



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## Town of Friday Harbor

For the period January 1, 2021 through December 31, 2022

*Published May 28, 2024*

Report No. 1034926



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

May 28, 2024

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 activities and 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, 2021 through December 31, 2022**

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 years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated May 20, 2024.

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.

#### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing 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 above and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

May 20, 2024

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **Town of Friday Harbor January 1, 2021 through December 31, 2022**

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

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of the Town of Friday Harbor, as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, as listed in the financial section of our report.

### **Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the Town has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying 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 years ended December 31, 2022 and 2021, on the basis of accounting described in Note 1.

### **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, 2022 and 2021, or the changes in financial position or cash flows thereof for the years then ended, because of the significance of the matter discussed below.

## **Basis for Unmodified and Adverse Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

## **Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the Town in accordance with state law using accounting practices prescribed by the BARS Manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

## **Responsibilities of Management 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 BARS Manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

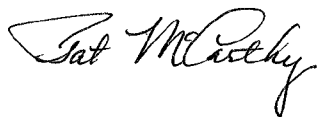
- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements. The Schedules of Liabilities are 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 as a whole.

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2024 on our consideration of the Town's internal control over financial reporting and on the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

May 20, 2024

## **FINANCIAL SECTION**

### **Town of Friday Harbor January 1, 2021 through December 31, 2022**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2022 and 2021  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2022 and 2021  
Notes to Financial Statements – 2022 and 2021

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

Schedule of Liabilities – 2022 and 2021

**Town of Friday Harbor**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2022**

		<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	24,353,224	4,909,496	2,758,817	1,738,797
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	4,600,339	2,978,071	803,742	621,514
320	Licenses and Permits	200,954	196,554	4,400	-
330	Intergovernmental Revenues	926,614	421,538	481,322	22,754
340	Charges for Goods and Services	6,730,057	34,730	4,896	2,267
350	Fines and Penalties	64,742	63,212	-	-
360	Miscellaneous Revenues	784,863	67,815	66,808	13,797
Total Revenues:		13,307,569	3,761,920	1,361,168	660,332
<b>Expenditures</b>					
510	General Government	1,551,219	812,802	579,000	159,417
520	Public Safety	559,362	559,362	-	-
530	Utilities	5,515,174	-	-	-
540	Transportation	811,847	-	811,847	-
550	Natural/Economic Environment	989,139	557,575	-	431,564
560	Social Services	-	-	-	-
570	Culture and Recreation	179,620	179,620	-	-
Total Expenditures:		9,606,361	2,109,359	1,390,847	590,981
Excess (Deficiency) Revenues over Expenditures:		3,701,208	1,652,561	(29,679)	69,351
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	1,153,714	-	-	-
397	Transfers-In	659,479	62	500,000	159,417
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	77,288	7,630	38,780	1,004
Total Other Increases in Fund Resources:		1,890,481	7,692	538,780	160,421
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	4,776,110	7,045	767,963	376
591-593, 599	Debt Service	1,121,403	2,041	23,227	450
597	Transfers-Out	659,479	659,479	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	61,917	14,781	357	5,656
Total Other Decreases in Fund Resources:		6,618,909	683,346	791,547	6,482
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(1,027,220)</b>	<b>976,907</b>	<b>(282,446)</b>	<b>223,290</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	5,558,794	-	890,460	1,370,621
50841	Committed	591,465	-	-	591,465
50851	Assigned	16,585,551	5,296,209	1,585,909	-
50891	Unassigned	590,196	590,196	-	-
<b>Total Ending Cash and Investments</b>		<b>23,326,006</b>	<b>5,886,405</b>	<b>2,476,369</b>	<b>1,962,086</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, 2022**

		<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	2,643,915	6,504,863	2,919,191	1,709,935
388 / 588	Net Adjustments	-	-	-	-
<b>Revenues</b>					
310	Taxes	197,012	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	1,000	-
340	Charges for Goods and Services	-	2,306,443	2,586,261	1,257,567
350	Fines and Penalties	-	1,530	-	-
360	Miscellaneous Revenues	39,004	255,060	263,635	46,555
Total Revenues:		236,016	2,563,033	2,850,896	1,304,122
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	1,900,372	2,155,978	1,122,076
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	1,900,372	2,155,978	1,122,076
Excess (Deficiency) Revenues over Expenditures:		236,016	662,661	694,918	182,046
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	1,153,714	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	6,096	6,400	-
Total Other Increases in Fund Resources:		-	6,096	1,160,114	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	921,937	2,416,878	287,377
591-593, 599	Debt Service	-	218,431	876,800	227
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	357	23,632	357
Total Other Decreases in Fund Resources:		-	1,140,725	3,317,310	287,961
<b>Increase (Decrease) in Cash and Investments:</b>		<b>236,016</b>	<b>(471,968)</b>	<b>(1,462,278)</b>	<b>(105,915)</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	2,879,931	218,204	91,700	107,878
50841	Committed	-	-	-	-
50851	Assigned	-	5,814,691	1,365,216	1,496,142
50891	Unassigned	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>2,879,931</b>	<b>6,032,895</b>	<b>1,456,916</b>	<b>1,604,020</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, 2022**

		<u>450 Stormwater</u>
<b>Beginning Cash and Investments</b>		
308	Beginning Cash and Investments	1,168,210
388 / 588	Net Adjustments	-
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	537,893
350	Fines and Penalties	-
360	Miscellaneous Revenues	32,189
Total Revenues:		<u>570,082</u>
<b>Expenditures</b>		
510	General Government	-
520	Public Safety	-
530	Utilities	336,748
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>336,748</u>
Excess (Deficiency) Revenues over Expenditures:		233,334
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	17,378
Total Other Increases in Fund Resources:		<u>17,378</u>
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	374,534
591-593, 599	Debt Service	227
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	16,777
Total Other Decreases in Fund Resources:		<u>391,538</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(140,826)</b>
<b>Ending Cash and Investments</b>		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	1,027,384
50891	Unassigned	-
<b>Total Ending Cash and Investments</b>		<b><u>1,027,384</u></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, 2021**

		<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	24,025,683	3,915,947	2,264,716	1,598,219
388 / 588	Net Adjustments	6	1	1	-
<b>Revenues</b>					
310	Taxes	4,586,265	2,911,074	797,775	590,374
320	Licenses and Permits	158,025	155,425	2,600	-
330	Intergovernmental Revenues	1,864,370	429,412	1,069,589	1,305
340	Charges for Goods and Services	6,707,724	13,622	61,634	2,128
350	Fines and Penalties	70,127	69,407	-	-
360	Miscellaneous Revenues	787,144	17,147	22,776	29,775
Total Revenues:		14,173,655	3,596,087	1,954,374	623,582
<b>Expenditures</b>					
510	General Government	674,297	674,297	-	-
520	Public Safety	830,833	830,833	-	-
530	Utilities	5,163,164	-	-	-
540	Transportation	761,446	-	761,446	-
550	Natural/Economic Environment	737,582	385,737	-	351,845
560	Social Services	-	-	-	-
570	Culture and Recreation	138,378	138,378	-	-
Total Expenditures:		8,305,700	2,029,245	761,446	351,845
Excess (Deficiency) Revenues over Expenditures:		5,867,955	1,566,842	1,192,928	271,737
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	71,766	-	-	-
397	Transfers-In	500,000	-	500,000	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	118,580	10,806	46,803	4,652
Total Other Increases in Fund Resources:		690,346	10,806	546,803	4,652
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	4,282,070	81,643	1,197,826	135,811
591-593, 599	Debt Service	1,376,926	-	-	-
597	Transfers-Out	500,000	500,000	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	71,765	2,455	47,803	-
Total Other Decreases in Fund Resources:		6,230,761	584,098	1,245,629	135,811
<b>Increase (Decrease) in Cash and Investments:</b>		<b>327,540</b>	<b>993,550</b>	<b>494,102</b>	<b>140,578</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	4,889,903	-	486,130	1,148,328
50841	Committed	590,469	-	-	590,469
50851	Assigned	18,379,622	4,416,266	2,272,687	-
50891	Unassigned	493,230	493,230	-	-
<b>Total Ending Cash and Investments</b>		<b>24,353,224</b>	<b>4,909,496</b>	<b>2,758,817</b>	<b>1,738,797</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, 2021**

		<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	2,337,258	6,301,044	3,994,603	1,789,222
388 / 588	Net Adjustments	-	1	1	1
<b>Revenues</b>					
310	Taxes	287,042	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	364,064	-
340	Charges for Goods and Services	-	2,260,494	2,573,137	1,259,813
350	Fines and Penalties	-	720	-	-
360	Miscellaneous Revenues	19,616	241,150	389,411	30,260
Total Revenues:		306,658	2,502,364	3,326,612	1,290,073
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	1,802,149	1,876,256	1,157,804
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	1,802,149	1,876,256	1,157,804
Excess (Deficiency) Revenues over Expenditures:		306,658	700,215	1,450,356	132,269
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	71,766	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	8,280	30,653	357
Total Other Increases in Fund Resources:		-	8,280	102,419	357
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	278,502	1,866,434	211,913
591-593, 599	Debt Service	-	218,204	748,219	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	7,972	13,535	-
Total Other Decreases in Fund Resources:		-	504,678	2,628,188	211,913
<b>Increase (Decrease) in Cash and Investments:</b>		<b>306,658</b>	<b>203,817</b>	<b>(1,075,413)</b>	<b>(79,287)</b>
<b>Ending Cash and Investments</b>					
50821	Nonspendable	-	-	-	-
50831	Restricted	2,643,915	218,204	271,700	121,626
50841	Committed	-	-	-	-
50851	Assigned	-	6,286,659	2,647,491	1,588,309
50891	Unassigned	-	-	-	-
<b>Total Ending Cash and Investments</b>		<b>2,643,915</b>	<b>6,504,863</b>	<b>2,919,191</b>	<b>1,709,935</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, 2021**

		<u>450 Stormwater</u>
<b>Beginning Cash and Investments</b>		
308	Beginning Cash and Investments	1,824,674
388 / 588	Net Adjustments	1
<b>Revenues</b>		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	536,896
350	Fines and Penalties	-
360	Miscellaneous Revenues	37,009
Total Revenues:		<u>573,905</u>
<b>Expenditures</b>		
510	General Government	-
520	Public Safety	-
530	Utilities	326,955
540	Transportation	-
550	Natural/Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<u>326,955</u>
Excess (Deficiency) Revenues over Expenditures:		246,950
<b>Other Increases in Fund Resources</b>		
391-393, 596	Debt Proceeds	-
397	Transfers-In	-
385	Special or Extraordinary Items	-
381, 382, 389, 395, 398	Other Resources	17,029
Total Other Increases in Fund Resources:		<u>17,029</u>
<b>Other Decreases in Fund Resources</b>		
594-595	Capital Expenditures	509,941
591-593, 599	Debt Service	410,503
597	Transfers-Out	-
585	Special or Extraordinary Items	-
581, 582, 589	Other Uses	-
Total Other Decreases in Fund Resources:		<u>920,444</u>
<b>Increase (Decrease) in Cash and Investments:</b>		<b><u>(656,465)</u></b>
<b>Ending Cash and Investments</b>		
50821	Nonspendable	-
50831	Restricted	-
50841	Committed	-
50851	Assigned	1,168,210
50891	Unassigned	-
<b>Total Ending Cash and Investments</b>		<b><u>1,168,210</u></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, 2022**

		<b>Total for All Funds (Memo Only)</b>	<b>Custodial</b>
308	Beginning Cash and Investments	17,274	17,274
388 & 588	Net Adjustments	-	-
310-390	Additions	25,594	25,594
510-590	Deductions	26,703	26,703
	Net Increase (Decrease) in Cash and Investments:	(1,109)	(1,109)
508	Ending Cash and Investments	16,165	16,165

*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, 2021**

		<b>Total for All Funds (Memo Only)</b>	<b>Custodial</b>
308	Beginning Cash and Investments	20,448	20,448
388 & 588	Net Adjustments	-	-
310-390	Additions	27,232	27,232
510-590	Deductions	30,405	30,405
	Net Increase (Decrease) in Cash and Investments:	(3,173)	(3,173)
508	Ending Cash and Investments	17,274	17,274

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

Town of Friday Harbor  
Notes to Financial Statements  
For the year ended December 31, 2022

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 for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications 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.

### 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 3 – *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 more than 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 accumulate 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. The 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 6 – Long-Term Debt (*Formerly 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 - \$748,788 (restricted)

Town Ordinance #892, Cash held for developer Street Improvements - \$141,671 (committed)

### Special Revenue Fund Balances:

Town Ordinances #1172 and #1372, In lieu of Parking - \$591,465 (committed)

RCW 67.28.1815, Hotel Motel Tax - \$1,338,093 (restricted)

RCW 79.115.150, Harbor Leases - \$4,061 (restricted)

RCW 36.22.178, Low Income - \$12,173 (restricted)

RCW 35.92.380, Affordable Housing, Town Ordinance No. 1277 - \$16,293 (restricted)

### Capital Projects Fund Balances:

RCW 82.46.010, Real Estate Excise Tax 1 - \$1,858,151 (restricted)

RCW 82.46.035, Real Estate Excise Tax 2 - \$1,021,781 (restricted)

### Water Fund Balances:

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

### Sewer Fund Balances:

Loan Agreements, Bond Ordinance & Covenants - \$91,700 (restricted)

### Refuse Fund Balances:

Landfill Closure and Post Closure Fund Reserve Balances: \$107,878 (restricted)

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

### Stormwater Fund Reserve Balances:

Bond Ordinance & Covenants - \$0 (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:

<b>Fund</b>	<b>Final Appropriated</b>	<b>Actual Expenditures</b>	<b>Variance</b>
General Fund	2,930,702.00	2,911,020.63	19,681.37
General Capital Reserve	36,700.00	6,884.00	29,816.00
Street	1,259,436.00	1,196,129.60	63,306.40
Street Capital Reserve	1,494,680.00	1,254,265.30	240,414.70
Special Revenue	602,737.00	597,463.36	5,273.64
Capital Projects	-	-	-
Water	2,579,314.50	2,366,485.05	212,829.45
Water Capital Reserve	1,305,031.25	1,054,632.10	250,399.15
Water Bond Redemption	218,225.00	218,204.00	21.00
Sewer	2,858,876.62	2,705,167.58	153,709.04
Sewer Bond Redemption	876,975.00	876,572.70	402.30
Sewer Capital Reserve	3,246,671.39	3,167,948.34	78,723.05
Refuse	1,337,757.50	1,210,500.99	127,256.51
Landfill Closure	43,500.00	31,930.00	11,570.00
Refuse Capital Reserve	325,400.00	287,377.23	38,022.77
Stormwater	743,598.50	671,255.74	72,342.76
Stormwater Bond Redemption	-	-	-
Stormwater Capital Reserve	586,750.00	401,629.69	185,120.31
<b>Total</b>	<b>20,446,354.76</b>	<b>18,957,466.31</b>	<b>1,488,888.45</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 – Deposits and Investments

Investments are reported at amortized cost for the 2022 fiscal year due to a process change. Investments were reported at their original cost in prior reporting years. Deposits and investments by type on December 31, 2022, are as follows:

Type of deposit or investment	Town of Friday Harbor's own deposits and investments	Deposits and investments held by the Town as custodian for other local governments, individuals, or private organizations	Total
Bank deposits	\$8,215,366.74	\$16,164.97	\$8,231,531.71
Certificates of deposit	-	-	-
Local Government Investment Pool	15,110,637.66	-	15,110,637.66
U.S. Government securities	-	-	-
Other	-	-	-
<b>Total</b>	<b>\$23,326,004.40</b>	<b>\$16,164.97</b>	<b>\$23,342,169.37</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 investment 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 4 – Environmental and Certain Asset Retirement Liabilities

Based on the engineering firm's estimate, the Town of Friday Harbor has the following liabilities associated with the closure of its landfill(s). These amounts were updated in 2023 to values determined by the engineering firm. The amounts were last updated for inflation as of January 1, 2023. The amount of post-closure costs reported on the Schedule of Liabilities is \$158,767.02. This amount included a \$14,995.46 reduction due to the beginning balance being too high after the Landfill Post Closure Financial Assurance Plan and \$31,930 expenses for 2022.

## Note 5 – Leases (Lessees)

During the year 2022, the Town of Friday Harbor adopted guidance for the presentation and disclosure of leases, as required by the BARS manual. This requirement resulted in the addition of a lease liability reported on the Schedule of Liabilities.

### Leased Arrangements

The Town of Friday Harbor leases 1 tower optical non-coin-operated viewer located in Overlook Park from The Tower Optical Company Inc for \$450 per year under an initial 2-year lease agreement beginning December 1, 2014, and shall continue until written termination at least 30 days prior to terminating the lease in 2-year terms.

The Town of Friday Harbor leases 1 postage machine from Pitney Bowes Inc for \$386.19 plus applicable taxes per quarter under a 5-year lease agreement that started in 2017 and ends December 2022.

The Town of Friday Harbor leases 3 copiers from United Business Machines, payable to Wells Fargo, for \$328.23 per month under a 5-year lease agreement with an automatic month-to-month renewal that started September 21, 2022, and ends September 20, 2027.

The Town of Friday Harbor leases a portion of 330 Spring St for municipal parking from JAC 330 Spring San Juan, LLC. A 5-year term commencing June 21, 2017, through May 31, 2022, includes monthly payments of \$1,750 with an automatic month-to-month renewal until a new agreement is in place. This agreement was renewed until a new agreement was established. A 3-year term commencing September 1, 2022, through August 31, 2025, includes monthly payments of \$2,150 for the first year, no less than \$2,214.50 for the second year, and no less than \$2,280.94 for the third year. Years 2 and 3 are subject to a cost-of-living increase of no less than 3%. In both agreements, either party has the right to terminate the lease with 60 days' advance written notice.

The Town of Friday Harbor entered into a lease agreement in August 2022 for 1 postage machine from Quadient Leasing USA, Inc to take effect in January 2023. Lease payments are billed quarterly for \$63.99 plus applicable taxes per month (\$208.29 quarterly) under a 63-month lease agreement with an automatic renewal on a quarter-to-quarter basis. Cancellation of lease can only occur 90-days prior to initial term end date or 30-days prior to renewal period end date.

The Town of Friday Harbor entered into a lease agreement for pole space in October 2022 with Rock Island Communications to take effect once our radio-read antenna is installed for \$450 per month under a 60 month or 5-year lease agreement, with an automatic renewal for 12 months. The radio-read equipment was installed on the pole on December 20, 2022. The lease started January 4, 2023, and ends January 3, 2028.

### Lease Payments

The total amount paid for leases in 2022 was \$26,625.60. As of December 31, 2022, the future lease payments are as follows:

Year	Total
2023	37,499.97
2024	37,833.67
2025	26,894.05
2026	10,927.47
2027	9,859.08
2028	208.29
<b>Total</b>	<b>123,222.53</b>

### Note 6 – 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 the year ended December 31, 2022.

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

Year	Principal	Interest	Total
2023	1,229,068.16	180,727.93	1,409,796.08
2024	416,535.86	176,603.18	593,139.04
2025	410,152.68	172,955.77	583,108.45
2026	355,410.28	169,225.61	524,635.89
2027	327,778.76	165,410.44	493,189.20
2028 – 2032	1,010,087.73	770,570.57	1,780,658.30
2033 – 2037	937,585.10	669,453.16	1,607,038.26
2038 – 2060	5,175,094.12	1,404,742.39	6,579,836.51
<b>Total</b>	<b>9,861,712.70</b>	<b>3,709,689.04</b>	<b>13,571,401.73</b>

An estimated amortization schedule was created on March 29, 2021, for the DOE WWTP Solids Treatment Upgrade project. This debt was not included in the Schedule 09 or the matrix above. The Town anticipates that final amortization schedule will be available later in fiscal year 2023.

An estimated amortization schedule was created on August 31, 2022, for the DOE Sewer Outfall Construction phase. This debt was not included in the Schedule 09 or the matrix above. The Town anticipates that final amortization schedule will be available later in fiscal year 2024.

## Note 7 – Other Disclosures

### 1. Potential Claim – Settled

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 was underway and certain counterclaims and crossclaims not involving the Town had been stayed. In November 2022, a settlement was agreed on by both parties and a payment of \$579,000 was made to the contractor.

### 2. Special Item – Property Purchase & Lease

In April 2021, the Town of Friday Harbor purchased a new Public Works building located at 1000 Guard St for \$640,896. The purchase was made with capital reserves from the water, sewer, refuse, street, and stormwater funds. This property was previously owned by San Juan County. They continued to lease the building until their new Public Works office construction was complete. The revenue from their lease is split equally between the funds that purchased the property. It was originally anticipated for the Town to take full possession in 2022. However, due to construction delays, San Juan County leased the property until January 2023.

### 3. Potential Litigation

In 2020, the Town of Friday Harbor conducted an environmental clean-up of petroleum-contaminated soil discovered while replacing a sewer main on property adjacent to, and downhill of, the San Juan Island Grange #966 property at 370 Spring Street. The clean-up efforts occurred in November and December 2020. Over the past 2.5 years, we have made repeated requests to the Grange for reimbursement for the costs we incurred which totaled \$34,294.37. Yet the Grange's response has been to delay, to not respond, and now to obstruct by hiring an attorney to oppose our request. As of May 22, 2023, one more attempt to collect reimbursement was sent with a due date of June 30, 2023. If reimbursement is not made, further action will be taken by turning over this matter to the Town's attorney.

## 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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2022 (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	\$107,932	0.017611%	\$490,355
PERS 2/3			
Total Net Liability (Schedule 09)	\$107,932		\$490,355

## 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 2022 was \$0.50499 per \$1,000 on an assessed valuation of \$712,883,514 for a total regular levy of \$360,000.

## 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, 2022, 106 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. Pollution, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA allows members with airports to group purchase airport liability coverage, and members with drones to group purchase property and 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 \$500,000, per occurrence, and is reinsured by National League of Cities Mutual Insurance Company (NLC MIC) for the additional \$500,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from National League of Cities Mutual Insurance Company (NLC MIC). 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 AIG Specialty Insurance Company and CHUBB. In 2022, AWC RMSA carried a retention of \$200,000, NLC MIC reinsures up to \$3 million, AIG Specialty Insurance Company provides excess insurance up to \$50 million, and CHUBB provides the remaining limits up to a total of \$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, 2022, 262 cities/towns/non-city entities participate and have enrollment 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, Willamette Dental Group, 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 2022, the AWC Trust HCP purchased medical stop loss insurance for Regence/Asuris and Kaiser plans at an Individual Stop Loss (ISL) of \$1.5 million through United States Fire Insurance Company. 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.

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 2023.) The Town feels it has sufficient funds within its governmental and proprietary funds to accommodate any unemployment claim that may be forthcoming.

Town of Friday Harbor  
Notes to Financial Statements  
For the year ended December 31, 2021

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 for proprietary and fiduciary funds are presented using classifications that are different from the ending net position classifications 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.

### 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 4 – *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 more than 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 accumulate 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. The 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 6 – Long-Term Debt (*Formerly 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 - \$351,568 (restricted)

Town Ordinance #892, Cash held for developer Street Improvements - \$134,562 (committed)

### Special Revenue Fund Balances:

Town Ordinances #1172 and #1372, In lieu of Parking - \$590,469 (committed)

RCW 67.28.1815, Hotel Motel Tax - \$1,119,988 (restricted)

RCW 79.115.150, Harbor Leases - \$2,307 (restricted)

RCW 36.22.178, Low Income - \$12,006 (restricted)

RCW 35.92.380, Affordable Housing, Town Ordinance No. 1277 - \$14,026 (restricted)

### Capital Projects Fund Balances:

RCW 82.46.010, Real Estate Excise Tax 1 - \$1,733,481 (restricted)

RCW 82.46.035, Real Estate Excise Tax 2 - \$910,434 (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: \$121,626 (restricted)

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

### Stormwater Fund Reserve Balances:

Bond Ordinance & Covenants - \$0 (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	2,951,150.00	2,692,487.19	258,662.81
General Capital Reserve	36,700.00	-	36,700.00
Special Revenue	833,100.00	487,656.29	345,443.71
Landfill Closure	43,500.00	40,750.00	2,750.00
Capital Projects	-	-	-
Water	2,501,020.00	2,305,973.19	195,046.81
Water Capital Reserve	415,795.00	313,872.96	101,922.04
Water Bond Redemption	218,550.00	218,204.00	346.00
Sewer	2,569,500.00	2,352,504.58	216,995.42
Sewer Bond Redemption	751,200.00	748,218.89	2,981.11
Sewer Capital Reserve	4,993,580.00	2,409,044.97	2,584,535.03
Refuse	1,252,625.00	1,219,966.37	32,658.63
Refuse Capital Reserve	200,200.00	202,401.06	(2,201.06)
Street	959,295.00	858,528.27	100,766.73
Street Capital Reserve	1,464,725.00	1,181,548.68	283,176.32
Stormwater	527,060.00	496,584.30	30,475.70
Stormwater Bond Redemption	656,500.00	656,596.99	(96.99)
Stormwater Capital Reserve	738,080.00	688,510.41	49,569.59
<b>Total</b>	<b>21,112,580.00</b>	<b>16,872,848.15</b>	<b>4,239,731.85</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 – COVID-19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The precautionary measures taken by the Governor had a smaller than anticipated impact on the Town's sales tax and utility revenues. Sales tax revenues increased in 2021. Many factors could have caused this anomaly, such as: more local shopping and/or more destination sales taxes received due to increased

internet shopping. Additionally, with the utility moratorium ending September 30, 2021, the Town was able to issue payment plans for customers to collect all the utility revenues that were in arrears. Almost all accounts that were impacted by the pandemic were caught up by the end of the year.

Considering Friday Harbor is a tourist destination and was seen as a safer place to visit during the pandemic, hotel motel tax revenues increased to a more stable position. Consequently, this resulted in the overall impact on the Special Revenue Fund ending cash being higher than anticipated.

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 4 – Deposits and Investments

Investments are reported at amortized cost for the 2021 fiscal year due to a process change. Investments were reported at their original cost in prior reporting years. Deposits and investments by type on December 31, 2021, are as follows:

Type of deposit or investment	Town of Friday Harbor's <b>own</b> deposits and investments	Deposits and investments held by the Town as custodian for other local governments, individuals, or private organizations	Total
Bank deposits	\$6,596,999.82	\$17,273.66	\$ 6,614,273.48
Certificates of deposit	-	-	-
Local Government Investment Pool	17,756,223.37	-	17,756,223.37
U.S. Government securities	-	-	-
Other	-	-	-
<b>Total</b>	<b>\$24,353,223.19</b>	<b>\$17,273.66</b>	<b>\$24,370,496.85</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 investment 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 5 – Joint Ventures, Component Unit(s), and Related Parties

#### Related Parties for Fiscal Year 2021

The previous Town Treasurer Wilson and her husband own a towing and car wash business. The Town paid them a total of \$5,909.76 for impounding four junk vehicles for services provided prior to her retirement on 5/7/2021.

### Note 6 – 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 the year ended December 31, 2021.

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

Year	Principal	Interest	Total
2022	1,266,861.56	193,834.26	1,460,695.82
2023	638,012.22	185,227.93	823,240.15
2024	380,753.23	176,603.18	557,356.41
2025	385,200.00	172,955.77	558,155.77
2026	335,492.81	169,225.61	504,718.42
2027 – 2031	1,152,817.50	789,554.97	1,942,372.47
2032 – 2036	916,337.96	690,700.30	1,607,038.26
2037 – 2060	5,371,322.89	1,529,921.28	6,901,244.17
<b>Total</b>	<b>10,446,798.17</b>	<b>3,908,023.30</b>	<b>14,354,821.47</b>

An estimated amortization schedule was created on March 29, 2021, for the DOE WWTP Solids Treatment Upgrade project. This debt was not included in the Schedule 09 or the matrix above. The Town anticipates that final amortization schedule will be available later in fiscal year 2022.

## Note 7 – 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 crossclaims not involving the Town have been stayed. A trial date for the claims involving the Town has not been set.

### 2. Special Item – Property Purchase & Lease

In April 2021, the Town purchased a new Public Works building located at 1000 Guard St for \$640,896. The purchase was made with capital reserves from the water, sewer, refuse, street, and stormwater funds. This property was previously owned by San Juan County. They continue to lease the building until their new Public Works office construction is complete. The revenue from their lease is split equally between the funds that purchased the property. It is anticipated for the Town to take full possession in 2022.

## 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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan. The DRS ACFR 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, 2021 (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	134,247	0.018022%	\$220,091
PERS 2/3			
Total Net Liability (Schedule 09)	134,247		\$220,091

## 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 2021 was \$0.80592 per \$1,000 on an assessed valuation of \$672,519,438 for a total regular levy of \$542,000.

## 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, 2021, 105 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. Pollution, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA allows members with airports to group purchase airport liability coverage, and members with drones to group purchase property and 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 AIG Specialty Insurance Company, and CHUBB in 2021, AWC RMSA carried a retention of \$200,000, NLC MIC reinsures up to \$3 million, AIG Specialty Insurance Company provides excess insurance up to \$50 million, and CHUBB provides 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, 2021, 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 Intermediary Insurance Services. 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.

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 2021.) The Town feels it has sufficient funds within its governmental and proprietary funds to accommodate any unemployment claim that may be forthcoming.

### **Note 11 – Environmental and Certain Asset Retirement Liabilities**

Based on the engineering firm's estimate, the Town of Friday Harbor has the following liabilities associated with the closure of its landfill(s). These amounts were updated in 2020 to values determined by the engineering firm for the years 2021 through 2025. The amounts were last updated for inflation as of January 1, 2020. The ending amount of post-closure costs reported on the Schedule of Liabilities is \$205,692.48.

**Town of Friday Harbor  
Schedule of Liabilities  
For the Year Ended December 31, 2022**

<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>General Obligation Debt/Liabilities</b>						
263.56	Lease Liability - Tower Optical Viewer	12/31/2023	900	-	450	450
263.56	Lease Liability - Postage Machine	1/28/2023	1,676	-	1,676	-
263.56	Lease Liability - Copy Machines	9/20/2027	-	21,800	1,500	20,300
263.56	Lease Liability - Spring Street Parking Lot	5/31/2022	5,250	7,000	12,250	-
263.56	Lease Liability - Spring Street Parking Lot	8/31/2025	-	79,745	10,750	68,995
263.56	Lease Liability - Postage Machine (Quadient)	4/17/2028	-	4,374	-	4,374
263.56	Lease Liability - Pole Space for Radio Meters	1/3/2028	-	29,104	-	29,104
<b>Total General Obligation Debt/Liabilities:</b>			<b>7,826</b>	<b>142,023</b>	<b>26,626</b>	<b>123,223</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	2008 Stormwater Revenue Bonds	12/30/2028	-	-	-	-
252.11	2012 Sewer Revenue Bonds	11/1/2023	295,000	-	295,000	-
252.11	USDA Water Transmission Main Loan	11/30/2058	4,911,758	-	77,557	4,834,201
252.11	USDA Sewer Tertiary Filter & Headworks	4/30/2060	2,296,739	-	45,645	2,251,094
252.11	USDA Sewer Headworks	4/30/2060	435,252	-	8,651	426,601
259.12	Compensated Absences		247,707	254,724	282,482	219,949
263.22	Landfill Closure & Postclosure		205,692	-	46,925	158,767
263.84	2008 DOE Sewer Submarine Interceptor Loan	5/31/2029	867,058	-	115,608	751,450
263.84	2019 DOE Sewer Outfall Replacement Design Loan	10/1/2040	123,795	-	1,948	121,847
263.84	2019 DOE General Facility Plan Loan	4/30/2040	60,737	-	2,741	57,996
263.88	2001 PWFT Sewer Fund Loan	7/1/2021	-	-	-	-
263.88	2002 PWTF Sewer Fund Loan	7/1/2022	178,000	-	178,000	-
263.88	2003 PWTF Sewer Fund Loan	7/1/2023	223,201	-	111,601	111,600
263.88	2006 PWFT Sewer Fund Loan	7/1/2026	105,262	-	21,053	84,209
263.88	2008 PWTF Sewer Fund Loan	7/1/2027	276,506	-	46,084	230,422
264.30	Pension Liabilities		220,091	270,264	-	490,355
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>10,446,798</b>	<b>524,988</b>	<b>1,233,295</b>	<b>9,738,491</b>
<b>Total Liabilities:</b>			<b>10,454,624</b>	<b>667,011</b>	<b>1,259,921</b>	<b>9,861,714</b>

**Town of Friday Harbor  
Schedule of Liabilities  
For the Year Ended December 31, 2021**

<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	395,000	-	395,000	-
252.11	2012 Sewer Revenue Bonds	11/1/2023	435,000	-	140,000	295,000
252.11	USDA Water Transmission Main Loan	11/30/2058	4,987,133	-	75,375	4,911,758
252.11	USDA Sewer Tertiary Filter & Headworks	4/30/2060	2,341,763	-	45,024	2,296,739
252.11	USDA Sewer Headworks	4/30/2060	443,785	-	8,533	435,252
259.12	Compensated Absences		299,679	268,762	320,734	247,707
263.22	Landfill Closure & Postclosure		237,161	-	31,469	205,692
263.84	2008 DOE Sewer Submarine Interceptor Loan	5/31/2029	982,666	-	115,608	867,058
263.84	2019 DOE Sewer Outfall Replacement Design Loan	10/1/2040	84,747	39,048	-	123,795
263.84	2019 DOE General Facility Plan Loan	4/30/2040	62,213	482	1,958	60,737
263.88	2001 PWFT Sewer Fund Loan	7/1/2021	21,804	-	21,804	-
263.88	2002 PWTF Sewer Fund Loan	7/1/2022	356,000	-	178,000	178,000
263.88	2003 PWTF Sewer Fund Loan	7/1/2023	334,802	-	111,601	223,201
263.88	2006 PWFT Sewer Fund Loan	7/1/2026	126,315	-	21,053	105,262
263.88	2008 PWTF Sewer Fund Loan	7/1/2027	322,590	-	46,084	276,506
264.30	Pension Liabilities		916,952	-	696,861	220,091
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>12,347,610</b>	<b>308,292</b>	<b>2,209,104</b>	<b>10,446,798</b>
<b>Total Liabilities:</b>			<b>12,347,610</b>	<b>308,292</b>	<b>2,209,104</b>	<b>10,446,798</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

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.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, [www.sao.wa.gov](http://www.sao.wa.gov). Additionally, we share regular news and other information via an email subscription service and social media channels.

We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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