

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**City of Ferndale**  
**Whatcom County**

Audit Period  
**January 1, 2006 through December 31, 2006**

**Report No. 73568**

Issued **November 19, 2007**  
Reissued **December 3, 2007**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

November 19, 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

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Whatcom County  
January 1, 2006 through December 31, 2006**

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# 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, 2006 through December 31, 2006**

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, 2006, and have issued our report thereon dated October 4, 2007.

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 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 above.

However, we noted certain matters that we have reported to the management of the City in a separate letter dated October 4, 2007.

## **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, 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 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" and last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

October 4, 2007

# Independent Auditor's Report on Financial Statements

## City of Ferndale Whatcom County January 1, 2006 through December 31, 2006

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, 2006. 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, 2006, 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 4, 2007

# Financial Section

**City of Ferndale  
Whatcom County  
January 1, 2006 through December 31, 2006**

## ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2006  
Notes to Financial Statements – 2006

## ***SUPPLEMENTAL INFORMATION***

Schedule of Long-Term Debt – 2006



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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 001 Current Expense		Fund Number and Name 002 General Fund Contingency Reserve	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$1,031,352	\$1,031,352	\$0	\$0
<b>Revenues and Other Sources</b>					
310	Taxes	3,316,381	3,408,702	0	0
320	Licenses and Permits	576,800	551,678	0	0
330	Intergovernmental	124,500	138,812	0	0
340	Charges for Goods and Services	663,000	919,150	0	0
350	Fines and Forfeits	61,800	69,047	0	0
360	Miscellaneous	1,800	57,861	2,250	7,970
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	713,897	741,727	270,500	273,288
<b>Total Revenues and Other Sources</b>		5,458,178	5,886,977	272,750	281,258
<b>Total Resources</b>		6,489,530	6,918,329	272,750	281,258
Operating Expenditures:					
510	General Government	1,181,381	1,206,818		
520	Public Safety	3,174,163	3,150,589		
530	Physical Environment	147,226	165,533		
540	Transportation	0	0		
550	Economic Environment	497,271	470,098		
560	Mental and Physical Health	2,400	2,574		
570	Culture and Recreation	252,903	236,697		
<b>Total Operating Expenditures</b>		5,255,344	5,232,309	0	0
591-593	Debt Service	0	3,046	0	0
594-595	Capital Outlay	152,275	92,322	0	0
<b>Total Expenditures</b>		5,407,619	5,327,677	0	0
597-599	Other Financing Uses	389,000	394,576		0
<b>Total Expenditures and Other Uses</b>		5,796,619	5,722,253	0	0
<b>Excess (Deficit) of Resources Over Uses</b>		692,911	1,196,076	272,750	281,258
380	Nonrevenues (Except 384 and 388.80)	0	1,103	0	0
580	Nonexpenditures (Except 584 and 588.80)	0	1,130	0	0
<b>Ending Net Cash and Investments</b>		\$692,911	\$1,196,049	\$272,750	\$281,258

The Accompanying Notes Are An Integral Part Of This Statement.

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

3/22/2007

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 003 Facilities Capital Reserve		Fund Number and Name 004 LEOFF 1 Retiree Reserve	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$0	\$0	\$0	\$0
<b>Revenues and Other Sources</b>					
310	Taxes			47,931	47,931
320	Licenses and Permits			0	0
330	Intergovernmental			0	0
340	Charges for Goods and Services			0	0
350	Fines and Forfeits			0	0
360	Miscellaneous	2,250	3,072	0	379
370	Capital Contributions			0	0
390	Other Financing Sources	270,500	273,288	0	0
<b>Total Revenues and Other Sources</b>		272,750	276,360	47,931	48,310
<b>Total Resources</b>		272,750	276,360	47,931	48,310
Operating Expenditures:					
510	General Government				
520	Public Safety			47,931	35,351
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
<b>Total Operating Expenditures</b>		0	0	47,931	35,351
591-593	Debt Service	0		0	
594-595	Capital Outlay			0	0
<b>Total Expenditures</b>		0	0	47,931	35,351
597-599	Other Financing Uses	228,260	228,260		0
<b>Total Expenditures and Other Uses</b>		228,260	228,260	47,931	35,351
<b>Excess (Deficit) of Resources Over Uses</b>		44,490	48,100	0	12,959
380	Nonrevenues (Except 384 and 388.80)	0	0	0	0
580	Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>		\$44,490	\$48,100	\$0	\$12,959

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 101 Street		Fund Number and Name 102 Park Mitigation	
		Budget	Actual	Budget	Actual
		<b>Beginning Net Cash and Investments</b>		\$2,300	\$2,300
<b>Revenues and Other Sources</b>					
310	Taxes	344,000	344,000		
320	Licenses and Permits				
330	Intergovernmental	200,000	226,611		
340	Charges for Goods and Services	5,000	5,490	85,000	101,763
350	Fines and Forfeits				
360	Miscellaneous	0	2,841	0	10,607
370	Capital Contributions				
390	Other Financing Sources	806,601	766,601	0	0
<b>Total Revenues and Other Sources</b>		1,355,601	1,345,543	85,000	112,370
<b>Total Resources</b>		1,357,901	1,347,843	282,571	309,941
Operating Expenditures:					
510	General Government				
520	Public Safety				
530	Physical Environment				
540	Transportation	537,300	702,655		
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
<b>Total Operating Expenditures</b>		537,300	702,655	0	0
591-593	Debt Service				
594-595	Capital Outlay	5,000	517,722		
<b>Total Expenditures</b>		542,300	1,220,377	0	0
597-599	Other Financing Uses	0	0	127,475	127,475
<b>Total Expenditures and Other Uses</b>		542,300	1,220,377	127,475	127,475
<b>Excess (Deficit) of Resources Over Uses</b>		815,601	127,466	155,096	182,466
380	Nonrevenues (Except 384 and 388.80)		18,208	0	0
580	Nonexpenditures (Except 584 and 588.80)		0	0	0
<b>Ending Net Cash and Investments</b>		\$815,601	\$145,674	\$155,096	\$182,466

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 103 Paths and Trails		Fund Number and Name 104 Traffic Mitigation	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$5,624	\$5,624	\$247,322	\$247,322
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental	0	0		
340	Charges for Goods and Services			485,500	629,126
350	Fines and Forfeits				
360	Miscellaneous		251	3,500	30,459
370	Capital Contributions				
390	Other Financing Sources			185,000	189,094
<b>Total Revenues and Other Sources</b>		0	251	674,000	848,679
<b>Total Resources</b>		5,624	5,875	921,322	1,096,001
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				
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service				
594-595	Capital Outlay	4,000	3,923		
<b>Total Expenditures</b>		4,000	3,923	0	0
597-599	Other Financing Uses			369,458	369,458
<b>Total Expenditures and Other Uses</b>		4,000	3,923	369,458	369,458
<b>Excess (Deficit) of Resources Over Uses</b>		1,624	1,952	551,864	726,543
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)		0	30,000	30,000
<b>Ending Net Cash and Investments</b>		\$1,624	\$1,952	\$521,864	\$696,543

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 105 Real Estate Excise Tax		Fund Number and Name 106 Criminal Justice	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$501,572	\$501,572	\$35,121	\$35,121
<b>Revenues and Other Sources</b>					
310	Taxes	678,826	630,671		
320	Licenses and Permits				
330	Intergovernmental			28,700	39,454
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	13,674	28,240	900	1,658
370	Capital Contributions				
390	Other Financing Sources	26,667	20,609	0	0
<b>Total Revenues and Other Sources</b>		719,167	679,520	29,600	41,112
<b>Total Resources</b>		1,220,739	1,181,092	64,721	76,233
Operating Expenditures:					
510	General Government				
520	Public Safety				0
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service	0	0		
594-595	Capital Outlay	0	0	37,000	36,911
<b>Total Expenditures</b>		0	0	37,000	36,911
597-599	Other Financing Uses	771,628	731,628		
<b>Total Expenditures and Other Uses</b>		771,628	731,628	37,000	36,911
<b>Excess (Deficit) of Resources Over Uses</b>		449,111	449,464	27,721	39,322
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)	440,000	440,000		0
<b>Ending Net Cash and Investments</b>		\$9,111	\$9,464	\$27,721	\$39,322

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 107 Local Criminal Justice		Fund Number and Name 108 City Centennial	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$83,847	\$83,847	\$0	\$0
<b>Revenues and Other Sources</b>					
310	Taxes	129,150	160,211		
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	850	4,230		281
370	Capital Contributions				
390	Other Financing Sources	0	0	10,000	10,000
<b>Total Revenues and Other Sources</b>		130,000	164,441	10,000	10,281
<b>Total Resources</b>		213,847	248,288	10,000	10,281
Operating Expenditures:					
510	General Government			10,000	8,039
520	Public Safety				
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
<b>Total Operating Expenditures</b>		0	0	10,000	8,039
591-593	Debt Service				
594-595	Capital Outlay	0	0		
<b>Total Expenditures</b>		0	0	10,000	8,039
597-599	Other Financing Uses	150,000	150,000	0	0
<b>Total Expenditures and Other Uses</b>		150,000	150,000	10,000	8,039
<b>Excess (Deficit) of Resources Over Uses</b>		63,847	98,288	0	2,242
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
<b>Ending Net Cash and Investments</b>		\$63,847	\$98,288	\$0	\$2,242

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 109 LaBounty LID		Fund Number and Name 198 Hotel Motel	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$0	\$0	\$52,847	\$52,847
<b>Revenues and Other Sources</b>					
310	Taxes			49,440	37,510
320	Licenses and Permits				
330	Intergovernmental	30,000	0		
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous		220		2,507
370	Capital Contributions				
390	Other Financing Sources				
<b>Total Revenues and Other Sources</b>		30,000	220	49,440	40,017
<b>Total Resources</b>		30,000	220	102,287	92,864
Operating Expenditures:					
510	General Government	60,000	24,842		
520	Public Safety				
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation			39,000	33,417
<b>Total Operating Expenditures</b>		60,000	24,842	39,000	33,417
591-593	Debt Service		326		
594-595	Capital Outlay				
<b>Total Expenditures</b>		60,000	25,168	39,000	33,417
597-599	Other Financing Uses			22,500	22,500
<b>Total Expenditures and Other Uses</b>		60,000	25,168	61,500	55,917
<b>Excess (Deficit) of Resources Over Uses</b>		(30,000)	(24,948)	40,787	36,947
380	Nonrevenues (Except 384 and 388.80)	30,000	30,000		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
<b>Ending Net Cash and Investments</b>		\$0	\$5,052	\$40,787	\$36,947

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF FERNDALE  
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 212 1998 Refunding (Library)		Fund Number and Name 213 1998 City Hall LTGO Bond	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$15,417	\$15,417	\$306	\$306
<b>Revenues and Other Sources</b>					
310	Taxes	118,700	122,017		
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	1,400	2,905	200	1,010
370	Capital Contributions				
390	Other Financing Sources			65,158	65,358
<b>Total Revenues and Other Sources</b>		120,100	124,922	65,358	66,368
<b>Total Resources</b>		135,517	140,339	65,664	66,674
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				
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service	120,094	120,199	65,662	65,661
594-595	Capital Outlay	40,000	32,357		
<b>Total Expenditures</b>		160,094	152,556	65,662	65,661
597-599	Other Financing Uses	0	0		
<b>Total Expenditures and Other Uses</b>		160,094	152,556	65,662	65,661
<b>Excess (Deficit) of Resources Over Uses</b>		(24,577)	(12,217)	2	1,013
380	Nonrevenues (Except 384 and 388.80)	40,000	40,000		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
<b>Ending Net Cash and Investments</b>		\$15,423	\$27,783	\$2	\$1,013

The Accompanying Notes Are An Integral Part Of This Statement.



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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 302 Shop Construction		Fund Number and Name 325 Conoco-Phillips Park Improvement	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$171,073	\$171,073	\$13,009	\$13,009
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				162,663
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	2,898	2,898		1,600
370	Capital Contributions				
390	Other Financing Sources			90,000	90,000
<b>Total Revenues and Other Sources</b>		2,898	2,898	90,000	254,263
<b>Total Resources</b>		173,971	173,971	103,009	267,272
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				
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service				
594-595	Capital Outlay	118,270	118,270	100,000	91,577
<b>Total Expenditures</b>		118,270	118,270	100,000	91,577
597-599	Other Financing Uses	55,701	55,701		
<b>Total Expenditures and Other Uses</b>		173,971	173,971	100,000	91,577
<b>Excess (Deficit) of Resources Over Uses</b>		0	0	3,009	175,695
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)	0	0		0
<b>Ending Net Cash and Investments</b>		\$0	\$0	\$3,009	\$175,695

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF FERNDALE  
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 345 Main St./Bridge Construction		Fund Number and Name 346 Church Road Construction	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$823	\$823	\$0	\$0
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental	93,550	93,550		
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous				760
370	Capital Contributions				
390	Other Financing Sources	12,437	12,437	25,000	25,000
<b>Total Revenues and Other Sources</b>		105,987	105,987	25,000	25,760
<b>Total Resources</b>		106,810	106,810	25,000	25,760
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				
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service				
594-595	Capital Outlay	12,437	13,100	25,000	0
<b>Total Expenditures</b>		12,437	13,100	25,000	0
597-599	Other Financing Uses	94,373	93,710		
<b>Total Expenditures and Other Uses</b>		106,810	106,810	25,000	0
<b>Excess (Deficit) of Resources Over Uses</b>		0	0	0	25,760
380	Nonrevenues (Except 384 and 388.80)		0	0	0
580	Nonexpenditures (Except 584 and 588.80)		0	0	0
<b>Ending Net Cash and Investments</b>		\$0	\$0	\$0	\$25,760

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 350 Rural Sunset Construction		Fund Number and Name 355 Douglas Road Construction	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$61,919	\$61,919	\$443	\$443
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	38,081	33,877		721
370	Capital Contributions				
390	Other Financing Sources			53,021	53,021
<b>Total Revenues and Other Sources</b>		38,081	33,877	53,021	53,742
<b>Total Resources</b>		100,000	95,796	53,464	54,185
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				
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service	0	0		
594-595	Capital Outlay	0	412	53,021	0
<b>Total Expenditures</b>		0	412	53,021	0
597-599	Other Financing Uses	100,000	95,384		
<b>Total Expenditures and Other Uses</b>		100,000	95,796	53,021	0
<b>Excess (Deficit) of Resources Over Uses</b>		0	0	443	54,185
380	Nonrevenues (Except 384 and 388.80)		0	0	0
580	Nonexpenditures (Except 584 and 588.80)		0	0	0
<b>Ending Net Cash and Investments</b>		\$0	\$0	\$443	\$54,185

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 370 Thornton Road Construction		Fund Number and Name 375 Public Safety Building Construction	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$763	\$763	\$1,327	\$1,327
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous		15		3,478
370	Capital Contributions				
390	Other Financing Sources	4,000	4,000	150,000	150,000
<b>Total Revenues and Other Sources</b>		4,000	4,015	150,000	153,478
<b>Total Resources</b>		4,763	4,778	151,327	154,805
Operating Expenditures:					
510	General Government	4,000	2,492		
520	Public Safety				
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
<b>Total Operating Expenditures</b>		4,000	2,492	0	0
591-593	Debt Service				
594-595	Capital Outlay	32	1,540	150,000	4,200
<b>Total Expenditures</b>		4,032	4,032	150,000	4,200
597-599	Other Financing Uses				
<b>Total Expenditures and Other Uses</b>		4,032	4,032	150,000	4,200
<b>Excess (Deficit) of Resources Over Uses</b>		731	746	1,327	150,605
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
<b>Ending Net Cash and Investments</b>		\$731	\$746	\$1,327	\$150,605

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 380 Malloy Avenue Construction		Fund Number and Name	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$817	\$817		
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental	80,000	136,858		
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous		2,628		
370	Capital Contributions				
390	Other Financing Sources	100,000	100,000		
<b>Total Revenues and Other Sources</b>		180,000	239,486		
<b>Total Resources</b>		180,817	240,303		
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				
<b>Total Operating Expenditures</b>		0	0		
591-593	Debt Service				
594-595	Capital Outlay	105,347	58,792		
<b>Total Expenditures</b>		105,347	58,792		
597-599	Other Financing Uses				
<b>Total Expenditures and Other Uses</b>		105,347	58,792		
<b>Excess (Deficit) of Resources Over Uses</b>		75,470	181,511		
380	Nonrevenues (Except 384 and 388.80)	0	0		
580	Nonexpenditures (Except 584 and 588.80)	0	0		
<b>Ending Net Cash and Investments</b>		\$75,470	\$181,511		

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 401 Water		Fund Number and Name 402 Sewer	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$775,661	\$775,661	\$827,121	\$827,121
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services	1,296,152	1,329,729	1,435,408	1,405,882
350	Fines and Forfeits				
360	Miscellaneous	30,000	44,866	24,000	22,799
370	Capital Contributions				
390	Other Financing Sources	552,445	433,533	1,089,106	1,069,194
<b>Total Revenues and Other Sources</b>		1,878,597	1,808,128	2,548,514	2,497,875
<b>Total Resources</b>		2,654,258	2,583,789	3,375,635	3,324,996
Operating Expenditures:					
510	General Government				
520	Public Safety				
530	Physical Environment	1,240,739	1,272,517	936,556	951,742
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
<b>Total Operating Expenditures</b>		1,240,739	1,272,517	936,556	951,742
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	284,409	168,172	2,321,290	2,213,270
<b>Total Expenditures</b>		1,525,148	1,440,689	3,257,846	3,165,012
597-599	Other Financing Uses	493,401	495,431	608,339	608,339
<b>Total Expenditures and Other Uses</b>		2,018,549	1,936,120	3,866,185	3,773,351
<b>Excess (Deficit) of Resources Over Uses</b>		635,709	647,669	(490,550)	(448,355)
380	Nonrevenues (Except 384 and 388.80)	0	7,991	700,000	706,619
580	Nonexpenditures (Except 584 and 588.80)	300,000	300,000		0
<b>Ending Net Cash and Investments</b>		\$335,709	\$355,660	\$209,450	\$258,264

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

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
<b>Beginning Net Cash and Investments</b>		\$15,607	\$15,607	\$695,276	\$695,276
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental			0	0
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	202,000	223,472	19,000	19,716
370	Capital Contributions				
390	Other Financing Sources	440,800	440,800		
<b>Total Revenues and Other Sources</b>		642,800	664,272	19,000	19,716
<b>Total Resources</b>		658,407	679,879	714,276	714,992
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				
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service	641,104	641,103		
594-595	Capital Outlay				
<b>Total Expenditures</b>		641,104	641,103	0	0
597-599	Other Financing Uses			28,307	28,307
<b>Total Expenditures and Other Uses</b>		641,104	641,103	28,307	28,307
<b>Excess (Deficit) of Resources Over Uses</b>		17,303	38,776	685,969	686,685
380	Nonrevenues (Except 384 and 388.80)		0	0	0
580	Nonexpenditures (Except 584 and 588.80)		0	0	0
<b>Ending Net Cash and Investments</b>		\$17,303	\$38,776	\$685,969	\$686,685

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF FERNDALE  
 FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name		Fund Number and Name 406 LTGO Bond	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>				\$1,010	\$1,010
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous			350	403
370	Capital Contributions				
390	Other Financing Sources			215,968	214,728
<b>Total Revenues and Other Sources</b>				216,318	215,131
<b>Total Resources</b>				217,328	216,141
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				
<b>Total Operating Expenditures</b>				0	0
591-593	Debt Service			216,142	216,141
594-595	Capital Outlay				
<b>Total Expenditures</b>				216,142	216,141
597-599	Other Financing Uses				
<b>Total Expenditures and Other Uses</b>				216,142	216,141
<b>Excess (Deficit) of Resources Over Uses</b>				1,186	0
380	Nonrevenues (Except 384 and 388.80)				0
580	Nonexpenditures (Except 584 and 588.80)				0
<b>Ending Net Cash and Investments</b>				\$1,186	\$0

The Accompanying Notes Are An Integral Part Of This Statement.



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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 407 Storm and Flood Control		Fund Number and Name 408 Utility Loan Service	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$90,905	\$90,905	\$215,596	\$215,596
<b>Revenues and Other Sources</b>					
310	Taxes	50,000	50,000		
320	Licenses and Permits				
330	Intergovernmental	75,000	0		
340	Charges for Goods and Services	135,000	161,489		
350	Fines and Forfeits				
360	Miscellaneous	600	6,617	7,800	8,156
370	Capital Contributions				
390	Other Financing Sources	75,000	89,687	400,976	385,586
<b>Total Revenues and Other Sources</b>		335,600	307,793	408,776	393,742
<b>Total Resources</b>		426,505	398,698	624,372	609,338
Operating Expenditures:					
510	General Government				
520	Public Safety				
530	Physical Environment				
540	Transportation	254,894	116,695		
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
<b>Total Operating Expenditures</b>		254,894	116,695	0	0
591-593	Debt Service	0	0	410,976	395,585
594-595	Capital Outlay	0	0		
<b>Total Expenditures</b>		254,894	116,695	410,976	395,585
597-599	Other Financing Uses	36,135	20,745		
<b>Total Expenditures and Other Uses</b>		291,029	137,440	410,976	395,585
<b>Excess (Deficit) of Resources Over Uses</b>		135,476	261,258	213,396	213,753
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
<b>Ending Net Cash and Investments</b>		\$135,476	\$261,258	\$213,396	\$213,753

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 409 Utilities Capital Reserve		Fund Number and Name 410 Solid Waste Tax	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$315,781	\$315,781	\$174,103	\$174,103
<b>Revenues and Other Sources</b>					
310	Taxes			480,000	578,275
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services	1,320,000	1,232,165		
350	Fines and Forfeits				
360	Miscellaneous	8,000	19,011		7,348
370	Capital Contributions				
390	Other Financing Sources	0	0		
<b>Total Revenues and Other Sources</b>		1,328,000	1,251,176	480,000	585,623
<b>Total Resources</b>		1,643,781	1,566,957	654,103	759,726
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				
<b>Total Operating Expenditures</b>		0	0	0	0
591-593	Debt Service				
594-595	Capital Outlay	320,000	325,831		
<b>Total Expenditures</b>		320,000	325,831	0	0
597-599	Other Financing Uses	1,250,000	1,141,000	614,000	614,000
<b>Total Expenditures and Other Uses</b>		1,570,000	1,466,831	614,000	614,000
<b>Excess (Deficit) of Resources Over Uses</b>		73,781	100,126	40,103	145,726
380	Nonrevenues (Except 384 and 388.80)	0	0		0
580	Nonexpenditures (Except 584 and 588.80)	0	0		0
<b>Ending Net Cash and Investments</b>		\$73,781	\$100,126	\$40,103	\$145,726

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 510 Computer Repair and Replacement		Fund Number and Name 550 Equipment Repair and Replacement	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$2,213	\$2,213	\$425,479	\$425,479
<b>Revenues and Other Sources</b>					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	89,818	89,993	373,624	375,588
370	Capital Contributions				
390	Other Financing Sources				
<b>Total Revenues and Other Sources</b>		89,818	89,993	373,624	375,588
<b>Total Resources</b>		92,031	92,206	799,103	801,067
Operating Expenditures:					
510	General Government	82,095	65,334		
520	Public Safety				
530	Physical Environment				
540	Transportation			288,123	286,872
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
<b>Total Operating Expenditures</b>		82,095	65,334	288,123	286,872
591-593	Debt Service				
594-595	Capital Outlay	9,723	26,325	259,072	257,758
<b>Total Expenditures</b>		91,818	91,659	547,195	544,630
597-599	Other Financing Uses				
<b>Total Expenditures and Other Uses</b>		91,818	91,659	547,195	544,630
<b>Excess (Deficit) of Resources Over Uses</b>		213	547	251,908	256,437
380	Nonrevenues (Except 384 and 388.80)	0	0	0	0
580	Nonexpenditures (Except 584 and 588.80)	0	0	0	0
<b>Ending Net Cash and Investments</b>		\$213	\$547	\$251,908	\$256,437

The Accompanying Notes Are An Integral Part Of This Statement.

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

Rev. 8/24/07

For the Year Ended December 31, 2006

BARS CODE		Fund Number and Name 650 Court Agency		Fund Number and Name	
		Budget	Actual	Budget	Actual
<b>Beginning Net Cash and Investments</b>		\$0	\$0		
<b>Revenues and Other Sources</b>					
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				
<b>Total Revenues and Other Sources</b>		0	0		
<b>Total Resources</b>		0	0		
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				
<b>Total Operating Expenditures</b>		0	0		
591-593	Debt Service				
594-595	Capital Outlay				
<b>Total Expenditures</b>		0	0		
597-599	Other Financing Uses				
<b>Total Expenditures and Other Uses</b>		0	0		
<b>Excess (Deficit) of Resources Over Uses</b>		0	0		
380	Nonrevenues (Except 384 and 388.80)	95,000	61,634		
580	Nonexpenditures (Except 584 and 588.80)	95,000	61,634		
<b>Ending Net Cash and Investments</b>		\$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, 2006**

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, Fund number 402 Sewer, and Fund number 407 Storm)

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. he 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, 2006, the Treasurer was holding total investments of \$5,068,387. 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, 2006 are as follows:

Local Government Investment Pool (WA State):	\$3,064,029
Federal Home Loan Bank Bonds:	\$2,004,358

F. Interfund Loans

Interfund loans are used to provide temporary working capital for various projects within the City. The borrowing fund pays the lending fund market interest rate – which is the Washington State Treasurer's Local Government Investment Pool rate (LGIP). Interfund loans outstanding as of 12/31/06:

Lending Fund	Borrowing Fund	Date of Original Issue	Date of Maturity	Begin. O/S Debt	Amt Issued Current Year	Amount Redem. Cur. Year	End. O/S Debt	Repay. Schedule
Water 401	Sewer 402	7/17/2006	12/31/2008	\$0	\$300,000	\$0	\$300,000	\$150,000 By 12/31/07 & \$150,000 By 12/31/08
Real Estate Excise Tax 105	Sewer 402	9/30/2006	12/31/2008	\$0	\$400,000	\$0	\$400,000	\$200,000 By 12/31/2007 & \$200,000 By 12/31/08
Traffic Mitigation 104	LaBounty LID 109	10/17/2006	12/31/2007	\$0	\$30,000	\$0	\$30,000	By 12/31/07
Real Estate Excise Tax 105	Library 212	12/13/2006	12/31/2007	\$0	\$40,000	\$0	\$40,000	By 12/31/07

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 received by the City of Ferndale. Delinquent taxes are considered fully collectible because a lien affixes to the property when taxes are levied. 2006 and prior property taxes receivable at December 31, 2006 was \$49,959.

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 2006 was \$2.47463 per \$1000 on an assessed valuation of \$598,890,731 for a total regular levy of \$1,482,033.

The City of Ferndale also in 2006 levied \$.20276 per \$1000 on an assessed valuation of \$592,294,616 to produce the sum of \$120,094 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 Employees' Retirement System (PERS)

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

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

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

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

There were no significant benefit changes in 2006.

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, 2006 of \$60,911 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	1/1/06	2.44%	6.00%
	7/1/06	3.69%	6.00%
PERS 2/3	1/1/06	2.44%	2.25%
PERS 2/3	7/1/06	3.69%	4.65%

**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, 2006 of \$41,270 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 12/31/06)		
LEOFF 2	1/1/06	4.39%	6.99%
	7/1/06	4.87%	6.03%
	9/1/06	4.90%	7.85%

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.

C. Public Safety Employees' Retirement System (PSERS)

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

<u>PLAN</u>	<u>EFFECTIVE DATE</u>	<u>EMPLOYER PERCENT</u>	<u>EMPLOYEE PERCENT</u>
PSERS 2	8/1/06	6.76%	6.57%

The City of Ferndale's contribution for the PSERS 2 plan of covered payroll, for the year ending December 31, 2006 of \$1,320 represents its full liability under the system, except that future rates may be adjusted to meet the system needs.

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, 2006 was 3,799 hours with a dollar value of \$97,173. Total vacation expenditures during 2006 for all governmental funds were \$166,995.

NOTE-7-LONG TERM DEBT

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 2006. Debt service requirements, including interest are as follows:

Year(s)	General Obligation Bonds	Revenue Bonds/Notes	Total Debt
2006	\$472,574	\$1,061,242	\$1,533,816
2007	\$261,598	\$1,048,019	\$1,309,617
2008	\$144,048	\$1,039,741	\$1,183,789
2009	\$138,126	\$1,041,113	\$1,179,239
2010	\$132,235	\$1,063,048	\$1,195,283
2011-2015	\$437,932	\$5,494,164	\$5,932,096
2016-2020	\$48,948	\$1,920,146	\$1,969,094
2021-2025	\$25,578	\$0	\$25,578
Total Debt	\$1,661,039	\$12,667,473	\$14,328,512

NOTE-8-REFUNDED DEBT

The following bond issues were 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 \$6,820,000.

This advance refunding was undertaken to reduce total debt service payments over 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, 2006 was \$6,160,000. 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 2006.

## 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 anyone 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, 82 municipalities/entities participate in the pool (as of 12/31/06). 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 NLG 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.

CITY OF FERNDALE  
SCHEDULE OF LONG-TERM DEBT  
For The Year Ended December 31, 2006

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

	(1)	(2)	(3)	(4)
ID. No.	Beginning Outstanding Debt 01/01/2006 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt 12/31/2006 (1)+(2)-(3)
263.84 PWTF LOAN-STREET	\$24,826	\$0	\$8,276	\$16,550
251.15 '93 LTGO BONDS-REFUND '87	\$205,000	\$0	\$205,000	\$0
251.11 '98 LTGO BONDS-CITY HALL	\$440,000	\$0	\$45,000	\$395,000
251.12 '98 REFUNDING GO BONDS	\$220,000	\$0	\$110,000	\$110,000
263.84 PWTF LOAN-STORM	\$142,105	\$0	\$7,895	\$134,210
263.91 WA STATE LOAN-PHONE SYSTEM	\$11,350	\$0	\$2,704	\$8,646
263.91 KeyBank LTGO BOND-STREET LIGHTS	\$306,736	\$0	\$26,623	\$280,113

**CITY OF FERNDALE  
SCHEDULE OF LONG-TERM DEBT  
For The Year Ended December 31, 2006**

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

	(1)	(2)	(3)	(4)
ID. No.	Beginning Outstanding Debt 01/01/2006 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt 12/31/2006 (1)+(2)-(3)
263.84 DOE LOAN-STORM	\$48,720	\$14,871	\$6,903	\$56,688
TOTAL	\$1,398,737	\$14,871	\$412,401	\$1,001,207

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, 2006**

	(1)	(2)	(3)	(4)
ID. No.	Beginning Outstanding Debt 01/01/2006 (Ending Outstanding Debt Balance from Prior Year)	Amount Issued in Current Year	Amount Redeemed in Current Year	Ending Outstanding Debt 12/31/2006 (1)+(2)-(3)
263.82 PWTF LOAN SEWER	4/8/98 \$2,148,970	7/1/18 0	\$165,305	582,_____ 591.70.00.00 599,_____ 408 \$1,983,665
263.82 SRF LOAN SEWER	1/1/00 \$1,455,713	8/1/19 0	\$77,165	582,_____ 591.70.00.01 599,_____ 408 \$1,378,548
263.82 PUD # 1 LOAN WATER	7/13/92 \$89,238	7/12/07 \$4,032	\$93,270	408 \$0
TOTAL	\$3,693,921	\$4,032	\$335,740	\$3,362,213







## **ABOUT THE STATE AUDITOR'S OFFICE**

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**T**he State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

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

The State Auditor's Office has 300 employees who are located around the state to deliver our services effectively and efficiently. Approximately 65 percent of our staff are certified public accountants or hold other certifications and advanced degrees.

Our regular audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. We also perform fraud and whistleblower investigations. In addition, we have the authority to conduct performance audits of state agencies and local governments.

The results of our audits are widely distributed through a variety of reports, which are available on our Web site. We continue to refine our reporting efforts to ensure the results of our audits are useful and understandable.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive program to coordinate audit efficiency and to ensure high-quality audits.

**State Auditor**  
**Chief of Staff**  
**Chief Policy Advisor**  
**Director of Administration**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free hotline for government efficiency**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Jerry Pugnetti**  
**Doug Cochran**  
**Chuck Pfeil, CPA**  
**Linda Long, CPA, CGFM**  
**Jim Brittain, CPA**  
**Jan Jutte**  
**Mike Murphy**  
**Mindy Chambers**  
**Mary Leider**  
**(360) 902-0370**  
**(866) 902-3900**

**Web Site**

**[www.sao.wa.gov](http://www.sao.wa.gov)**