

Washington State Auditor's Office
Financial Statements Audit Report

City of Ferndale
Whatcom County

Audit Period
January 1, 2005 through December 31, 2005

Report No. 72082

Issue Date
February 2, 2007



Washington _____
State Auditor

Brian Sonntag



**Washington State Auditor
Brian Sonntag**

February 2, 2007

Mayor and City Council
City of Ferndale
Ferndale, Washington

Report on Financial Statements

Please find attached our report on the City of Ferndale's financial statements.

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

In addition to this work, we look at other areas of our audit client's operations for compliance with state laws and regulations. The results of that audit will be included in a separately issued accountability report.

Sincerely,

BRIAN SONNTAG, CGFM
STATE AUDITOR

Table of Contents

**City of Ferndale
Whatcom County
January 1, 2005 through December 31, 2005**

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters in Accordance with *Government Auditing Standards* 1

Independent Auditor's Report on Financial Statements 3

Financial Section 5

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**City of Ferndale
Whatcom County
January 1, 2005 through December 31, 2005**

Mayor and City Council
City of Ferndale
Ferndale, Washington

We have audited the financial statements of the City of Ferndale, Whatcom County, Washington, as of and for the year ended December 31, 2005, and have issued our report thereon dated October 18, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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 the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. 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 herein under *Government Auditing Standards*.

This report is intended for the information and use of management and the Mayor and City Council. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" written in a larger, more prominent script than the last name "Sonntag".

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 18, 2006

Independent Auditor's Report on Financial Statements

City of Ferndale Whatcom County January 1, 2005 through December 31, 2005

Mayor and City Council
City of Ferndale
Ferndale, Washington

We have audited the accompanying financial statements of the City of Ferndale, Whatcom County, Washington, for the year ended December 31, 2005. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the City prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Ferndale, for the year ended December 31, 2005, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the

financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 18, 2006

Financial Section

**City of Ferndale
Whatcom County
January 1, 2005 through December 31, 2005**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2005
Notes to Financial Statements – 2005

SUPPLEMENTAL INFORMATION

Schedule of Long-Term Debt – 2005

CITY OF FERNDALE
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name	Fund Number and Name		Fund Number and Name	
		001 Current Expense	006 Engineering Support (Fund Bal. Transferred to 001 in 2005)		
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$518,204	\$518,204	\$0	\$21,023
Revenues and Other Sources					
310 Taxes		2,877,000	3,116,235	0	0
320 Licenses and Permits		400,750	569,019	0	0
330 Intergovernmental		143,300	172,043	0	0
340 Charges for Goods and Services		708,700	807,505	0	0
350 Fines and Forfeits		110,800	66,093	0	0
360 Miscellaneous		13,000	125,642	0	0
370 Capital Contributions		0	0	0	0
390 Other Financing Sources		149,000	193,033	0	0
Total Revenues and Other Sources		4,402,550	5,049,570	0	0
Total Resources		4,920,754	5,567,774	0	21,023
Operating Expenditures:					
510 General Government		1,070,990	1,016,308		
520 Public Safety		2,633,091	2,619,383		
530 Physical Environment		133,468	150,333		
540 Transportation		0	0		
550 Economic Environment		415,611	396,858		
560 Mental and Physical Health		1,300	1,635		
570 Culture and Recreation		268,607	268,014		
Total Operating Expenditures		4,523,067	4,452,531	0	0
591-593 Debt Service		0	3,046	0	0
594-595 Capital Outlay		2,750	21,191	0	0
Total Expenditures		4,525,817	4,476,768	0	0
597-599 Other Financing Uses		60,000	60,000		21,023
Total Expenditures and Other Uses		4,585,817	4,536,768	0	21,023
Excess (Deficit) of Resources Over Uses		334,937	1,031,006	0	0
380 Nonrevenues (Except 384 and 388.80)		0	1,128	0	0
580 Nonexpenditures (Except 584 and 588.80)		0	782	0	0
Ending Net Cash and Investments		\$334,937	\$1,031,352	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name 101 Street		Fund Number and Name 102 Park Mitigation (Fund No. Changed-See 320)	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$30,933	\$30,933	\$0	\$0
Revenues and Other Sources				
310 Taxes	270,000	226,000		
320 Licenses and Permits				
330 Intergovernmental	200,000	202,369		
340 Charges for Goods and Services	5,000	5,858	55,000	104,899
350 Fines and Forfeits				
360 Miscellaneous	500	196	500	4,606
370 Capital Contributions				
390 Other Financing Sources	60,000	60,000	118,066	118,066
Total Revenues and Other Sources	535,500	494,423	173,566	227,571
Total Resources	566,433	525,356	173,566	227,571
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation	537,300	525,717		
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	537,300	525,717	0	0
591-593 Debt Service				
594-595 Capital Outlay	5,000	1,908		
Total Expenditures	542,300	527,625	0	0
597-599 Other Financing Uses	0	0	30,000	30,000
Total Expenditures and Other Uses	542,300	527,625	30,000	30,000
Excess (Deficit) of Resources Over Uses	24,133	(2,269)	143,566	197,571
380 Nonrevenues (Except 384 and 388.80)		4,569	0	0
580 Nonexpenditures (Except 584 and 588.80)		0	0	0
Ending Net Cash and Investments	\$24,133	\$2,300	\$143,566	\$197,571

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name 103 Paths and Trails		Fund Number and Name 104 Traffic Mitigation (Fund No. Changed-See 330)	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments Revenues and Other Sources	\$5,498	\$5,498	\$0	\$0
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental	2,000	0		
340 Charges for Goods and Services			500,000	439,996
350 Fines and Forfeits				
360 Miscellaneous		126	500	4,416
370 Capital Contributions				
390 Other Financing Sources				
Total Revenues and Other Sources	2,000	126	317,862	317,862
Total Resources	7,498	5,624	818,362	762,274
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	0	0	0
591-593 Debt Service				
594-595 Capital Outlay				
Total Expenditures	0	0	0	0
597-599 Other Financing Uses			806,952	514,952
Total Expenditures and Other Uses	0	0	806,952	514,952
Excess (Deficit) of Resources Over Uses	7,498	5,624	11,410	247,322
380 Nonrevenues (Except 384 and 388.80)				
580 Nonexpenditures (Except 584 and 588.80)				
Ending Net Cash and Investments	\$7,498	\$5,624	\$11,410	\$247,322

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name		Fund Number and Name	
	105 Real Estate Excise Tax (Fund No. Changed-See 385)	Actual	106 Criminal Justice (Fund No. Changed-See 672)	Budget	Actual	
Beginning Net Cash and Investments	\$0	\$0	\$0		\$0	
Revenues and Other Sources						
310 Taxes	450,000	730,831				
320 Licenses and Permits						
330 Intergovernmental			27,900		8,591	
340 Charges for Goods and Services						
350 Fines and Forfeits						
360 Miscellaneous	5,000	5,384	500		1,090	
370 Capital Contributions						
390 Other Financing Sources	138,612	138,612	55,804		55,804	
Total Revenues and Other Sources	593,612	874,827	84,204		65,485	
Total Resources	593,612	874,827	84,204		65,485	
Operating Expenditures:						
510 General Government						
520 Public Safety						363
530 Physical Environment						
540 Transportation						
550 Economic Environment						
560 Mental and Physical Health						
570 Culture and Recreation						
Total Operating Expenditures	0	0	0		363	
591-593 Debt Service	8,607	8,607				
594-595 Capital Outlay	105,000	105,000	33,300		30,001	
Total Expenditures	113,607	113,607	33,300		30,364	
597-599 Other Financing Uses	451,270	259,648				
Total Expenditures and Other Uses	564,877	373,255	33,300		30,364	
Excess (Deficit) of Resources Over Uses	28,735	501,572	50,904		35,121	
380 Nonrevenues (Except 384 and 388.80)		0			0	
580 Nonexpenditures (Except 584 and 588.80)		0			0	
Ending Net Cash and Investments	\$28,735	\$501,572	\$50,904		\$35,121	

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	107 Local Criminal Justice (Fund No. Changed-See 675)	150 Parks (Fund Bal. Transferred to 001 in 2005)	Budget	Actual
Beginning Net Cash and Investments	\$0	\$0	\$11,690	\$11,690
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental	113,000	138,985		
340 Charges for Goods and Services				
350 Fines and Forfeits				
360 Miscellaneous	1,000	1,153		
370 Capital Contributions				
390 Other Financing Sources	173,709	173,709		
Total Revenues and Other Sources	287,709	313,847	0	0
Total Resources	287,709	313,847	11,690	11,690
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	0	0	0
591-593 Debt Service				
594-595 Capital Outlay	35,000	35,000		
Total Expenditures	35,000	35,000	0	0
597-599 Other Financing Uses	195,000	195,000	11,690	11,690
Total Expenditures and Other Uses	230,000	230,000	11,690	11,690
Excess (Deficit) of Resources Over Uses	57,709	83,847	0	0
380 Nonrevenues (Except 384 and 388.80)				
580 Nonexpenditures (Except 584 and 588.80)				
Ending Net Cash and Investments	\$57,709	\$83,847	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	Budget	Actual	198 Hotel Motel	203 6974 Bond Redemption (Fund No. Changed-See 403)
Beginning Net Cash and Investments	\$38,255		\$38,255	\$368,146
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits	27,000		52,355	
330 Intergovernmental				
340 Charges for Goods and Services				
350 Fines and Forfeits				
360 Miscellaneous		1,267		
370 Capital Contributions				
390 Other Financing Sources				
Total Revenues and Other Sources	27,000		53,622	0
Total Resources	65,255		91,877	368,146
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation	44,500		39,030	
Total Operating Expenditures	44,500		39,030	0
591-593 Debt Service				
594-595 Capital Outlay				
Total Expenditures	44,500		39,030	0
597-599 Other Financing Uses				
Total Expenditures and Other Uses	44,500		39,030	368,146
Excess (Deficit) of Resources Over Uses	20,755		52,847	0
380 Nonrevenues (Except 384 and 388.80)			0	0
580 Nonexpenditures (Except 584 and 588.80)			0	0
Ending Net Cash and Investments	\$20,755		\$52,847	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	205 69/74 Bond Reserve (Fund No. Changed-See 404)	211 LTGO Bond (Fund No. Changed-See 406)	Budget	Actual
Beginning Net Cash and Investments	\$596,988	\$596,988	\$5,320	\$5,320
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental				
340 Charges for Goods and Services				
350 Fines and Forfeits				
360 Miscellaneous				
370 Capital Contributions				
390 Other Financing Sources				
Total Revenues and Other Sources	0	0	0	0
Total Resources	596,988	596,988	5,320	5,320
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	0	0	0
591-593 Debt Service				
594-595 Capital Outlay				
Total Expenditures	0	0	0	0
597-599 Other Financing Uses	596,988	596,988	5,320	5,320
Total Expenditures and Other Uses	596,988	596,988	5,320	5,320
Excess (Deficit) of Resources Over Uses	0	0	0	0
380 Nonrevenues (Except 384 and 388.80)				
580 Nonexpenditures (Except 584 and 588.80)				
Ending Net Cash and Investments	\$0	\$0	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$3,064	\$3,064	\$1,417	\$1,417
Revenues and Other Sources				
310 Taxes	120,000	125,703		
320 Licenses and Permits				
330 Intergovernmental				
340 Charges for Goods and Services				
350 Fines and Forfeits				
360 Miscellaneous	100	1,474		1,193
370 Capital Contributions				
390 Other Financing Sources	10,000	10,000	77,270	65,270
Total Revenues and Other Sources	130,100	137,177	77,270	66,463
Total Resources	133,164	140,241	78,687	67,880
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	0	0	0
591-593 Debt Service	124,824	124,824	67,574	67,574
594-595 Capital Outlay				
Total Expenditures	124,824	124,824	67,574	67,574
597-599 Other Financing Uses	0	0		
Total Expenditures and Other Uses	124,824	124,824	67,574	67,574
Excess (Deficit) of Resources Over Uses	8,340	15,417	11,113	306
380 Nonrevenues (Except 384 and 388.80)	0	0		0
580 Nonexpenditures (Except 584 and 588.80)				
Ending Net Cash and Investments	\$8,340	\$15,417	\$11,113	\$306

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name	245 WWTP Loan Service (Fund No. Changed-See 408)		Fund Number and Name	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$191,313	\$191,313	\$166,537	\$166,537
Revenues and Other Sources					
310 Taxes					
320 Licenses and Permits					
330 Intergovernmental					
340 Charges for Goods and Services					
350 Fines and Forfeits					
360 Miscellaneous				1,000	4,536
370 Capital Contributions					
390 Other Financing Sources					
Total Revenues and Other Sources		0	0	1,000	4,536
Total Resources		191,313	191,313	167,537	171,073
Operating Expenditures:					
510 General Government					
520 Public Safety					
530 Physical Environment					
540 Transportation					
550 Economic Environment					
560 Mental and Physical Health					
570 Culture and Recreation					
Total Operating Expenditures		0	0	0	0
591-593 Debt Service					
594-595 Capital Outlay				80,000	0
Total Expenditures		0	0	80,000	0
597-599 Other Financing Uses		191,313	191,313		
Total Expenditures and Other Uses		191,313	191,313	80,000	0
Excess (Deficit) of Resources Over Uses		0	0	87,537	171,073
380 Nonrevenues (Except 384 and 388.80)					
580 Nonexpenditures (Except 584 and 588.80)		0	0		0
Ending Net Cash and Investments		\$0	\$0	\$87,537	\$171,073

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	320 Park Mitigation (Fund No. Changed-See 102)	325 Conoco-Phillips Park Improvement	Budget	Actual
Beginning Net Cash and Investments	\$118,066	\$118,066	\$338,491	\$338,491
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental			203,163	40,509
340 Charges for Goods and Services				
350 Fines and Forfeits			100	1,552
360 Miscellaneous				
370 Capital Contributions				
390 Other Financing Sources			260,200	127,577
Total Revenues and Other Sources	0	0	463,463	169,638
Total Resources	118,066	118,066	801,954	508,129
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	0	0	0
591-593 Debt Service			222,019	222,892
594-595 Capital Outlay			275,000	269,493
Total Expenditures	0	0	497,019	492,385
597-599 Other Financing Uses	118,066	118,066		
Total Expenditures and Other Uses	118,066	118,066	497,019	492,385
Excess (Deficit) of Resources Over Uses	0	0	304,935	15,744
380 Nonrevenues (Except 384 and 388.80)	0	0		0
580 Nonexpenditures (Except 584 and 588.80)	0	0		2,735
Ending Net Cash and Investments	\$0	\$0	\$304,935	\$13,009

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Beginning Net Cash and Investments Revenues and Other Sources	330 Traffic Mitigation (Fund No. Changed-See 104)		335 Utility Reserve (Fund No. Changed-See 409)	
		Budget	Actual	Budget	Actual
		\$317,862	\$317,862	\$51,529	\$51,529
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous				
370	Capital Contributions				
390	Other Financing Sources				
	Total Revenues and Other Sources	0	0	0	0
	Total Resources	317,862	317,862	51,529	51,529
	Operating Expenditures:				
510	General Government				
520	Public Safety				
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
	Total Operating Expenditures	0	0	0	0
591-593	Debt Service				
594-595	Capital Outlay				
	Total Expenditures	0	0	0	0
597-599	Other Financing Uses	317,862	317,862	51,529	51,529
	Total Expenditures and Other Uses	317,862	317,862	51,529	51,529
	Excess (Deficit) of Resources Over Uses	0	0	0	0
380	Nonrevenues (Except 384 and 388.80)				
580	Nonexpenditures (Except 584 and 588.80)				
	Ending Net Cash and Investments	\$0	\$0	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name	337 Solid Waste Tax (Fund No. Changed-See 410)		Fund Number and Name		345 Main St./Bridge Construction	
		Budget	Actual	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$140,416	\$140,416	\$589,164		\$589,164	
Revenues and Other Sources							
310 Taxes							
320 Licenses and Permits							
330 Intergovernmental				520,000		98,617	
340 Charges for Goods and Services							
350 Fines and Forfeits							
360 Miscellaneous						1,880	
370 Capital Contributions							
390 Other Financing Sources							
Total Revenues and Other Sources		0	0	761,952		761,952	
Total Resources		140,416	140,416	1,281,952		862,449	
				1,871,116		1,451,613	
Operating Expenditures:							
510 General Government							
520 Public Safety							
530 Physical Environment							
540 Transportation							
550 Economic Environment							
560 Mental and Physical Health							
570 Culture and Recreation							
Total Operating Expenditures		0	0	0		0	
591-593 Debt Service				1,273,934		1,276,962	
594-595 Capital Outlay				181,952		173,828	
Total Expenditures		0	0	1,455,886		1,450,790	
597-599 Other Financing Uses		140,416	140,416				
Total Expenditures and Other Uses		140,416	140,416	1,455,886		1,450,790	
Excess (Deficit) of Resources Over Uses		0	0	415,230		823	
380 Nonrevenues (Except 384 and 388.80)							
580 Nonexpenditures (Except 584 and 588.80)							
Ending Net Cash and Investments		\$0	\$0	\$415,230		\$823	

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$254,215		\$254,215	\$1,143
Revenues and Other Sources				
310 Taxes				\$1,143
320 Licenses and Permits				
330 Intergovernmental		23,505		
340 Charges for Goods and Services				
350 Fines and Forfeits				
360 Miscellaneous		90,569		4
370 Capital Contributions				
390 Other Financing Sources				
Total Revenues and Other Sources	75,000	114,074	50,000	2,000
Total Resources	329,215	368,289	51,143	3,147
Operating Expenditures:				
510 General Government		350		
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	350	0	0
591-593 Debt Service	0			
594-595 Capital Outlay	158,000	147,940	50,000	2,704
Total Expenditures	158,000	148,290	50,000	2,704
597-599 Other Financing Uses	195,980	195,980		
Total Expenditures and Other Uses	353,980	344,270	50,000	2,704
Excess (Deficit) of Resources Over Uses	(24,765)	24,019	1,143	443
380 Nonrevenues (Except 384 and 388.80)				
580 Nonexpenditures (Except 584 and 588.80)		37,900	0	0
Ending Net Cash and Investments	(\$24,765)	\$61,919	\$1,143	\$443

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$881	\$881	\$93,643	\$93,643
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental				
340 Charges for Goods and Services				
350 Fines and Forfeits		127	1,000	2,886
360 Miscellaneous				
370 Capital Contributions				
390 Other Financing Sources	50,000	31,000	150,000	150,000
Total Revenues and Other Sources	50,000	31,127	151,000	152,886
Total Resources	50,881	32,008	244,643	246,529
Operating Expenditures:				
510 General Government		7,420		
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	7,420	0	0
591-593 Debt Service				
594-595 Capital Outlay	50,000	23,825	245,202	245,202
Total Expenditures	50,000	31,245	245,202	245,202
597-599 Other Financing Uses				
Total Expenditures and Other Uses	50,000	31,245	245,202	245,202
Excess (Deficit) of Resources Over Uses	881	763	(559)	1,327
380 Nonrevenues (Except 384 and 388.80)		0		0
580 Nonexpenditures (Except 584 and 588.80)		0		0
Ending Net Cash and Investments	\$881	\$763	(\$559)	\$1,327

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name	380 Malloy Avenue Construction		385 Real Estate Excise Tax (Fund No. Changed-See 105)	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$43,186		\$43,186	
Revenues and Other Sources					
310 Taxes					\$138,612
320 Licenses and Permits					
330 Intergovernmental					
340 Charges for Goods and Services					
350 Fines and Forfeits			2,151		
360 Miscellaneous					
370 Capital Contributions		200,000			
390 Other Financing Sources		200,000	5,151	0	0
Total Revenues and Other Sources		243,186	48,337	138,612	138,612
Total Resources					
Operating Expenditures:					
510 General Government					
520 Public Safety					
530 Physical Environment					
540 Transportation					
550 Economic Environment					
560 Mental and Physical Health					
570 Culture and Recreation					
Total Operating Expenditures		0	0	0	0
591-593 Debt Service		3,018	3,030		
594-595 Capital Outlay		200,000	44,490		
Total Expenditures		203,018	47,520	0	0
597-599 Other Financing Uses				138,612	138,612
Total Expenditures and Other Uses		203,018	47,520	138,612	138,612
Excess (Deficit) of Resources Over Uses		40,168	817	0	0
380 Nonrevenues (Except 384 and 388.80)					
580 Nonexpenditures (Except 584 and 588.80)					
Ending Net Cash and Investments		\$40,168	\$817	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name 401 Water		Fund Number and Name 402 Sewer	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$671,896	\$671,896	\$527,089	\$527,089
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental				
340 Charges for Goods and Services	1,699,000	1,741,135	1,871,000	2,126,174
350 Fines and Forfeits				
360 Miscellaneous	4,000	50,704	3,000	50,015
370 Capital Contributions				
390 Other Financing Sources				
Total Revenues and Other Sources	1,703,000	1,791,839	1,874,000	2,205,446
Total Resources	2,374,896	2,463,735	2,401,089	2,732,535
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment	1,134,992	1,181,473	891,168	851,393
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	1,134,992	1,181,473	891,168	851,393
591-593 Debt Service				
594-595 Capital Outlay	305,000	295,384	85,000	417,977
Total Expenditures	1,439,992	1,476,857	976,168	1,269,370
597-599 Other Financing Uses	489,038	280,038	1,030,825	636,225
Total Expenditures and Other Uses	1,929,030	1,756,895	2,006,993	1,905,595
Excess (Deficit) of Resources Over Uses	445,866	706,840	394,096	826,940
380 Nonrevenues (Except 384 and 388.80)	68,771	71,286		6,046
580 Nonexpenditures (Except 584 and 588.80)	0	2,465		5,865
Ending Net Cash and Investments	\$514,637	\$775,661	\$394,096	\$827,121

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name 403 95/96/05 Bond Redemption		Fund Number and Name 404 95/96/05 Bond Reserve	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$0	\$0	\$0	\$0
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental		0		0
340 Charges for Goods and Services				
350 Fines and Forfeits				
360 Miscellaneous	301,500	266,867		23,639
370 Capital Contributions				
390 Other Financing Sources	550,000	368,386	799,168	799,168
Total Revenues and Other Sources	851,500	635,253	799,168	822,807
Total Resources	851,500	635,253	799,168	822,807
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	0	0	0
591-593 Debt Service	739,171	619,646		
594-595 Capital Outlay				
Total Expenditures	739,171	619,646	127,531	127,531
Total Expenditures and Other Uses	739,171	619,646	127,531	127,531
Excess (Deficit) of Resources Over Uses	112,329	15,607	671,637	695,276
380 Nonrevenues (Except 384 and 388.80)		0	0	0
580 Nonexpenditures (Except 584 and 588.80)		0	0	0
Ending Net Cash and Investments	\$112,329	\$15,607	\$671,637	\$695,276

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Beginning Net Cash and Investments Revenues and Other Sources	Sludge Removal Reserve (Fund Bal. Transferred to 402 in 2005)		Fund Number and Name	
		Budget	Actual	Budget	Actual
		\$29,258	\$29,258	\$0	\$0
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous			100	4,863
370	Capital Contributions				
390	Other Financing Sources				
	Total Revenues and Other Sources	0	0	211,038	207,358
	Total Resources	29,258	29,258	211,138	212,221
	Operating Expenditures:				
510	General Government				
520	Public Safety				
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
	Total Operating Expenditures	0	0	0	0
591-593	Debt Service			211,211	211,211
594-595	Capital Outlay				
	Total Expenditures	0	0	211,211	211,211
597-599	Other Financing Uses	29,258	29,258		
	Total Expenditures and Other Uses	29,258	29,258	211,211	211,211
	Excess (Deficit) of Resources Over Uses	0	0	(73)	1,010
380	Nonrevenues (Except 384 and 388.80)				0
580	Nonexpenditures (Except 584 and 588.80)				0
	Ending Net Cash and Investments	\$0	\$0	(\$73)	\$1,010

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Beginning Net Cash and Investments Revenues and Other Sources	Fund Number and Name 407 Storm and Flood Control		Fund Number and Name 408 Utility Loan Service	
		Budget	Actual	Budget	Actual
		\$29,319	\$29,319	\$0	\$0
310	Taxes	50,000	28,000		
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services	30,000	111,455		
350	Fines and Forfeits				
360	Miscellaneous	15,000	1,325	50	9,024
370	Capital Contributions				
390	Other Financing Sources	19,780	68,500	742,437	900,015
	Total Revenues and Other Sources	114,780	209,280	742,487	909,039
	Total Resources	144,099	238,599	742,487	909,039
	Operating Expenditures:				
510	General Government				
520	Public Safety				
530	Physical Environment				
540	Transportation	52,161	68,263		
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
	Total Operating Expenditures	52,161	68,263	0	0
591-593	Debt Service	19,780	19,854	727,145	693,443
594-595	Capital Outlay	85,000	40,376		
	Total Expenditures	156,941	128,493	727,145	693,443
597-599	Other Financing Uses	22,505	23,770		
	Total Expenditures and Other Uses	179,446	152,263	727,145	693,443
	Excess (Deficit) of Resources Over Uses	(35,347)	86,336	15,342	215,596
380	Nonrevenues (Except 384 and 388.80)		4,569		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
	Ending Net Cash and Investments	(\$35,347)	\$90,905	\$15,342	\$215,596

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name 409 Utilities Capital Reserve	Fund Number and Name 410 Solid Waste Tax	
		Budget	Actual
Beginning Net Cash and Investments	\$0	\$0	\$0
Revenues and Other Sources			
310 Taxes		100,000	106,392
320 Licenses and Permits			
330 Intergovernmental			
340 Charges for Goods and Services			
350 Fines and Forfeits			
360 Miscellaneous	9,741		3,079
370 Capital Contributions			
390 Other Financing Sources	217,529	140,416	140,416
Total Revenues and Other Sources	217,529	240,416	249,887
Total Resources	217,529	240,416	249,887
Operating Expenditures:			
510 General Government		50,000	17,784
520 Public Safety			
530 Physical Environment			
540 Transportation			
550 Economic Environment			
560 Mental and Physical Health			
570 Culture and Recreation			
Total Operating Expenditures	0	50,000	17,784
591-593 Debt Service			
594-595 Capital Outlay	13,800	11,489	
Total Expenditures	13,800	50,000	17,784
597-599 Other Financing Uses		58,000	58,000
Total Expenditures and Other Uses	13,800	108,000	75,784
Excess (Deficit) of Resources Over Uses	203,729	132,416	174,103
380 Nonrevenues (Except 384 and 388.80)	100,000		0
580 Nonexpenditures (Except 584 and 588.80)			0
Ending Net Cash and Investments	\$303,729	\$132,416	\$174,103

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	510 Computer Repair and Replacement	550 Equipment Repair and Replacement	Budget	Actual
Beginning Net Cash and Investments	\$410	\$410	\$110,948	\$110,948
Revenues and Other Sources				
310 Taxes		22,266		
320 Licenses and Permits				
330 Intergovernmental				
340 Charges for Goods and Services				
350 Fines and Forfeits		34,159		
360 Miscellaneous	34,560		329,599	340,718
370 Capital Contributions				
390 Other Financing Sources				
Total Revenues and Other Sources	56,826	56,425	329,599	340,718
Total Resources	57,236	56,835	440,547	451,666
Operating Expenditures:				
510 General Government	44,068	44,269		
520 Public Safety				
530 Physical Environment				
540 Transportation			224,118	245,141
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	44,068	44,269	224,118	245,141
591-593 Debt Service				
594-595 Capital Outlay	11,100	10,363	162,600	131,046
Total Expenditures	55,168	54,622	386,718	376,187
597-599 Other Financing Uses				
Total Expenditures and Other Uses	55,168	54,622	386,718	376,187
Excess (Deficit) of Resources Over Uses	2,068	2,213	53,829	75,479
380 Nonrevenues (Except 384 and 388.80)		0	350,000	350,000
580 Nonexpenditures (Except 584 and 588.80)		0		0
Ending Net Cash and Investments	\$2,068	\$2,213	\$403,829	\$425,479

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	610 Benefit Trust (Fund Bal. Transferred to 001 in 2005)	630 LID Guarantee (Fund Bal. Transf. to 212/213/404 in 2005)	Budget	Actual
Beginning Net Cash and Investments	\$6,031	\$78,780		\$78,780
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental				
340 Charges for Goods and Services				
350 Fines and Forfeits				
360 Miscellaneous	132			
370 Capital Contributions				
390 Other Financing Sources				
Total Revenues and Other Sources	0	0		0
Total Resources	6,031	78,780		78,780
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	0		0
591-593 Debt Service				
594-595 Capital Outlay				
Total Expenditures	0	0		0
597-599 Other Financing Uses	6,163	6,163	78,780	78,780
Total Expenditures and Other Uses	6,163	6,163	78,780	78,780
Excess (Deficit) of Resources Over Uses	(132)	0	0	0
380 Nonrevenues (Except 384 and 388.80)				
580 Nonexpenditures (Except 584 and 588.80)				
Ending Net Cash and Investments	(\$132)	\$0	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name		Fund Number and Name	
	Budget	Actual	Budget	Actual
Beginning Net Cash and Investments	\$0	\$0	\$55,804	\$55,804
Revenues and Other Sources				
310 Taxes				
320 Licenses and Permits				
330 Intergovernmental				
340 Charges for Goods and Services				
350 Fines and Forfeits				
360 Miscellaneous				
370 Capital Contributions				
390 Other Financing Sources				
Total Revenues and Other Sources	0	0	0	0
Total Resources	0	0	55,804	55,804
Operating Expenditures:				
510 General Government				
520 Public Safety				
530 Physical Environment				
540 Transportation				
550 Economic Environment				
560 Mental and Physical Health				
570 Culture and Recreation				
Total Operating Expenditures	0	0	0	0
591-593 Debt Service				
594-595 Capital Outlay				
Total Expenditures	0	0	0	0
597-599 Other Financing Uses				
Total Expenditures and Other Uses	0	0	55,804	55,804
Excess (Deficit) of Resources Over Uses	0	0	0	0
380 Nonrevenues (Except 384 and 388.80)				
580 Nonexpenditures (Except 584 and 588.80)	95,000	53,441		
Ending Net Cash and Investments	\$0	\$0	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

**CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS**

2/21/2006

For the Year Ended December 31, 2005

BARS CODE	Fund Number and Name	Fund Number and Name	
		675 Local Criminal Justice (Fund No. Changed-See 107)	Fund Number and Name
		Budget	Actual
Beginning Net Cash and Investments		\$173,709	
Revenues and Other Sources			
310 Taxes			
320 Licenses and Permits			
330 Intergovernmental			
340 Charges for Goods and Services			
350 Fines and Forfeits			
360 Miscellaneous			
370 Capital Contributions			
390 Other Financing Sources			
Total Revenues and Other Sources		0	0
Total Resources		173,709	173,709
Operating Expenditures:			
510 General Government			
520 Public Safety			
530 Physical Environment			
540 Transportation			
550 Economic Environment			
560 Mental and Physical Health			
570 Culture and Recreation			
Total Operating Expenditures		0	0
591-593 Debt Service			
594-595 Capital Outlay			
Total Expenditures		0	0
597-599 Other Financing Uses		173,709	173,709
Total Expenditures and Other Uses		173,709	173,709
Excess (Deficit) of Resources Over Uses		0	0
380 Nonrevenues (Except 384 and 388.80)			
580 Nonexpenditures (Except 584 and 588.80)			
Ending Net Cash and Investments		\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF FERNDALE, WASHINGTON
NOTES TO FINANCIAL STATEMENTS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2005

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

NOTE-1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ferndale uses the revenue and expenditure classifications contained in the *Budgeting, Accounting and Reporting System* (BARS) manual. The manual is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

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

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

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund (Fund number 001)

This fund is used to account for all financial resources and transactions of the City of Ferndale not required to be accounted for in another fund.

Special Revenue Funds (Funds in the 100 series)

These funds are used to account for the process of specific revenue sources or to finance specified activities as required by law or administrative regulation.

Debt Service Funds (Funds in the 200 series)

These funds are used to account for accumulation of resources to pay interest and principal on general long-term debt.

Capital Projects Funds (Funds in the 300 series)

These funds are used to account for financial resources to be used for the acquisition of capital facilities other than those financed by special assessment funds.

PROPRIETARY FUND TYPES:

Enterprise Funds (Fund number 401 Water and Fund number 402 Sewer)

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

Internal Service Funds (Funds in the 500 series)

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

FIDUCIARY FUND TYPES:

Agency Funds

These funds are used to account for cash and other assets received and held by the City of Ferndale acting in the capacity of trustee or custodian.

General Long-Term Debt

The City of Ferndale accounts for its long-term debt in a bond register and the results are reported in a long-term debt schedule.

B. Basis of Accounting

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

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

C. Budgets and Budgetary Accounting

1. Scope of Budget

Annual appropriated budgets are adopted for all funds. Budgetary accounts are integrated in fund ledgers for all budgeted funds and the financial statements include budgetary comparisons for all funds.

Annual appropriated budgets are adopted at the fund level and budgets constitute the legal authority for expenditures at that level. Subsidiary revenue and expenditure ledgers are used to compare the budgeted amounts with actual revenues and expenditures. As a management control device, the subsidiary ledgers monitor expenditures for individual functions and activities by object class. Annual appropriations lapse for all funds on the last day of the calendar year.

2. Procedures for Adopting the Original Budget

The City of Ferndale's budget procedures are mandated by Chapter 35A.33.RCW. The steps in the budget process are as follows:

a. Prior to November 1, the Clerk/treasurer submits a proposed budget to the City Council. This budget is based on priorities established by the council and estimates provided by city departments during the preceding months, and balanced with revenue estimates made by the Clerk-treasurer.

b. The Council conducts public hearings on the proposed budget in November and December.

c. The Council makes its adjustments to the proposed budget and adopts by ordinance a final balanced budget no later than December 31.

d. Within 30 days of adoption, the final budget is available to the public.

3. Amending the Budget

The Chief Administrative Officer is authorized to direct the Clerk/treasurer to transfer budgeted amounts between object classes and/or departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours of work beyond those established for the position, exclusive of normal overtime, or other conditions of employment must be approved by the City Council.

When the City Council determines that it is in the best interest of the city to increase or decrease the appropriations for a particular fund, it may do so by ordinance approved by a simple majority following a public hearing.

The budget amounts shown in the financial statements are the final authorized amounts revised during the year.

D. Cash and Equivalents

It is the City of Ferndale's policy to invest all temporary cash surpluses in excess of anticipated needs. At December 31, 2005, the Treasurer was holding total investments of \$5,235,702. This amount is included in the total for net cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on investments is allocated to the funds contributing the excess cash.

For purposes of cash flows, the City of Ferndale considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The City of Ferndale's deposits at year end were entirely covered by federal depository insurance and the State Public Deposit Protection Commission.

E. Investments

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

Investments by type at December 31, 2005 are as follows:

Local Government Investment Pool (WA State): \$3,237,606
Federal Home Loan Bank Bonds: \$1,000,921
Federal National Mortgage Agency Bonds: \$997,174

F. Interfund Loans

There were no Interfund loans outstanding as of 12/31/05.

G. Fixed Assets

General Fixed Assets

General Fixed assets are long-lived assets of the City of Ferndale as a whole and are recorded as expenditures when purchased. No general fixed assets account group is established, which is a departure from generally accepted accounting principles.

H. Compensated Absences

No more than 80 hours of Vacation leave for FLSA non-exempt and union represented employees may be carried forward into the year following its being granted. Unused vacation leave is paid out in full upon termination.

Sick leave may be accumulated up to a maximum of 135 days. No payment is made for unused sick leave upon termination. Employees retiring into the state retirement system will receive 25% of the value of unused sick leave upon retirement.

NOTE-2-STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

There have been no material violations of finance related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the City.

NOTE-3-PROPERTY TAXES

The County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.

PROPERTY TAX CALENDAR

JANUARY 1	TAXES ARE LEVIED AND BECOME A LIEN AGAINST PROPERTIES.
FEBRUARY 14	TAX BILLS ARE MAILED.
APRIL 30	FIRST OF TWO EQUAL INSTALLMENT PAYMENTS IS DUE
OCTOBER 31	SECOND INSTALLMENT IS DUE.

Property tax revenues are recognized when cash is received by the City of Ferndale. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied. 2005 and prior property taxes receivable at December 31, 2005 was \$64,172.

The City of Ferndale may levy up to \$3.10 per \$1000 of assessed valuation for general governmental services, subject to two limitations:

a. Washington law in RCW 84.55.010 limits the growth of regular property taxes to 1 percent per year, after adjustments for new construction. If the assessed valuation increases by more than 1 percent due to revaluation, the levy rate will be decreased.

b. The Washington Constitution limits the total regular property taxes to 1 percent of assessed valuation or \$10 per \$1000 of value. If the taxes of all districts exceed this amount, each is proportionately reduced until the total is at or below the 1 percent limit.

The City of Ferndale's regular levy for 2005 was \$2.38540 per \$1000 on an assessed valuation of \$553,873,720 for a total regular levy of \$1,321,210.

The City of Ferndale also in 2005 levied \$.22679 per \$1000 on an assessed valuation of \$549,048,145 to produce the sum of \$124,519 for the purpose of paying debt service on the 1998 U.T.G.O. Library Refunding Bonds.

NOTE-4-PENSION PLANS

Substantially all City full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Department of Retirement Systems, under cost-sharing multiple-employer public employee retirement systems.

A. Public Employee's Retirement System (PERS)

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

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

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

Plan 2 and 3 members may retire at the age of 65 with a minimum of 5 years of service, or at 55 with a minimum of 20 years of service, with an allowance of 2 percent per year of service of the final average salary. Plan 2 and 3 retirements prior to 65 are actuarially reduced. There is no cap on years of service credit and a cost-of-living allowance is granted, capped at 3 percent annually. There were no significant benefit changes in 2005.

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

legislature. The methods used to determine the contribution requirements were established under state statute. The City of Ferndale's contribution for all PERS Plans of covered payroll, for the year ending December 31, 2005 of \$34,880 represents its full liability under the system, except that future rates may be adjusted to meet the system needs.

<u>PLAN</u>	<u>EFFECTIVE DATE</u>	<u>EMPLOYER PERCENT</u>	<u>EMPLOYEE PERCENT</u>
PERS 1	1/1/05	1.38%	6.00%
	7/1/05	2.44%	6.00%
PERS 2 PERS 2/3	1/1/05	1.38%	1.18%
	7/1/05	2.44%	2.25%

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

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

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

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

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

The final average salary is based on salary received during the last 2 years of service. Substantial disability and death benefits are provided by the plan. Retirement benefits are indexed to the Seattle area consumer price index. Plan II participants are eligible to retire at the age of 50 with a minimum of 20 years of service or at 58 with a minimum of 5 years of service. Retirement benefits prior to age 58 are actuarially reduced. The benefit is 2 percent of average salary per year of service. The average salary is based on the highest 5 year period. Death and disability benefits are also provided. These benefit provisions are established under the authority of legislative statute. LEOFF had no material changes in benefit provisions for 1998 and 1999.

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

The City of Ferndale's contribution for all LEOFF Plans of covered payroll, for the year ending December 31, 2005 of \$29,172 represents its full liability under the system, except that future rates may be adjusted to meet the system needs.

<u>PLAN</u>	<u>EFFECTIVE DATE</u>	<u>EMPLOYER PERCENT</u>	<u>EMPLOYEE PERCENT</u>
LEOFF 1	(The City has no active LEOFF 1 Employees at 12/31/05)		
LEOFF 2	1/1/05	3.25%	5.09%
	7/1/05	4.24%	6.75%
	9/1/05	4.39%	6.99%

Historical trend information showing each system's progress in accumulating sufficient assets to pay benefits when due is presented in the State of Washington's comprehensive annual financial report. Please refer to said report for detailed trend information.

NOTE-5-CONTINGENCIES AND LITIGATION

The City of Ferndale participates in a number of federal and state assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures as disallowed under the terms of the grants. Management believes such disallowances, if any, will be immaterial.

NOTE-6-ACCUMULATED UNPAID EMPLOYEE LEAVE BENEFITS

The City does not record accumulated unused vacation leave in its governmental funds. For all governmental funds, unused vacation leave as of December 31, 2005 was 3,553 hours with a dollar value of \$82,699. Total vacation expenditures during 2005 for all governmental funds was \$160,303.

NOTE-7-LONG TERM DEBT

In July 2003, the City established a \$1,000,000 line of credit with a local bank for the Main Street/Bridge Project (grant anticipation loan). The interest rate is 65% of the prime rate (the prime rate was 5.25% at 12/31/04). The note matures and is payable no later than 18 months from the date of delivery of the note to the city. \$1,000,000 was owed as of December 31, 2004. \$1,001,030 was paid on January 11, 2005, including interest.

The accompanying Schedules of Long-Term Debt (09) provide a listing of the outstanding debt of the City of Ferndale and summarize the City's debt transactions for 2005. Future debt service requirements, including interest are as follows:

Year	G.O. Debt	Revenue Debt	Total Debt
2006	\$476,687	\$967,972	\$1,444,659
2007	\$269,823	\$1,143,612	\$1,413,435
2008	\$152,272	\$1,039,741	\$1,192,013
2009	\$146,351	\$1,041,113	\$1,187,464
Thereafter	\$652,917	\$8,477,358	\$9,130,275
Total Debt Service	\$1,698,050	\$12,669,796	\$14,367,846

NOTE-8-REFUNDED DEBT

The following bond issues have been refunded as of June 16, 2005:
 1995 Revenue Sewer Bonds \$ 905,000, Interest Rates - 6.20-6.30%
 1996 Revenue Sewer Bonds \$5,710,000, Interest Rates - 5.00-6.00%
 Total is \$6,820,000.

This advance refunding was undertaken to reduce total debt service payments over the next eleven and one-half years (June 16, 2005-2016) by \$686,138, and resulted in an economic net present value gain of \$515,374. The average coupon interest rate of the old refunded bonds was 5.70%, as compared to the new bonds interest rate of 3.75%.

Debt service on these 1995-1996 Refunded Revenue bonds is met by cash and investments held by the refunding trustee. As of December 31, 2005, the trustee was holding cash and investments of \$5,688,146 which are expected to fund debt service fully. These refunded bonds constitute a contingent liability of the City of Ferndale but are excluded from the financial statements.

The 2005 Refunded Revenue Sewer Bonds outstanding as of December 31, 2005 was \$6,540,000. The accompanying Schedules of Long-Term Debt (09) provide a listing of the outstanding debt of the City of Ferndale and summarize the City's debt transactions for 2005.

NOTE-9-RISK MANAGEMENT

The City of Ferndale is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989 when 32 municipalities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Currently, 73 municipalities/entities participate in the pool (as of 12/31/05).

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials liability, employee fidelity and faithful performance, and boiler and machinery insurance coverage. Boiler and machinery is included with the property reinsurance carrier, as of June 1, 2005, and employee fidelity coverage is a stand-alone policy that the AWC RMSA arranges for its members. The AWC RMSA also allows members to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. AWC RMSA, itself, pays out of its own funds all claims up to \$300,000 for liability and \$25,000 for property, and thereafter purchases excess liability insurance through NLC Mutual Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$5 million. The excess property coverage is purchased through Affiliated FM, using the Pool's broker, Willis of Seattle, Inc. Since the AWC RMSA is a cooperative program, the members of the AWC RMSA are jointly liable.

Members contract to remain in the pool a minimum of one year and must give one-year notice before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement. The Pool is governed by a board of directors serving ex-officio as the AWC Board of Directors.

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

The specific financials of the AWC RMSA can be seen in the Annual Report on file with the City of Ferndale.

G.O. Debt
 Refunded Debt
 Debt of Special Purpose Districts

CITY OF FERNDALE
SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2005

	(1)	(2)	(3)	(4)
ID. No.	Beginning Outstanding Debt 01/01/2005 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt 12/31/2005 (1)+(2)-(3)
263.82 PWTF LOAN-STREET	\$33,102	\$0	\$8,276	\$24,826
251.15 '93 LTGO BONDS-REFUND '87	\$395,000	\$0	\$190,000	\$205,000
251.15 '98 LTGO BONDS-CITY HALL	\$485,000	\$0	\$45,000	\$440,000
252.90 '98 REFUNDING GO BONDS	\$330,000	\$0	\$110,000	\$220,000
263.82 PWTF LOAN-STORM	\$150,000	\$0	\$7,895	\$142,105
263.91 PUGET SOUND ENERGY LOANS-STREET LIGHTS	\$264,262		\$264,262	\$0
263.91 WA STATE LOAN-PHONE SYSTEM	\$58,740		\$58,740	\$0
263.91 KeyBank Grant Ant. Note	\$13,988		\$2,638	\$11,350
263.91 KeyBank LTGO BOND-STREET LIGHTS	\$1,000,000	\$317,500	\$1,000,000	\$306,736

G.O. Debt
 Refunded Debt
 Debt of Special Purpose Districts

CITY OF FERNDALE
SCHEDULE OF LONG-TERM DEBT
For The Year Ended December 31, 2005

	(1)	(2)	(3)	(4)			
ID. No.	Beginning Outstanding Debt 01/01/2005 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt 12/31/2005 (1)+(2)-(3)			
263.82 DOE LOAN-STORM	12/31/10	9/30/05	\$48,720	\$0	592,407.00	408	\$48,720
TOTAL	\$2,730,092	\$366,220	\$1,697,575	\$1,398,737			

CITY OF FERNDALE

SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2005

G.O. Debt
 Revenue Debt
 Assessment Debt
 Refunded Debt
 Debt of Special Purpose Districts

	(1)	(2)	(3)	(4)
ID. No.	Beginning Outstanding Debt 01/01/2005 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt 12/31/2005 (1)+(2)-(3)
263.82 PWTF LOAN SEWER	\$2,314,275	0	\$165,305	\$2,148,970
263.82 SRF LOAN SEWER	\$1,529,592	0	\$73,879	\$1,455,713
252.11 '95 REV BONDS SEWER	\$1,110,000	0	\$1,110,000	\$0
252.11 '96 REV BONDS SEWER	\$5,710,000	0	\$5,710,000	\$0
26382 PUD # 1 LOAN WATER	\$85,080	\$4,158	0	\$89,238
TOTAL	\$10,748,947	\$4,158	\$7,059,184	\$3,693,921

CITY OF FERNDALE

G.O. Debt
 Revenue Debt
 Assessment Debt
 Refunded Debt
 Debt of Special Purpose Districts

**SCHEDULE OF LONG-TERM DEBT
For The Year Ended December 31, 2005**

	(1)	(2)	(3)	(4)
ID. No.	Beginning Outstanding Debt 01/01/2005 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt 12/31/2005 (1)+(2)-(3)
252.11 '05 REV BONDS SEWER REFUNDED	\$0	\$6,660,0000	\$120,000	\$6,540,000