

Washington State Auditor's Office
Financial Statements Audit Report

City of Ferndale
Whatcom County

Audit Period
January 1, 2008 through December 31, 2008

Report No. 1002508

Issue Date
November 23, 2009



WASHINGTON
BRIAN SONNTAG
STATE AUDITOR



**Washington State Auditor
Brian Sonntag**

November 23, 2009

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.

Sincerely,

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

Table of Contents

**City of Ferndale
Whatcom County
January 1, 2008 through December 31, 2008**

Status of Prior Audit Findings.....	1
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with <i>Government Auditing Standards</i>	2
Independent Auditor’s Report on Financial Statements.....	4
Financial Section.....	6

Status of Prior Audit Findings

**City of Ferndale
Whatcom County
October 26, 2009**

The status of findings contained in the prior year audit report of the City of Ferndale is provided below:

- 1. The City of Ferndale did not have adequate internal controls over the preparation of its Schedule of Expenditures of Federal Awards.**

Report No. 1000203, dated December 8, 2008

Background

We identified weakness in internal controls that represented a significant deficiency over financial reporting. City staff did not have adequate knowledge of state law that requires it to keep its accounting records open for 20 days after the close of the fiscal year in order to capture, record and pay expenditures incurred during the fiscal year. The City did not have a process in place to do this and did not correctly identify costs related to the prior year. This resulted in the exclusion of a significant amount of federal expenditures from the Schedule 16 Schedule of Expenditures of Federal Assistance (SEFA). Based on its original information, the City incorrectly believed it did not need a single audit; however, upon revision of the SEFA a single audit was required.

Status

We have confirmed that the City was in compliance with the 20 day open period for fiscal year 2008 and now has controls in place to identify and include open period expenditures in the correct reporting year. This issue is resolved.

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, 2008 through December 31, 2008**

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, 2008, and have issued our report thereon dated October 26, 2009.

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 City'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.

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 26, 2009

Independent Auditor's Report on Financial Statements

**City of Ferndale
Whatcom County
January 1, 2008 through December 31, 2008**

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, 2008. 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, 2008, 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 the last name "Sonntag" clearly distinguishable.

BRIAN SONNTAG, CGFM
STATE AUDITOR

October 26, 2009

Financial Section

**City of Ferndale
Whatcom County
January 1, 2008 through December 31, 2008**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2008
Notes to Financial Statements – 2008

SUPPLEMENTAL INFORMATION

Schedule of Long-Term Debt – 2008

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 001 Current Expense		Fund Number and Name 002 General Fund Contingency Reserve	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$887,720	\$887,720	\$429,624	\$429,624
Revenues and Other Sources					
310	Taxes	4,255,403	4,254,007	0	0
320	Licenses and Permits	500,100	517,870	0	0
330	Intergovernmental	168,500	198,486	0	0
340	Charges for Goods and Services	964,051	931,965	0	0
350	Fines and Forfeits	102,650	98,124	0	0
360	Miscellaneous	117,505	121,137	14,788	16,751
370	Capital Contributions	0	0	0	0
390	Other Financing Sources	663,238	663,313	133,785	134,912
Total Revenues and Other Sources		6,771,447	6,784,902	148,573	151,663
Total Resources		7,659,167	7,672,622	578,197	581,287
Operating Expenditures:					
510	General Government	1,470,381	1,390,368		
520	Public Safety	3,981,979	3,908,033		
530	Physical Environment	381,388	518,953		
540	Transportation	0	0		
550	Economic Environment	683,417	677,737		
560	Mental and Physical Health	2,600	3,042		
570	Culture and Recreation	309,480	336,798		
Total Operating Expenditures		6,829,245	6,834,931	0	0
591-593	Debt Service	3,046	3,046	0	0
594-595	Capital Outlay	200,510	4,357	0	0
Total Expenditures		7,032,801	6,842,334	0	0
597-599	Other Financing Uses	406,251	108,503		0
Total Expenditures and Other Uses		7,439,052	6,950,837	0	0
Excess (Deficit) of Resources Over Uses		220,115	721,785	578,197	581,287
380	Nonrevenues (Except 384 and 388.80)	705,200	410,132	300,000	0
580	Nonexpenditures (Except 584 and 588.80)	900,000	880,846	300,000	300,000
Ending Net Cash and Investments		\$25,315	\$251,071	\$578,197	\$281,287

The Accompanying Notes Are An Integral Part Of This Statement.

CITY OF FERNDALE
FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name		Fund Number and Name	
		003 Facilities Capital Reserve		004 LEOFF 1 Retiree Reserve	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$186,086	\$186,086	\$69,235	\$69,235
Revenues and Other Sources					
310	Taxes			43,636	43,249
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	8,280	7,028	2,855	3,333
370	Capital Contributions			0	0
390	Other Financing Sources	108,786	109,912	50,000	50,000
Total Revenues and Other Sources		117,066	116,940	96,491	96,582
Total Resources		303,152	303,026	165,726	165,817
Operating Expenditures:					
510	General Government				
520	Public Safety			46,600	39,042
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
Total Operating Expenditures		0	0	46,600	39,042
591-593	Debt Service	0		0	
594-595	Capital Outlay			0	0
Total Expenditures		0	0	46,600	39,042
597-599	Other Financing Uses	0	0		0
Total Expenditures and Other Uses		0	0	46,600	39,042
Excess (Deficit) of Resources Over Uses		303,152	303,026	119,126	126,775
380	Nonrevenues (Except 384 and 388.80)	200,000	0	0	0
580	Nonexpenditures (Except 584 and 588.80)	200,000	200,000	0	0
Ending Net Cash and Investments		\$303,152	\$103,026	\$119,126	\$126,775

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 101 Street		Fund Number and Name 102 Park Mitigation	
		Budget	Actual	Budget	Actual
		Beginning Net Cash and Investments		\$50,626	\$50,626
Revenues and Other Sources					
310	Taxes	418,844	408,846		
320	Licenses and Permits				
330	Intergovernmental	252,350	241,715		
340	Charges for Goods and Services	5,000	8,950	115,000	107,860
350	Fines and Forfeits				
360	Miscellaneous	1,283	7,791	9,617	2,312
370	Capital Contributions				
390	Other Financing Sources	589,273	589,273	0	0
Total Revenues and Other Sources		1,266,750	1,256,575	124,617	110,172
Total Resources		1,317,376	1,307,201	328,134	313,689
Operating Expenditures:					
510	General Government				
520	Public Safety				
530	Physical Environment				
540	Transportation	901,923	838,478		
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
Total Operating Expenditures		901,923	838,478	0	0
591-593	Debt Service			0	
594-595	Capital Outlay	415,215	366,171		
Total Expenditures		1,317,138	1,204,649	0	0
597-599	Other Financing Uses	0	0	229,772	229,772
Total Expenditures and Other Uses		1,317,138	1,204,649	229,772	229,772
Excess (Deficit) of Resources Over Uses		238	102,552	98,362	83,917
380	Nonrevenues (Except 384 and 388.80)	4,000	5,334	0	0
580	Nonexpenditures (Except 584 and 588.80)		0	0	0
Ending Net Cash and Investments		\$4,238	\$107,886	\$98,362	\$83,917

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 103 Paths and Trails		Fund Number and Name 104 Traffic Mitigation	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$2,053	\$2,053	\$380,767	\$380,767
Revenues and Other Sources					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental	0	0		
340	Charges for Goods and Services			425,000	707,960
350	Fines and Forfeits				
360	Miscellaneous	60	62	28,027	22,841
370	Capital Contributions				
390	Other Financing Sources			185,000	185,000
Total Revenues and Other Sources		60	62	638,027	915,801
Total Resources		2,113	2,115	1,018,794	1,296,568
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	0	0		
Total Expenditures		0	0	0	0
597-599	Other Financing Uses			664,471	664,471
Total Expenditures and Other Uses		0	0	664,471	664,471
Excess (Deficit) of Resources Over Uses		2,113	2,115	354,323	632,097
380	Nonrevenues (Except 384 and 388.80)		0	70,000	100,000
580	Nonexpenditures (Except 584 and 588.80)		0	30,000	30,000
Ending Net Cash and Investments		\$2,113	\$2,115	\$394,323	\$702,097

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 105 Real Estate Excise Tax		Fund Number and Name 106 Criminal Justice	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$106,079	\$106,079	\$32,726	\$32,726
Revenues and Other Sources					
310	Taxes	425,000	421,147		
320	Licenses and Permits				
330	Intergovernmental			39,677	44,041
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	5,603	4,053	1,000	2,121
370	Capital Contributions				
390	Other Financing Sources	0	0	14,000	14,000
Total Revenues and Other Sources		430,603	425,200	54,677	60,162
Total Resources		536,682	531,279	87,403	92,888
Operating Expenditures:					
510	General Government				
520	Public Safety				2,282
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
Total Operating Expenditures		0	0	0	2,282
591-593	Debt Service	0	0		
594-595	Capital Outlay	0	0	84,881	38,239
Total Expenditures		0	0	84,881	40,521
597-599	Other Financing Uses	285,031	284,803		
Total Expenditures and Other Uses		285,031	284,803	84,881	40,521
Excess (Deficit) of Resources Over Uses		251,651	246,476	2,522	52,367
380	Nonrevenues (Except 384 and 388.80)	46,000	46,000		0
580	Nonexpenditures (Except 584 and 588.80)	0	0		0
Ending Net Cash and Investments		\$297,651	\$292,476	\$2,522	\$52,367

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 107 Local Criminal Justice		Fund Number and Name 108 City Centennial	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$198,739	\$198,739	\$5,515	\$5,515
Revenues and Other Sources					
310	Taxes	172,800	171,559		
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				0
350	Fines and Forfeits				
360	Miscellaneous	8,273	2,940	85	40
370	Capital Contributions				
390	Other Financing Sources	0	0	0	0
Total Revenues and Other Sources		181,073	174,499	85	40
Total Resources		379,812	373,238	5,600	5,555
Operating Expenditures:					
510	General Government			0	0
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	90,000	(35,000)		
Total Expenditures		90,000	(35,000)	0	0
597-599	Other Financing Uses	207,912	207,912	5,600	5,555
Total Expenditures and Other Uses		297,912	172,912	5,600	5,555
Excess (Deficit) of Resources Over Uses		81,900	200,326	0	0
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
Ending Net Cash and Investments		\$81,900	\$200,326	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 109 LaBounty LID		Fund Number and Name 110 Boys & Girls Club Insurance Proceeds	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$16,738	\$16,738	\$0	\$0
Revenues and Other Sources					
310	Taxes			0	0
320	Licenses and Permits				
330	Intergovernmental	0	719		
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	100	738	0	2,876
370	Capital Contributions				
390	Other Financing Sources	1,160,000	0	240,000	240,000
Total Revenues and Other Sources		1,160,100	1,457	240,000	242,876
Total Resources		1,176,838	18,195	240,000	242,876
Operating Expenditures:					
510	General Government	75,000	69,887		
520	Public Safety				
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation			20,000	3,753
Total Operating Expenditures		75,000	69,887	20,000	3,753
591-593	Debt Service	20,917	7,067		
594-595	Capital Outlay	1,030,000	1,007,847	220,000	
Total Expenditures		1,125,917	1,084,801	240,000	3,753
597-599	Other Financing Uses			0	0
Total Expenditures and Other Uses		1,125,917	1,084,801	240,000	3,753
Excess (Deficit) of Resources Over Uses		50,921	(1,066,606)	0	239,123
380	Nonrevenues (Except 384 and 388.80)	1,130,000	1,130,000		0
580	Nonexpenditures (Except 584 and 588.80)	1,180,000	0		0
Ending Net Cash and Investments		\$921	\$63,394	\$0	\$239,123

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 198 Hotel Motel		Fund Number and Name 212 1998 Refunding (Library)	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$57,289	\$57,289	\$919	\$919
Revenues and Other Sources					
310	Taxes	50,000	59,164	0	0
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	2,000	1,725	0	0
370	Capital Contributions				
390	Other Financing Sources				
Total Revenues and Other Sources		52,000	60,889	0	0
Total Resources		109,289	118,178	919	919
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	63,950	51,298		
Total Operating Expenditures		63,950	51,298	0	0
591-593	Debt Service			0	0
594-595	Capital Outlay			0	0
Total Expenditures		63,950	51,298	0	0
597-599	Other Financing Uses	22,800	22,800	919	919
Total Expenditures and Other Uses		86,750	74,098	919	919
Excess (Deficit) of Resources Over Uses		22,539	44,080	0	0
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		\$22,539	\$44,080	\$0	\$0

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 213 1998 City Hall LTGO Bond		Fund Number and Name 214 Utility Loan Service	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$2,755	\$2,755	\$0	\$0
Revenues and Other Sources					
310	Taxes			0	0
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	1,000	1,761	0	625
370	Capital Contributions				
390	Other Financing Sources	66,300	66,300	70,272	70,272
Total Revenues and Other Sources		67,300	68,061	70,272	70,897
Total Resources		70,055	70,816	70,272	70,897
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	66,527	66,526	70,272	70,272
594-595	Capital Outlay			0	0
Total Expenditures		66,527	66,526	70,272	70,272
597-599	Other Financing Uses			0	0
Total Expenditures and Other Uses		66,527	66,526	70,272	70,272
Excess (Deficit) of Resources Over Uses		3,528	4,290	0	625
380	Nonrevenues (Except 384 and 388.80)		0	0	0
580	Nonexpenditures (Except 584 and 588.80)		0		0
Ending Net Cash and Investments		\$3,528	\$4,290	\$0	\$625

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 303 Skateboard Park Construction		Fund Number and Name 304 Centennial Riverwalk Park Construction	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$40,835	\$40,835	\$187,184	\$187,184
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	1,500	1,446	13,723	22,114
370	Capital Contributions				
390	Other Financing Sources	0	0	50,000	50,000
Total Revenues and Other Sources		1,500	1,446	63,723	72,114
Total Resources		42,335	42,281	250,907	259,298
Operating Expenditures:					
510	General Government			0	0
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			0	0
594-595	Capital Outlay	5,000	7	250,000	157,184
Total Expenditures		5,000	7	250,000	157,184
597-599	Other Financing Uses	0	0		
Total Expenditures and Other Uses		5,000	7	250,000	157,184
Excess (Deficit) of Resources Over Uses		37,335	42,274	907	102,114
380	Nonrevenues (Except 384 and 388.80)		0	0	0
580	Nonexpenditures (Except 584 and 588.80)	0	0	0	0
Ending Net Cash and Investments		\$37,335	\$42,274	\$907	\$102,114

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 305 Boys and Girls Club Construction		Fund Number and Name 306 Second Ave. Ext. Construction	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$476,004	\$476,004	\$19,039	\$19,039
Revenues and Other Sources					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental	0	0	9,004	9,004
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	6,496	6,223	0	1,737
370	Capital Contributions				
390	Other Financing Sources	0	0	315,000	315,000
Total Revenues and Other Sources		6,496	6,223	324,004	325,741
Total Resources		482,500	482,227	343,043	344,780
Operating Expenditures:					
510	General Government			0	0
520	Public Safety				
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation	0	1,312		
Total Operating Expenditures		0	1,312	0	0
591-593	Debt Service				
594-595	Capital Outlay	242,500	240,915	342,998	126,648
Total Expenditures		242,500	242,227	342,998	126,648
597-599	Other Financing Uses	240,000	240,000		
Total Expenditures and Other Uses		482,500	482,227	342,998	126,648
Excess (Deficit) of Resources Over Uses		0	0	45	218,132
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		\$0	\$0	\$45	\$218,132

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 307 New Library Construction		Fund Number and Name 308 Main St.-3rd to Church Construction	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$6,315	\$6,315	\$0	\$0
Revenues and Other Sources					
310	Taxes	250	3,746		
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	0	265	2,700	1,757
370	Capital Contributions				
390	Other Financing Sources	50,442	46,919	0	0
Total Revenues and Other Sources		50,692	50,930	2,700	1,757
Total Resources		57,007	57,245	2,700	1,757
Operating Expenditures:					
510	General Government	1,267	17		
520	Public Safety				
530	Physical Environment				
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
Total Operating Expenditures		1,267	17	0	0
591-593	Debt Service	803	718	5,625	1,963
594-595	Capital Outlay	0	0	120,000	99,499
Total Expenditures		2,070	735	125,625	101,462
597-599	Other Financing Uses	0	0		
Total Expenditures and Other Uses		2,070	735	125,625	101,462
Excess (Deficit) of Resources Over Uses		54,937	56,510	(122,925)	(99,705)
380	Nonrevenues (Except 384 and 388.80)	0	0	125,000	125,000
580	Nonexpenditures (Except 584 and 588.80)	46,000	46,000	0	0
Ending Net Cash and Investments		\$8,937	\$10,510	\$2,075	\$25,295

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 325 Conoco-Phillips Park Construction		Fund Number and Name 346 Church Road Construction	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$187,882	\$187,882	\$48,526	\$48,526
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	5,000	5,215	5,000	7,106
370	Capital Contributions				
390	Other Financing Sources	0	0	775,000	775,000
Total Revenues and Other Sources		5,000	5,215	780,000	782,106
Total Resources		192,882	193,097	828,526	830,632
Operating Expenditures:					
510	General Government	0	0		
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			0	
594-595	Capital Outlay	124,000	1,765	746,350	139,017
Total Expenditures		124,000	1,765	746,350	139,017
597-599	Other Financing Uses				
Total Expenditures and Other Uses		124,000	1,765	746,350	139,017
Excess (Deficit) of Resources Over Uses		68,882	191,332	82,176	691,615
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		\$68,882	\$191,332	\$82,176	\$691,615

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 355 Douglas Road Construction		Fund Number and Name 370 Thornton Road Construction	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$421,280	\$421,280	\$155,584	\$155,584
Revenues and Other Sources					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental	562,195	562,195	0	0
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	101,000	100,473	3,000	4,633
370	Capital Contributions				
390	Other Financing Sources	18,878	18,878	0	0
Total Revenues and Other Sources		682,073	681,546	3,000	4,633
Total Resources		1,103,353	1,102,826	158,584	160,217
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	10,000	5,917		
594-595	Capital Outlay	653,353	649,745	10,884	10,074
Total Expenditures		663,353	655,662	10,884	10,074
597-599	Other Financing Uses	40,000	40,000	145,000	145,000
Total Expenditures and Other Uses		703,353	695,662	155,884	155,074
Excess (Deficit) of Resources Over Uses		400,000	407,164	2,700	5,143
380	Nonrevenues (Except 384 and 388.80)	0	0	0	0
580	Nonexpenditures (Except 584 and 588.80)	400,000	400,000	0	0
Ending Net Cash and Investments		\$0	\$7,164	\$2,700	\$5,143

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 375 Public Safety Building Construction		Fund Number and Name 380 Malloy Roundabout Constr.	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$151,203	\$151,203	\$57,771	\$57,771
Revenues and Other Sources					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental	0	0	79,086	79,087
340	Charges for Goods and Services	0	0	0	0
350	Fines and Forfeits				
360	Miscellaneous	8,000	3,287	0	189
370	Capital Contributions				
390	Other Financing Sources	0	0	180,000	180,000
Total Revenues and Other Sources		8,000	3,287	259,086	259,276
Total Resources		159,203	154,490	316,857	317,047
Operating Expenditures:					
510	General Government				
520	Public Safety				
530	Physical Environment	0	0	0	0
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	4,375	2,221	2,000	1,343
594-595	Capital Outlay	754,000	712,408	209,942	177,133
Total Expenditures		758,375	714,629	211,942	178,476
597-599	Other Financing Uses	0	0	0	0
Total Expenditures and Other Uses		758,375	714,629	211,942	178,476
Excess (Deficit) of Resources Over Uses		(599,172)	(560,139)	104,915	138,571
380	Nonrevenues (Except 384 and 388.80)	600,000	580,000	0	0
580	Nonexpenditures (Except 584 and 588.80)	0	0	100,000	100,000
Ending Net Cash and Investments		\$828	\$19,861	\$4,915	\$38,571

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 401 Water		Fund Number and Name 402 Sewer	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$652,085	\$652,085	\$419,179	\$419,179
Revenues and Other Sources					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services	1,688,938	1,886,172	1,951,625	2,138,143
350	Fines and Forfeits				
360	Miscellaneous	50,417	55,135	0	8,676
370	Capital Contributions				
390	Other Financing Sources	1,117,614	1,038,951	45,000	41,948
Total Revenues and Other Sources		2,856,969	2,980,258	1,996,625	2,188,767
Total Resources		3,509,054	3,632,343	2,415,804	2,607,946
Operating Expenditures:					
510	General Government				
520	Public Safety				
530	Physical Environment	1,495,060	1,424,831	1,194,160	1,028,165
540	Transportation				
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
Total Operating Expenditures		1,495,060	1,424,831	1,194,160	1,028,165
591-593	Debt Service	0	0	0	0
594-595	Capital Outlay	1,380,114	1,130,574	137,117	102,439
Total Expenditures		2,875,174	2,555,405	1,331,277	1,130,604
597-599	Other Financing Uses	25,635	25,635	957,397	946,997
Total Expenditures and Other Uses		2,900,809	2,581,040	2,288,674	2,077,601
Excess (Deficit) of Resources Over Uses		608,245	1,051,303	127,130	530,345
380	Nonrevenues (Except 384 and 388.80)	4,000	22,462	4,000	5,333
580	Nonexpenditures (Except 584 and 588.80)	300,000	316,630	0	0
Ending Net Cash and Investments		\$312,245	\$757,135	\$131,130	\$535,678

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 403 2005 Sewer Bonds Redemption		Fund Number and Name 404 2005 Sewer Bond Reserve	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$10,889	\$10,889	\$685,969	\$685,969
Revenues and Other Sources					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental			0	0
340	Charges for Goods and Services			0	0
350	Fines and Forfeits				
360	Miscellaneous	82,744	75,057	34,000	26,948
370	Capital Contributions				
390	Other Financing Sources	633,131	633,131	0	0
Total Revenues and Other Sources		715,875	708,188	34,000	26,948
Total Resources		726,764	719,077	719,969	712,917
Operating Expenditures:					
510	General Government				
520	Public Safety				
530	Physical Environment				
540	Transportation			0	0
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
Total Operating Expenditures				0	0
591-593	Debt Service	716,225	716,179	0	0
594-595	Capital Outlay				
Total Expenditures		716,225	716,179	0	0
597-599	Other Financing Uses	0	0	34,000	26,948
Total Expenditures and Other Uses		716,225	716,179	34,000	26,948
Excess (Deficit) of Resources Over Uses		10,539	2,898	685,969	685,969
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
Ending Net Cash and Investments		\$10,539	\$2,898	\$685,969	\$685,969

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 407 Storm		Fund Number and Name 408 Utility Loan Service	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$520,796	\$520,796	\$210,988	\$210,988
Revenues and Other Sources					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental	55,000	0		
340	Charges for Goods and Services	411,313	350,564		
350	Fines and Forfeits				
360	Miscellaneous	21,578	19,033	10,000	11,449
370	Capital Contributions				
390	Other Financing Sources	0	0	414,283	414,283
Total Revenues and Other Sources		487,891	369,597	424,283	425,732
Total Resources		1,008,687	890,393	635,271	636,720
Operating Expenditures:					
510	General Government				
520	Public Safety				
530	Physical Environment				
540	Transportation	330,191	256,188		
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
Total Operating Expenditures		330,191	256,188	0	0
591-593	Debt Service	0	0	424,283	424,283
594-595	Capital Outlay	125,000	119,405		
Total Expenditures		455,191	375,593	424,283	424,283
597-599	Other Financing Uses	27,280	27,279	0	0
Total Expenditures and Other Uses		482,471	402,872	424,283	424,283
Excess (Deficit) of Resources Over Uses		526,216	487,521	210,988	212,437
380	Nonrevenues (Except 384 and 388.80)		0		0
580	Nonexpenditures (Except 584 and 588.80)	125,000	125,000		0
Ending Net Cash and Investments		\$401,216	\$362,521	\$210,988	\$212,437

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 410 Solid Waste Tax		Fund Number and Name 510 Computer Repair and Replacement	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$241,284	\$241,284	\$9,881	\$9,881
Revenues and Other Sources					
310	Taxes	943,885	952,258	0	0
320	Licenses and Permits				
330	Intergovernmental			0	10,000
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	10,428	2,811	119,104	119,512
370	Capital Contributions				
390	Other Financing Sources	5,600	5,555		
Total Revenues and Other Sources		959,913	960,624	119,104	129,512
Total Resources		1,201,197	1,201,908	128,985	139,393
Operating Expenditures:					
510	General Government			97,909	84,125
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	97,909	84,125
591-593	Debt Service				
594-595	Capital Outlay	0	0	30,195	28,636
Total Expenditures		0	0	128,104	112,761
597-599	Other Financing Uses	862,101	862,101	0	0
Total Expenditures and Other Uses		862,101	862,101	128,104	112,761
Excess (Deficit) of Resources Over Uses		339,096	339,807	881	26,632
380	Nonrevenues (Except 384 and 388.80)	0	0		0
580	Nonexpenditures (Except 584 and 588.80)		0		0
Ending Net Cash and Investments		\$339,096	\$339,807	\$881	\$26,632

The Accompanying Notes Are An Integral Part Of This Statement.

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

For the 12 Month Period Ended December 31, 2008

BARS CODE		Fund Number and Name 550 Equipment Repair and Replacement		Fund Number and Name 650 Court Agency	
		Budget	Actual	Budget	Actual
Beginning Net Cash and Investments		\$324,630	\$324,630	\$0	\$0
Revenues and Other Sources					
310	Taxes				
320	Licenses and Permits				
330	Intergovernmental				
340	Charges for Goods and Services				
350	Fines and Forfeits				
360	Miscellaneous	556,454	555,237	0	0
370	Capital Contributions				
390	Other Financing Sources				
Total Revenues and Other Sources		556,454	555,237	0	0
Total Resources		881,084	879,867	0	0
Operating Expenditures:					
510	General Government	0	0		
520	Public Safety				
530	Physical Environment				
540	Transportation	441,398	434,456	0	0
550	Economic Environment				
560	Mental and Physical Health				
570	Culture and Recreation				
Total Operating Expenditures		441,398	434,456	0	0
591-593	Debt Service				
594-595	Capital Outlay	439,145	424,963	0	0
Total Expenditures		880,543	859,419	0	0
597-599	Other Financing Uses				
Total Expenditures and Other Uses		880,543	859,419	0	0
Excess (Deficit) of Resources Over Uses		541	20,448	0	0
380	Nonrevenues (Except 384 and 388.80)	0	0	135,000	109,381
580	Nonexpenditures (Except 584 and 588.80)	0	0	135,000	109,381
Ending Net Cash and Investments		\$541	\$20,448	\$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, 2008

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

NOTE-1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ferndale reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Ferndale was incorporated on March 19, 1907 and operates under the laws of the state of Washington applicable to a Category 2 (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, water/sewer/storm utilities, 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. The City contracts with Sanitary Service of Bellingham for garbage collection and disposal.

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

a. Fund Accounting

The accounts of the City of Ferndale are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that 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 the primary operating fund of the City of Ferndale. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds (Funds in the 100 series)

These funds account for revenues that are legally restricted or designated to finance particular activities of the City of Ferndale.

Debt Service Funds (Funds in the 200 series)

These funds account for the accumulation of resources to pay principal, interest and related costs on general long-term debt.

Capital Projects Funds (Funds in the 300 series)

These funds account for financial resources which are designated for the acquisition or construction of general governmental capital projects.

Permanent Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds (Fund number 401 Water, Fund number 402 Sewer, and Fund number 407 Storm & Flood)

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 of Ferndale on a costs-reimbursement basis.

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account for assets that the City of Ferndale holds for others in an agency capacity.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law (see RCW 35.33.151).

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

This state law requires the City to keep the books open through January 20th of the succeeding year for non-payroll expenditures (referred to as the "open period").

As noted above, revenues are generally truly recognized on the cash basis - January 1 through December 31 – except under certain circumstances where Federal grant revenues are received during the open period, were budgeted in the prior year, and an allowable grant expenditure was made during the open period or earlier.

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

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

Annual appropriated budgets are adopted for all funds. The financial statements include budgetary comparisons for all funds.

Annual appropriated budgets are adopted at the fund level. The budgets constitute the legal authority for expenditures at that level. Annual appropriations lapse at the fiscal year end.

The Mayor is authorized to transfer budgeted amounts within a Department's budget; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

d. Cash

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

e. Deposits

The City of Ferndale's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

f. Investments See Note 3.

g. Derivatives and Similar Transactions

The City of Ferndale does not currently have any such transactions.

h. Capital Assets

Capital Assets are long-lived assets of the City of Ferndale and are recorded as expenditures when purchased.

i. Compensated Absences

Vacation leave may be accumulated up to 10 days and is payable upon separation or retirement.

Sick leave may be accumulated up to a maximum of 1,080 hours. Generally, upon separation or retirement employees do not receive payment for unused sick leave. However, employees retiring into the state retirement system will receive 25% of the value of unused sick leave upon retirement.

j. Long-Term Debt See Note 6.

k. Other Financing Sources or Uses

The Water Enterprise Fund Number 401 received \$1,038,951 in Other Sources of Funds – a General Obligation Bond for a replacement water booster pump station in 2008. Transfers Out are common entries especially in the Park Mitigation, Traffic Mitigation, Real Estate Excise Tax and Solid Waste Tax funds.

l. Risk Management See Note 8.

NOTE-2-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 of Ferndale.

NOTE-3-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 (all are the City's own investments) at December 31, 2008, including market value, are as follows:

Local Government Investment Pool (WA State): \$3,873,314 (Market Value is the same)

FHLB Bonds CUSIP 3133XNTD1: \$508,640 (Market Value is \$514,844)

FNMA Bonds CUSIP 3136F5DR9: \$500,691 (Market Value is \$507,998)

FNMA Bonds CUSIP 3136F9SA2: \$500,851 (Market Value is \$505,781)

Total \$5,383,496 (Market Value is \$5,401,937)

NOTE-4-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 revenues are recognized when cash is received by the City of Ferndale. Delinquent taxes are considered fully collectable because a lien affixes to the property after taxes are levied.

The City of Ferndale's regular levy for the year 2008 was \$1.79976 per \$1,000 on an assessed valuation of \$1,015,563,816 for a total regular levy of \$1,827,771.13.

NOTE-5-INTERFUND LOANS AND ADVANCES

The following table displays Interfund loan activity during 2008:

Borrowing	Lending	Balance			Balance
<u>Fund</u>	<u>Fund</u>	<u>1/1/2008</u>	<u>New Loans</u>	<u>Repayments</u>	<u>12/31/2008</u>
LaBounty LID 109	Traffic Mitigation 104	\$50,000	\$30,000	\$0	\$80,000
Library 212	Real Estate Excise Tax 105	\$40,000	\$0	\$40,000	\$0
Library 307	Real Estate Excise Tax 105	\$6,000	\$0	\$6,000	\$0
Main St./ Douglas Constr. 355	Current Expense 001	\$400,000	\$0	\$400,000	\$0
Malloy Roundabout Constr. 380	Traffic Mitigation 104	\$100,000	\$0	\$100,000	\$0
LaBounty LID 109	Current Expense 001	\$0	\$300,000	\$0	\$300,000
LaBounty LID 109	Gen. Fund Contingency Reserve 002	\$0	\$300,000	\$0	\$300,000
LaBounty LID 109	Facilities Capital Reserve 003	\$0	\$200,000	\$0	\$200,000

LaBounty LID 109	Water 401	\$0	\$300,000	\$0	\$300,000
Public Safety Bldg. Constr. 375	Current Expense 001	\$0	\$580,000	\$0	\$580,000
TOTALS		\$596,000	\$1,710,000	\$546,000	\$1,760,000

NOTE-6-LONG TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City of Ferndale and summarize the City of Ferndale's debt transactions for 2008. Debt service requirements, including interest are as follows:

Year(s)	General Obligation Bonds	Revenue Bonds	Other Debt	Total Debt
2008	\$134,048	\$1,039,741	\$105,907	\$1,279,696
2009	195,580	1,041,113	257,236	1,493,929
2010	188,804	1,063,048	255,420	1,507,272
2011	194,987	1,065,506	239,272	1,499,765
2012	190,786	1,076,540	237,455	1,504,781
2013-2017	558,145	4,824,546	561,545	5,944,236
2018-2022	425,725	447,717	397,149	1,270,591
2023-2027	426,419	0	359,547	785,966
2028-2032	86,913	0	70,248	157,161
Total Debt Service	\$2,401,407	\$10,558,211	\$2,483,779	\$15,443,397

NOTE-7-PENSION PLANS

Substantially all City of Ferndale full-time and qualifying part-time employees participate in one of the following statewide local government retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City of Ferndale's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

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.

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.

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>	Percent <u>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.

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.

NOTE-8-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, 86 municipalities/entities participate in the RMSA Pool.

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 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 \$400,000 for liability and \$50,000 for property, and thereafter purchases excess liability insurance through ACE Insurance Company up to \$1 million, and CV Starr, from \$1 million to \$5 million. The excess property coverage is purchased through Allianz, using the Pool's broker, Arthur J. Gallagher Risk Management Services. AWC RMSA is a cooperative program; the members of the AWC RMSA are jointly liable.

Members contract to remain in the RMSA Pool a minimum of three years and must give a 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

X_ G.O. Debt
 ___ Revenue Debt
 ___ Assessment Debt

SCHEDULE OF LONG-TERM DEBT

For the Year Ended December 31, 2008

ID. No.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt 1/1/2008	Amount Issued in Current Year	BARS Code for Receipt	Receiving Fund Number	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	Ending Outstanding Debt 1/31/2008
263.81 PWTF LOAN-STREET	3/1/1989	7/1/2008	\$8,274	\$0			\$8,274	582.95.78.01 591._____ 599._____	408	\$0
251.11 '98 LTGO BONDS-CITY HALL	2/1/1998	12/1/2013	\$345,000	\$0			\$50,000	582._____ 591.80.72.00 599._____	213	\$295,000
263.81 PWTF LOAN-STORM	11/8/2004	9/1/2024	\$126,315	\$0			\$7,895	582.38.78.01 591._____ 599._____	408	\$118,420
263.96 WA STATE LOAN-PHONE SYSTEM	12/16/2004	12/1/2009	\$5,855	\$0			\$2,881	582._____ 591.19.71.00 599._____	001	\$2,974
263.91 KeyBank LTGO BOND-STREET LIGHTS	7/29/2005	7/29/2015	\$252,308	\$0			\$29,013	582.89.71.01 591._____ 599._____	408	\$223,295
263.81 DOE LOAN-STORM	9/30/2005	12/31/2010	\$42,622	\$0			\$14,136	582.38.78.02 591._____ 599._____	408	\$28,486
263.91 Whatcom Co. Public Util. Impr. Fund Loan	8/30/2007	8/30/2020	\$1,206,458	\$0			\$52,175	582._____ 591.76.78.00 599._____	214	\$1,154,283
263.96 LOCAL Program Water Booster Pump Sta. BONDS	6/6/2008	6/1/2028	\$0	\$1,155,000	382.10. 00.01 391._____ 393._____	401	\$0	582.34.71.01 591._____ 599._____	408	\$1,155,000
263.81 PWTF LOAN Church Road Pre-Constr.	7/11/2008	7/1/2013	\$0	\$750,000	382._____ 391.80.00.01 393._____	346	\$0	582._____ 591.95.78.01 599._____	214	\$750,000
263.81 PWTF LOAN Sewer Comp. Plan	7/11/2008	7/1/2014	\$0	\$15,000	382.80. 00.01 391._____ 393._____	402	\$0	582.35.78.01 591._____ 599._____	408	\$15,000
TOTAL			\$1,986,832	\$1,920,000			\$164,374			\$3,742,458

CITY OF FERNDALE
 G.O. Debt
 Revenue Debt
 Assessment Debt

SCHEDULE OF LONG-TERM DEBT

For the Year Ended December 31, 2008

ID. No.	Date of Original Issue	Date of Maturity	Beginning Outstanding Debt 1/1/2008	Amount Issued in Current Year	BARS Code for Receipt	Receiving Fund Number	Amount Redeemed in Current Year	BARS Code for Redemption	Redeeming Fund Number	Ending Outstanding Debt 1/31/2008
263.81	4/8/1998	7/1/2018	\$1,818,360	\$0			\$165,305	582.35.78.01	408	\$1,653,055
								591.		
								599.		
263.81	1/1/2000	8/1/2019	\$1,297,950	\$0			\$84,183	582.35.78.02	408	\$1,213,767
								591.		
								599.		
252.15	6/16/2005	11/1/2016	\$5,685,000	\$0			\$485,000	582.35.72.01	403	\$5,200,000
								591.		
								599.		
TOTAL			\$8,801,310	\$0			\$734,488			\$8,066,822



ABOUT THE STATE AUDITOR'S OFFICE

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

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 employees are located around the state to deliver our services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service. 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 quality assurance program.

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Deputy Chief of Staff
Chief Policy Advisor
Director of Audit
Director of Special Investigations
Director for Legal Affairs
Director of Quality Assurance
Local Government Liaison
Communications Director
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