | | | |
| 510 | General Government | 0 | 115,825 | 60,000 |
| 520 | Public Safety | 0 | 0 | 0 |
| 530 | Utilities | 467,930 | 0 | 0 |
| 540 | Transportation | 0 | 0 | 357,558 |
| 550 | Natural and Economic Environment | 0 | 0 | 0 |
| 560 | Social Services | 0 | 0 | 0 |
| 570 | Culture And Recreation | 0 | 0 | 0 |
| 598 | Intergovernmental Payments | 0 | 0 | 0 |
| Total Operating Expenditures: | | 467,930 | 115,825 | 417,558 |
| Net Operating Increase (Decrease): | | 407,040 | 16,437 | 83,215 |
| Nonoperating Revenues | | | | |
| 370, 380, 395, 398 | Other Financing Sources | 250,000 | 0 | 7,658 |
| 391-393 | Debt Proceeds | 138,807 | 0 | 0 |
| 397 | Transfers-In | 0 | 7,500 | 0 |
| Total Nonoperating Revenues: | | 388,807 | 7,500 | 7,658 |
| Nonoperating Expenditures | | | | |
| 580, 596, 599 | Other Financing Uses | 450,000 | 0 | 0 |
| 591-593 | Debt Service | 34,042 | 0 | 0 |
| 594-595 | Capital Expenditures | 549,185 | 23,937 | 64,765 |
| 597 | Transfers-Out | 0 | 0 | 0 |
| Total Nonoperating Expenditures: | | 1,033,227 | 23,937 | 64,765 |
| Increase (Decrease) in Cash and Investments | | -237,380 | 0 | 26,108 |
| Ending Cash and Investments | | | | |
| 50810 | End Fund Bal-Reserved | 0 | 0 | 0 |
| 50880 | End Fund Balance-Unreserved | 267,302 | 27,139 | 44,631 |

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

| BARS Code | | Total for All funds | 613 Transportation Benefit District | 650 Court Agency |
|-------------|--|---------------------|---|------------------|
| 308 | Beginning Cash and Investments | 76,717 | 60,184 | 16,533 |
| 388 and 588 | Prior Period Adjustments, net | 0 | 0 | 0 |
| 310-360 | Revenues | 355,611 | 355,611 | 0 |
| 380-390 | Other Increases and Financing Sources | 171,896 | 0 | 171,896 |
| 510-570 | Expenditures | 177,591 | 177,591 | 0 |
| 580-590 | Other Decreases and Financing Uses | 160,013 | 0 | 160,013 |
| | Increase (Decrease) in Cash and Investments | 189,903 | 178,020 | 11,883 |
| 508 | Ending Cash and Investments | 266,620 | 238,204 | 28,416 |

The accompanying notes are an integral part of this Statement.

City of Ferndale, WA
Notes to the Financial Statements
For the Twelve Months Ended December 31, 2013

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 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.

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

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

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

Debt Service Funds

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

Capital Projects Funds

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

Permanent Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the City of Ferndale on a cost 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.

Private-Purpose Trust Funds

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

Agency Funds

These funds are used to account assets that 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 budget appropriations as required by state law.

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.

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

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

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

Certain funds listed below are eliminated for Statement C-4 consolidation purposes. For example, fund numbers 002, 003, 004, 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 and actual 2013 expenditures for the legally adopted budgets were as follows:

| <u>Fund Number and Name</u> | <u>Final Appropriated Amounts</u> | <u>Actual Expenditures</u> | <u>Variance</u> |
|---|---|--------------------------------|-----------------|
| 001 Current Expense (General Fund) | \$7,838,991 | \$7,733,877 | \$105,114 |
| 002 General Fund Contingency Reserve | 0 | 0 | 0 |
| 003 Facilities Capital Reserve | 15,812 | 15,812 | 0 |
| 004 LEOFF 1 Police Retiree | 184,767 | 161,873 | 22,894 |
| 005 Solid Waste Tax 2010 & On | 1,453,024 | 1,232,234 | 220,790 |
| 101 Streets | 1,666,617 | 1,351,141 | 315,476 |
| 102 Park Mitigation | 117,301 | 117,301 | 0 |
| 104 Traffic Mitigation | 306,153 | 207,361 | 98,792 |
| 106 Criminal Justice Fund | 269,762 | 269,712 | 50 |
| 107 Local Criminal Justice | 169,860 | 169,860 | 0 |
| 111 Real Estate Excise Tax First 1/4% REET 1 | 302,029 | 300,964 | 1,065 |
| 112 Real Estate Excise Tax Second 1/4% REET 2 | 189,145 | 159,144 | 30,001 |
| 198 Hotel/Motel | 74,200 | 68,578 | 5,622 |
| 213 City Hall Bonds | 68,471 | 68,471 | 0 |
| 214 Streets/Parks Debt Service | 353,178 | 352,241 | 937 |
| 215 LaBounty LID 2006-1 Bond Redemption | 64,883 | 64,882 | 1 |
| 216 LaBounty LID 2006-1 Bond Guarantee | 4,500 | 4,500 | 0 |
| 217 LaBounty GO Bond Redemption | 30,095 | 30,094 | 1 |
| 218 2010 GO Bond Redemption | 504,324 | 504,322 | 2 |
| 219 2011 GO Bond Redemption | 108,038 | 108,037 | 1 |
| 307 Library Construction | 5,946,217 | 1,669,450 | 4,276,767 |
| 308 Main St./ 3rd to Church Construction | 940,000 | 926,823 | 13,177 |
| 346 Church Road Construction | 233,222 | 211,237 | 21,985 |
| 370 Thornton Road Construction | 1,575,481 | 1,498,657 | 76,824 |
| 375 Public Safety Building | 340,000 | 333,109 | 6,891 |
| 401 Water | 2,848,011 | 2,585,462 | 262,549 |
| 402 Sewer | 4,067,244 | 4,065,692 | 1,552 |
| 403 Sewer Revenue Bonds | 1,255,211 | 1,254,793 | 418 |
| 404 Sewer Revenue Bonds Reserve | 12,000 | 5,634 | 6,366 |
| 407 Storm & Flood Control | 1,246,886 | 1,242,134 | 4,752 |

| | | | |
|--------------------------------------|---------------------|---------------------|--------------------|
| 408 Utility Loan Service | 471,566 | 445,340 | 26,226 |
| 412 Storm Regional Pond Construction | 500,202 | 490,250 | 9,952 |
| 510 Computer Repair & Maint. | 144,111 | 139,762 | 4,349 |
| 550 Equipment Repair & Maint. | 487,630 | 482,323 | 5,307 |
| 650 Court Agency | 225,000 | 171,896 | 53,104 |
| TOTAL EXPENDITURES | \$34,013,931 | \$28,442,966 | \$5,570,965 |

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

D. Cash

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

E. Deposits

The City of Ferndale's deposits are covered by the Washington Public Deposit Protection Commission.

F. Investments See Note 2, Investments.

G. Capital Assets

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

H. Compensated Absences

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

Sick leave may be accumulated up to several different days depending on the applicable labor contract. Upon separation or retirement employees do receive partial payment (typically 25%) for unused sick leave.

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

J. Other Financing Sources or Uses

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

K. Risk Management

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

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 162 Members.

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

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

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

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

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

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

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

L. Reserved Fund Balances - Includes the following funds:

| | |
|---|--------------------|
| 001 General Fund | \$4,659 |
| 102 Park Mitigation | 81,299 |
| 104 Traffic Mitigation | 202,527 |
| 106 Criminal Justice Fund | 5,120 |
| 107 Local Criminal Justice | 29,736 |
| 111 Real Estate Excise Tax First 1/4% REET 1 | 127,372 |
| 112 Real Estate Excise Tax Second 1/4% REET 2 | 76,326 |
| 198 Hotel/Motel | 16,928 |
| 214 Streets/Parks Debt Service | 2,054 |
| 215 LaBounty LID 2006-1 Bond Redemption | 21,508 |
| 216 LaBounty LID 2006-1 Bond Guarantee | 32,940 |
| 217 LaBounty GO Bond Redemption | 91 |
| 218 2010 GO Bond Redemption | 90 |
| 219 2011 GO Bond Redemption | 1,329 |
| 307 Library Construction | 1,120,616 |
| 346 Church Road Construction | 6,206 |
| 375 Public Safety Building | 63,424 |
| 401 Water | 135,269 |
| 402 Sewer | 921,765 |
| TOTAL | \$2,849,258 |

Note 2 - Investments

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

Investments are presented at historical cost.

Investments by type at December 31, 2013 are as follows:

| <u>Type of Investment</u> | <u>City of Ferndale's Own Investments</u> |
|---------------------------|---|
| L.G.I.P. | \$4,159,982 |
| FHLMC Bonds | 495,092 |
| FHLB Bonds | 500,652 |
| FANNIE MAE Bonds | 501,474 |
| TOTAL | \$5,657,200 |

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month. Property tax revenues are recognized when cash is received by City of Ferndale. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City of Ferndale's regular levy for the year 2013 was \$2.07510 per \$1,000 on an assessed valuation of \$1,096,951,832 for a total regular levy of \$2,276,281.

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2013:

| Borrowing Fund | Lending Fund | Balance 1/1/2013 | New Loans | Repayments | Balance 12/31/2013 | |
|---|------------------------------|-------------------------|------------------|--------------------|---------------------------|------------------------|
| Main St. 3rd to Church Constr. 308 | Water 401 | \$550,000 | \$0 | \$550,000 | \$0 | |
| Regional Storm Pond Constr. 412 | Current Expense 001 | \$200,000 | \$0 | \$200,000 | \$0 | |
| Criminal Justice 106 | Current Expense 001 | \$0 | \$115,000 | \$115,000 | \$0 | |
| Library Construction 307 | LEOFF1 Police Retiree 004 | \$0 | \$125,000 | \$0 | \$125,000 | Repaid Feb. 2014 |
| Library Construction 307 | REET 1 111 | \$0 | \$125,000 | \$0 | \$125,000 | Repaid Feb. 2014 |
| Library Construction 307 | Storm Utility 407 | \$0 | \$250,000 | \$250,000 | \$0 | |
| Thornton Road Construction 370 | Sewer Utility 402 | \$0 | \$350,000 | \$350,000 | \$0 | |
| TOTALS | | \$750,000 | \$965,000 | \$1,465,000 | \$250,000 | |

Note 5 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Ferndale and summarizes the City's debt transactions for year ended December 31, 2013.

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

| Year(s) | General Obligation Bonds | Revenue Debt | Other Debt | Total Debt |
|----------------|---|-------------------------|-----------------------|-----------------------|
| 2014 | \$1,051,658 | \$1,590,466 | \$191,786 | \$2,833,910 |
| 2015 | 1,035,915 | 1,613,613 | 156,872 | 2,806,400 |
| 2016 | 945,407 | 1,636,460 | 154,957 | 2,736,824 |
| 2017 | 941,950 | 779,507 | 153,042 | 1,874,499 |
| 2018 | 945,876 | 780,209 | 151,127 | 1,877,212 |
| 2019-2023 | 4,639,675 | 2,507,069 | 726,920 | 7,873,664 |
| 2024-2028 | 2,989,168 | 2,360,970 | 485,305 | 5,835,443 |
| 2029-2033 | 728,144 | 1,416,637 | 122,980 | 2,267,761 |
| TOTALS | \$13,277,793 | \$12,684,931 | \$2,142,989 | \$28,105,713 |

Note 6 - Pension Plans

Substantially all of the City of Ferndale's full-time and qualifying part-time employees participate in all qualifying plans (PERS, LEOFF and PSERS) 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

Note 7 – OPEB – LEOFF1 Retiree Other-Than-Pension Post-Employment Benefits

The City of Ferndale has a commitment to pay for post-employment benefits for employees that belong to the LEOFF1 Washington State Department of Retirement Systems retirement plan. These benefits include unlimited medical, limited dental, unlimited vision, and unlimited nursing care. Three Police Officer retirees received benefits during the year and \$36,873 was paid out for those benefits in 2013. The LEOFF1 Police Retiree Fund No. 004 had a cash balance at 12/31/13 of \$141,051. Fund No. 004 had a cash balance at 2/28/14 of \$360,663.

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

The Ferndale Transportation Benefit District (TBD) was formed in 2012 following a successful vote of the people. A .2% sales tax was added to the existing 8.5% sales tax – so the new Ferndale sales tax rate is 8.7%. Funds started being received monthly from the Department of Revenue in September, 2012. Annual revenues for 2013 are budgeted at \$355,611. 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. See Schedule C-5 for the TBD Financial Statements.

City of Ferndale
 Schedule of Liabilities
 For the year ended December 31, 2013

| Debt Type | ID. No. | Description | Maturity/Payment Due Date | Beginning Balance January 1, 2013 | Additions | Reductions | Ending Balance December 31, 2013 |
|----------------------------|---------|---|---------------------------|-----------------------------------|------------------|------------------|----------------------------------|
| General Obligations | | | | | | | |
| | 251.11 | 1998 LTGO Bonds - City Hall | 12/1/2013 | 65,000 | 0 | 65,000 | 0 |
| | 263.81 | PWTF Loan - Storm | 9/1/2024 | 86,840 | 0 | 7,895 | 78,945 |
| | 263.91 | LTGO Bonds Street Lights KeyBank | 7/29/2015 | 94,130 | 0 | 35,682 | 58,448 |
| | 263.91 | Whatcom County Public Util. Impr. Fund Loan | 8/30/2027 | 937,638 | 0 | 56,207 | 881,431 |
| | 263.96 | Water Booster Pump Station Bond | 6/1/2028 | 985,000 | 0 | 45,000 | 940,000 |
| | 263.81 | PWTF Loan - Church Rd. Pre-Construction | 7/1/2013 | 187,500 | 0 | 187,500 | 0 |
| | 263.81 | PWTF Loan - Sewer Planning | 7/1/2015 | 66,000 | 0 | 33,000 | 33,000 |
| | 263.96 | Land Purchase Bond | 12/1/2028 | 610,000 | 0 | 25,000 | 585,000 |
| | 251.11 | LABOUNTY ROAD BOND | 6/1/2023 | 254,986 | 0 | 23,606 | 231,380 |
| | 251.11 | 2010 LTGO BAB BONDS | 12/1/2030 | 4,610,000 | 0 | 200,000 | 4,410,000 |
| | 251.11 | 2010 LTGO BAB BONDS - VACTOR TRUCK | 12/1/2015 | 185,000 | 0 | 60,000 | 125,000 |
| | 251.11 | 2011 LTGO BONDS | 12/1/2025 | 1,595,000 | 0 | 55,000 | 1,540,000 |
| | 263.81 | PWTF Loan- Storm | 6/1/2032 | 352,075 | 138,807 | 0 | 490,882 |
| | 251.11 | 2013 LTGO - Library 2013A | 9/24/2023 | 0 | 550,000 | 0 | 550,000 |
| | 251.11 | 2013 LTGO Library Bonds 2013B | 9/24/2023 | 0 | 1,050,000 | 0 | 1,050,000 |
| | 259.11 | COMPENSATED ABSENCES | 12/31/2013 | 313,666 | 299,402 | 280,721 | 332,347 |
| | | | | 10,342,835 | 2,038,209 | 1,074,611 | 11,306,433 |

The accompanying notes to the financial statements are an integral part of this schedule

| Debt Type | ID. No. | Description | Maturity/Payment Due Date | Beginning Balance January 1, 2013 | Additions | Reductions | Ending Balance December 31, 2013 |
|-------------------------------|---------|--------------------------------------|---------------------------|-----------------------------------|------------------|------------------|----------------------------------|
| Revenue Obligations | | | | | | | |
| | 263.82 | PWTF Loan - Sewer | 7/1/2018 | 991,835 | 0 | 165,305 | 826,530 |
| | 263.82 | SRF Loan - Sewer | 8/1/2019 | 837,882 | 0 | 104,649 | 733,233 |
| | 252.11 | REVENUE BONDS - Sewer Refunded 2005 | 11/1/2016 | 2,960,000 | 0 | 665,000 | 2,295,000 |
| | 252.11 | REVENUE BONDS Water/Sewer 2011 | 11/1/2031 | 6,085,000 | 0 | 235,000 | 5,850,000 |
| | | Total Revenue Obligations: | | 10,874,717 | 0 | 1,169,954 | 9,704,763 |
| Assessment Obligations | | | | | | | |
| | 253.11 | LABOUNTY ROAD LID 2009 | 12/1/2025 | 367,202 | 0 | 39,415 | 327,787 |
| | | Total Assessment Obligations: | | 367,202 | 0 | 39,415 | 327,787 |
| | | Total Liabilities: | | 21,584,754 | 2,038,209 | 2,283,980 | 21,338,983 |

The accompanying notes to the financial statements are an integral part of this schedule

MCAG NO. 0786

City of Ferndale

Schedule 16

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

| Federal Agency Name/Pass-Through Agency Name | Federal Program Name | CFDA Number | Other Award Number | Expenditures | | Footnote Ref | |
|--|--------------------------------------|-------------|--------------------|--------------------------|--------------------|------------------|--------------|
| | | | | From Pass-Through Awards | From Direct Awards | | Total Amount |
| Bureau Of Justice Assistance, Department Of Justice/ | Bulletproof Vest Partnership Program | 16.607 | 001 | | 2,722 | 2,722 | Note 1 and 2 |
| Federal Highway Administration (fhwa), Department Of Transportation/WA State DOT | Highway Planning and Construction | 20.205 | LA-7759 | 974,971 | | 974,971 | Note 1 and 2 |
| Department Of Homeland Security/Whatcom County Sheriff's Office | Homeland Security Grant Program | 97.067 | WC 201111003 | 142,823 | | 142,823 | Note 1 and 2 |
| Total Federal Awards Expended: | | | | 1,117,794 | 2,722 | 1,120,516 | |

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

City of Ferndale

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2013**

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.

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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|---|--|
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