



Office of the Washington State Auditor
Pat McCarthy

**Financial Statements and Federal Single Audit
Report**

Town of Carbonado

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

Published September 30, 2019

Report No. 1024751





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

September 30, 2019

Mayor and Town Council
Town of Carbonado
Carbonado, Washington

Report on Financial Statements and Federal Single Audit

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Town of Carbonado **January 1, 2018 through December 31, 2018**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

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

Financial Statements

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

Internal Control over Financial Reporting:

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

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

Federal Awards

Internal Control over Major Programs:

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

We issued an unmodified opinion on the Town's compliance with requirements applicable to its major federal program.

We reported findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

Identification of Major Federal Programs

The following program was selected as a major program in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
66.458	Clean Water State Revolving Fund Cluster – Capitalization Grants for Clean Water State Revolving Funds

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

See finding 2018-001.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

See finding 2018-002.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

Town of Carbonado

January 1, 2018 through December 31, 2018

2018-001 The Town's internal controls over financial statement preparation were inadequate to ensure accurate and reliable financial reporting.

Background

Town management is responsible for designing, implementing and maintaining internal controls to ensure the financial statements are fairly presented, and to provide reasonable assurance regarding the reliability of financial reporting.

The Town prepares its financial statements in accordance with the cash basis accounting method, as prescribed by the State Auditor's Office *Budgeting, Accounting and Reporting System* (BARS) Manual. Our audit identified deficiencies in the Town's internal controls over financial reporting that hindered the Town's ability to produce reliable financial statements, notes and required schedules.

Government Auditing Standards requires the auditor to communicate significant deficiencies in internal controls, as defined in the Applicable Laws and Regulations section below, as a finding.

Description of Condition

Our audit identified the following internal control deficiencies that, when taken together, represent a material weakness:

- Town staff responsible for compiling financial information lacked technical knowledge and experience necessary to accurately prepare the financial statements, notes to the financial statements, schedule of expenditures of federal awards (SEFA), and schedule of liabilities.
- The Town lacked an effective review process to ensure it accurately reported amounts in financial statements and schedules under BARS Manual requirements.
- The Town did not have a process in place to ensure it properly recorded open period transactions under current BARS Manual requirements.

These issues were not reported as a finding in the prior audit.

Cause of Condition

The Town had a limited amount of staff and resources to dedicate to the financial reporting function. There was a large federal expenditure in December 2018, which was reimbursed in January 2019. The Town staff incorrectly reported this reimbursement in 2018.

Further, the Town did not have an independent review of the financial statements, notes, schedule of expenditures of federal awards, and schedule of long-term liabilities to identify errors.

Effect of Condition

We found the following errors during our audit of the Town's financial statements. The Town:

- Reported a negative ending cash balance of \$646,145 in the Sewer Utility Fund
- Reported federal expenditures of \$364,981 incorrectly as a loan on the SEFA. These were federal expenditures to a grant, not a loan.
- Reported a loan of \$364,981 on the Schedule of Liabilities. This loan did not exist.
- The Town had a \$21,417 variance between its financial transactions and bank reconciliation.
- The Town reported \$85,107 for Volunteer Firefighters Relief and Pension Fund as a liability, instead of an asset in the notes to the financial statements.

Recommendations

We recommend the Town dedicate the necessary time and resources to establish internal controls over recording, reviewing, and accurately reporting financial information. This includes adequately training staff responsible for financial accounting and reporting.

We further recommend the Town ensure it conducts a thorough, independent review of its financial activity, including financial statements and related schedules, to ensure accurate presentation.

Town's Response

The Town agrees with the Auditor's finding of inadequate controls over financial statement preparation to ensure accurate and reliable financial reporting.

The Town is dedicated to accurate financial reporting and will provide additional training for staff responsible for financial accounting and reporting. The Town is

also concerned with the variance between our financial transaction and bank reconciliation, we are working with our software provider to identify when and why the variance occurred.

Auditor's Remarks

We appreciate the steps the Town is taking to resolve this issue and we thank the Town for its cooperation during the audit. We will review the condition during our next audit.

Applicable Laws and Regulations

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its Codification of Statements on Auditing Standards, section 935, Compliance Audits, paragraph 11.

SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Town of Carbonado January 1, 2018 through December 31, 2018

2018-002 The Town did not have adequate internal controls in place to ensure compliance with federal procurement requirements.

CFDA Number and Title:	66.458 Capitalization Grants for Clean Water State Revolving Funds
Federal Grantor Name:	Environmental Protection Agency
Federal Award/Contract Number:	N/A
Pass-through Entity Name:	Washington State Department of Ecology
Pass-through Award/Contract Number:	EF WQC Carbon-2018-00029, ELI18021617/WQC-2018-Carbon- 00029, WQC-2016-Carbon- 00147Loan-EF160599
Questioned Cost Amount:	\$0

Background

During fiscal year 2018, the Town spent \$1,054,711 in federal grant funds awarded by the U.S. Environmental Protection Agency and passed through by the Washington State Department of Ecology. The Town used program funding on water and sewer line replacement projects.

Federal regulations require recipients to establish and follow internal controls to ensure compliance with program requirements. These controls include understanding grant requirements and monitoring the effectiveness of established controls.

Description of Condition

Federal regulations require grant recipients to establish and follow their own written procurement procedures, which must reflect applicable state, local and federal laws. The procedures must conform to federal procurement thresholds and procedures to ensure recipients follow the most restrictive of federal, state or local procurement methods when using federal funds. The Town did not establish written procurement procedures before procurement transactions occurred, as required.

Federal grant regulations also require recipients to maintain written standards of conduct covering conflicts of interest and governing the actions of employees engaged in the selection, award or administration of contracts procured with federal funds. The Town did not establish written standards of conduct by January 1, 2018, as required by federal regulations.

We consider these control deficiencies to be material weaknesses

These issues were not reported as a finding in the prior audit.

Cause of Condition

The Town was not aware of the requirement to have written procurement and standards of conduct procedures that conform to federal regulations. Therefore, the Town did not establish written procurement or standards of conduct procedures or policies, as required.

Effect of Condition and Questioned Costs

Without written procedures, the Town cannot ensure it will comply with federal procurement and standards of conduct requirements when procuring transactions paid with federal funds. Although policies or procedures were not in place, the Town complied with federal requirements to solicit sealed bids.

Recommendation

We recommend the Town establish and follow written procurement and standards of conduct procedures that conform with federal requirements.

Town's Response

The Town agrees with the Auditor's finding of inadequate internal controls in place to ensure with federal procurement requirements.

Moving forward, On July 18th, 2019, the Town adopted Resolution No. 304, A Resolution of the Town of Carbonado, Pierce County, Washington, Adopting the Procurement, Cash Advance and Conflict of Interest Policies.

Auditor's Remarks

We appreciate the steps the Town is taking to resolve this issue and we thank the Town for its cooperation during the audit. We will review the condition during our next audit.

Applicable Laws and Regulations

Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Title 2 CFR Part 200, Uniform Guidance, section 303, Internal controls, establishes internal control requirements for management of Federal awards for non-Federal entities.

Title 2 CFR Part 200, Uniform Guidance, section 318, General procurement standards, establishes requirements for written procedures.

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

**Town of Carbonado
January 1, 2018 through December 31, 2018**

Mayor and Town Council
Town of Carbonado
Carbonado, 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 Carbonado, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated September 23, 2019.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 2018-001 to be material weaknesses.

COMPLIANCE AND OTHER MATTERS

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

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

TOWN'S RESPONSE TO FINDINGS

The Town's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

September 23, 2019

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

**Town of Carbonado
January 1, 2018 through December 31, 2018**

Mayor and Town Council
Town of Carbonado
Carbonado, Washington

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

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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

Opinion on Each Major Federal Program

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Federal Award Findings and Questioned Costs as Finding 2018-002 to be a material weakness.

Town's Response to Findings

The Town's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Award Findings and Questioned Costs. The Town's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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



Pat McCarthy
State Auditor
Olympia, WA

September 23, 2019

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Town of Carbonado **January 1, 2018 through December 31, 2018**

Mayor and Town Council
Town of Carbonado
Carbonado, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Town of Carbonado, for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Town's financial statements, as listed on page 21.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Town of Carbonado, and its changes in cash and investments, for the year ended December 31, 2018, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

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

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2019 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Pat McCarthy

State Auditor

Olympia, WA

September 23, 2019

FINANCIAL SECTION

Town of Carbonado January 1, 2018 through December 31, 2018

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

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

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

		Total for All Funds (Memo Only)	001 Current Expense	101 City Streets	103 Education
Beginning Cash and Investments					
30810	Reserved	146,120	1,230	51,892	60,000
30880	Unreserved	1,092,400	535,491	44,173	43,194
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	227,526	171,478	15,424	-
320	Licenses and Permits	27,476	27,476	-	-
330	Intergovernmental Revenues	148,444	37,298	43,728	-
340	Charges for Goods and Services	682,677	108,129	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	32,880	17,078	-	500
Total Revenues:		1,119,003	361,459	59,152	500
Expenditures					
510	General Government	95,005	95,005	-	-
520	Public Safety	85,626	61,876	-	-
530	Utilities	430,831	88,478	-	-
540	Transportation	21,085	-	21,085	-
550	Natural and Economic Environment	509	509	-	-
560	Social Services	169	169	-	-
570	Culture and Recreation	6,482	4,482	-	2,000
Total Expenditures:		639,708	250,519	21,085	2,000
Excess (Deficiency) Revenues over Expenditures:		479,296	110,940	38,067	(1,500)
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	58,429	-	-	-
397	Transfers-In	373,051	-	9,132	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	6,853	6,853	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		438,333	6,853	9,132	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	1,139,228	31	35,366	-
591-593, 599	Debt Service	100,638	-	-	-
597	Transfers-Out	373,051	158,380	7,132	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	7,725	7,725	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,620,642	166,135	42,498	-
Increase (Decrease) in Cash and Investments:		(703,013)	(48,342)	4,701	(1,500)
Ending Cash and Investments					
5081000	Reserved	246,374	1,230	67,344	60,000
5088000	Unreserved	289,133	487,149	33,422	41,694
Total Ending Cash and Investments		535,507	488,379	100,766	101,694

The accompanying notes are an integral part of this statement.

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

		105 Emergency Medical Services	301 Capital Improvement Fund	401 Water Utility	402 Sewer Utility
Beginning Cash and Investments					
30810	Reserved	-	-	-	32,998
30880	Unreserved	17,914	112,416	246,220	49,180
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	18,468	22,156	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,222	-	7,767	58,429
340	Charges for Goods and Services	6,600	-	317,878	247,809
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,202	-	12,430	1,671
Total Revenues:		27,492	22,156	338,075	307,909
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	23,751	-	-	-
530	Utilities	-	-	207,849	134,472
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		23,751	-	207,849	134,472
Excess (Deficiency) Revenues over Expenditures:		3,741	22,156	130,226	173,437
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	58,429
397	Transfers-In	-	-	154,857	176,411
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	(321)	321
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	154,537	235,161
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	50,486	1,053,346
591-593, 599	Debt Service	-	-	59,687	40,951
597	Transfers-Out	-	-	121,102	42,626
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	231,275	1,136,922
Increase (Decrease) in Cash and Investments:		3,741	22,156	53,487	(728,325)
Ending Cash and Investments					
5081000	Reserved	-	-	79,600	38,200
5088000	Unreserved	21,655	134,572	220,108	(684,345)
Total Ending Cash and Investments		21,655	134,572	299,708	(646,145)

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

		403 Stormwater Utility
		<hr/>
Beginning Cash and Investments		
30810	Reserved	-
30880	Unreserved	43,811
388 / 588	Prior Period Adjustments, Net	-
Revenues		
310	Taxes	-
320	Licenses and Permits	-
330	Intergovernmental Revenues	-
340	Charges for Goods and Services	2,261
350	Fines and Penalties	-
360	Miscellaneous Revenues	-
Total Revenues:		<hr/> 2,261
Expenditures		
510	General Government	-
520	Public Safety	-
530	Utilities	33
540	Transportation	-
550	Natural and Economic Environment	-
560	Social Services	-
570	Culture and Recreation	-
Total Expenditures:		<hr/> 33
Excess (Deficiency) Revenues over Expenditures:		<hr/> 2,228
Other Increases in Fund Resources		
391-393, 596	Debt Proceeds	-
397	Transfers-In	32,650
385	Special or Extraordinary Items	-
386 / 389	Custodial Activities	-
381, 395, 398	Other Resources	-
Total Other Increases in Fund Resources:		<hr/> 32,650
Other Decreases in Fund Resources		
594-595	Capital Expenditures	-
591-593, 599	Debt Service	-
597	Transfers-Out	43,811
585	Special or Extraordinary Items	-
586 / 589	Custodial Activities	-
581	Other Uses	-
Total Other Decreases in Fund Resources:		<hr/> 43,811
Increase (Decrease) in Cash and Investments:		<hr/> (8,933)
Ending Cash and Investments		
5081000	Reserved	-
5088000	Unreserved	34,878
Total Ending Cash and Investments		<hr/> 34,878

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

Note 1 - Summary of Significant Accounting Policies

The Town of Carbonado was incorporated on 1948 and operates under the laws of the state of Washington applicable to a town. The town is a general-purpose local government and provides general government services, fire protection, street improvement, parks and recreation, and general administrative services. In addition, the Town owns a water, sewer, and storm drain utility systems. The Town contracts out for law enforcement, municipal court, and solid waste services.

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

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

A. **Fund Accounting**

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

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 an agent on behalf of others.

Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

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 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 in excess of 1 year. Capital assets and inventory are recorded as capital expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 30 days or 120 hours and is payable upon separation or retirement. Sick leave may be accumulated 320 hours. Upon separation or retirement employees do receive 25% payment for unused sick leave. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 5, Debt Service Requirements.

G. Reserved Portion of Ending Cash and Investments

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

Reservations of Ending Cash and Investments consist of:

002	Cemetery CD	\$ 1,230.00
101	Streets-TBD	\$67,344.00
103	Education	\$60,000.00
411	Water USDA Debt Reserve	\$79,600.00
421	Sewer USDA Debt Reserve	\$38,200.00

Note 2 – Budget Compliance

A. Budgets

The town adopts annual appropriated budgets for all funds. These budgets are appropriated at the fund level fund. 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 follow:

Fund	Title	Budget	Fiscal	Balance
001	Current Expense	\$593,610.00	\$447,653.78	\$145,956.22
030	Fire & EMS Capital Reserve	\$31,000.00	\$0.00	\$31,000.00
101	City Streets	\$608,081.00	\$63,582.72	\$544,498.28
103	Education	\$10,000.00	\$2,000.00	\$8,000.00
105	Emergency Medical Services	\$23,790.00	\$23,750.81	\$39.19
401	Water Utility	\$562,165.00	\$357,682.77	\$204,482.23
402	Sewer Utility	\$350,508.00	\$218,048.37	\$132,459.63
403	Stormwater Utility	\$79,455.00	\$43,844.14	\$35,610.86
404	Water Reserves	\$83,000.00	\$57,742.50	\$25,257.50
405	Sewer Reserves	\$40,000.00	\$39,552.16	\$447.84
410	Water Capital Improvement Reserves	\$5,081,600.00	\$83,002.20	\$4,998,597.80
411	Water USDA-RD Debt Reserve-Restricted-2 loans	\$0.00	\$0.00	\$0.00

412	Water USDA-RD Short Lived Assets (for items less than \$5,000 not budgeted for Res 276)	\$0.00	\$0.00	\$0.00
413	Water Emergency Reserve- Immediate Capital Needs was not budgeted for	\$0.00	\$0.00	\$0.00
414	Water Operations & Maintenance Reserve (45 Days of O&M)	\$0.00	\$0.00	\$0.00
420	Sewer Capital Improvement Reserve	\$9,393,618.00	\$1,053,345.68	\$8,340,272.32
421	Sewer USDA-RD Debt Reserve- Restricted-1 loan	\$0.00	\$0.00	\$0.00
422	Sewer USDA-RD Short Lived Assets (for items less than \$5,000 not budgeted for Res-276)	\$0.00	\$0.00	\$0.00
423	Sewer Emergency Reserve- Immediate Capital Needs was not budgeted for	\$0.00	\$0.00	\$0.00
424	Sewer Operations & Maintenance Reserve (45 days of O&M)	\$0.00	\$0.00	\$0.00
		\$16,856,827.00	\$2,390,205.13	\$14,466,621.87

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the town's legislative body.

Note 3 – Deposits and Investments

It is the town policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds (or if not prorated, explain your unique circumstances).

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

Investments are reported at fair value. Investments by type at December 31, 2018 are as follows:

Type of Investment	Town's own investment	Total
Certificate of Deposit	\$1,230.00	\$1,230.00
Total	\$1,230.00	\$1,230.00

Note 4 - Property Tax

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

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

The town's regular levy for the year 2018 was \$1.296401869587 per \$1,000 on an assessed valuation of \$51,048,627 for a total regular levy of \$60,932.19.

The town has a permanent EMS levy for the year 2018 was \$0.391064540537 per \$1,000 on an assessed valuation of \$51,048,627 for a total regular levy of \$18,380.42.

Note 5 – Debt Service Requirements

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

The debt service requirements for revenue bonds as follows:

	PRINCIPAL	INTEREST	TOTAL
2019	\$ 68,020.44	\$ 31,915.48	\$ 99,935.92
2020	\$ 68,575.63	\$ 30,323.72	\$ 98,899.35
2021	\$ 57,993.47	\$ 28,743.22	\$ 86,736.69
2022	\$ 58,464.95	\$ 27,235.15	\$ 85,700.10
2023	\$ 58,956.10	\$ 25,707.45	\$ 84,663.55
2024-2028	\$ 220,852.82	\$ 106,504.09	\$ 327,356.91
2029-2033	\$ 85,233.61	\$ 79,756.39	\$ 164,990.00
2034-2038	\$ 104,537.71	\$ 60,452.29	\$ 164,990.00
2039-2043	\$ 128,213.86	\$ 36,776.14	\$ 164,990.00
2044-2047	\$ 104,058.44	\$ 8,809.38	\$ 112,867.82
TOTALS	\$ 954,907.03	\$ 436,223.31	\$ 1,391,130.34

Note 6 – Pension Plans

A. State Sponsored Pension Plans

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

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

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

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

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

The town also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

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

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$ 7,607.00	0.001138%	\$ 50,823.00
PERS 2/3	\$ 11,224.00	0.001455%	\$ 24,843.00
VFFRPF	\$ 330.00	0.160000%	\$ (85,107.47)

Note 7 – Risk Management

The Town of Carbonado is a member of the Association of Washington Cities Risk Management Service Agency (AWC RMSA). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC RMSA was formed on January 1, 1989, when 32 municipalities in the State of Washington joined by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 31, 2018, 100 municipalities/entities participate in the AWC RMSA pool.

The AWC RMSA allows members to establish a program of joint insurance and provides risk management services to all members. All coverages, with the exception of pollution liability, are on an occurrence basis. The AWC RMSA provides all risk property, comprehensive crime, general liability, automobile liability, police liability, public officials' liability, employee fidelity and faithful performance, pollution liability, cyber liability, and equipment breakdown insurance coverage. Equipment breakdown is included with the property insurance carrier and fidelity (crime), pollution liability, and cyber liability coverages are stand-alone policies, which the AWC RMSA procures for its members. The AWC RMSA

also allows members with airports to group purchase airport liability coverage.

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by Berkley Public Entity for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Allied World National Assurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The excess property coverage is purchased through Lexington Insurance Company and in 2018, AWC RMSA carried a retention of \$100,000 and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

Members contract to remain in the AWC RMSA pool for a minimum of one year and must give a one-year notice before terminating participation. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were signatory to the Interlocal Governmental Agreement.

The AWC RMSA establishes a loss fund for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses.

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

Note 8 - Other Disclosures

Per USDA requirements, Water and Sewer were moved from one fund, Fund 401, to two funds, Fund 401 and Fund 402. Council decided with Ordinance number 465 to add many managerial funds to help hold reserves and bond reserves for water and sewer.

Previous Funds:

- 401 Water & Sewer
- 402 Water & Sewer USDA Bond Reserve
- 403 Water & Sewer Repair & Replace
- 404 Water Capital Improvements Reserves
- 405 Sewer Capital Improvements Reserves
- 410 Stormwater

Current Funds:

- 401 Water
- 402 Sewer
- 403 Stormwater
- 410 Water Construction
- 411 Water USDA Debt Reserve
- 412 Water USDA Short-lived Assets
- 413 Water Emergency Reserve
- 414 Water Operations Improvement Reserves
- 420 Sewer Construction

421 Sewer USDA Debt Reserve
422 Sewer USDA Short-lived Assets
423 Sewer Emergency Reserve
424 Sewer Operations Improvement Reserves

The money used to establish the reserves was excess monies from the General Fund and the combined utility fund, Fund 401 Water & Sewer, approved by Council. This affected ending balances because they were distributed between the new funds.

Resolution 275 the town entered into an agreement with the Local Government Investment Pool, LGIP, to invest excess funds. Because of the large utility projects, town funds are not being invested at this time.

Resolution 276 reducing capital assets from \$25,000 to \$5,000 to bring this more in line with best practice standards.

As in previous audits, there has been residual from the 941 issue that happened in 2014 through 2016. It has been resolved as far as the Town is concerned.

Fund 402, Sewer, has a significant negative ending balance. This is a timing issue between receiving reimbursement for work done for the Utility Replacement Project grants and paying for it out of the financial system. At no time was the bank account in a negative status.

It was brought to the Town's attention that Fund 103 Education should be a 700 level fund. It was not possible to attain this goal in 2018. It is scheduled to be moved during the 2019 Budget Amendment.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absenses	12/31/2018	1,257	8,880	3,801	6,336
252.11	USDA/US Bank-Water Loan 2007	4/20/2047	558,272	-	10,073	548,199
263.82	DWSRF-Water Loan 05-9600-007	10/1/2026	66,423	-	7,161	59,262
263.82	DWSFR-Water Loan 03-65103-013	10/1/2024	118,126	-	16,760	101,366
263.82	ECY-Sewer Design Forgivable Loan WQC-2016-Carbon-00147	10/1/2037	371,943	58,429	-	430,372
263.82	ECY-Sewer Design WQC-2016- Carbon-00147	10/1/2037	371,943	58,429	-	430,372
263.82	PWB-Emergency Loan	7/1/2028	246,670	-	22,424	224,246
263.82	ECY-Sewer Plan LI4S0012	12/1/2020	32,744	-	10,795	21,949
264.30	Net Pension Liability	12/31/2018	107,973	-	32,307	75,666
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,875,351	125,738	103,321	1,897,768
Total Liabilities:			1,875,351	125,738	103,321	1,897,768

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Passed through to Subrecipients	
CDBG - Entitlement Grants Cluster							
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Department of Commerce)	Community Development Block Grants/Entitlement Grants	14.218	B-16-JC-53- 0002/NOFA-16- 001-CDBG-PF	39,925	-	-	1
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Department of Commerce)	Community Development Block Grants/Entitlement Grants	14.218	B-17-JC-53- 0002/NOFA-16- 001-CDBG-PF	9,011	-	-	1
Total CDBG - Entitlement Grants Cluster:				48,936	-	-	
Clean Water State Revolving Fund Cluster							
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Department of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2016- Carbon-00147 Grant Only	1,365	-	-	1, 2
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Department of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2016- Carbon-00147- Forgivable Loan EF160599	49,045	-	-	1, 2
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Department of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	WQC-2016- Carbon-00147- Loan EF160599	49,045	-	-	1, 2

The accompanying notes are an integral part of this schedule.

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

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Passed through to Subrecipients	Note
				From Pass- Through Awards	From Direct Awards	Total		
ENVIRONMENTAL PROTECTION AGENCY, ENVIRONMENTAL PROTECTION AGENCY (via Department of Ecology)	Capitalization Grants for Clean Water State Revolving Funds	66.458	Grant EF WQC Carbon-2018- 00029	955,256	-	955,256	-	1, 2
Total Clean Water State Revolving Fund Cluster:				1,054,711	-	1,054,711	-	
Total Federal Awards Expended:				1,103,647	-	1,103,647	-	

The accompanying notes are an integral part of this schedule.

Town of Carbonado

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

Note 1 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the town's financial statements. The town uses the cash basis of accounting.

Note 2 – Federal Loans

The town was approved by the EPA and Department of Ecology to receive a loan totaling \$2,935,258 to improve its wastewater collection system. The town previously approved by EPA and Department of Ecology to receive a loan totaling \$420,000 for design of the wastewater collection system. The amount listed for these loans includes the proceeds used during the year.

Note 3 – Indirect Cost Rate

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



Town of Carbonado

Mayor Wally Snover

818 8th Ave. PO Box 91, Carbonado, WA 98323 / 360 829-0125 / clerk@carbonado.org

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER UNIFORM GUIDANCE

Town of Carbonado
January 1, 2018 through December 31, 2018

This schedule presents the corrective action planned by the Town for findings reported in this report in accordance with Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Finding ref number: 2018-001	Finding caption: The town's internal controls over financial statement preparation were inadequate to ensure accurate and reliable financial reporting.
Name, address, and telephone of Town contact person: Daillene Argo 818 8th Avenue Carbonado, WA 98323 (360) 829-0125	
Corrective action the auditee plans to take in response to the finding: <i>The Town agrees with the Auditor's finding of inadequate controls over financial statement preparation to ensure accurate and reliable financial reporting.</i> <i>The Town is dedicated to accurate financial reporting and will provide additional training for staff responsible for financial accounting and reporting. The Town is also concerned with the variance between our financial transaction and bank reconciliation, we are working with our software provider to identify when and why the variance occurred.</i>	
Anticipated date to complete the corrective action: 10/31/2019	

Finding ref number: 2018-002	Finding caption: The Town did not have adequate internal controls in place to ensure compliance with federal procurement requirements.
Name, address, and telephone of Town contact person: Daillene Argo 818 8th Avenue Carbonado, WA 98323 (360) 829-0125	
Corrective action the auditee plans to take in response to the finding: <i>The Town agrees with the Auditor's finding of inadequate internal controls in place to ensure with federal procurement requirements.</i> <i>Moving forward, On July 18th 2019, the Town adopted Resolution No. 304, A Resolution of the Town of Carbonado, Pierce County, Washington, Adopting the Procurement, Cash Advance and Conflict of Interest Policies.</i>	
Anticipated date to complete the corrective action: 10/31/2019	

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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