



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Town of Friday Harbor

For the period January 1, 2018 through December 31, 2018

Published June 13, 2019

Report No. 1024019





**Office of the Washington State Auditor
Pat McCarthy**

June 13, 2019

Mayor and Town Council
Town of Friday Harbor
Friday Harbor, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the Town of Friday Harbor's financial statements and compliance with federal laws and regulations.

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

Sincerely,

A handwritten signature in dark ink that reads "Pat McCarthy". The signature is written in a cursive style.

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Town of Friday Harbor January 1, 2018 through December 31, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the Town.

Federal Awards

Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the Town’s compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
10.760	Water and Waste Disposal Systems for Rural Communities
20.205	Highway Planning and Construction Cluster – Highway Planning and Construction

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



TOWN OF FRIDAY HARBOR
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Town of Friday Harbor January 1, 2018 through December 31, 2018

This schedule presents the status of federal findings reported in prior audit periods.

Audit Period: January 1, 2016 through December 31, 2016	Report Ref. No.: 1019518	Finding Ref. No.: 2016-001
Finding Caption: The Town did not have adequate internal controls in place to ensure accurate financial reporting on the Schedule of Expenditures of Federal Awards		
Background: The Town's internal controls over financial reporting of the SEFA were not sufficient to ensure that it was presented accurately. The Town did not report expenditures paid related to a federal loan in the SEFA as required for governments reporting on a cash basis. Additionally, the Town incorrectly prepared the SEFA based on when revenues were received instead of when expenditures were paid. For the January 1, 2017 through December 31, 2017 audit period, the Town partially corrected this deficiency.		
Status of Corrective Action: (check one) <div style="display: flex; justify-content: space-between; align-items: flex-start;"><div><input checked="" type="checkbox"/> Fully Corrected</div><div><input type="checkbox"/> Partially Corrected</div><div><input type="checkbox"/> Not Corrected</div><div><input type="checkbox"/> Finding is considered no longer valid</div></div>		
Corrective Action Taken: <i>Action was taken to ensure that reported SEFA amounts were based on expenditures, rather than revenues.</i>		

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Town of Friday Harbor
January 1, 2018 through December 31, 2018**

Mayor and Town Council
Town of Friday Harbor
Friday Harbor, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Town of Friday Harbor, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated June 6, 2019.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's

internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of the Town's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However,

this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, reading "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

June 6, 2019

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

**Town of Friday Harbor
January 1, 2018 through December 31, 2018**

Mayor and Town Council
Town of Friday Harbor
Friday Harbor, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the Town of Friday Harbor, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Town's major federal programs for the year ended December 31, 2018. The Town's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements

referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

June 6, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Town of Friday Harbor January 1, 2018 through December 31, 2018

Mayor and Town Council
Town of Friday Harbor
Friday Harbor, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Town of Friday Harbor, for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's financial statements, as listed on page 17.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment,

including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Town of Friday Harbor, for the year ended December 31, 2018, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Town used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Town of Friday Harbor, as of December 31, 2018, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule of Liabilities is presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2019 on our consideration of the Town’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral

part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Pat McCarthy".

Pat McCarthy

State Auditor

Olympia, WA

June 6, 2019

FINANCIAL SECTION

Town of Friday Harbor January 1, 2018 through December 31, 2018

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2018
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2018
Notes to Financial Statements – 2018

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2018
Schedule of Expenditures of Federal Awards – 2018
Notes to the Schedule of Expenditures of Federal Awards – 2018

Town of Friday Harbor
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	001 General	101 Street	125 Special Revenue
Beginning Cash and Investments					
30810	Reserved	7,912,455	-	510,673	1,662,088
30880	Unreserved	11,770,059	2,346,015	607,273	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	3,587,007	2,315,539	634,280	487,494
320	Licenses and Permits	211,695	209,220	2,475	-
330	Intergovernmental Revenues	3,484,319	52,782	3,313,065	910
340	Charges for Goods and Services	6,164,866	35,852	-	1,380
350	Fines and Penalties	77,144	75,344	-	-
360	Miscellaneous Revenues	824,538	88,606	23,473	31,600
Total Revenues:		14,349,569	2,777,343	3,973,293	521,384
Expenditures					
510	General Government	581,320	581,320	-	-
520	Public Safety	782,398	782,398	-	-
530	Utilities	3,992,208	-	-	-
540	Transportation	648,264	-	648,264	-
550	Natural and Economic Environment	782,664	346,864	-	435,801
560	Social Services	-	-	-	-
570	Culture and Recreation	127,551	127,551	-	-
Total Expenditures:		6,914,406	1,838,133	648,264	435,801
Excess (Deficiency) Revenues over Expenditures:		7,435,164	939,210	3,325,029	85,583
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	5,489,926	-	-	-
397	Transfers-In	1,215,690	-	900,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	684	684	-	-
381, 395, 398	Other Resources	27,250	-	27,250	-
Total Other Increases in Fund Resources:		6,733,551	684	927,250	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	6,445,061	36,117	4,465,041	-
591-593, 599	Debt Service	5,937,458	-	-	-
597	Transfers-Out	1,215,690	509,450	64,300	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	685	685	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		13,598,895	546,252	4,529,341	-
Increase (Decrease) in Cash and Investments:		569,819	393,642	(277,062)	85,583
Ending Cash and Investments					
5081000	Reserved	8,077,398	-	149,664	1,747,671
5088000	Unreserved	12,174,934	2,739,657	691,219	-
Total Ending Cash and Investments		20,252,332	2,739,657	840,884	1,747,671

The accompanying notes are an integral part of this statement.

Town of Friday Harbor
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		315 Capital Projects	410 Water	420 Sewer	430 Refuse
Beginning Cash and Investments					
30810	Reserved	2,156,054	1,206,107	1,710,583	199,178
30880	Unreserved	-	3,592,913	918,467	779,547
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	149,694	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	117,562	-
340	Charges for Goods and Services	-	2,224,895	2,256,126	1,127,006
350	Fines and Penalties	-	1,800	-	-
360	Miscellaneous Revenues	31,319	255,173	266,031	34,730
Total Revenues:		181,013	2,481,868	2,639,720	1,161,736
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	1,473,432	1,288,386	952,931
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	1,473,432	1,288,386	952,931
Excess (Deficiency) Revenues over Expenditures:		181,013	1,008,436	1,351,333	208,805
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	5,489,926	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	5,489,926	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	594,014	1,005,964	1,344
591-593, 599	Debt Service	-	5,216,278	656,985	-
597	Transfers-Out	400,000	26,400	133,540	73,800
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		400,000	5,836,692	1,796,489	75,144
Increase (Decrease) in Cash and Investments:		(218,987)	661,670	(445,156)	133,661
Ending Cash and Investments					
5081000	Reserved	1,937,067	1,623,992	1,941,223	175,815
5088000	Unreserved	-	3,836,698	242,672	936,571
Total Ending Cash and Investments		1,937,067	5,460,690	2,183,895	1,112,387

Town of Friday Harbor
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		450 Stormwater	525 Equipment Reserve	550 Public Works Yard
Beginning Cash and Investments				
30810	Reserved	467,772	-	-
30880	Unreserved	501,206	2,093,137	931,501
388 / 588	Prior Period Adjustments, Net	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	-	-	-
340	Charges for Goods and Services	519,607	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	48,800	32,371	12,435
Total Revenues:		568,407	32,371	12,435
Expenditures				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	277,460	-	-
540	Transportation	-	-	-
550	Natural and Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		277,460	-	-
Excess (Deficiency) Revenues over Expenditures:		290,947	32,371	12,435
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	282,250	33,440
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	282,250	33,440
Other Decreases in Fund Resources				
594-595	Capital Expenditures	8,318	334,264	-
591-593, 599	Debt Service	64,196	-	-
597	Transfers-Out	8,200	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		80,714	334,264	-
Increase (Decrease) in Cash and Investments:		210,233	(19,643)	45,875
Ending Cash and Investments				
5081000	Reserved	501,966	-	-
5088000	Unreserved	677,245	2,073,495	977,376
Total Ending Cash and Investments		1,179,211	2,073,495	977,376

Town of Friday Harbor
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2018

		Total for All Funds (Memo Only)	Agency
308	Beginning Cash and Investments	192,830	192,830
388 & 588	Prior Period Adjustment, Net	-	-
310-390	Additions	119,684	119,684
510-590	Deductions	134,551	134,551
	Net Increase (Decrease) in Cash and Investments:	(14,867)	(14,868)
508	Ending Cash and Investments	177,963	177,963

The accompanying notes are an integral part of this statement.

Town of Friday Harbor
Notes to Financial Statements
For the year ended December 31, 2018

Note 1 - Summary of Significant Accounting Policies

The Town of Friday Harbor was incorporated on February 9, 1909 and operates under the laws of the state of Washington applicable to a fourth-class town. The Town of Friday Harbor is a general purpose local government and provides street maintenance and improvements; fire and police protection via contract; and parks and general administrative services. The Town owns and operates four utility systems: Water, Sewer, Refuse, and Stormwater.

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

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

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Capital Projects Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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

Internal Service Funds

These funds account for operations that provide goods or services to other departments or funds of the government on a cost reimbursement basis. The Town's two internal service funds are the Equipment Reserve Fund and the Public Works Fund. These funds are designated to save money for the purchase of equipment and improve the Town's public works properties.

FIDUCIARY FUND TYPES:

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

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments. The Town has a Treasurer's Trust Fund that holds water, sewer, and stormwater main extension deposits; site plan review deposits, and public work contract retainage.

Custodial Funds

These funds are used to account for assets that the government holds on behalf of others in a custodial capacity. The Town has a Fiscal Agency Fund for court deposits and state building code fees.

B. Basis of Accounting and Measurement Focus

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

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

C. Cash and Investments

See Note 3, Deposits and Investments

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000.00 and an estimated useful life in excess of 3 years. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

The vacation leave maximum at year end is 240 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 820 hours. Employees hired prior to 2013 were able to choose to receive payment of unused sick leave up to 480 hours upon retirement if they met retirement years of service and age requirements as outlined by their retirement system within the Washington State Department of Retirement. Those employees hired after 2013 and employed 10 years will receive 25% of their unused sick leave upon separation or retirement. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 5, *Debt Service Requirements*.

G. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of:

Street Fund Reserve Balances: 149,664.27

RCW 35.21.225, Transportation Benefit District

Town Ordinance #892, Cash held for developer Street Improvements

Special Revenue Fund Reserve Balances: 1,747,670.63

Town Ordinances #1372 and #1172, In lieu of Parking

RCW 67.28.1815, Hotel Motel tax

RCW 79.115.150, Harbor Leases

RCW 36.22.178, Low Income

RCW 35.92.380, Affordable Housing, Town Ordinance No. 1277

Capital Projects Fund Reserve Balances: 1,937,067.43

Town Ordinance #1502, Establishing Capital Projects Reserve Fund

RCW 82.46.010, Real Estate Excise Tax 1

RCW 82.46.035, Real Estate Excise Tax 2

Water Fund Reserve Balances: 1,623,991.93

Town Ordinance #1447, New Connection Fees

Bond Ordinance & Covenants

Sewer Fund Reserve Balances: 1,941,222.78

Town Ordinance #1448, New Connection Fees

Bond Ordinance & Covenants

Public Works Trust Fund Loan Agreements

Department of Ecology Loan Agreement

Landfill Closure and Post Closure Fund Reserve Balances: 175,815.20

Landfill Closure RCW 70.95.215; WAC 173-304-467; 173-351-600; 173.350.400

Stormwater Fund Reserve Balances: 501,966.11

Town Ordinance #1459, New Connection Fees

Bond Ordinance & Covenants

Treasurer's Trust Fund: 164,742.53

Town Ordinance # 892, Establishing Treasurer's Trust Fund

Unemployment Compensation Fund: 13,176.01

Town Ordinance #564, Establishing Unemployment Compensation Fund

Note 2 – Budget Compliance**A. Budgets**

The Town of Friday Harbor adopts an annual appropriated budget for all funds except for its Trust and Custodial Funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund	Final Appropriated	Actual Expenditures	Variance
General Fund:	2,997,075.00	2,465,800.01	531,274.99
General Capital Reserve	20,500.00	0	20,500.00
Special Revenue	498,901.00	435,800.54	63,100.46
Landfill Closure	41,975.00	41,220.00	755.00
Capital Projects	550,000.00	400,000.00	150,000.00
Water	2,182,200.00	2,053,109.73	129,090.27
Water Capital Reserve	706,750.00	635,236.61	71,513.39
Water Bond Redemption	5,217,900.00	5,216,277.52	1,622.48
Water Bond Reserve	0	0	0
Sewer	2,586,855.00	2,213,624.59	373,230.41
Sewer Bond Redemption	657,100.00	656,984.55	115.45
Sewer Bond Reserve	0	0	0
Sewer Capital Reserve	1,236,550.00	1,152,565.07	83,984.93
Refuse	1,202,180.00	1,008,055.08	194,124.92
Refuse Capital Reserve	0	0	0
Street	1,006,175.00	921,241.05	84,933.95
Street Capital Reserve	4,841,900.00	4,461,363.57	380,536.43
Stormwater	570,975.00	500,150.88	70,824.12
Stormwater Bond Redemption	64,250.00	64,196.25	53.75
Stormwater Bond Reserve	0	0	0
Stormwater Capital Reserve	42,750.00	12,726.20	30,023.80
Equipment Reserve	469,450.00	334,263.62	135,186.38
Public Works	200.00	0	200.00

Budgeted amounts are authorized to be transferred between 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, or other conditions of employment must be approved by the Town's legislative body.

Note 3 – Deposits and Investments

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

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

Investments are reported at original cost. Investments by type at December 31, 2018 are as follows:

Type of Investment	Town's Investments	Investment's held as an agent	Total
L.G.I.P.	14,921,540.71	20,800.00	14,942,340.71
US Government Security	2,093,080.26	0	2,093,080.26
Other	0	0	0
Total Investments	17,014,620.97	20,800.00	17,035,420.97

Note 4 - Property Tax

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

Property tax revenues are recognized when cash is received by the Town. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town's regular levy for the year 2018 was \$0.93532 per \$1,000 on an assessed valuation of \$533,266,881 for a total regular levy of \$498,772.66.

Note 5 – Debt Service Requirements

Debt Service

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the Town and summarizes the Town's debt transactions for year ended December 31, 2018.

The debt service requirements for revenue bonds and state loans are as follows:

	Principal	Interest	Total
2019	730,345.62	202,073.96	932,419.58
2020	747,407.25	193,445.88	940,853.13
2021	749,528.56	183,661.87	933,190.43
2022	734,907.99	173,756.42	908,664.41
2023	569,153.92	162,846.77	732,000.69
2024-2028	1,530,608.29	701,581.35	2,232,189.64
2029-2058	4,414,334.68	2,189,589.24	6,603,923.92
Total	9,476,286.31	3,806,955.49	13,283,241.80

Note 6 – Pension Plans

A. State Sponsored Pension Plans

Substantially all Town's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans PERS Plans 2 or 3.

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

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

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

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

At June 30, 2018 (the measurement date of the plans), the Town's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	119,656	0.017901%	\$799,465
PERS 2/3	178,177	0.023092%	\$394,275

Note 7 – Risk Management

Property, Liability and Fidelity Risk Pool

The Town of Friday Harbor 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 by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2018, 100 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, 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, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime), pollution liability, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA also allows members with airports 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. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2018, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. 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 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.

In accordance with WAC 200.100.02023, the AWC RMSA is governed by a board of directors, which is comprised of elected officials of participating members.

Health & Welfare

The Town of Friday Harbor is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2018, 257 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2018, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers' contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in this report. Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Note 8 – Other Disclosures

1. In 2018, the Town of Friday Harbor was approved by the USDA Rural Utilities Service to receive a loan up to \$2,364,000 to make tertiary filter and headworks improvements at its Wastewater Treatment Plant.

Interim financing is required during the construction period for all USDA RD loans. On August 16, 2018, the Friday Harbor Town Council passed Ordinance No. 1647, authorizing an interfund loan up to an amount not to exceed \$3,200,000 to provide interim financing for the construction period for the USDA loan on the Wastewater Treatment Plant project. As of 12/31/2018 the Town had not drawn on the interfund loan. It is anticipated that the first draw will occur during the first half of 2019.

2. The Town has ongoing litigation for a right-of-way dispute on Tucker Avenue. The Town's legal counsel feels the Town will prevail at court and may recover some of its legal costs.

3. The contractor responsible for the Tucker Avenue reconstruction project has submitted claim documents to the Town. Depending on how the claim progresses, this could become significant future litigation against the Town.

**Town of Friday Harbor
Schedule of Liabilities
For the Year Ended December 31, 2018**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	2012 Sewer Revenue Bonds	11/1/2023	835,000	-	130,000	705,000
252.11	2008 Stormwater Revenue Bonds	12/30/2028	505,000	-	35,000	470,000
252.11	USDA Water Transmission Main Loan	11/30/2058	-	5,165,811	34,843	5,130,968
259.12	Compensated Absences	12/31/2018	235,529	203,733	196,441	242,821
263.22	Landfill Closure & Postclosure	12/31/2018	263,269	-	9,575	253,694
263.62	Key Bank (USDA - BAN)	9/30/2018	4,769,253	324,115	5,093,368	-
263.84	2008 DOE Sewer Fund Loan	5/31/2029	1,329,490	-	115,608	1,213,882
263.88	2001 PWFT Sewer Fund Loan	7/1/2021	87,213	-	21,803	65,410
263.88	2002 PWTF Sewer Fund Loan	7/1/2022	890,000	-	178,000	712,000
263.88	2003 PWTF Sewer Fund Loan	7/1/2023	669,605	-	111,601	558,004
263.88	2006 PWFT Sewer Fund Loan	7/1/2026	189,474	-	21,053	168,421
263.88	2008 PWTF Sewer Fund Loan	7/1/2027	460,842	-	46,084	414,758
264.30	Pension Liabilities	12/31/2018	1,874,997	-	681,257	1,193,740
Total Revenue and Other (non G.O.) Debt/Liabilities:			12,109,672	5,693,660	6,674,634	11,128,698
Total Liabilities:			12,109,672	5,693,660	6,674,634	11,128,698

Town of Friday Harbor
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2018

	Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures				Passed through to Subrecipients	Note
					From Pass- Through Awards	From Direct Awards	Total			
	RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760	C.42.17.02	-	694,714	694,714	-	Note #1-4	
	RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760	C.41.12.02	-	5,128,220	5,128,220	-	Note #1-4	
			Total CFDA 10.760:		-	5,822,934	5,822,934	-		
Highway Planning and Construction Cluster										
	FEDERAL HIGHWAY ADMINISTRATION, TRANSPORTATION, DEPARTMENT OF (via Department of Transportation (via San Juan County))	Highway Planning and Construction	20.205	STPR-T281 (001)	1,640,952	-	1,640,952	-	Note #1, 2 & 4	
			Total Highway Planning and Construction Cluster:		1,640,952	-	1,640,952	-		
			Total Federal Awards Expended:		1,640,952	5,822,934	7,463,886	-		

The accompanying notes are an integral part of this schedule.

Town of Friday Harbor

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended December 31, 2018

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the Town of Friday Harbor's financial statements. The Town of Friday Harbor uses the Other Comprehensive Basis of Accounting (OCBOA) also known as Cash Basis method of governmental accounting in accordance with the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

Note 2 – Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the Town's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 – Federal Loan(s)

#1 – The Town of Friday Harbor was approved by the USDA Rural Utilities Service to receive a loan totaling \$5,165,811 for a water transmission main line. Interim loan financing was received for the construction period. The amount listed for this loan includes the proceeds used during this reporting year and from prior years. As of 1/1/18, the beginning loan balance was \$5,043,050. 2018 expenditures were \$85,170, which consist of items paid for construction prior to interim loan payoff. The total as of 12/31/18 for all years is \$5,128,220. This project has been completed and the interim loan was paid off in 2018.

#2 – In 2018, the Town of Friday Harbor was approved by the USDA Rural Utilities Service to receive a second loan up to \$2,364,000 to make tertiary filter and headworks improvements at its Wastewater Treatment Plant. Interim loan financing has been secured for the construction period. The Friday Harbor Town Council authorized and appropriated an interfund loan from excess water capital funds to the sewer capital fund for interim loan financing.

The amount listed for USDA loan #2 includes the allowed expenses incurred during the years 2017 and 2018. It was unknown in 2017 that this project would become a federally funded project, therefore the project costs were not reported on the 2017 Schedule of Expenditures of Federal Awards. The 2017 loan expenditures for this project total \$237,509 and the 2018 loan expenditures for this project total \$457,205. The combined total of 2017 and 2018 loan expenditures is \$694,714.

Note 4 – Indirect Cost Rate

The Town of Friday Harbor has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

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

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
Public Records requests	PublicRecords@sao.wa.gov
Main telephone	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	www.sao.wa.gov