



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## Town of Friday Harbor

For the period January 1, 2020 through December 31, 2020

*Published June 21, 2021*

Report No. 1028485



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

June 21, 2021

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

**Report on Financial Statements**

Please find attached our report on the Town of Friday Harbor's financial statements.

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

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## INDEPENDENT AUDITOR'S REPORT

### 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, 2020 through December 31, 2020**

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, 2020, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated June 15, 2021.

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 state law 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.

As discussed in Note 4 to the fiscal year 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Town is unknown.

## 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 that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

June 15, 2021

# INDEPENDENT AUDITOR'S REPORT

## Report on the Financial Statements

### **Town of Friday Harbor January 1, 2020 through December 31, 2020**

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, 2020, and the related notes to the financial statements, which collectively comprise the Town's financial statements, as listed on page 11.

### **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 state law 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 state law 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 cash and investments of the Town of Friday Harbor, and its changes in cash and investments, for the year ended December 31, 2020, 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, 2020, or the changes in financial position or cash flows thereof 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.

## **Matters of Emphasis**

As discussed in Note 4 to the 2020 financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the Town is unknown. Our opinion is not modified with respect to this matter.

## **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 Liabilities 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 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 15, 2021 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 black ink that reads "Pat McCarthy". The signature is written in a cursive style with a large, stylized "P" and "M".

Pat McCarthy

State Auditor

Olympia, WA

June 15, 2021

## **FINANCIAL SECTION**

### **Town of Friday Harbor January 1, 2020 through December 31, 2020**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2020  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2020  
Notes to Financial Statements – 2020

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2020

**Town of Friday Harbor**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General</b>	<b>101 Street</b>	<b>125 Special Revenue</b>
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	19,872,572	3,156,415	1,368,030	1,626,139
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	3,414,731	2,305,506	631,656	283,361
320	Licenses and Permits	152,331	149,731	2,600	-
330	Intergovernmental Revenues	1,271,938	149,546	739,343	11,142
340	Charges for Goods and Services	6,160,796	24,501	1,020	1,639
350	Fines and Penalties	53,680	53,320	-	-
360	Miscellaneous Revenues	1,417,174	49,716	82,549	8,074
Total Revenues:		12,470,650	2,732,320	1,457,168	304,216
<b>Expenditures</b>					
510	General Government	752,402	735,250	-	17,152
520	Public Safety	821,621	821,621	-	-
530	Utilities	4,716,957	-	-	-
540	Transportation	759,059	-	759,059	-
550	Natural/Economic Environment	634,954	352,585	-	282,369
560	Social Services	700	700	-	-
570	Culture and Recreation	130,825	130,825	-	-
Total Expenditures:		7,816,518	2,040,981	759,059	299,521
Excess (Deficiency) Revenues over Expenditures:		4,654,132	691,339	698,109	4,695
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	2,900,066	-	-	-
397	Transfers-In	3,459,351	295,052	749,081	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	2,859,904	15,019	12,608	-
Total Other Increases in Fund Resources:		9,219,321	310,071	761,689	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	2,163,710	10,258	526,028	14,613
591-593, 599	Debt Service	1,070,031	-	-	-
597	Transfers-Out	3,459,352	225,000	-	18,000
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	3,027,244	6,619	37,084	-
Total Other Decreases in Fund Resources:		9,720,337	241,877	563,112	32,613
<b>Increase (Decrease) in Cash and Investments:</b>		<b>4,153,116</b>	<b>759,533</b>	<b>896,686</b>	<b>(27,918)</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	4,849,292	-	783,203	1,036,726
50841	Committed	636,038	-	74,545	561,493
50851	Assigned	17,993,786	3,369,380	1,406,968	-
50891	Unassigned	546,567	546,567	-	-
<b>Total Ending Cash and Investments</b>		<b>24,025,683</b>	<b>3,915,947</b>	<b>2,264,716</b>	<b>1,598,219</b>

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, 2020**

		<b>315 Capital Projects</b>	<b>410 Water</b>	<b>420 Sewer</b>	<b>430 Refuse</b>
<b>Beginning Cash and Investments</b>					
308	Beginning Cash and Investments	2,131,581	2,536,437	3,335,075	1,180,015
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	194,208	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	1,835	368,968	562
340	Charges for Goods and Services	-	2,188,691	2,348,174	1,070,773
350	Fines and Penalties	-	360	-	-
360	Miscellaneous Revenues	11,469	378,537	799,171	36,264
Total Revenues:		205,677	2,569,423	3,516,313	1,107,599
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	1,716,009	1,662,287	1,047,155
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	1,716,009	1,662,287	1,047,155
Excess (Deficiency) Revenues over Expenditures:		205,677	853,414	1,854,026	60,444
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	2,900,066	-
397	Transfers-In	-	608,177	924,294	601,723
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	2,816,451	15,826	-
Total Other Increases in Fund Resources:		-	3,424,628	3,840,186	601,723
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	265,132	1,294,664	52,960
591-593, 599	Debt Service	-	218,204	786,577	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	30,099	2,953,442	-
Total Other Decreases in Fund Resources:		-	513,435	5,034,683	52,960
<b>Increase (Decrease) in Cash and Investments:</b>		<b>205,677</b>	<b>3,764,607</b>	<b>659,529</b>	<b>609,207</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	2,337,258	218,204	271,700	137,251
50841	Committed	-	-	-	-
50851	Assigned	-	6,082,840	3,722,903	1,651,971
50891	Unassigned	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>2,337,258</b>	<b>6,301,044</b>	<b>3,994,603</b>	<b>1,789,222</b>

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, 2020**

		<b>450 Stormwater</b>	<b>525 Equipment Reserve</b>	<b>550 Public Works Yard</b>
<b>Beginning Cash and Investments</b>				
308	Beginning Cash and Investments	1,345,573	2,200,546	992,761
388 / 588	Net Adjustments	-	-	-
<b>Revenues</b>				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	542	-	-
340	Charges for Goods and Services	525,998	-	-
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	28,294	23,100	-
Total Revenues:		554,834	23,100	-
<b>Expenditures</b>				
510	General Government	-	-	-
520	Public Safety	-	-	-
530	Utilities	291,506	-	-
540	Transportation	-	-	-
550	Natural/Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		291,506	-	-
Excess (Deficiency) Revenues over Expenditures:		263,328	23,100	-
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	281,024	-	-
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		281,024	-	-
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	-	55	-
591-593, 599	Debt Service	65,250	-	-
597	Transfers-Out	-	2,223,591	992,761
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		65,250	2,223,646	992,761
<b>Increase (Decrease) in Cash and Investments:</b>		<b>479,102</b>	<b>(2,200,546)</b>	<b>(992,761)</b>
<b>Ending Cash and Investments</b>				
50821	Nonspendable	-	-	-
50831	Restricted	64,950	-	-
50841	Committed	-	-	-
50851	Assigned	1,759,724	-	-
50891	Unassigned	-	-	-
<b>Total Ending Cash and Investments</b>		<b>1,824,674</b>	<b>-</b>	<b>-</b>

The accompanying notes are an integral part of this statement.

**Town of Friday Harbor**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2020**

		<b>Total for All Funds (Memo Only)</b>	<b>Custodial</b>
308	Beginning Cash and Investments	7,872	7,872
388 & 588	Net Adjustments	-	-
310-390	Additions	56,966	56,966
510-590	Deductions	44,390	44,390
	Net Increase (Decrease) in Cash and Investments:	12,576	12,576
508	Ending Cash and Investments	20,448	20,448

*The accompanying notes are an integral part of this statement.*

**Town of Friday Harbor**  
**Notes to Financial Statements**  
**For the year ended December 31, 2020**

**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 (Title 35 Revised Code of Washington). The Town of Friday Harbor is a general purpose local government and provides street maintenance and improvements, fire and police protection (via contract), parks, and general administrative services. The Town additionally owns and operates four proprietary 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 presented using classifications that are similar to the ending balance classification 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. (see Other Disclosures Note 11 applicable to the Town's use of Internal Service funds).

#### FIDUCIARY FUND TYPES:

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

##### Custodial Funds

These funds are used to account for assets that the government holds on behalf of others in a custodial capacity.

#### 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 5 - *Deposits and Investments*.

#### D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 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 Town provides for an accrual of vacation and sick leave and compensatory time. Vacation leave must be at or below 240 hours by fiscal year end. Accumulated vacation 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 their Washington State Department of Retirement System Plan years of service and age requirements. Employees hired prior to 2013 that did not choose this option and others that were hired after 2013 will receive 25% of their unused sick leave upon separation or retirement if they have worked 10 years for the Town. Maximum compensatory time allowed to accrue is 60 hours and must be used within a rolling year of original date earned. Payments are recognized as expenditures when paid.

#### F. Long-Term Debt

See Note 7 - *Debt Service Requirements*.

#### G. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by ordinance. When expenditures that meet restrictions are incurred, the Town of Friday Harbor intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of:

##### **Street Fund Balances:**

RCW 35.21.225, Transportation Benefit District - \$783,203 (restricted)

Town Ordinance #892, Cash held for developer Street Improvements - \$74,545 (committed)

##### **Special Revenue Fund Balances:**

Town Ordinances #1372 and #1172, In lieu of Parking - \$561,493 (committed)

RCW 67.28.1815, Hotel Motel tax - \$1,011,830 (restricted)

RCW 79.115.150, Harbor Leases - \$1,002 (restricted)

RCW 36.22.178, Low Income - \$11,996 (restricted)

RCW 35.92.380, Affordable Housing, Town Ordinance No. 1277 - \$11,898 (restricted)

##### **Capital Projects Fund Balances:**

RCW 82.46.010, Real Estate Excise Tax 1 - \$1,529,739 (restricted)

RCW 82.46.035, Real Estate Excise Tax 2 – 807,519 (restricted)

##### **Water Fund Balances:**

Bond Ordinance & Covenants - \$218,204 (restricted)

##### **Sewer Fund Balances:**

Loan Agreements, Bond Ordinance & Covenants - \$271,700 (restricted)

##### **Refuse Fund Balances:**

Landfill Closure and Post Closure Fund Reserve Balances: \$137,251 (restricted)

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

**Stormwater Fund Reserve Balances:**  
Bond Ordinance & Covenants - \$64,950 (restricted)

**Note 2 - Budget Compliance**

The Town of Friday Harbor adopts annual appropriated budgets for all funds, except fiduciary 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:	2,642,865.00	2,409,091.01	233,773.99
General Capital Reserve	200.00	0	200.00
Special Revenue	473,701.00	332,135.00	141,566.00
Landfill Closure	43,500.00	40,750.00	2,750.00
Capital Projects	0	0	0
Water	2,526,305.00	2,362,822.89	163,482.11
Water Capital Reserve	427,700	350,541.78	77,158.22
Water Bond Redemption	436,750.00	436,429.00	321.00
Sewer	3,365,010.00	2,990,722.52	374,287.48
Sewer Bond Redemption	3,699,800.00	3,690,277.79	9,522.21
Sewer Capital Reserve	1,441,050.00	1,260,628.95	180,421.05
Refuse	1,236,925.00	1,157,406.12	79,518.88
Refuse Capital Reserve	54,350.00	52,959.58	1,390.42
Street	1,164,275.00	1,025,298.75	138,976.25
Street Capital Reserve	730,650.00	530,372.08	200,277.92
Stormwater	552,550.00	515,016.36	37,533.64
Stormwater Bond Redemption	65,300.00	65,250.00	50.00
Stormwater Capital Reserve	9,700.00	6,140.12	3,559.88
Equipment Reserve	2,223,646.00	2,223,645.54	.46
Public Works Reserve	992,760.78	992,760.78	0
<b>Total</b>	<b>\$22,087,037.78</b>	<b>\$20,442,248.27</b>	<b>\$1,644,789.51</b>

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 – Component Unit(s), Joint Ventures, and Related Parties**

#### Related Parties

For Fiscal Year 2020:

Councilmember de Freitas and her husband own both a restaurant and a bed & breakfast business. These type businesses were significantly impacted during the COVID-19 pandemic restrictions. As part of the Town's overall COVID-19 business assistance grant program, they received \$4,500 in relief funds.

Town Treasurer Wilson and her husband own a towing and car wash business. The Town paid them a total of \$4,692.48 for impounding three junk vehicles and car wash tokens used to clean Town vehicles.

### **Note 4 – COVID-19 Pandemic**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of the deadly new virus known as COVID-19. In the months following the declaration, precautionary measures to slow the spread of the virus were ordered. These measures included closing schools, cancelling public events, limiting public and private gatherings, and restricting business operations, travel and non-essential activities.

The precautionary measures taken by the Governor had a smaller than anticipated impact on the Town's sales tax and utility revenues. Many factors could have caused this anomaly, such as: residents shopping more local than usual; "summer-only" residents hibernating in Friday Harbor and shopping local; and/or more destination sales taxes received because businesses and residents were shopping via the internet.

However, because Friday Harbor is a tourist destination, tax revenues generated by the hotel motel industry were significantly reduced. Many of the Town's 2020 tourist promotion grants were cancelled due to COVID-19 restrictions. Consequently, this resulted in less expenditures and diminished the overall impact to the Special Revenue Fund ending cash. The length of time these measures will continue to be in place, and the full extent of the financial impact on the Town of Friday Harbor is unknown at this time.

## Note 5 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at December 31, 2020 are as follows:

Type of deposit or investment	Town of Friday Harbor's own deposits and investments	Deposits and investments held by the County as custodian for other local governments, individuals, or private organizations	Total
Bank deposits	\$3,997,956.85	\$0	\$3,997,956.85
Certificates of deposit	0	0	0
Local Government Investment Pool	19,576,290.00	0	19,576,290.00
U.S. Government securities	1,049,319.63	0	1,049,319.63
Other	0	0	0
<b>Total</b>	<b>\$24,623,566.48</b>	<b>\$0</b>	<b>\$24,623,566.48</b>

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

### Investments in the State Local Government Investment Pool (LGIP)

The Town of Friday Harbor is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at [www.tre.wa.gov](http://www.tre.wa.gov).

### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the Town of Friday Harbor would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The Town of Friday Harbor's deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

All investments are insured, registered or held by the Town of Friday Harbor or its agent in the government's name.

## Note 6 - Interfund Loans

The following table displays interfund loan activity during 2020:

Borrowing Fund	Lending Fund	Balance 1/1/2020	New Loans	Payments	Balance 12/31/2020
(420) Sewer	(410) Water	\$2,812,000.00	\$0	\$2,812,000.00	\$0
<b>Totals</b>		<b>\$2,812,000.00</b>	<b>\$0</b>	<b>\$2,812,000.00</b>	<b>\$0</b>

## Note 7 – Long-Term Debt *(formerly Debt Service Requirements)*

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the Town of Friday Harbor and summarizes the Town of Friday Harbor's debt transactions for year ended December 31, 2020.

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

Year	Principal	Interest	Total
2021	805,043.60	223,767.77	1,028,811.37
2022	795,584.88	212,340.71	1,007,925.59
2023	631,950.67	202,951.40	834,902.07
2024	378,576.71	191,455.82	570,032.53
2025	381,884.19	184,762.64	566,646.83
2026 – 2030	1,486,131.20	823,900.74	2,310,031.94
2031 - 2035	781,947.28	711,167.51	1,493,114.79
2036 - 2060	5,673,665.40	1,659,433.92	7,333,099.32
<b>Total</b>	<b>\$10,934,783.93</b>	<b>\$4,209,780.51</b>	<b>\$15,144,564.44</b>

A portion of the debt reflected in the above matrix is for a Department of Ecology loan that was not finalized in 2020. The debt principal and interest payments are estimated for reporting purposes. The Town anticipates that final amortization schedules will be available later in fiscal year 2021.

## Note 8 – Pension Plans

### A. State Sponsored Pension Plans

Substantially all the Town of Friday Harbor'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](http://www.drs.wa.gov).

At June 30, 2020 (the measurement date of the plans), the Town of Friday Harbor's proportionate share of the collective net pension liabilities, as reported on the Schedule of Liabilities, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	128,100	0.017675%	\$624,023
PERS 2/3	211,003	0.022904%	\$292,929
Total Net Liability (Schedule 09)	339,103		\$916,952

## Note 9 - 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 of Friday Harbor. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The Town of Friday Harbor's regular levy for the year 2020 was \$0.83456 per \$1,000 on an assessed valuation of \$628,233,700 for a total regular levy of \$524,297.20.

## **Note 10 – Risk Management**

RISK MANAGEMENT POOL(S). The Town of Friday Harbor is a member of two risk management pools and self-insured for unemployment compensation providing coverages and services as follows:

### **PROPERTY, LIABILITY AND FIDELITY**

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, 2020, 103 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 National League of Cities Mutual Insurance Company (NLC MIC) 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 Hallmark Specialty Insurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The reinsurance coverage is purchased through NLC MIC and excess property coverage is purchased through Lexington Insurance Company and CHUBB in 2020, AWC RMSA carried a retention of \$200,000, NLC MIC reinsures up to \$3 million, Lexington provides excess insurance up to \$50 million, 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.

#### EMPLOYEE BENEFIT TRUST HEALTH CARE PROGRAM

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, 2020, 262 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. In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an individual stop loss (ISL) of \$1.5 million through Commencement Bay Risk Management, 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 Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust HCP account. 2 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC 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 the report for the fiscal year ending December 31, 2018. 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.

#### UNEMPLOYMENT COMPENSATION

The Town has entered into a "reimbursable" agreement with the WA State Department of Employment Security (ESD) for unemployment compensation. This is considered a form of self-insurance. The Town utilized the ESD for all claims activity. (See Schedule 21 for claims activity incurred during the fiscal year of 2020) The Town feels it has sufficient funds within its governmental and proprietary funds to accommodate any unemployment claim that may be forthcoming.

### **Note 11 – Other Disclosures**

#### 1) Potential Claim

In 2019, a lawsuit was filed against the Town by the contractor responsible for the Tucker Avenue Reconstruction Project and one of its subcontractors. The Town has asserted its own claims against the Contractor. Discovery is underway and certain counterclaims and cross-claims not involving the Town have been stayed. A trial date for the claims involving the Town has not been set.

#### 2) Internal Service Fund Analysis and Reclassification

Following analysis of the Town's Internal Service Funds, it was determined the usage of these funds were not being utilized as originally anticipated. Internal Service Funds previously held in the Town's (525) Equipment Reserve and (550) Public Works Reserve have been reallocated to their respective governmental and proprietary reserve funds.

#### 3) New Cash and Investment Classifications

The Town implemented new Budgeting, Accounting and Reporting System (BARS) prescriptive guidance for the classification of its cash and investment balances. While this implementation did not change the amounts reported for total beginning or ending cash or investments, previously reported amounts classified as reserved and unreserved cash and investments are now reported as restricted, committed, assigned or unassigned based on BARS.

**Town of Friday Harbor  
Schedule of Liabilities  
For the Year Ended December 31, 2020**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	2008 Stormwater Revenue Bonds	12/30/2028	435,000	-	40,000	395,000
252.11	2012 Sewer Revenue Bonds	11/1/2023	575,000	-	140,000	435,000
252.11	USDA Water Transmission Main Loan	11/30/2058	5,059,771	-	72,638	4,987,133
252.11	USDA Sewer Tertiary Filter & Headworks	4/30/2060	-	2,364,000	22,237	2,341,763
252.11	USDA Sewer Headworks	4/30/2060	-	448,000	4,215	443,785
259.12	Compensated Absences		271,512	230,426	202,259	299,679
263.22	Landfill Closure & Postclosure		302,234	-	65,073	237,161
263.84	2008 DOE Sewer Submarine Interceptor Loan	5/31/2029	1,098,274	-	115,608	982,666
263.84	2019 DOE Sewer Outfall Replacement Design Loan	10/1/2040	40,714	88,066	44,033	84,747
263.84	2019 DOE Sewer General Facility Plan Loan	4/30/2040	62,213	-	-	62,213
263.88	2001 PWFT Sewer Fund Loan	7/1/2021	43,607	-	21,803	21,804
263.88	2002 PWTF Sewer Fund Loan	7/1/2022	534,000	-	178,000	356,000
263.88	2003 PWTF Sewer Fund Loan	7/1/2023	446,403	-	111,601	334,802
263.88	2006 PWFT Sewer Fund Loan	7/1/2026	147,368	-	21,053	126,315
263.88	2008 PWTF Sewer Fund Loan	7/1/2027	368,674	-	46,084	322,590
264.30	Pension Liabilities		837,408	79,544	-	916,952
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>10,222,178</b>	<b>3,210,036</b>	<b>1,084,604</b>	<b>12,347,610</b>
<b>Total Liabilities:</b>			<b>10,222,178</b>	<b>3,210,036</b>	<b>1,084,604</b>	<b>12,347,610</b>

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

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

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