

CITY OF FERNDALE, CALIFORNIA

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2021



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City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Table of Contents

Page

INTRODUCTORY SECTION

Table of Contents..... i

Letter of Transmittal..... iii

Organization Chartvi

List of Officials..... vii

FINANCIAL SECTION

Independent Auditors’ Report 1

Management’s Discussion and Analysis (Required Supplementary Information)3

Basic Financial Statements:

Government-Wide Financial Statements:

 Statement of Net Position 19

 Statement of Activities 20

Fund Financial Statements:

Governmental Funds:

 Balance Sheet 24

 Reconciliation of Governmental Funds Balance Sheet to the
 Statement of Net Position 26

 Reconciliation of Fund Basis Balance Sheet to Government-wide
 Statement of Net Position – Governmental Activities..... 27

 Statement of Revenues, Expenditures, and Changes
 in Fund Balances – Governmental Funds 28

 Reconciliation of Fund Basis Statements to Government-wide
 Statement of Activities 30

 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balances of Governmental Funds to the Statement of Activities..... 31

 Statement of Revenues, Expenditures, and Changes in
 Fund Balances - Budget to Actual – General Fund and
 Major Special Revenue Funds 32

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Table of Contents, Continued

	<u>Page</u>
Basic Financial Statements, Continued:	
<i>Fund Financial Statements, Continued:</i>	
Proprietary Funds:	
Statement of Net Position – Sewer Utility Enterprise Fund	35
Statement of Revenues, Expenses, and Changes in Fund Net Position – Sewer Utility Enterprise Fund	36
Statement of Cash Flows – Sewer Utility Enterprise Fund	37
Notes to Basic Financial Statements	41
Combining and Individual Fund Financial Statements and Schedules:	
Nonmajor Special Revenue Funds:	
Combining Balance Sheet.....	67
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds.....	68
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Gas Special Revenue Fund	69
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Transportation Enhancement Act Special Revenue Fund	70
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget to Actual – Integrated Waste Management Special Revenue Fund.....	71
 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	 73



October 21, 2021

To the Honorable Mayor and Members of the City Council and Citizens of the City of Ferndale:

I am pleased to submit the City of Ferndale Annual Financial Report for the fiscal year ended June 30, 2021. It is the policy of the Council that a licensed certified public accountant conduct an annual audit at the end of each fiscal year and issue a complete set of financial statements to be submitted to them. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards.

Responsibility for the accuracy of the data and the fairness of presentation, including all footnotes and disclosures, rests with the City. We believe the data presented in this report is accurate in all material respects and all statements and disclosures necessary for the reader to obtain a thorough understanding of the City's financial activities have been included. Management of the City has established an internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

While traditionally addressed to the governing body of the City, this report is intended to provide relevant financial information to the citizens of the City of Ferndale, City staff, creditors, and other concerned readers. We encourage all readers to contact the Finance Department with any questions or comments concerning this report.

The City's financial statements have been audited by JJACPA, Inc., a firm of certified public accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City for the fiscal year ended June 30, 2021, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Ferndale

Ferndale is located about fifteen miles south of Eureka, close to the Eel River and the Pacific Ocean. This small community in Northern California, Humboldt County traditionally has had an agricultural-based economy that has transitioned to also include a very successful tourism economy. Specifically, the main industries in Ferndale are dairy, farming, cattle ranching, tourism, lumber and wood products, and services. Ferndale is known for its architecturally stunning bed and breakfasts as well as the beautiful Victorian charm of antique shops, art galleries, and museums. These assets, as well as the beautiful country pasture, ocean views, and sweeping mountainsides, all help to attract tourists from around the world. Ferndale is so picturesque that even the movie industry has taken an interest in the town for its timeless appeal and cinematic possibilities. Several movies have been filmed there during the last decade. The town has been incorporated since 1893, and has had a strong local government since. Ferndale's economy has experienced some shifts over the years. In the early 1900s, Ferndale's small creameries formed the Humboldt Creamery, which is still in operation. Since then, Ferndale has remained physically unchanged but has added tourism to its economic base making it one of Humboldt County's most desirable stops.

The City of Ferndale operates under a Council-Manager form of government and provides municipal services that include public safety, public works, community development, and parks and recreation. In addition, the City provides, Wastewater, and Drainage services in the form of enterprise activities. This report includes all funds of the City of Ferndale.

The City Council establishes annual budgets for the General Fund, Proprietary Funds, and all Special Revenue Funds, except for certain Special Revenue Funds for which expenditures are controlled by grant funding or by assessments received. Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Manager. The City Manager prepares an estimate of revenues and prepares recommendations for the next year's budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council in accordance with the municipal code.

The Ferndale City Council consists of five members, elected at-large to four-year overlapping terms. Council members must be residents of the City. The position of Mayor is elected for a two-year term, the Vice Mayor is chosen by the City Council through policy direction determined by the City Council. The Mayor conducts the Council meetings and represents the City on ceremonial occasions.

The City Council serves as the policy board for the municipality. As an elected Board of Directors, the City Council provides policy direction, establishes goals, and sets priorities for the City government. In addition to serving as the policy makers for the community, the City Council also is responsible for numerous land use decisions within its borders, including the General Plan. The City Council appoints the City Manager, City Attorney, and all members of advisory boards, commissions, and committees.

The City of Ferndale is committed to providing high quality services in an economical manner. For fiscal year 2020/21, the City's efforts were focused in the following areas:

Facilities and Infrastructure – Drainage and City Streets continue to be a priority. A number of drainage related maintenance projects that include Francis Creek and other drainage systems throughout the city.

Current Economic Conditions and Outlook

The City's financial policies continue to promote Ferndale's long-term fiscal stability. At the direction of the Council, staff conducts periodic operational reviews to ensure City business is conducted in an economical and in a fiduciary responsible manner. The goal of the reviews are to promote long-term savings to the City and ensure long-term stability.

Transient occupancy taxes and sales tax revenue increased for FY 2020-2021 and we project a slight increase for FY 2021-22.

The pandemic continues to have an effect on our local economy. We believe that effect is diminishing, and we are confident our economy is getting better. Although not back to normal, we are moving in that direction. We have received funding from the federal government intended to fill the loss of revenue due to coronavirus – COVID-19. We are currently researching compliant ways to utilize those funds.

The City of Ferndale anticipates minimal revenue growth for the foreseeable future. The City continues to maintain the required fund balances. In order to assure that the City Council has some discretion, these reserves may be reduced to fund Council sponsored projects for the benefit of the community.

Financial Information

During the past fiscal year, there were no changes to the City's financial policies or items in which policies impacted the financial information or presentation. Information concerning significant accounting policies affecting the finances of the City is summarized in the Notes to the Financial Statements.

Acknowledgements

The preparation of this Annual Financial Report could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department and the auditing firm of JJACPA, Inc. I would like to express my appreciation to Joseph Arch, CPA, and Brett Jones of JJACPA, Inc. and to Stacey Edgmon, CPA of the accounting firm of Aycock and Edgmon, CPAs and the staff of the Finance Department who assisted and contributed to its preparation.

I would also like to thank members of the City Council, and the various departments for their cooperation and support in planning and conducting the financial operations of the City during the fiscal year.

Respectfully Submitted,

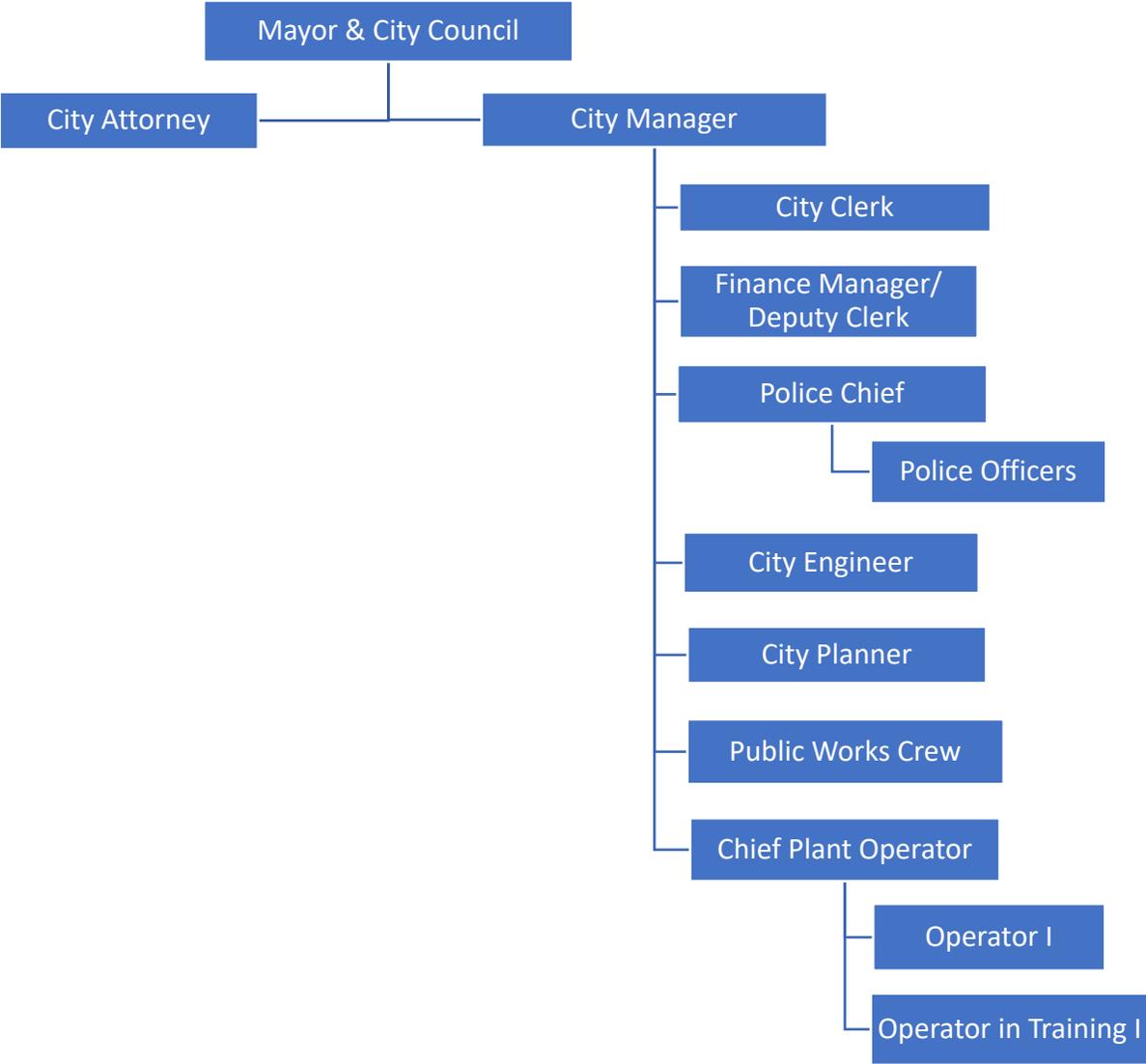


Jay Parrish
City Manager

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Organization Chart

City of Ferndale
Organizational Chart



City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

List of Officials

CITY COUNCIL

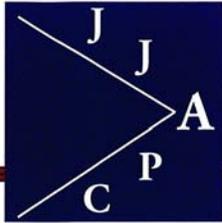
- Don Hindley, Mayor
- Stephen Avis, Vice Mayor
- Leonard Lund
- Phillip Ostler
- Robin Smith

CITY OFFICIALS

- Jay Parrish, City Manager
- Donna Johnson, Financial Manager
- Kristene Hall, City Clerk
- Ronald Sligh, Chief of Police
- Arnie Kemp, Building Official
- Planwest Partners, City Planners
- Ryan Plotz, City Attorney

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JJACPA, Inc.

A Professional Accounting Services Corp.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
of the City of Ferndale
Ferndale, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and budgetary comparison information of the City of Ferndale, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 opinions 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 entity'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 entity'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.

To the Honorable Mayor and City Council
of the City of Ferndale
Ferndale, California
Page 2

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and budgetary comparison information of the City as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principle generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3–15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements and the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2021 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.

October 21, 2021

JJACPA, Inc.
JJACPA, Inc.
Dublin, CA

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management's Discussion and Analysis

This section provides a narrative overview and analysis of the financial activities of the City of Ferndale (City) for the fiscal year ended June 30, 2021. It should be read in conjunction with the accompanying transmittal letter and basic financial statements.

FINANCIAL HIGHLIGHTS

- ◆ The City's total net position decreased by \$819,035 primarily due to non-cash outlays for depreciation of \$935,780 offset by decreased long-term liabilities of \$119,622. The assets of the City exceeded its liabilities by \$9,398,296 at the end of the 2021 fiscal year. Of that amount, \$1,343,316 (the unrestricted net position) may be used to meet the City's ongoing obligations and operating expenses for the next fiscal year.
- ◆ Overall City-wide revenues from all governmental and business-type activities increased by about \$181,402 compared to the 2020 fiscal year. The City did see increases in general revenues, primarily from increased charges for property, sales, motor vehicle and transient occupancy taxes. The City's total expenses for all programs in fiscal 2021 increased by \$220,821 compared to the 2020 fiscal year. This increase was due primarily to an increase in general government, public works, public safety and sewer expenditures.
- ◆ The general fund reported a fund balance of \$610,474 at the end of the 2021 fiscal year, a decrease of about \$40,096. This decrease was primarily due to increased costs for public safety, public works, and parks and library.
- ◆ The City also ended the fiscal year with \$6,756,618 reported in the sewer utility proprietary enterprise fund. This is an increase from 2020 of approximately \$62,891. This increase was due primarily to an increase in charges for services.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

This Annual Financial Report is in two major parts:

- 1) **Introductory section**, which includes the Transmittal Letter and general information; and,
- 2) **Financial section**, which includes the Management's Discussion and Analysis (this part), the Basic Financial Statements, which include the Government-wide and the Fund Financial Statements along with the notes to these financial statements, and Combining and Individual Fund Financial Statements and Schedules.

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management's Discussion and Analysis, Continued

OVERVIEW OF THE ANNUAL FINANCIAL REPORT, Continued

The Basic Financial Statements

The Basic Financial Statements are comprised of the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the City's financial activities and financial position.

Government-wide Financial Statements

The Government-wide Financial Statements provide a broad overview of the City's activities as a whole and comprise the Statement of Net Position and the Statement of Activities. The Statement of Net Position provides information about the financial position of the City as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the City's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the City's programs. The Statement of Activities explains in detail the change in Net Position for the year.

All of the City's activities are grouped into Governmental Activities and Business-type activities, as explained below. All the amounts in the Statement of Net Position and the Statement of Activities are separated into Governmental Activities and Business-type Activities in order to provide a summary of these two activities of the City as a whole.

- ◆ ***Governmental activities*** – All of the City's basic services are considered to be governmental activities, including general government, public safety, public works, planning and building regulation, community promotion, parks and library, and interest and fiscal charges. These services are supported by general City revenues such as taxes and by specific program revenues such as developer fees.
- ◆ ***Business-type activities*** – All the City's enterprise activities are reported here, including the activities of the Sewer Utility. Unlike governmental services, these services are supported by charges paid by users based on the amount of the service they use.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management's Discussion and Analysis, Continued

OVERVIEW OF THE ANNUAL FINANCIAL REPORT, Continued

Fund Financial Statements, Continued

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the Government-wide Financial Statements. However, unlike the Government-wide Financial Statements, Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the Governmental Fund Financial Statements is narrower than that of the Government-wide Financial Statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Government-wide Financial Statement. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The Governmental Fund Financial Statements provide detailed information about each of the City's most significant funds, called major funds. The concept of major funds, and the determination of which are major funds, was established by GASB Statement No. 34 and replaces the concept of combining like funds and presenting them as one total. Instead, each major fund is presented individually, with all nonmajor funds summarized and presented only in a single column. Subordinate schedules present the detail of these nonmajor funds. Major funds present the major activities of the City for the year, and may change from year to year as a result of changes in the pattern of the City's activities.

For the fiscal year ended June 30, 2021, the City's major funds are as follows:

GOVERNMENTAL FUNDS:

- ◆ General Fund
- ◆ Transportation Development Act Special Revenue Fund
- ◆ Drainage Special Revenue Fund

PROPRIETARY FUNDS:

- ◆ Sewer Utility Enterprise Fund

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management's Discussion and Analysis, Continued

OVERVIEW OF THE ANNUAL FINANCIAL REPORT, Continued

Fund Financial Statements, Continued

For the fiscal year ended June 30, 2021, the City adopted annual appropriated budgets for all governmental funds.

Proprietary funds. The City maintains Enterprise-type proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the Government-wide Financial Statements. The City uses enterprise funds to account for Sewer activities. Proprietary funds provide the same type of information as the Government-wide Financial Statements, only in more detail. The proprietary fund financial statements provide separate information for all of these operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and Fund Financial Statements. The notes to the basic financial statements can be found on pages 41-43 of this report.

Combining and Individual Fund Financial Statements and Schedules

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements can be found on pages 67-71 of this report.

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$9,398,296 as of June 30, 2021. The Summary of Net Position as of June 30, 2021, and 2020, follows:

	Summary of Net Position			2020			Change
	2021			2020			
	Govern- mental Activities	Business- type Activities	Total	Govern- mental Activities	Business- type Activities	Total	
Current and other assets	\$ 1,183,420	\$ 941,878	\$ 2,125,298	\$ 1,163,582	\$ 610,464	\$ 1,774,046	\$ 351,252
Noncurrent assets	1,801,619	10,172,212	11,973,831	2,534,622	10,372,291	12,906,913	(933,082)
Total assets	2,985,039	11,114,090	14,099,129	3,698,204	10,982,755	14,680,959	(581,830)
Current and other liabilities	333,705	300,472	634,177	141,322	136,028	277,350	356,827
Long-term liabilities	9,656	4,057,000	4,066,656	33,278	4,153,000	4,186,278	(119,622)
Total liabilities	343,361	4,357,472	4,700,833	174,600	4,289,028	4,463,628	237,205
Net position:							
Net investments in capital assets	1,768,344	6,019,212	7,787,556	2,478,996	6,125,291	8,604,287	(816,731)
Restricted	252,807	19,505	272,312	390,702	19,505	410,207	(137,895)
Unrestricted	620,527	717,901	1,338,428	653,906	548,931	1,202,837	135,591
Total net position	\$ 2,641,678	\$ 6,756,618	\$ 9,398,296	\$ 3,523,604	\$ 6,693,727	\$ 10,217,331	\$ (819,035)

Overall, total net position decreased by \$819,035. Of this amount, net position for governmental activities decreased by \$881,926 and net position for business-type activities increased by \$62,891. About 85 percent of the net position of the City is represented by the City's net investment in its capital assets such as buildings, land, equipment, utility systems, and facilities. Cash, investments, and receivables essentially represent the other 15 percent. About 87 percent of the City's total liabilities are represented by long-term obligations.

Restricted net position decreased by \$137,895 and unrestricted net position increased by \$135,591.

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Revenues

The City's total revenues for governmental and business-type activities were \$2,283,284 for the fiscal year ended June 30, 2021. Significant revenues for the City for fiscal year 2020/21 were derived from property tax (7.6%), charges for services (49%), operating grants and contributions (17%), sales tax (7.6%) and transient occupancy taxes at (6.8%).

The following discusses variances in key revenues from the prior fiscal year:

1. **Property Tax.** Property taxes increased by \$7,037, or 4%.
2. **Operating grants and contributions.** Operating grants and contributions decreased by \$37,190 or -9.7%.
3. **Sales Tax.** Annual receipts increased by \$16,628 for fiscal year 2020/21 or 9.6%.

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The change in net position for the fiscal years ended June 30, 2021, and 2020, follows:

	Changes in Net Position			2020		
	2021			2020		
	Gov- ern- men- tal Acti- vities	Busi- ness- type Acti- vities	Total	Gov- ern- men- tal Acti- vities	Busi- ness- type Acti- vities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 77,720	\$ 1,041,610	\$ 1,119,330	\$ 96,323	\$ 873,710	\$ 970,033
Grants and contributions:						
Operating	384,728	-	384,728	421,918	-	421,918
Capital	-	-	-	-	-	-
General revenues:						
Property taxes and assessments	174,113	-	174,113	167,076	-	167,076
Transient occupancy taxes	156,351	-	156,351	116,264	-	116,264
Sales taxes	173,053	-	173,053	156,425	-	156,425
Franchise taxes	42,920	-	42,920	42,937	-	42,937
Other taxes	26,228	-	26,228	23,348	-	23,348
Motor vehicle in lieu	153,306	-	153,306	146,167	-	146,167
Use of money and property	2,834	2,535	5,369	7,441	4,554	11,995
Other general	47,886	-	47,886	45,719	-	45,719
Total revenues	1,239,139	1,044,145	2,283,284	1,223,618	878,264	2,101,882
Expenses:						
Governmental activities:						
General government	341,547	-	341,547	356,150	-	356,150
Public safety	564,700	-	564,700	486,835	-	486,835
Public works	1,163,036	-	1,163,036	1,035,794	-	1,035,794
Community development	2,563	-	2,563	-	-	-
Parks and library	45,420	-	45,420	39,807	-	39,807
Interest and fiscal charges	3,799	-	3,799	1,494	-	1,494
Business-type activities:						
Sewer	-	981,254	981,254	-	964,118	964,118
Total expenses	2,121,065	981,254	3,102,319	1,920,080	964,118	2,884,198
Excess (Deficiency) of revenues over expenses before transfers	(881,926)	62,891	(819,035)	(696,462)	(85,854)	(782,316)
Change in net position	(881,926)	62,891	(819,035)	(696,462)	(85,854)	(782,316)
Net position:						
Beginning of year	3,523,604	6,693,727	10,217,331	4,220,066	6,779,581	10,999,647
End of year	\$ 2,641,678	\$ 6,756,618	\$ 9,398,296	\$ 3,523,604	\$ 6,693,727	\$ 10,217,331

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Expenses

Governmental and business-type activity expenses of the City for the year totaled \$3,102,319. Governmental activity expenses totaled \$2,121,065 or 68% of total expenses. Business-type activities incurred \$981,254 or 32% of expenses during the fiscal year. Public works costs represented 55% of total governmental activities expenses.

Governmental Activities

The following table shows the cost of each of the City’s major programs and the net cost of the programs. Net cost is the total cost less fees and other direct revenue generated by the activities. The net cost reflects the financial burden that was placed on the City’s taxpayers by each of the programs. The total cost of services and the net cost of services for the fiscal years ended June 30, 2021, and 2020, are as follows:

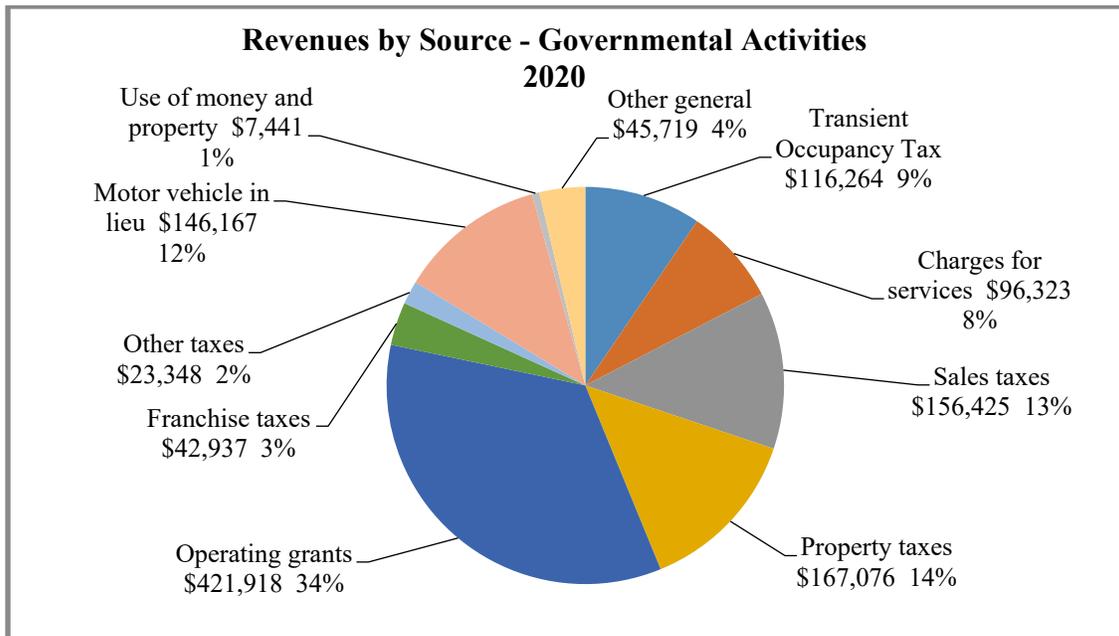
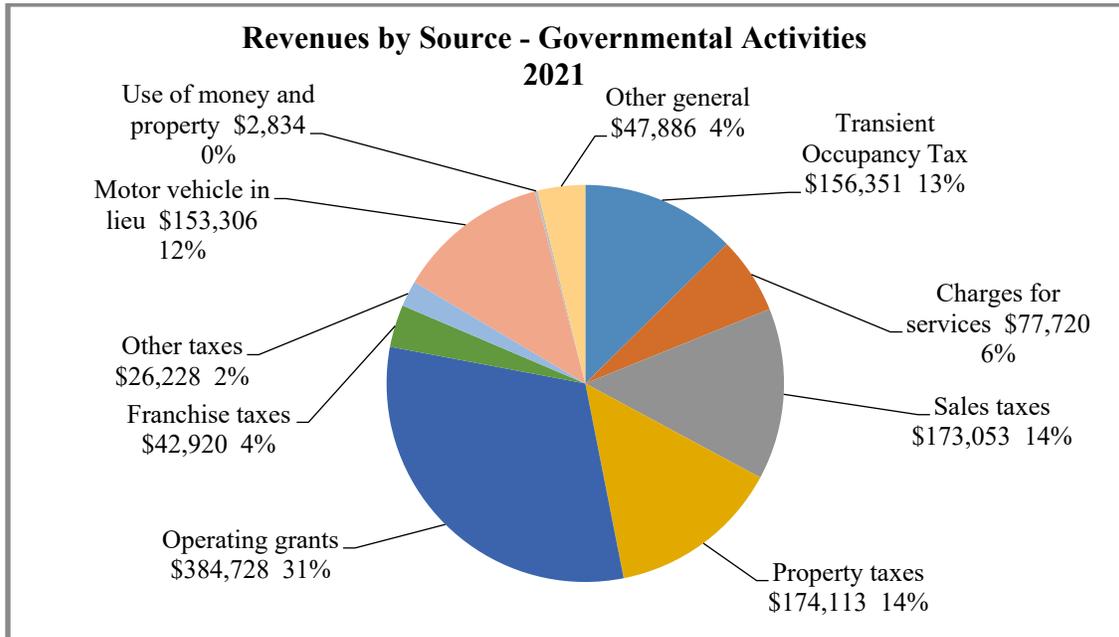
	2021		2020	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
General government	\$ 341,547	\$ 281,713	\$ 356,150	\$ 345,170
Public safety	564,700	391,915	486,835	266,904
Public works	1,163,036	936,974	1,035,794	751,279
Community development	2,563	2,563	-	-
Parks and library	45,420	44,353	39,807	36,992
Interest and fiscal charges	3,799	3,799	1,494	1,494
Total	<u>\$ 2,121,065</u>	<u>\$ 1,661,317</u>	<u>\$ 1,920,080</u>	<u>\$ 1,401,839</u>

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Revenues by source for the fiscal years ended June 30, 2021, and 2020, are as follows:

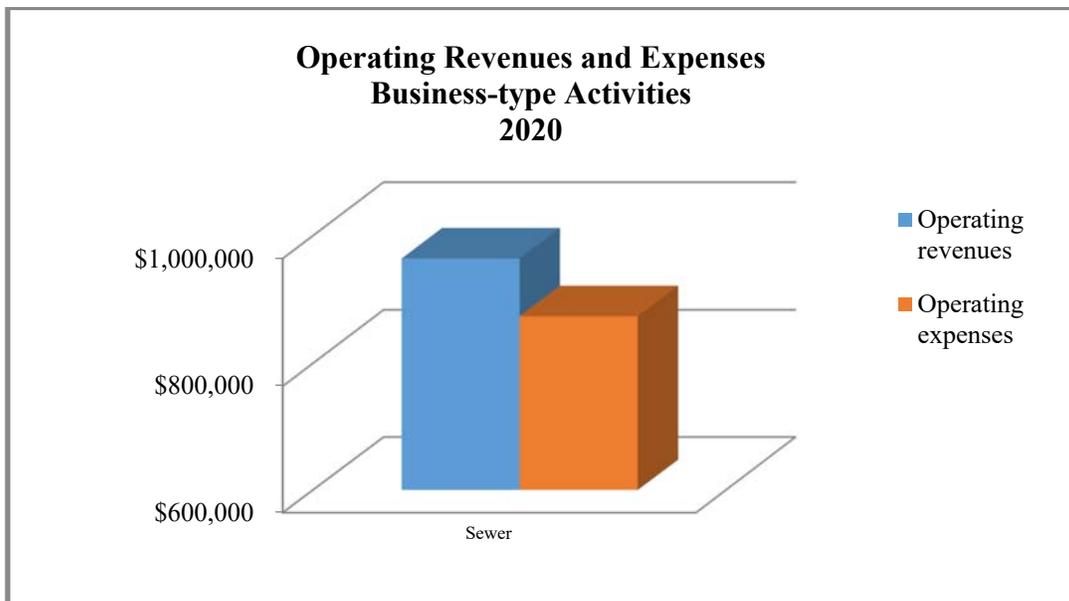
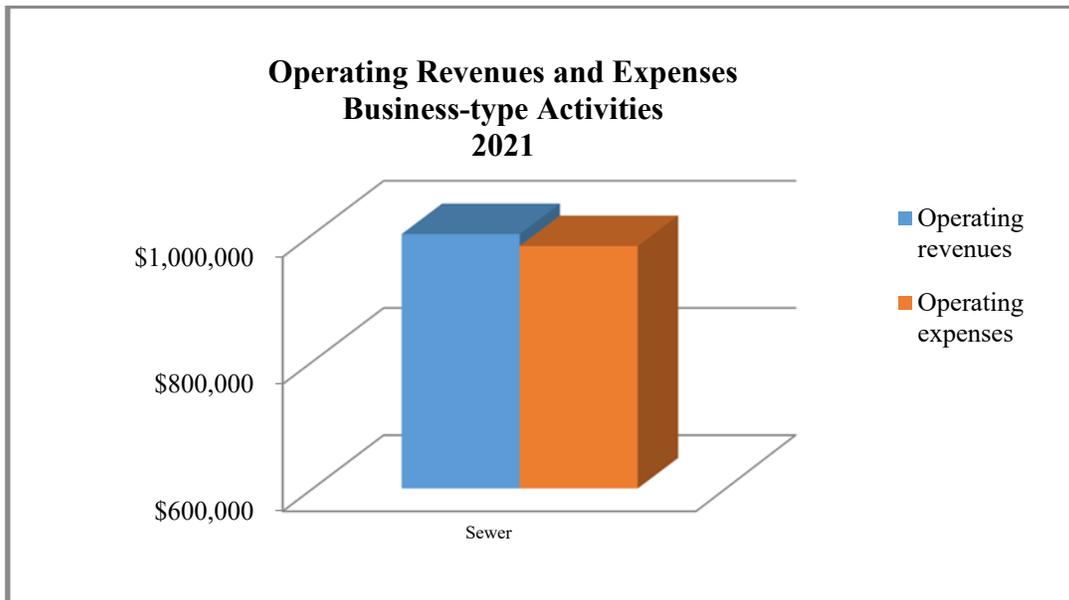


City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Business-type activities. Business-type activities increased the City’s net position by \$62,891. The City has one business-type activity: Sewer. The operating revenues and expenses for this business-type activity for the fiscal years ended June 30, 2021, and 2020, are as follows:

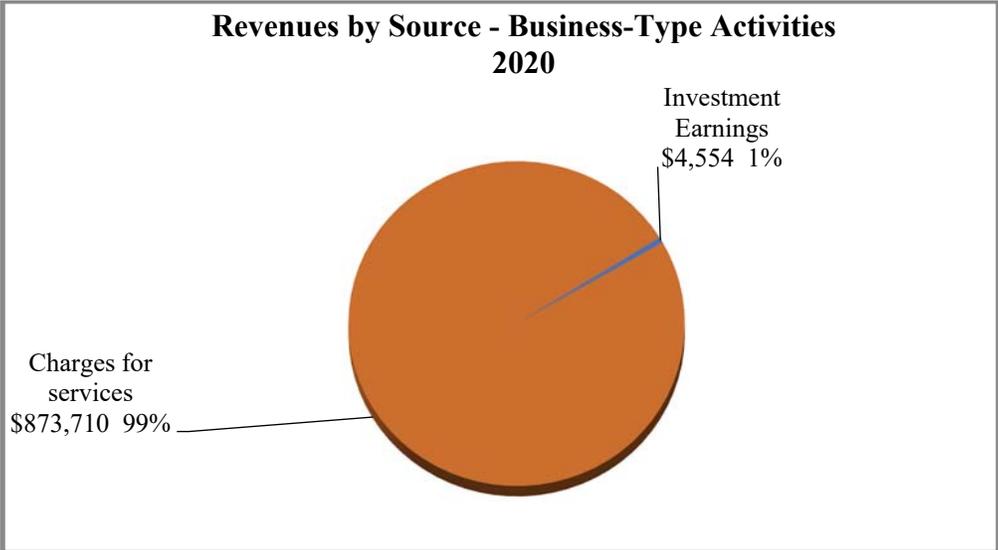
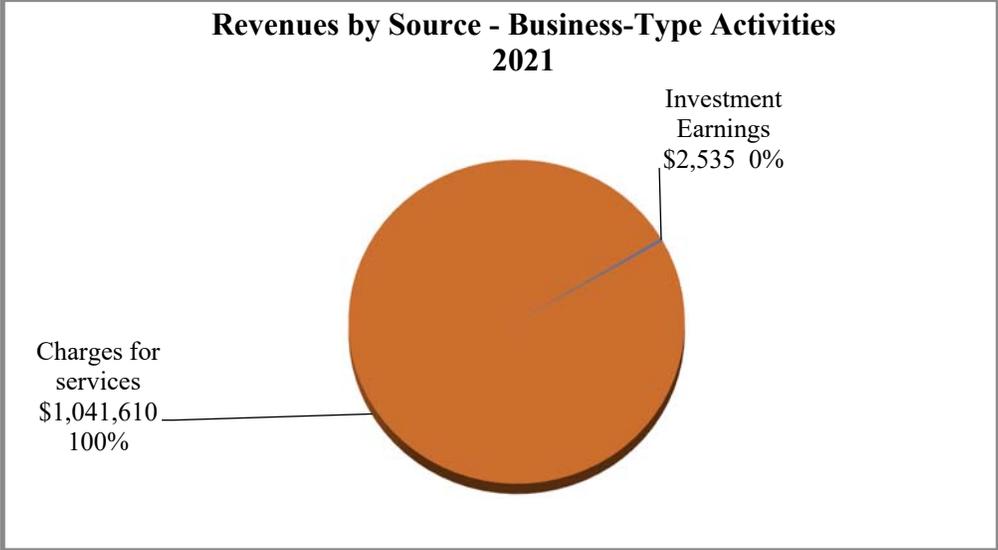


City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

The revenues by source for the business-type activities for the fiscal years ended June 30, 2021, and 2020, are as follows:



City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management's Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

Financial Analysis of the Government's Funds

The City of Ferndale uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide financial statements.

Governmental funds. The City's governmental funds provide information on near-term inflows, outflows, and balances of spending resources. At the fiscal year ended June 30, 2021, the City's governmental funds reported combined fund balances of \$915,934. This is a decrease of \$181,621 from last year.

The General Fund is the chief operating fund of the City. At the fiscal year ended June 30, 2021, General Fund unassigned fund balance totaled \$605,586. This is a decrease of \$44,984 from the prior year.

Proprietary funds. The City's proprietary funds unrestricted net position increased by \$62,891 in the fiscal year ended June 30, 2021.

General Fund Budgetary Highlights

The difference between the final budget and actual revenues differs favorably by \$203,841. This was mainly due to an increase in taxes and assessments, and COVID-19 relief funding.

There was a \$68,043 difference between the final budget and actual expenditures. This was due primarily to unanticipated expenditures in general government and public safety.

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2021, amount to \$7,787,556. This investment in capital assets includes, land, construction in progress, buildings and improvements, infrastructure, furniture and equipment, and vehicles less long-term debt.

City of Ferndale, California
Basic Financial Statements
For the year ended June 30, 2021

Management’s Discussion and Analysis, Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS, Continued

	Governmental Activities		Business-type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Land	\$ 13,000	\$ 13,000	\$ -	\$ -	\$ 13,000	\$ 13,000
Land-Contributed	118,000	118,000	-	-	118,000	118,000
Buildings and structures	266,332	278,232	-	-	266,332	278,232
Infrastructure	1,369,491	2,087,251	-	-	1,369,491	2,087,251
Furniture and equipment	32,096	38,139	17,356	24,049	49,452	62,188
Sewer system	-	-	10,154,856	10,348,242	10,154,856	10,348,242
Vehicles	3,000	-	-	2,939	3,000	2,939
Total	\$ 1,801,919	\$ 2,534,622	\$ 10,172,212	\$ 10,375,230	\$ 11,974,131	\$ 12,909,852

More detail of the capital assets and current activity can be found in the notes to the financial statements on Pages 52 and 53 for Note 4 and significant accounting policies on Page 45 for other capital asset information.

Economic Outlook

Both nationally and locally we went thru difficult economic times. We believe nationally and locally we seem to be regaining economic momentum which will result in moderate and sustainable growth. The Humboldt County region continues to lag behind the national growth. Ferndale had a number of retail businesses temporarily close due to COVID-19 restrictions. Most businesses have re-opened as CDC guidelines allowed. Although we were affected by temporary closures, upon re-opening, our local economy is returning to a normal situation. We are confident the foreseeable future will be better than last year as the coronavirus ebbs.

Requests for Information

This Annual Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City’s finances. If you have any questions about this report, need additional financial information, or would like to obtain component unit financial statements, contact the City of Ferndale, PO Box 1095, 834 Main Street, Ferndale, CA 95536.

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BASIC FINANCIAL STATEMENTS

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City of Ferndale, California

Statement of Net Position

June 30, 2021

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 729,680	\$ 941,878	\$ 1,671,558
Restricted cash and investments	15,000	-	15,000
Receivables:			
Intergovernmental	438,740	-	438,740
Total current assets	1,183,420	941,878	2,125,298
Noncurrent assets:			
Capital assets:			
Nondepreciable	131,000	-	131,000
Depreciable	1,670,619	10,172,212	11,842,831
Total noncurrent assets	1,801,619	10,172,212	11,973,831
Total assets	\$ 2,985,039	\$ 11,114,090	\$ 14,099,129
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 105,772	\$ -	\$ 105,772
Interest payable	-	41,097	41,097
Deposits payable	-	163,375	163,375
Unearned revenue	161,714	-	161,714
Current portion of long-term debt	23,619	96,000	119,619
Compensated absences - current portion	42,600	-	42,600
Total current liabilities	333,705	300,472	634,177
Noncurrent liabilities:			
Long-term liabilities:			
Due after one year	9,656	4,057,000	4,066,656
Total noncurrent liabilities	9,656	4,057,000	4,066,656
Total liabilities	343,361	4,357,472	4,700,833
NET POSITION			
Net investment in capital assets	1,768,344	6,019,212	7,787,556
Restricted	252,807	19,505	272,312
Unrestricted	620,527	717,901	1,338,428
Total net position	2,641,678	6,756,618	9,398,296
Total liabilities and net position	\$ 2,985,039	\$ 11,114,090	\$ 14,099,129

The accompanying notes are an integral part of these basic financial statements.

City of Ferndale, California
Statement of Activities
For the year ended June 30, 2021

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 341,547	\$ 675	\$ 59,159
Public safety	564,700	4,171	168,614
Public works	1,163,036	72,109	156,655
Community development	2,563	-	-
Parks and recreation	45,420	765	300
Interest and fiscal charges	3,799	-	-
Total governmental activities	2,121,065	77,720	384,728
Business-type activities:			
Sewer utility	981,254	1,041,610	-
Total business-type activities	981,254	1,041,610	-
Total primary government	\$ 3,102,319	\$ 1,119,330	\$ 384,728

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Transient occupancy tax, levied for general purposes
- Sales taxes
- Franchise taxes
- Other taxes

Intergovernmental:

- State motor vehicle in-lieu tax (MVLF)
- Use of money and property
- Other general revenues

Total general revenues

Transfers

Total general revenues and transfers

Change in net position

Net position:

- Beginning of year
- End of year

The accompanying notes are an integral part of these basic financial statements.

Changes in Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (281,713)	\$ -	\$ (281,713)
(391,915)	-	(391,915)
(934,272)	-	(934,272)
(2,563)	-	(2,563)
(44,355)	-	(44,355)
(3,799)	-	(3,799)
(1,658,617)	-	(1,658,617)
-	60,356	60,356
-	60,356	60,356
(1,658,617)	60,356	(1,598,261)
174,113	-	174,113
156,351	-	156,351
173,053	-	173,053
42,920	-	42,920
26,228	-	26,228
153,306	-	153,306
2,834	2,535	5,369
47,886	-	47,886
776,691	2,535	779,226
-	-	-
776,691	2,535	779,226
(881,926)	62,891	(819,035)
3,523,604	6,693,727	10,217,331
\$ 2,641,678	\$ 6,756,618	\$ 9,398,296

The accompanying notes are an integral part of these basic financial statements.

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FUND FINANCIAL STATEMENTS
MAJOR FUNDS

Fund	Description
Governmental Funds:	Governmental funds are used for taxes and grants.
General	Primary operating fund of the City; accounts for all activities except those legally or administratively required to be accounted for in other funds.
Transportation Development Act Special Revenue	Accounts for funds received and expended for streets and roads under the Transportation Development Act.
Drainage Special Revenue	Accounts for drainage fees and related activities.

City of Ferndale, California
Balance Sheet
Governmental Funds
June 30, 2021

	Major Funds		
	Special Revenue Funds		
	General Fund	Transportation Development Act	Drainage Fund
ASSETS			
Cash and investments	\$ 434,332	\$ 218,093	\$ -
Restricted cash and investments	15,000	-	-
Receivables:			
Intergovernmental	438,740	-	-
Due from other funds	4,888	-	-
Total assets	\$ 892,960	\$ 218,093	\$ -
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 105,772	\$ -	\$ -
Due to other funds	-	-	4,888
Unearned revenue	161,714	-	-
Total liabilities	267,486	-	4,888
Fund balances:			
Restricted	15,000	218,093	-
Assigned	-	-	-
Unassigned	610,474	-	(4,888)
Total fund balances	625,474	218,093	(4,888)
Total liabilities and fund balances	\$ 892,960	\$ 218,093	\$ -

The accompanying notes are an integral part of these basic financial statements.

Nonmajor Governmental Funds		Totals	
\$	77,255	\$	729,680
	-		15,000
	-		438,740
	-		4,888
\$	77,255	\$	1,188,308

\$	-	\$	105,772
	-		4,888
	-		161,714
	-		272,374

	19,714		252,807
	57,541		57,541
	-		605,586
	77,255		915,934
\$	77,255	\$	1,188,308

City of Ferndale, California
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2021

Total fund balances - total governmental funds \$ 915,934

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet. 1,801,619

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds balance sheet.

Compensated absences	\$ (42,600)	
Due within one year	(23,619)	
Due after one year	<u>(9,656)</u>	<u>(75,875)</u>

Net position of governmental activities \$ 2,641,678

The accompanying notes are an integral part of these basic financial statements.

City of Ferndale, California

Reconciliation of Fund Basis Balance Sheet to Government-wide Statement of Net Position

Governmental Activities

June 30, 2021

	Governmental Funds Balance Sheet	Reclassifications	Changes in GAAP	Statement of Net Position
ASSETS				
Current assets:				
Cash and investments	\$ 729,680	\$ -	\$ -	\$ 729,680
Restricted cash and investments	15,000	-	-	15,000
Receivables:				
Intergovernmental	438,740	-	-	438,740
Due from other funds	4,888	(4,888)	-	-
Total current assets	<u>1,188,308</u>	<u>(4,888)</u>	<u>-</u>	<u>1,183,420</u>
Noncurrent assets:				
Capital assets, net	-	-	1,801,619	1,801,619
Total noncurrent assets	<u>-</u>	<u>-</u>	<u>1,801,619</u>	<u>1,801,619</u>
Total assets	<u>\$ 1,188,308</u>	<u>\$ (4,888)</u>	<u>\$ 1,801,619</u>	<u>\$ 2,985,039</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 105,772	\$ -	\$ -	\$ 105,772
Current portion on long-term debt	-	-	23,619	23,619
Due to other funds	4,888	(4,888)	-	-
Unearned revenue	161,714	-	-	161,714
Compensated absences - current portion	-	-	42,600	42,600
Total current liabilities	<u>272,374</u>	<u>(4,888)</u>	<u>66,219</u>	<u>333,705</u>
Noncurrent liabilities:				
Long-term liabilities:				
Due after one year	-	-	9,656	9,656
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>9,656</u>	<u>9,656</u>
Total liabilities	<u>272,374</u>	<u>(4,888)</u>	<u>75,875</u>	<u>343,361</u>
FUND BALANCES/NET POSITION				
Fund balances:				
Restricted	252,807	(252,807)	-	-
Assigned	57,541	(57,541)	-	-
Unassigned (Deficit)	605,586	(605,586)	-	-
Net position:				
Net investment in capital assets	-	-	1,768,344	1,768,344
Restricted	-	-	252,807	252,807
Unrestricted	-	915,934	(295,407)	620,527
Total fund balances/ net position	<u>915,934</u>	<u>-</u>	<u>1,725,744</u>	<u>2,641,678</u>
Total liabilities and net position	<u>\$ 1,188,308</u>	<u>\$ (4,888)</u>	<u>\$ 1,801,619</u>	<u>\$ 2,985,039</u>

The accompanying notes are an integral part of these basic financial statements.

City of Ferndale, California

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the year ended June 30, 2021

	Major Funds		
	General Fund	Special Revenue Funds	
		Transportation Development Act	Drainage Fund
REVENUES:			
Taxes and assessments	\$ 570,914	\$ -	\$ -
Licenses and permits	42,615	-	-
Fines and forfeitures	3,142	-	-
Intergovernmental	435,961	47,391	-
Use of money and property	3,817	1,176	-
Charges for services	5,576	-	24,324
Reimbursements	4,210	-	-
Other revenues	30,756	-	-
Total revenues	1,096,991	48,567	24,324
EXPENDITURES:			
Current:			
General government	351,200	-	-
Public safety	558,859	-	-
Public works	170,675	114,297	30,546
Community development	2,563	-	-
Parks and recreation	38,790	-	-
Debt service:			
Principal	-	-	9,756
Interest and fiscal charges	-	-	3,799
Total expenditures	1,122,087	114,297	44,101
REVENUES OVER (UNDER) EXPENDITURES	(25,096)	(65,730)	(19,777)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	(25,096)	(65,730)	(19,777)
FUND BALANCES (Deficit):			
Beginning of year	650,570	283,823	14,889
End of year	\$ 625,474	\$ 218,093	\$ (4,888)

The accompanying notes are an integral part of these basic financial statements.

Nonmajor Governmental Funds		Totals	
\$	36,396	\$	607,310
	-		42,615
	-		3,142
	23,127		506,479
	442		5,435
	9,292		39,192
	-		4,210
	-		30,756
	<u>69,257</u>		<u>1,239,139</u>
	-		351,200
	-		558,859
	140,275		455,793
	-		2,563
	-		38,790
	-		9,756
	-		3,799
	<u>140,275</u>		<u>1,420,760</u>
	<u>(71,018)</u>		<u>(181,621)</u>
	-		-
	-		-
	-		-
	<u>(71,018)</u>		<u>(181,621)</u>
	<u>148,273</u>		<u>1,097,555</u>
\$	<u>77,255</u>	\$	<u>915,934</u>

City of Ferndale, California

Reconciliation of Fund Basis Statements to Government-wide Statement of Activities

For the year ended June 30, 2021

Functions/Programs	Fund Based Totals	Compensated Absences/ Debt Service	Depreciation	Capital Asset (Additions)/ Retirements	Government- wide Totals
Governmental activities:					
General government	\$ 351,200	\$ (10,347)	\$ 694	\$ -	\$ 341,547
Public safety	558,859	-	5,841	-	564,700
Public works	455,793	(12,595)	722,838	(3,000)	1,163,036
Community development	2,563	-	-	-	2,563
Parks and recreation	38,790	-	6,628	2	45,420
Capital outlay	-	-	-	-	-
Debt service:					
Principal	9,756	(9,756)	-	-	-
Interest and fiscal charges	3,799	-	-	-	3,799
Total governmental activities	\$ 1,420,760	\$ (32,698)	\$ 736,001	\$ (2,998)	\$ 2,121,065

The accompanying notes are an integral part of these basic financial statements.

City of Ferndale, California

Reconciliation of the Statement of Revenues, Expenditures, and Changes in

Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2021

Net change in fund balances - total governmental funds \$ (181,621)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Depreciation expense	<u>\$ (736,003)</u>	(736,003)
----------------------	---------------------	-----------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Notes payable	22,351	
Change in compensated absences	<u>10,347</u>	<u>32,698</u>

Change in net position of governmental activities \$ (884,926)

The accompanying notes are an integral part of these basic financial statements.

City of Ferndale, California

Statement of Revenues, Expenditures, and Changes in Fund Balances -

Budget to Actual - General Fund and Major Special Revenue Funds

For the year ended June 30, 2021

	General Fund			
	Budgeted Amounts		Actual	Variance w/Final Positive (Negative)
	Original	Final		
REVENUES:				
Taxes and assessments	\$ 444,874	\$ 444,874	\$ 570,914	\$ 126,040
Licenses and permits	45,350	45,350	42,615	(2,735)
Fines and forfeitures	1,500	1,500	3,142	1,642
Intergovernmental	346,076	346,076	435,961	89,885
Use of money and property	18,150	18,150	3,817	(14,333)
Charges for services	3,300	3,300	5,576	2,276
Reimbursements	30,000	30,000	4,210	(25,790)
Other revenues	3,900	3,900	30,756	26,856
Total revenues	893,150	893,150	1,096,991	203,841
EXPENDITURES:				
Current:				
General government	320,983	320,983	351,200	(30,217)
Public safety	476,587	476,587	558,859	(82,272)
Public works	224,208	224,208	170,675	53,533
Community development	-	-	2,563	(2,563)
Parks and recreation	32,266	32,266	38,790	(6,524)
Capital outlay	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	1,054,044	1,054,044	1,122,087	(68,043)
REVENUES OVER (UNDER) EXPENDITURES	(160,894)	(160,894)	(25,096)	135,798
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balances	(160,894)	(160,894)	(25,096)	135,798
FUND BALANCES (Deficit):				
Beginning of year	650,570	650,570	650,570	-
End of year	\$ 489,676	\$ 489,676	\$ 625,474	\$ 135,798

The accompanying notes are an integral part of these basic financial statements.

Transportation Development Act				Drainage Fund			
Budgeted Amounts		Actual	Variance w/Final	Budgeted Amounts		Actual	Variance w/Final
Original	Final		Positive (Negative)	Original	Final		Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
44,642	44,642	47,391	2,749	-	-	-	-
-	-	1,176	1,176	-	-	-	-
-	-	-	-	24,070	24,070	24,324	254
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
44,642	44,642	48,567	3,925	24,070	24,070	24,324	254
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
50,989	50,989	114,297	(63,308)	33,348	33,348	30,546	2,802
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	9,756	9,756	9,756	-
-	-	-	-	3,799	3,799	3,799	-
50,989	50,989	114,297	(63,308)	46,903	46,903	44,101	2,802
(6,347)	(6,347)	(65,730)	(59,383)	(22,833)	(22,833)	(19,777)	3,056
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
(6,347)	(6,347)	(65,730)	(59,383)	(22,833)	(22,833)	(19,777)	3,056
283,823	283,823	283,823	-	14,889	14,889	14,889	-
\$ 277,476	\$ 277,476	\$ 218,093	\$ (59,383)	\$ (7,944)	\$ (7,944)	\$ (4,888)	\$ 3,056

The accompanying notes are an integral part of these basic financial statements.

(concluded)

ENTERPRISE FUND

Fund	Description
Major Fund:	
Sewer Utility	Accounts for all activities associated with the operation and maintenance of providing sewer services.

City of Ferndale, California
Statement of Net Position
Sewer Utility Enterprise Fund
June 30, 2021

ASSETS

Current assets:

Cash and investments	\$ 941,878
Receivables:	
Accounts	-
Total current assets	<u>941,878</u>

Noncurrent assets:

Capital assets, net	10,172,212
Total noncurrent assets	<u>10,172,212</u>
	<u>\$ 11,114,090</u>

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	\$ -
Interest payable	41,097
Deposits payable	163,375
Current portion of long-term debt	96,000
Total current liabilities	<u>300,472</u>

Noncurrent liabilities:

Due after one year	4,057,000
Total noncurrent liabilities	<u>4,057,000</u>
Total liabilities	<u>4,357,472</u>

Net Position:

Net investment in capital assets	6,019,212
Restricted for:	
USDA Reserve	19,505
Unrestricted	717,901
Total net position	<u>6,756,618</u>
Total liabilities and net position	<u>\$ 11,114,090</u>

The accompanying notes are an integral part of these basic financial statements.

City of Ferndale, California
Statement of Revenues, Expenses, and Changes in Fund Net Position
Sewer Utility Enterprise Fund
For the year ended June 30, 2021

OPERATING REVENUES:

Charges for service	\$ 810,723
Other operating revenue	230,887
Total operating revenues	<u>1,041,610</u>

OPERATING EXPENSES:

Salaries and benefits	338,388
Contractual services	8,866
Materials and supplies	132,694
Repairs and maintenance	59,709
Utilities	123,494
Insurance	19,204
Depreciation	200,079
Total operating expenses	<u>882,434</u>

OPERATING INCOME

159,176

NONOPERATING REVENUES (EXPENSES):

Interest revenue	2,535
Interest expense	(98,820)
Total non-operating revenues, net	<u>(96,285)</u>

NET INCOME BEFORE TRANSFERS

62,891

Transfers in

-

Transfers out

-

Total transfers

-

CHANGE IN NET POSITION

62,891

NET POSITION:

Beginning of year	6,693,727
End of year	<u>\$ 6,756,618</u>

The accompanying notes are an integral part of these basic financial statements.

City of Ferndale, California
Statement of Cash Flows
Sewer Utility Enterprise Fund
For the year ended June 30, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers/users for services provided	\$ 1,052,056
Cash payments to suppliers for goods and services	(180,592)
Cash payments to employees for services	(338,388)
Net cash provided by operating activities	<u>533,076</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition and construction of capital assets	-
Principal paid on long term debt	(94,000)
Interest paid on long term debt	(99,751)
Net cash (used) by capital and related financing activities	<u>(193,751)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment income received	2,535
Net cash provided by investing activities	<u>2,535</u>
Net increase (decrease) in cash and cash equivalents	341,860

CASH AND CASH EQUIVALENTS:

Beginning of year	<u>600,018</u>
End of year	<u>\$ 941,878</u>

Reconciliation of income from operations to net cash provided by operating activities:

Operating income	\$ 159,176
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	200,079
(Increase) decrease in current assets:	
Accounts receivable	10,446
Increase (decrease) in liabilities:	
Deposits payable	163,375
Net cash provided by operating activities	<u>\$ 533,076</u>

There were no noncash investing, capital, or financing activities affecting recognized assets and liabilities for the year ended June 30, 2021.

The accompanying notes are an integral part of these basic financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

City of Ferndale, California
Notes to Basic Financial Statements
For the year ended June 30, 2021

Index to Notes to Basic Financial Statements

	<u>Page</u>
Note 1 - Summary of Significant Accounting Policies	41
Financial Reporting Entity.....	41
Basis of Presentation.....	42
Measurement Focus.....	44
Basis of Accounting.....	44
Assets, Liabilities, and Equity.....	45
Revenues, Expenditures, and Expenses.....	49
Budgetary Accounting.....	50
Note 2 – Cash and Investments	51
Note 3 – Accounts Receivable	53
Note 4 – Capital Assets	54
Note 5 – Accounts Payable and Accrued Liabilities	55
Note 6 – Long-term Liabilities	56
Note 7 – Net Position/Fund Balances	58
Note 8 – Interfund Transactions	59
Note 9 – Risk Management	60
Note 10 – Defined Contribution Plan	61
Note 11 – Commitments and Contingencies	61
Note 12 – New Accounting Pronouncements	61

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ferndale (City) was incorporated in 1893, under the laws and regulations of the State of California (State). The City operates under a City Council/Manager form of government and provides the following services: public safety (Police), highways and streets, solid waste, storm water utility, public improvements, planning and zoning, and general administration.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applied to government agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below:

Financial Reporting Entity

The City operates as a self-governing local government unit within the State. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. The City's main funding sources include sales taxes, other intergovernmental revenue from state and federal sources, user fees, and federal and state financial assistance.

The financial reporting entity consists of (a) the primary government, the City, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (a) the City has the ability to impose its will on the organization, or (b) there is a potential for the organization to provide a financial benefit to or impose a financial burden on the City.

As required by GAAP, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. These component units are reported on a blended basis. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The City has no blended component units reportable in these financial statements.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions, and 3) capital grants and contributions restricted to the operating or capital requirements of a specific function or segment. All taxes and internally dedicated resources are reported as *general revenues* rather than program revenues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Presentation, Continued

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund are at least five percent of the corresponding total for all governmental funds combined.

Fund Financial Statements, continued

The City reports the following major funds:

- General Fund
- Transportation Development Act Special Revenue Fund
- Drainage Special Revenue Fund

Descriptions of these funds are included on the divider page preceding the Governmental Funds Balance Sheet.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is used to account for resources traditionally associated with the City which are not required legally or by sound financial management to be accounted for in another fund. From this fund are paid the City's general operating expenditures, the fixed charges, and the capital costs that are not paid through other funds.

Special Revenue Funds

The Special Revenue Funds are used to account for specific revenues that are legally or otherwise restricted to expenditures for particular purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Proprietary Funds

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

Measurement Focus

Measurement focus is a term used to describe which transactions are recorded within the various financial statements.

On the government-wide Statement of Net Position and the Statement of Activities, governmental and business-type activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as Net Position, which serves as an indicator of financial position.

In the fund financial statements, the “current financial resources” measurement focus is used for governmental funds. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The enterprise funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. Enterprise equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred, or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means the amount is collectible within the current period or soon enough thereafter to pay current liabilities. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year end, with the exception of grant revenues and Transportation Development Act (TDA) revenues. Grant revenues are considered to be available if collected within 180 days and TDA revenues are considered to be available if collected within 90 days of the end of the current fiscal period.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures (including capital outlay) are recorded when the related fund liability is incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Basis of Accounting, continued

The enterprise funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Operating revenues in the fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Assets, Liabilities, and Equity

Cash Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City pools cash and investments from all funds for the purpose of increasing income through investment activities. Highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Market value is used as fair value for those securities for which market quotations are readily available.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. See Note 9 for details of interfund transactions, including receivables and payables at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include property taxes, sales and use taxes, utility user taxes, intergovernmental subventions, interest earnings, and expense reimbursements.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as property tax, sales tax, utility user tax, and intergovernmental subventions since they are usually both measurable and available. Non-exchange transactions collectible but not available, such as property tax, are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Assets, Liabilities, and Equity, Continued

Receivables, continued

Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. The loans receivable are recorded in the fund statements, but are deferred to indicate they do not represent current financial resources. The loans are recognized when advanced in the government-wide statements. The City's experience is that all accounts receivable are collectible; therefore, an allowance for doubtful accounts is unnecessary.

Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost, if actual is unavailable, except for donated Capital Assets which are recorded at their estimated fair value at the date of donation. Policy has set the capitalization threshold for reporting at \$5,000 for non-infrastructure capital assets and \$25,000 for infrastructure capital assets.

Government-Wide Statements

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized, since then these assets have been valued at estimated historical cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. No depreciation is recorded in the year of acquisition or in the year of disposition.

The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	5 – 50 years
Infrastructure	15 – 45 years
Storm drain pipes/structures	10 - 99 years
Machinery and equipment	5 – 15 years
Vehicles	5 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same way as in the government-wide statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Assets, Liabilities, and Equity, Continued

Compensated Absences

Employees accrue vacation, sick, holiday, and compensatory time off benefits. City employees have vested interests in the amount of accrued time off, with the exception of sick time, and are paid on termination. Also, annually an employee may elect to be compensated for up to 40 hours of unused annual leave. However, this is contingent upon the employee using at least 40 hours during the previous year and the employee having a minimum balance of 80 annual leave hours after the payment. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements and is currently payable. The City had no employee resignations or retirements for which compensated absences should be accrued in governmental funds at year-end. The general fund is typically used to liquidate compensated absences.

Equity Classification

Government-Wide Statements

Equity is classified as net position and is displayed in three components:

- a. *Net investment in capital assets* – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. *Restricted net position* – consists of net position with constraints placed on the use by external groups such as creditors, grantors, contributors, or bylaws or regulations of other governments or law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* – all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is classified as nonspendable, restricted, committed, assigned, or unassigned. Proprietary fund equity is classified the same as in the government-wide statements. The classifications for governmental funds are defined as follows for the City:

Nonspendable Fund Balance –

- Assets that will never convert to cash (prepaid items, inventory).
- Assets that will not convert to cash soon enough to affect the current period (long-term notes or loans receivable).
- Resources that must be maintained intact pursuant to legal or contractual requirements (the principal of an endowment).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Assets, Liabilities, and Equity, Continued

Equity Classification, continued

Restricted Fund Balance –

- Resources that are subject to externally enforceable legal restrictions imposed by parties altogether outside the government (creditors, grantors, contributors and other governments).
- Resources that are subject to limitations imposed by law through constitutional provisions or enabling legislation (Gas Tax).

Committed Fund Balance –

- Self-imposed limitations set in place prior to the end of the period (encumbrances, economic contingencies and uncertainties).
- Limitation at the highest level of decision-making (Council) that requires formal action at the same level to remove.
- Council resolution is required to be taken to establish, modify or rescind a fund balance commitment

Assigned Fund Balance –

- Amounts in excess of nonspendable, restricted and committed fund balance in funds other than the general fund automatically are reported as assigned fund balance.

Unassigned Fund Balance –

- Residual net resources
- Total fund balance in the general fund in excess of nonspendable, restricted, committed, and assigned fund balance (surplus).
- Excess of nonspendable, restricted, and committed fund balance over total fund balance (deficit).

Revenues, Expenditures, and Expenses

Property Tax

Property taxes in the State of California are administered for all local agencies at the county level and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes.

Property Valuations – are established by the Assessor of the County of Humboldt (County) for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by voters on June 6, 1978) properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Revenues, Expenditures, and Expenses, Continued

Property Tax, continued

Tax Levies – are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Collections – are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments: The first is due on November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payments.

The County levies, bills, and collects property taxes and special assessments for the City. Property taxes levied are recorded as revenue when received, in the fiscal year of levy, due to the adoption of the “alternate method of property tax distribution”, known as the Teeter Plan, by the City and the County. The Teeter Plan authorizes the Auditor/Controller of the County to allocate 100% of the secured property taxes billed, but not yet paid. The County remits tax monies to the City in three installments as follows:

50 percent remitted in December
45 percent remitted in April
5 percent remitted in June

Interfund Transfers

Resources are reallocated between funds by reporting them as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

Budgetary Accounting

The City Council establishes budgets for the General Fund and all Special Revenue Funds, except for certain Special Revenue Funds for which expenditures are controlled by grant funding or by assessments received. Budgetary control is legally maintained at the fund level for these funds. Department heads submit budget requests to the City Manager. The City Manager prepares an estimate of revenues and prepares recommendations for the next year’s budget. The preliminary budget may or may not be amended by the City Council and is adopted by resolution by the City Council on or before June 30 in accordance with the municipal code.

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Budgetary Accounting, Continued

The City Council may amend the budget by motion during the fiscal year. Only the Council can authorize transfers between funds and approve inter-fund loans. The City Manager is authorized to transfer budgeted amounts within a fund without formal council action or approval. The City Manager is authorized to increase expenditures in relation to revenues in funds receiving assigned revenues without approval by the City Council.

Expenditures may not legally exceed appropriations at the fund level, which is the legal level of control. Supplemental appropriations, which increase appropriations, may be made during the fiscal year. There were no material supplemental appropriations made for the fiscal year ended June 30, 2021. Budget information is presented for the General and budgeted Special Revenue Funds in the fund financial statements. The budget information is presented on a basis consistent with generally accepted accounting principles. Appropriations, except open project appropriations, and unexpended grant appropriations, lapse at the end of each fiscal year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

Reclassifications

Certain amounts have been reclassified to provide for comparable results on a year-to-year basis.

2. CASH AND INVESTMENTS

At June 30, 2021, the City’s pooled cash and investments, classified by maturity, consisted of the following stated at fair value:

	<u>Not rated</u>
<u>Cash equivalents and investments pooled</u>	
Pooled cash, at fair value	
Cash in bank	\$ 1,671,408
Petty cash	150
Total pooled items	<u>1,671,558</u>
Pooled investments, at fair value	
<u>Interest obligations</u>	
State of California Local Agency Investment Fund	655,798
Total pooled investments - interest obligations	<u>655,798</u>
Total cash equivalents and investments pooled	<u>\$ 2,327,356</u>
Governmental activities	\$ 729,680
Business-type activities	941,878
Total pooled cash and investments	<u>\$ 1,671,558</u>

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

2. CASH AND INVESTMENTS, Continued

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Local Agency Investment Fund	655,798	N/A
Total fair value	<u>\$ 655,798</u>	
Portfolio weighted average maturity		N/A

California statutes authorize cities to invest idle or surplus funds in a variety of credit instruments as provided for in the California Government Code, Section 53600, Chapter 4 – Financial Affairs. The only authorized investment vehicles that address interest rate risk, credit risk, and concentration of credit risk, per the City’s investment policy, are the State of California Local Agency Investment Fund (LAIF) and certificates of deposit in California financial institutions.

Concentration of credit risk – The City’s investment policy does not allow for an investment in any one issuer that is in excess of five percent of the government’s total investments. The investments made by the City Treasurer are limited to those allowable under State statutes as incorporated into the City’s Investment Policy, which is accepted annually by the City Council. There were no concentrations in any one issuer for the year.

The City participates in an investment pool managed by the State of California known as the Local Agency Investment Fund (LAIF) which has invested 3.37% of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk such as changes in interest rates.

Custodial credit risk – deposits. For deposits, this is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City’s Investment Policy addresses custodial credit risk, which follows the Government Code. As of June 30, 2021, the City had a balance of \$1,671,408 and exceeded the \$250,000 Federal Deposit Insurance Corporation’s insurance limits.

Custodial credit risk – investments. For investments, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside counterparty. For the investments maintained by the City, no security was uninsured or unregistered or held by a brokerage firm which is also the counterparty for the security.

At June 30, 2021, the carrying amount of the City’s deposits was \$1,671,408. Of the balance in financial institutions, \$250,000 was covered by federal depository insurance and \$1,421,408 was collateralized as required by State law (Government Code Section 53630), by the pledging financial institution with assets held in a common pool for the City and other governmental agencies, but not in the name of the City.

Investment in LAIF: LAIF is stated at amortized cost, which approximates fair value. The LAIF is a special fund of the California State Treasury through which local governments may pool investments. As of June 30, 2021, the City had \$655,798 invested directly in LAIF. The LAIF investment pool consisted of derivative products in the form of asset-backed securities in the amount of \$1,675,000 million and \$1,725,000 million in structured notes, these investment types represented 2.21% of the total LAIF investment pool of \$101 billion as of 6/30/2021. The current average life of the LAIF portfolio as of June 30, 2021 was 291 days. The Local Investment Advisory Board (Board) has oversight

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

2. CASH AND INVESTMENTS, Continued

responsibility for LAIF. The Board consists of five members as designated by State Statute. The fair value of the City’s investment in this pool is reported in the accompanying financial statements at amounts based upon the City’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2021:

Governmental Activities	
Intergovernmental	438,740
	<u>\$ 438,740</u>
Business-type activities	
Accounts	\$ -
	<u>\$ -</u>

These amounts resulted in the following concentrations in receivables:

Other Governments	100%
Individuals/Business	0%

Amounts do not indicate a significant concentration (greater than 25%) with any single individual, business or agency.

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

4. CAPITAL ASSETS

Governmental capital asset activity for the year ended June 30, 2021, was as follows:

	Balance June 30, 2020	Additions	Deletions	Transfers/ Adjustments	Balance June 30, 2021
<u>Governmental activities:</u>					
Nondepreciable assets:					
Land	\$ 13,000	\$ -	\$ -	\$ -	\$ 13,000
Land-Contributed	118,000	-	-	-	118,000
Total nondepreciable assets	131,000	-	-	-	131,000
Depreciable assets:					
Buildings and Improvements	479,445	-	-	-	479,445
Infrastructure	10,987,019	-	-	-	10,987,019
Equipment	190,460	-	-	-	190,460
Vehicles	173,366	3,000	-	-	176,366
Total depreciable assets	11,830,290	3,000	-	-	11,833,290
Total	11,961,290	3,000	-	-	11,964,290
Accumulated depreciation:					
Buildings and Improvements	(201,211)	(11,900)	-	(2)	(213,113)
Infrastructure	(8,899,770)	(717,758)	-	-	(9,617,528)
Equipment	(152,321)	(6,043)	-	-	(158,364)
Vehicles	(173,366)	(300)	-	-	(173,666)
Total accumulated depreciation	(9,426,668)	(736,001)	-	(2)	(10,162,671)
Net depreciable assets	2,403,622	(733,001)	-	(2)	1,670,619
Total net capital assets	\$ 2,534,622	\$ (733,001)	\$ -	\$ (2)	\$ 1,801,619

Depreciation expense for capital assets was charged to functions as follows:

General government	\$ 694
Public safety	5,841
Public works	722,838
Parks and recreation	6,628
	<u>\$ 736,001</u>

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

4. CAPITAL ASSETS, Continued

Business-type capital asset activity for the year ended June 30, 2021, was as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
<u>Business-type activities</u>				
Depreciable assets:				
Sewer System	\$ 13,459,674	\$ -	\$ -	\$ 13,459,674
Equipment	87,061	-	-	87,061
Vehicles	42,332	-	-	42,332
Total depreciable assets	13,589,067	-	-	13,589,067
Total	13,589,067	-	-	13,589,067
Accumulated depreciation:				
Sewer System	(3,111,432)	(193,386)	-	(3,304,818)
Equipment	(63,012)	(6,693)	-	(69,705)
Vehicles	(42,332)	-	-	(42,332)
Total accumulated depreciation	(3,216,776)	(200,079)	-	(3,416,855)
Net depreciable assets	10,372,291	(200,079)	-	10,172,212
Total net capital assets	\$ 10,372,291	\$ (200,079)	\$ -	\$ 10,172,212

Depreciation expense for the Sewer Utility capital assets was \$200,079 for the year ended June 30, 2021.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2021:

	Governmental Activities	Business-type Activities	Total
Accounts payable	\$ 105,772	\$ -	\$ 105,772
Total	\$ 105,772	\$ -	\$ 105,772

Amounts do not indicate a significant concentration (greater than 25%) with any single vendor or employee.

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

6. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2021:

	Balance June 30, 2020	Additions	Transfers/ Retirements	Balance June 30, 2021	Due Within One Year
Governmental Activities:					
Note payable - Tri Counties Bank	\$ 27,993	\$ -	\$ (12,595)	\$ 15,398	\$ 13,147
Lease payable	27,633	-	(9,756)	17,877	10,472
Total governmental debt	55,626	-	(22,351)	33,275	23,619
Compensated absences	52,947	-	(10,347)	42,600	42,600
Total governmental activities	\$ 108,573	\$ -	\$ (32,698)	\$ 75,875	\$ 66,219
Business-type activities					
2010 USDA Loan	\$ 4,247,000	\$ -	\$ (94,000)	\$ 4,153,000	\$ 96,000
Total business-type activities	\$ 4,339,000	\$ -	\$ (94,000)	\$ 4,153,000	\$ 96,000

Compensated Absences

The City records employee absences, such as vacation, illness, and holidays, for which it is expected that employees will be paid as compensated absences. Compensated absences had a balance of \$42,600 at June 30, 2021.

Governmental Activities

Note payable – Tri Counties Bank

On November 4, 2002, the City entered into an agreement with Tri Counties Bank to borrow funds for drainage projects. The initial amount of the loan was \$290,757 and payable within one year. The City has renewed the outstanding principal at the beginning each fiscal year and intends to continue to renew the agreement until the debt is fully paid. For fiscal year ended June 30, 2021, the outstanding principal amount is \$15,400.

On September 4, 2013, after paying down \$23,052 of the principal amount, the City renewed the note for the outstanding principal amount of \$126,997. The terms of the agreement reduced the interest from 4.75% to 4.25%. This interest rate is fixed, contingent upon the City maintaining a minimum average balance in their Tri Counties Bank deposit account of \$50,000, or the stated interest rate will increase by 1.00%. The terms of the note reduce the eleven equal payments to \$1,374.

On December 6, 2016, after paying down \$24,797 of the principal amount, the City renewed the note for the outstanding principal amount of \$89,571. The interest remained the same from the previous loan term at 4.25%. This interest rate is fixed, contingent upon the City maintaining a minimum average balance in their Tri Counties Bank deposit account of \$50,000, or the stated interest rate will increase by 1.00%. The new terms of the note reduce the twelve equal payments to \$1,130.

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

6. LONG-TERM LIABILITIES, Continued

Governmental Activities, Continued

Capital lease obligation

The City of Ferndale has entered into a lease agreement as lessee for financing the acquisition of a truck valued at \$47,794. The interest rate on the lease is 7.107%. Lease payment is payable each month, commencing on March 1, 2018, with a maturity date of March 1, 2023. For fiscal year ended June 30, 2021, the outstanding principal amount is \$15,398.

Business-type Activities

2010 USDA Loan

On August 18, 2010, the City entered into an agreement with the US Department of Agriculture, Rural Development to borrow funds to construct a wastewater treatment facility. The total amount borrowed was up to the limit of \$5,000,000. The loan accrues interest at 2.375%, payable semi-annually on August 1 and February 1, commencing August 1, 2011 and is repayable over 40 years from sewer fund revenues. Loan principal is payable August 1 of each year, commencing on August 1, 2011, with a maturity date of August 1, 2050.

Future debt service for Business-type Activities at June 30, 2021, is as follows for all debt except compensated absences:

Year Ending June 30,	2010 USDA Loan	
	Principal	Interest
2022	\$ 96,000	\$ 97,494
2023	99,000	95,178
2024	101,000	92,803
2025	104,000	90,369
2026	106,000	87,875
2027-2031	568,000	399,998
2032-2036	640,000	328,344
2037-2041	719,000	247,772
2042-2046	809,000	157,118
2047-2051	911,000	52,820
Total	<u>\$ 4,153,000</u>	<u>\$ 1,649,770</u>
Due within one year	\$ 96,000	\$ 97,494
Due after one year	<u>4,057,000</u>	<u>1,552,277</u>
Total	<u>\$ 4,153,000</u>	<u>\$ 1,649,770</u>

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

7. NET POSITION/ FUND BALANCES

Net Position

	Governmental Activities	Business-type Activities	Total
Net investment in capital assets	\$ 1,768,344	\$ 6,019,212	\$ 7,787,556
Restricted	252,807	19,505	272,312
Unrestricted	620,527	717,901	1,338,428
Total	<u>\$ 2,641,678</u>	<u>\$ 6,756,618</u>	<u>\$ 9,398,296</u>

- Restricted balances are for the same purposes as fund balance restrictions because external restriction requirements are the same. See descriptions of the restrictions below.

Fund Balance

Restricted, Assigned, and Unassigned fund balance consisted of the following at June 30, 2021:

Restricted:

Governmental Funds:

Major Funds:

General Fund	\$ 15,000
Transportation Development Act	218,093

Non-Major Special Revenue Funds:

Gas Tax	849
TEA	18,865

Total Restricted \$ 252,807

Assigned:

Non-Major Special Revenue Funds:

Integrated Waste Management	\$ 57,541
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Total Assigned \$ 57,541

Unassigned:

General Fund	610,474
Drainage Fund	(4,888)

Total Unassigned \$ 605,586

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

7. NET POSITION/ FUND BALANCES, Continued

The following describe the purpose of each Restricted, Assigned, and Unassigned category used by the City:

Restricted:

Transportation Development Act – represents amounts restricted for streets and roads under the Transportation Development Act.

Drainage Fund – represents amounts restricted for drainage fees collected from developers for drainage improvements as required by NPDES.

Gas Tax – represents amounts restricted for street maintenance purposes as defined in Sections 2105, 2106, 2107, and 2107.5 of the Streets and Highway Code.

Transportation Enhancement Act – represents amounts restricted for activities related to streets and the related Intermodal Surface Transportation Efficiency Act funding.

Assigned: Amounts in excess of nonspendable, restricted and committed fund balance in funds other than the general fund automatically are reported as assigned fund balance.

Unassigned: Total funds available after restricted and assigned.

Excess of Expenditures and Transfers Over Appropriations: Expenditures and transfers exceeded appropriations for the year ended June 30, 2021, for the following funds:

	<u>Final Budget</u>	<u>Total Expenditures and Transfers</u>	<u>Excess Expenditures Over Appropriations</u>
<u>Governmental Activities</u>			
Major Funds:			
General Fund	\$ 1,054,044	\$ 1,122,087	\$ (68,043)
Transportation Development Act	50,989	114,297	(63,308)
Non-major Funds:			
Gas Tax	48,977	52,874	(3,897)
Transportation Enhancement Act	9,392	79,098	(69,706)
Integrated Waste Management	7,760	8,303	(543)

8. INTERFUND TRANSACTIONS

Due to and from balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no Due to and Due from other funds as of June 30, 2021.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

There were no transfers during the fiscal year ended June 30, 2021.

City of Ferndale, California
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2021

9. RISK MANAGEMENT

The City of Ferndale ("City") is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Member Entity obtains insurance coverage.

The City is a member of the California Intergovernmental Risk Authority – CIRA, a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, workers' compensation, and property claims. Under the program, the City has a \$5,000 retention limit similar to a deductible with the Authority being responsible for losses above that amount up to \$1 million. The Authority carries an excess commercial liability policy of \$34 million in excess of its \$1 million retention limit to cover losses through affiliated risk management authorities.

Liabilities of the City are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

The Authority covers workers' compensation claims up to its self-insurance limit of \$500,000. The Local Agency Workers Compensation Excess Pool provides excess coverage to statutory limits. The City pays an annual premium to the Authority and may share in any surplus revenues or may be required to pay additional assessments based upon the Authority's operating results. Financial statements of the California Intergovernmental Risk Authority (CIRA) may be obtained from its administrative office located at 2330 E. Bidwell Street, Folsom, California, 95630; www.cira-jpa.org or by calling (916) 927-7727.

10. DEFINED CONTRIBUTION PENSION PLAN

All qualified City employees participate in the Section 401 (a) qualified defined contribution pension plan as allowed under the Internal Revenue Code. The plan type sponsored by the City is a Money Purchase Plan, which was last amended July 1, 1996. This plan is a defined contribution retirement plan in which the employer's contribution is nondiscretionary and is based on a formula that is not related to profits. The plan sponsor guarantees no benefit and bears no investment risk while the plan participants bear all investment risk and have no guaranteed level of benefits.

Employees are eligible to participate if they are 21 years of age and have one year of service. The plan is entirely funded by the City contributions of 8% of the participant's gross pay, which vests fully and immediately for participants. Plan provisions and contribution requirements are established and may be amended by the City.

The City contributions charged to expenditures were \$48,099 and \$47,226 for the years ended June 30, 2021 and June 30, 2020 respectively.

11. COMMITMENTS AND CONTINGENCIES

Litigation

The City is involved in litigation incurred in the normal course of conducting City business. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Grants and Allocations

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Commitments

The City had no significant unexpended contractual commitments as of June 30, 2021.

12. NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in *each* pronouncement as originally issued.

12. NEW ACCOUNTING PRONOUNCEMENTS, CONTINUED

Statement No. 90, “*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*”– This statement will improve financial reporting by providing financial statement users with essential information presented for majority equity interests in legally separate organizations. A majority equity interest in a legally separate organization should be reported as an investment if the government’s holding of the equity interest meets the definition of an investment. The statement also provides for improved relevance of financial statement information for certain component units. If a government has a 100 percent equity interest, it must account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest.

The GASB has issued Statement No. 91, “*Conduit Debt Obligations.*” The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The City will implement this statement, as applicable, to its financial statements for the year ending June 30, 2022.

Statement No. 93, “*Replacement of Interbank Offered Rates*” – This statement will enhance the comparability of accounting and financial reporting requirements and improve consistency of authoritative literature. This will improve the usefulness of information for users of state and local government financial statements. The London Interbank Offered Rate (LIBOR) is expected to cease to exist at the end of 2021. Some governments have agreements with variable payments dependent on an Interbank Offered Rate (IBOR) – most notably, LIBOR. This is prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates.

The GASB Statement No. 97, “*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. The requirements of this Statement are effective for reporting periods beginning after June 30, 2021. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

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COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

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NON-MAJOR GOVERNMENTAL FUNDS

Fund Type	Description
Special Revenue	These funds account for specific revenues that are legally or otherwise restricted to expenditures for particular purposes.

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NON-MAJOR SPECIAL REVENUE FUNDS

Fund	Description
Gas Tax	Accounts for funds received and expended for street maintenance purposes as defined in Sections 2105, 2106, 2107, and 2107.5 of the Streets and Highway Code.
Transportation Enhancement Act	Accounts for activities related to streets and the related Intermodal Surface Transportation Efficiency Act funding.
Integrated Waste Management	Accounts for the City's recycling management program.

City of Ferndale, California
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2021

	Gas Tax	TEA	Integrated Waste Management	Totals
ASSETS				
Cash and investments	\$ 849	\$ 18,865	\$ 57,541	\$ 77,255
Receivables:				
Intergovernmental	-	-	-	-
Total assets	\$ 849	\$ 18,865	\$ 57,541	\$ 77,255
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-
Fund Balances:				
Restricted	849	18,865	-	19,714
Assigned	-	-	57,541	57,541
Total fund balances	849	18,865	57,541	77,255
Total liabilities and fund balances	\$ 849	\$ 18,865	\$ 57,541	\$ 77,255

City of Ferndale, California
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the year ended June 30, 2021

	Gas Tax	TEA	Integrated Waste Management	Totals
REVENUES:				
Taxes and assessments	\$ 36,396	\$ -	\$ -	\$ 36,396
Intergovernmental	-	23,127	-	23,127
Use of money and property	35	138	269	442
Charges for services	-	-	9,292	9,292
Total revenues	36,431	23,265	9,561	69,257
EXPENDITURES:				
Current:				
Public works	52,874	79,098	8,303	140,275
Total expenditures	52,874	79,098	8,303	140,275
REVENUES OVER (UNDER) EXPENDITURES	(16,443)	(55,833)	1,258	(71,018)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	-	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	(16,443)	(55,833)	1,258	(71,018)
FUND BALANCES (Deficit):				
Beginning of year	17,292	74,698	56,283	148,273
End of year	\$ 849	\$ 18,865	\$ 57,541	\$ 77,255

City of Ferndale, California
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual
Gas Tax Special Revenue Fund
For the year ended June 30, 2021

	Budgeted Amounts		Actual	Variance w/Final
	Original	Final		Positive (Negative)
REVENUES:				
Taxes and assessments	\$ 40,378	\$ 40,378	\$ 36,396	\$ (3,982)
Use of money and property	-	-	35	35
Total revenues	40,378	40,378	36,431	(3,947)
EXPENDITURES:				
Current:				
Public works	48,977	48,977	52,874	(3,897)
Total expenditures	48,977	48,977	52,874	(3,897)
REVENUES OVER (UNDER)				
EXPENDITURES	(8,599)	(8,599)	(16,443)	(7,844)
Net change in fund balances	(8,599)	(8,599)	(16,443)	(7,844)
FUND BALANCES (Deficit):				
Beginning of year	17,292	17,292	17,292	-
End of year	\$ 8,693	\$ 8,693	\$ 849	\$ (7,844)

City of Ferndale, California
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual
Transportation Enhancement Act Special Revenue Fund
For the year ended June 30, 2021

	Budgeted Amounts		Actual	Variance w/Final Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 9,500	\$ 9,500	\$ 23,127	\$ 13,627
Use of money and property	-	-	138	138
Total revenues	9,500	9,500	23,265	13,765
EXPENDITURES:				
Current:				
Public works	9,392	9,392	79,098	(69,706)
Total expenditures	9,392	9,392	79,098	(69,706)
REVENUES OVER (UNDER) EXPENDITURES	108	108	(55,833)	(55,941)
Net change in fund balances	108	108	(55,833)	(55,941)
FUND BALANCES:				
Beginning of year	74,698	74,698	74,698	-
End of year	\$ 74,806	\$ 74,806	\$ 18,865	\$ (55,941)

City of Ferndale, California

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual

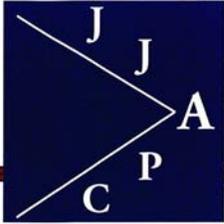
Integrated Waste Management Special Revenue Fund

For the year ended June 30, 2021

	Budgeted Amounts		Actual	Variance w/Final Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental	\$ 5,000	\$ 5,000	\$ -	\$ (5,000)
Use of money and property	-	-	269	269
Charges for services	-	-	9,292	9,292
Total revenues	5,000	5,000	9,561	4,561
EXPENDITURES:				
Current:				
Public works	7,760	7,760	8,303	(543)
Total expenditures	7,760	7,760	8,303	(543)
REVENUES OVER (UNDER) EXPENDITURES	(2,760)	(2,760)	1,258	4,018
Net change in fund balances	(2,760)	(2,760)	1,258	4,018
FUND BALANCES:				
Beginning of year	56,283	56,283	56,283	-
End of year	\$ 53,523	\$ 53,523	\$ 57,541	\$ 4,018

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JJACPA, Inc.

A Professional Accounting Services Corp.

**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**

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
of the City of Ferndale
Ferndale, California

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ferndale, California (City), as of and for the year ended June 30, 2021, and have issued our report thereon dated October 21, 2021. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

This report is intended solely for the information and use of management, the City Council members, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

JJACPA, Inc.

October 21, 2021

JJACPA, Inc.

Dublin, CA