



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

City of Ferndale

Whatcom County

For the period January 1, 2016 through December 31, 2016

Published September 29, 2017

Report No. 1020012





Office of the Washington State Auditor
Pat McCarthy

September 29, 2017

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,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Ferndale
Whatcom County
January 1, 2016 through December 31, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Ferndale are summarized below in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

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 in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs:

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

**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, 2016 through December 31, 2016**

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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 29, 2017.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

September 29, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH THE UNIFORM GUIDANCE**

**City of Ferndale
Whatcom County
January 1, 2016 through December 31, 2016**

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) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2016. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. 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 "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 29, 2017

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Ferndale Whatcom County January 1, 2016 through December 31, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 15.

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 to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Ferndale, for the year ended December 31, 2016, 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, 2016, 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The 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 29, 2017 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 29, 2017

FINANCIAL SECTION

**City of Ferndale
Whatcom County
January 1, 2016 through December 31, 2016**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2016
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016
Notes to Financial Statements – 2016

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2016
Schedule of Expenditures of Federal Awards – 2016
Notes to the Schedule of Expenditures of Federal Awards – 2016

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 General	101 Street	102 Park Mitigation
Beginning Cash and Investments					
30810	Reserved	7,636,187	-	-	68,682
30880	Unreserved	6,105,351	2,742,017	40,182	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	7,825,297	6,408,391	-	-
320	Licenses and Permits	684,081	684,081	-	-
330	Intergovernmental Revenues	1,903,653	285,682	832,645	-
340	Charges for Goods and Services	10,041,620	1,131,849	19,100	227,254
350	Fines and Penalties	150,138	149,364	-	-
360	Miscellaneous Revenues	467,660	184,309	998	270
Total Revenues:		21,072,449	8,843,677	852,743	227,524
Expenditures					
510	General Government	1,931,861	1,742,808	-	-
520	Public Safety	4,088,550	4,088,550	-	-
530	Utilities	4,039,739	-	-	-
540	Transportation	1,724,092	460,016	933,110	-
550	Natural and Economic Environment	705,391	647,929	-	-
560	Social Services	69,783	69,783	-	-
570	Culture and Recreation	467,791	467,791	-	-
Total Expenditures:		13,027,206	7,476,876	933,110	-
Excess (Deficiency) Revenues over Expenditures:		8,045,242	1,366,800	(80,367)	227,524
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	630,764	-	-	-
397	Transfers-In	2,469,129	263,500	1,348,594	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	10,378	9,636	-	-
381, 395, 398	Other Resources	500,000	200,000	-	-
Total Other Increases in Fund Resources:		3,610,271	473,136	1,348,594	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	7,532,309	41,111	1,265,931	-
591-593, 599	Debt Service	3,280,889	-	4,856	-
597	Transfers-Out	2,469,129	1,170,533	-	117,134
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	1,616	896	-	-
581	Other Uses	500,000	300,000	-	-
Total Other Decreases in Fund Resources:		13,783,943	1,512,539	1,270,787	117,134
Increase (Decrease) in Cash and Investments:		(2,128,430)	327,396	(2,560)	110,390
Ending Cash and Investments					
5081000	Reserved	2,686,171	-	-	179,072
5088000	Unreserved	8,926,938	3,069,415	37,622	-
Total Ending Cash and Investments		11,613,108	3,069,415	37,622	179,072

The accompanying notes are an integral part of this statement.

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		104 Traffic Mitigation	106 Criminal Justice	107 Local Criminal Justice	113 Transportation Benefit
Beginning Cash and Investments					
30810	Reserved	195,507	2,036	12,073	-
30880	Unreserved	-	-	-	121,863
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	221,373	419,532
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	16,533	-	-
340	Charges for Goods and Services	406,305	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,326	-	-	273
Total Revenues:		407,631	16,533	221,373	419,805
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		407,631	16,533	221,373	419,805
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	134,797	14,000	200,000	450,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		134,797	14,000	200,000	450,000
Increase (Decrease) in Cash and Investments:		272,834	2,533	21,373	(30,195)
Ending Cash and Investments					
5081000	Reserved	468,341	4,569	33,446	-
5088000	Unreserved	-	-	-	91,668
Total Ending Cash and Investments		468,341	4,569	33,446	91,668

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		198 Hotel Motel	214 Street/Parks/La nd Debt Service	215 Labounty LID 2006-1 Bond	216 LaBounty LID 2006-1 Bond Guarantee
Beginning Cash and Investments					
30810	Reserved	18,772	2,974	1,575	28,012
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	61,500	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	774	-
360	Miscellaneous Revenues	-	231	46,688	125
Total Revenues:		61,500	231	47,462	125
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	57,462	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		57,462	-	-	-
Excess (Deficiency) Revenues over Expenditures:		4,038	231	47,462	125
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	136,672	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	136,672	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	128,854	44,817	-
597	Transfers-Out	9,200	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		9,200	128,854	44,817	-
Increase (Decrease) in Cash and Investments:		(5,162)	8,049	2,645	125
Ending Cash and Investments					
5081000	Reserved	13,610	11,023	4,220	28,136
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		13,610	11,023	4,220	28,136

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		217 LaBounty GO Bond Debt Service	218 2010 Limited Tax General	219 2011 Limited Tax General Oblig	220 2013 Library LTGO Bond
Beginning Cash and Investments					
30810	Reserved	93	105	2,150	1,830
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	63,623
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	71,665	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	55	562	285	224
Total Revenues:		55	72,227	285	63,847
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		55	72,227	285	63,847
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	26,720	359,565	162,538	122,162
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		26,720	359,565	162,538	122,162
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	26,720	430,515	161,938	186,072
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		26,720	430,515	161,938	186,072
Increase (Decrease) in Cash and Investments:		55	1,277	885	(63)
Ending Cash and Investments					
5081000	Reserved	148	1,382	3,035	1,767
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		148	1,382	3,035	1,767

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		301 Real Estate Excise Tax - 1st 1/4 Percent	302 Real Estate Excise Tax - 2nd 1/4 Percent	309 Star Park Design and Construction	346 Church Road Construction
Beginning Cash and Investments					
30810	Reserved	79,964	276,491	86,442	13,105
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	325,439	325,439	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	225,666	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	282	1,761	86,831	-
Total Revenues:		325,721	327,200	312,497	-
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		325,721	327,200	312,497	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	11,878	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	200,000	-
Total Other Increases in Fund Resources:		-	11,878	200,000	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	345,111	1,226
591-593, 599	Debt Service	-	-	410	-
597	Transfers-Out	331,087	20,000	-	11,878
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	200,000	-
Total Other Decreases in Fund Resources:		331,087	20,000	545,521	13,105
Increase (Decrease) in Cash and Investments:		(5,366)	319,078	(33,024)	(13,105)
Ending Cash and Investments					
5081000	Reserved	74,598	595,569	53,417	-
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		74,598	595,569	53,417	-

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		347 Main & LaBounty and Walgreens	370 Thornton Road Construction	401 Water	402 Sewer
Beginning Cash and Investments					
30810	Reserved	228,263	146,966	135,269	6,298,322
30880	Unreserved	-	-	981,723	1,636,533
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	8,497	395,698	41,479
340	Charges for Goods and Services	-	-	2,859,300	3,537,116
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	544	57	92,317	18,323
Total Revenues:		544	8,554	3,347,315	3,596,918
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	1,722,406	1,672,497
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	1,722,406	1,672,497
Excess (Deficiency) Revenues over Expenditures:		544	8,554	1,624,909	1,924,421
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	395,698	-
397	Transfers-In	22,500	15,000	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	742
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		22,500	15,000	395,698	742
Other Decreases in Fund Resources					
594-595	Capital Expenditures	250,404	99,868	1,760,253	3,179,726
591-593, 599	Debt Service	-	-	485,151	1,728,620
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	721
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		250,404	99,868	2,245,403	4,909,066
Increase (Decrease) in Cash and Investments:		(227,360)	(76,314)	(224,796)	(2,983,903)
Ending Cash and Investments					
5081000	Reserved	903	70,653	398,206	703,663
5088000	Unreserved	-	-	493,990	4,247,288
Total Ending Cash and Investments		903	70,653	892,196	4,950,951

City of Ferndale
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		407 Storm & Flood Control	510 Computer Repair & Replacement	550 Equip. Maint. & Replacement
Beginning Cash and Investments				
30810	Reserved	37,556	-	-
30880	Unreserved	523,027	15,848	44,158
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	25,787	-	-
340	Charges for Goods and Services	1,196,244	134,394	530,058
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	4,510	-	27,690
Total Revenues:		1,226,541	134,394	557,748
Expenditures				
510	General Government	-	144,053	45,000
520	Public Safety	-	-	-
530	Utilities	644,837	-	-
540	Transportation	-	-	330,965
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		644,837	144,053	375,965
Excess (Deficiency) Revenues over Expenditures:		581,704	(9,659)	181,783
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	235,066
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	100,000
Total Other Increases in Fund Resources:		-	-	335,066
Other Decreases in Fund Resources				
594-595	Capital Expenditures	58,724	6,189	523,766
591-593, 599	Debt Service	82,735	-	203
597	Transfers-Out	10,500	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		151,958	6,189	523,969
Increase (Decrease) in Cash and Investments:		429,746	(15,848)	(7,120)
Ending Cash and Investments				
5081000	Reserved	40,412	-	-
5088000	Unreserved	949,917	-	37,038
Total Ending Cash and Investments		990,329	-	37,038

City of Ferndale
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	650 Court Agency	651 Energy Grant Loan Loss Reserve
308	Beginning Cash and Investments	35,881	27,236	8,645
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	-	-	-
380-390	Other Increases and Financing Sources	159,484	159,484	-
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	168,129	159,484	8,645
	Net Increase (Decrease) in Cash and Investments:	(8,645)	0	(8,645)
508	Ending Cash and Investments	27,236	27,236	-

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, 2016

Note 1 - Summary of Significant Accounting Policies

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

The City of Ferndale reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System (BARS)* Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

-) Financial transactions are recognized on a cash basis of accounting as described below.
-) Component units are required to be disclosed, but are not included in the financial statements.
-) Government-wide statements, as defined in GAAP, are not presented.
-) All funds are presented, rather than a focus on major funds.
-) The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
-) Supplementary information required by GAAP is not presented.
-) Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

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

Agency Funds

These funds are used to account assets that the government holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

In accordance with state law the City of Ferndale also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

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

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

Certain funds listed below are eliminated for Statement C-4 consolidation purposes. For example, fund numbers 002, 003, 004, 005 and 007 are rolled up into one General Fund per Statement C-4 Financial Statements. Other fund numbers listed below (403, 404, and 408) 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 2016 expenditures for the legally adopted budgets were as follows:

<u>Fund Number and Name</u>	Final	Actual	<u>Variance</u>
	<u>Appropriated</u>	<u>Expenditures</u>	
	<u>Amounts</u>		
001 Current Expense (General Fund)	\$9,194,122	\$7,987,605	\$1,206,517
002 General Fund Contingency Reserve	0	0	0
003 Facilities Capital Reserve	0	0	0
004 LEOFF 1 Police Retiree	132,178	42,561	89,617
005 Solid Waste Tax 2010 & On	1,905,359	1,898,208	7,151
007 Pioneer Pavilion Community Center Ops	102,100	81,257	20,843
101 Streets	2,222,702	2,199,042	23,660
102 Park Mitigation	160,334	117,134	43,200
104 Traffic Mitigation	134,797	134,797	0
106 Criminal Justice Fund	14,000	14,000	0
107 Local Criminal Justice	200,000	200,000	0
113 Ferndale Trans. Benefit District	450,000	450,000	0
198 Hotel/Motel	70,500	66,662	3,838
214 Streets/Parks Debt Service	139,646	128,854	10,792
215 LaBounty LID 2006-1 Bond Redemption	50,376	44,817	5,559
216 LaBounty LID 2006-1 Bond Guarantee	3,500	0	3,500
217 LaBounty GO Bond Redemption	26,720	26,720	0
218 2010 GO Bond Redemption	430,514	430,514	0
219 2011 GO Bond Redemption	162,538	161,938	601
220 2013 GO Library Bond Redemption	186,072	186,072	0
301 Real Estate Excise Tax First 1/4% REET 1	331,087	331,087	0
302 Real Estate Excise Tax Second 1/4% REET 2	66,000	20,000	46,000
309 Star Park Construction	552,200	545,521	6,679
346 Church Road Construction	13,105	13,105	0
347 Main & LaBounty Roundabout Construction	250,763	250,404	359
370 Thornton Road Overpass Construction	100,000	99,868	132
401 Water	6,038,455	3,968,384	2,070,071
402 Sewer	8,807,518	6,581,409	2,226,109

<u>Fund Number and Name</u>	<u>Final Appropriated Amounts</u>	<u>Actual Expenditures</u>	<u>Variance</u>
403 Sewer Revenue Bonds	1,990,532	1,989,631	901
404 Sewer Revenue Bonds Reserve	354,019	347,807	6,212
407 Storm & Flood Control	2,703,711	796,874	1,906,837
408 Utility Loan Service	327,186	311,730	15,456
510 Computer Repair & Maint.	155,421	150,242	5,179
550 Equipment Repair & Maint.	1,584,795	899,934	684,861
650 Court Agency	225,000	159,484	65,516
TOTAL EXPENDITURES	\$39,085,250	\$30,635,659	\$8,449,591

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 and Investments

See Note 2, Deposits and Investments.

E. Capital Assets

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

F. Compensated Absences

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

Sick leave may be accumulated up to several different days depending on the applicable labor contract. Upon retirement employees do receive partial payment (typically 25%) for unused sick leave. Payments are recognized as expenditures when paid.

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

H. Other Financing Sources or Uses

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

I. 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 168 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 in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per occurrence subject to aggregate and 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 coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$300 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

- J. **Reserved Portion of Ending Cash and Investments**– Beginning and Ending Cash and Investments is reported as reserved when it is subject to restrictions on use imposed by external parties or due to internal commitments established by the Ferndale City Council. When expenditures that meet restrictions are incurred, the City of Ferndale intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of:

102 Park Mitigation	\$179,072
104 Traffic Mitigation	468,341
106 Criminal Justice Fund	4,569
107 Local Criminal Justice	33,446
198 Hotel/Motel	13,610
214 Streets/Parks Debt Service	11,023
215 LaBounty LID 2006-1 Bond Redemption	4,220
216 LaBounty LID 2006-1 Bond Guarantee	28,136
217 LaBounty GO Bond Redemption	148
218 2010 GO Bond Redemption	1,382
219 2011 GO Bond Redemption	3,035
220 2013 GO Library Bond Redemption	1,767
301 Real Estate Excise Tax First 1/4% REET 1	74,598
302 Real Estate Excise Tax Second 1/4% REET 2	595,569
309 Star Park Construction	53,417
347 Main & LaBounty and Walgreens Roundabouts Construction	903
370 Thornton Road Construction	70,653
401 Water	398,206
402 Sewer	703,663
407 Storm	40,412
TOTAL	\$2,686,171

The largest fund containing reserved cash balances is the 402 Sewer Proprietary fund (unspent 2014 revenue bond proceeds and the required Parity Bond Reserve amounts). All of the other funds listed above are restricted by the very nature of the title of the fund.

Note 2 – Deposits and Investments

It is the city's policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds.

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the city or its agent in the government's name. Investments are reported at original cost.

Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	<u>City of Ferndale's Own Investments</u>
L.G.I.P.	\$2,153,700
FFCB Bonds	500,898
FANNIE MAE Bonds	<u>4,004,549</u>
TOTAL	\$6,659,147

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 2016 was \$.87003 per \$1,000 on an assessed valuation of \$1,195,134,774 for a total regular levy of \$1,039,805.

The City of Ferndale's voted bond levy for the year 2016 was \$63,910.

Note 4 - Interfund Loans

The following table displays interfund loan activity during 2016:

Borrowing Fund	Lending Fund	Balance 1/1/2016	New Loans	Repayments	Balance 12/31/2016
Star Park 309	Cur. Exp. 001	\$0	\$200,000	\$200,000	\$0
Equipment R & R 550	Cur. Exp. 001	\$0	\$100,000	\$0	\$100,000
TOTALS		\$0	\$300,000	\$200,000	\$100,000

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, 2016.

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

	General Obligation Bonds	General Obligation Bonds	General Obligation Bonds
Year(s)	Principal	Interest	Total D/S
2017	\$585,730	\$356,220	941,950
2018	611,559	334,317	945,876
2019	626,212	312,758	938,970
2020	629,505	301,008	930,513
2021	653,996	270,617	924,613
2022-2026	2,912,493	873,479	3,785,972
2027-2031	1,555,000	221,742	1,776,742
2032-2036	0	0	0
TOTALS	\$7,574,495	\$2,670,141	\$10,244,636

	Revenue Debt	Revenue Debt	Revenue Debt
Year(s)	Principal	Interest	Total D/S
2017	\$825,796	\$510,565	\$1,336,361
2018	845,801	494,227	1,340,028
2019	700,491	475,956	1,176,447
2020	715,491	456,752	1,172,243
2021	740,491	433,047	1,173,538
2022-2026	4,097,455	1,761,839	5,859,294
2027-2031	4,957,455	880,614	5,838,069
2032-2036	1,407,455	75,632	1,483,087
TOTALS	\$14,290,435	\$5,088,632	\$19,379,067

	Other Debt	Other Debt	Other Debt
Year(s)	Principal	Interest	Total D/S
2017	\$161,185	\$46,179	\$207,364
2018	168,012	41,952	209,964
2019	170,556	37,172	207,728
2020	173,601	32,084	205,685
2021	176,766	26,871	203,637
2022-2026	803,408	61,572	864,980
2027-2031	222,830	2,574	225,404
2032-2036	30,724	77	30,801
TOTALS	\$1,907,082	\$248,481	\$2,155,563

Year(s)	All Debt Principal	All Debt Interest	All Debt Total D/S
2017	\$1,572,711	\$912,964	\$2,485,675
2018	\$1,625,372	870,496	\$2,495,868
2019	\$1,497,259	825,886	\$2,323,145
2020	\$1,518,597	789,844	\$2,308,441
2021	\$1,571,253	730,535	\$2,301,788
2022-2026	\$7,813,356	2,696,890	\$10,510,246
2027-2031	\$6,735,285	1,104,930	\$7,840,215
2032-2036	\$1,438,179	75,709	\$1,513,888
TOTALS	\$23,772,012	\$8,007,254	\$31,779,266

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all City of Ferndale’s full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans including Public Employees’ Retirement System (PERS 1 and PERS 2/3), Public Safety Employees’ Retirement System (PSERS), and Law Enforcement Officers’ and Fire Fighters’ Retirement System (LEOFF).

The State Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to:

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

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

At June 30, 2016 (the measurement date of the plans), the City of Ferndale's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability
PERS 1	.023721%	\$1,273,929
PERS 2/3	.029745%	\$1,497,637
PSERS 2	.019673%	\$8,361
Total Pension Liabilities		\$2,779,927

LEOFF Plan 1

The City of Ferndale has in the past participated in the LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent. There were no active LEOFF Plan 1 City of Ferndale employees in 2016.

	Allocation %	(Asset)
LEOFF 1	.004453%	(\$45,879)

LEOFF Plan 2

The City of Ferndale also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

	Allocation %	(Asset)
LEOFF 2	.053904%	(\$313,522)

Note 7 – OPEB – LEOFF Plan 1 Retiree Other-Than-Pension Post-Employment Benefits

The City of Ferndale has a commitment to pay for post-employment benefits for employees that belong to the LEOFF Plan 1 Washington State Department of Retirement Systems retirement plan. These benefits include unlimited medical, limited dental, unlimited vision, and unlimited nursing care. **Three** Police Officer retirees received benefits during the year and \$42,561 was paid out for those benefits in 2016. The LEOFF Plan 1 Police Retiree Fund No. 004 had a cash balance at 12/31/16 of \$439,675.

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 total Ferndale sales tax rate is 8.7%. Funds started being received monthly from the Department of Revenue in September, 2012. Annual revenues for 2016 are budgeted at \$386,250. The City Council serves as the TBD board. Road projects are listed in priority order, and approved annually by the TBD board. The TBD was a separate legal entity, with its own separate EIN, UBI, P.O. mailbox, checking account, accounting software and checks, and tri-annual audit.

In 2016, the TBD was folded into the City of Ferndale accounts as Fund Number 113.

Note 9 – Other Disclosures – Construction Commitment

The City of Ferndale has no significant dollar value active road or general facilities construction projects as of December 31, 2016. Several Water, Sewer, and Storm Proprietary funds projects are ongoing.

Note 10 – Other Disclosures – Finance Director

The City of Ferndale's Finance Director for 12 years, Mark Peterson, retired July 31, 2016. The new Finance Director, Sirke Salminen, was hired September 19, 2016.

**City of Ferndale
Schedule of Liabilities
For the Year Ended December 31, 2016**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.91	Whatcom Co. Public Util Impr Fund Parks Loan	8/30/2027	766,474	-	58,775	707,699
263.96	Water Booster Pump Station	6/1/2028	845,000	-	50,000	795,000
263.96	Land Purchase	12/1/2028	525,000	-	525,000	-
263.96	Land Purchase	12/1/2028	-	510,000	-	510,000
263.96	Heavy Equipment	6/1/2026	-	188,366	-	188,366
263.96	Minor Equipment	6/1/2021	-	46,700	-	46,700
251.11	LaBounty Road Bond	6/1/2023	185,442	-	21,408	164,034
251.11	Facilities BAB Bond 2010	12/1/2030	4,005,000	-	210,000	3,795,000
251.11	Facilities LTGO BQ Bonds 2011	12/1/2025	1,320,000	-	115,000	1,205,000
263.81	PWTF Loan - Storm	6/1/2032	522,311	-	30,724	491,587
251.11	Library Facilities LTGO BQ Bonds 2013A	9/24/2023	441,506	-	56,214	385,292
251.11	Library Facilities LTGO BQ Bonds 2013B	9/24/2023	842,719	-	107,475	735,244
263.83	DWSRF CCWA	10/1/2036	-	609,811	-	609,811
263.81	PWTF Loan - Storm	9/1/2024	63,156	-	7,895	55,261
Total General Obligation Debt/Liabilities:			9,516,608	1,354,877	1,182,491	9,688,994
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences	12/31/2016	359,110	357,184	360,873	355,421
264.30	Pension Liabilities	12/31/2016	2,266,498	513,429	-	2,779,927
263.82	PWTF Loan - Sewer	7/1/2018	495,920	27	165,305	330,642
252.11	Sewer Bonds 2005 Refunded	11/1/2016	820,000	-	820,000	-
252.11	Water & Sewer Bonds 2011	11/1/2031	5,365,000	-	250,000	5,115,000
252.11	Sewer & Storm Bonds 2014	11/1/2033	8,605,000	-	370,000	8,235,000
Total Revenue and Other (non G.O.) Debt/Liabilities:			17,911,528	870,640	1,966,178	16,815,990
Assessment Debt/Liabilities (with commitments)						
253.11	LaBounty Road LID	12/1/2025	263,015	-	29,799	233,216
Total Assessment Debt/Liabilities (with commitments):			263,015	-	29,799	233,216
Total Liabilities:			27,691,151	2,225,517	3,178,468	26,738,200

City of Ferndale
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2016

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
Violence Against Women Office, Department Of Justice (via Domestic Violence & Sexual Assault Services)	Violence Against Women Formula Grants	16.588	F16-31103-064	7,451	-	7,451	-	1,2
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	N/A	-	4,216	4,216	-	1,2
Drinking Water State Revolving Fund Cluster								
Office Of Water, Environmental Protection Agency (via WA State Department of Commerce)	Capitalization Grants for Drinking Water State Revolving Funds	66.468	DM15952-032	724,829	-	724,829	-	1,2,3, 4
Total Drinking Water State Revolving Fund Cluster:				724,829	-	724,829	-	
Federal Emergency Management Agency (fema), Department Of Homeland Security	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	-	41,479	41,479	-	1,2
Federal Emergency Management Agency (fema), Department Of Homeland Security (via Whatcom Co. Sheriff's Office)	Homeland Security Grant Program	97.067	WC 201407026	25,000	-	25,000	-	1,2
Total Federal Awards Expended:				757,280	45,695	802,975	-	

The accompanying notes 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, 2016

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 reports financial activity in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. This manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

-) Financial transactions are recognized on a cash basis of accounting as described below.
-) Component units are required to be disclosed, but are not included in the financial statements.
-) Government-wide statements, as defined in GAAP, are not presented.
-) All funds are presented, rather than a focus on major funds.
-) The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
-) Supplementary information required by GAAP is not presented.
-) Ending balances are not presented using the classifications defined in GAAP.

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 – FEDERAL LOANS

The City of Ferndale was approved by Department of Commerce to receive a loan totaling \$1,219,622 for the Central City Water Association conversion. Only the federal portion of the loan is reported on the SEFA. 50% of the proceeds are a grant and 50% are a loan. The amount listed only includes proceeds expended during the year.

The loan is also reported on the City of Ferndale's Schedule of Liabilities.

NOTE 4 - INDIRECT COST RATE

The City of Ferndale has not elected to use the 10-percent de minimis indirect cost rate allowed under the uniform guidance.

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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