



Office of the Washington State Auditor
Pat McCarthy

Financial Statements and Federal Single Audit Report

Town of Carbonado

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

Published March 31, 2022

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

March 31, 2022

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, 2020 through December 31, 2020

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 no deficiencies that we consider to be material weaknesses.

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

Federal Awards

Internal Control over Major Programs:

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

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

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

Identification of Major Federal Programs

The following 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>
10.760	Water and Waste Disposal Systems for Rural Communities

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

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

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

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 Carbonado January 1, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Town's financial statements, and have issued our report thereon dated March 22, 2022.

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

As discussed in Note 3 to the 2020 financial statements, the full extent of the COVID-19 pandemic's direct or indirect financial impact on the Town of Carbonado is unknown.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy, State Auditor

Olympia, WA

March 22, 2022

INDEPENDENT AUDITOR'S REPORT

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, 2020 through December 31, 2020

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, 2020. 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, 2020.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

Purpose of this Report

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

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

Pat McCarthy, State Auditor

Olympia, WA

March 22, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

Town of Carbonado January 1, 2020 through December 31, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the Town's financial statements, as listed on page 15.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the Town of Carbonado, and its changes in cash and investments, for the year ended December 31, 2020, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

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

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Town of Carbonado, as of December 31, 2020, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matter of Emphasis

As discussed in Note 3 to the 2020 financial statements, the full extent of the COVID-19 pandemic’s direct or indirect financial impact on the Town of Carbonado is unknown. Our opinion is not modified with respect to this matter.


Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Schedule of 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 also 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 March 22, 2022 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

March 22, 2022

FINANCIAL SECTION

Town of Carbonado January 1, 2020 through December 31, 2020

FINANCIAL STATEMENTS

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

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2020
Schedule of Expenditures of Federal Awards – 2020

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

		Total for All Funds (Memo Only)	001 Current Expense	101 City Streets	103 Education
Beginning Cash and Investments					
308	Beginning Cash and Investments	2,012,302	602,070	53,141	99,694
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	249,480	183,837	15,186	-
320	Licenses and Permits	23,678	23,678	-	-
330	Intergovernmental Revenues	2,514,108	49,679	131,665	-
340	Charges for Goods and Services	834,120	139,374	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	35,209	25,815	5,000	-
Total Revenues:		3,656,595	422,383	151,851	-
Expenditures					
510	General Government	146,701	146,701	-	-
520	Public Safety	71,736	49,735	-	-
530	Utilities	476,486	112,006	-	-
540	Transportation	38,870	-	38,870	-
550	Natural/Economic Environment	397	397	-	-
560	Social Services	191	191	-	-
570	Culture and Recreation	10,782	10,782	-	-
Total Expenditures:		745,163	319,812	38,870	-
Excess (Deficiency) Revenues over Expenditures:		2,911,432	102,571	112,981	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	149,181	78,694	45,487	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		149,181	78,694	45,487	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,733,893	26,142	87,171	-
591-593, 599	Debt Service	190,774	-	-	-
597	Transfers-Out	149,181	48,487	-	99,694
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		3,073,848	74,629	87,171	99,694
Increase (Decrease) in Cash and Investments:		(13,235)	106,636	71,297	(99,694)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	562,531	-	72,144	-
50841	Committed	600,534	-	-	-
50851	Assigned	248,070	120,776	52,294	-
50891	Unassigned	587,929	587,929	-	-
Total Ending Cash and Investments		1,999,064	708,705	124,438	-

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, 2020

		105 Emergency Medical Services	301 Capital Improvement Fund	401 Water Utility	402 Sewer Utility
Beginning Cash and Investments					
308	Beginning Cash and Investments	29,776	169,352	432,207	584,620
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	19,143	31,314	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	1,260	-	2,025,337	306,167
340	Charges for Goods and Services	6,841	-	403,693	277,483
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	1,003	-	3,203	188
Total Revenues:		28,247	31,314	2,432,233	583,838
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	22,001	-	-	-
530	Utilities	-	-	245,158	119,221
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		22,001	-	245,158	119,221
Excess (Deficiency) Revenues over Expenditures:		6,246	31,314	2,187,075	464,617
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	2,089,824	530,756
591-593, 599	Debt Service	-	-	113,057	77,717
597	Transfers-Out	1,000	-	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		1,000	-	2,202,881	608,473
Increase (Decrease) in Cash and Investments:		5,246	31,314	(15,806)	(143,856)
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	-	200,667	168,512	121,208
50841	Committed	35,024	-	202,886	289,554
50851	Assigned	-	-	45,000	30,000
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		35,024	200,667	416,398	440,762

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

		403 Stormwater Utility	701 Education Fund
Beginning Cash and Investments			
308	Beginning Cash and Investments	41,442	-
388 / 588	Net Adjustments	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	6,729	-
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	-	-
Total Revenues:		6,729	-
Expenditures			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	101	-
540	Transportation	-	-
550	Natural/Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		101	-
Excess (Deficiency) Revenues over Expenditures:		6,628	-
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	25,000
385	Special or Extraordinary Items	-	-
381, 382, 389, 395, 398	Other Resources	-	-
Total Other Increases in Fund Resources:		-	25,000
Other Decreases in Fund Resources			
594-595	Capital Expenditures	-	-
591-593, 599	Debt Service	-	-
597	Transfers-Out	-	-
585	Special or Extraordinary Items	-	-
581, 582, 589	Other Uses	-	-
Total Other Decreases in Fund Resources:		-	-
Increase (Decrease) in Cash and Investments:		6,628	25,000
Ending Cash and Investments			
50821	Nonspendable	-	-
50831	Restricted	-	-
50841	Committed	48,070	25,000
50851	Assigned	-	-
50891	Unassigned	-	-
Total Ending Cash and Investments		48,070	25,000

The accompanying notes are an integral part of this statement.

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

		<u>Custodial</u>
308	Beginning Cash and Investments	-
388 & 588	Net Adjustments	-
310-390	Additions	272
510-590	Deductions	266
	Net Increase (Decrease) in Cash and Investments:	6
508	Ending Cash and Investments	7

The accompanying notes are an integral part of this statement.

Town of Carbonado

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

The Town of Carbonado was incorporated in 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 and administrative services, fire protection, street improvement, parks and recreation, and water, sewer, and storm drain.

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 presented using classifications that are similar to the ending balance classification in GAAP.

A. Fund Accounting

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

GOVERNMENTAL FUND TYPES:

General Fund

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

Special Revenue Funds

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

Capital Projects Funds

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

Permanent Funds

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

PROPRIETARY FUND TYPES:

Enterprise Funds

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.

Private-Purpose Trust Funds

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

Custodial Funds

These funds are used to account 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 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 one (1) year. Capital assets and inventory are recorded as capital expenditures when purchased. Small Tools and Equipment are assets with an initial individual cost of between \$500 and \$5,000 and an estimated useful life of at least one (1) year. In 2020, the Town is receiving help to develop and implement an asset management program with Department of Ecology and USDA-RD.

E. Compensated Absences

Vacation leave may be accumulated up to 30 days or 240 hours and is payable upon separation or retirement. Sick leave may be accumulated up to 40 days or 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 4 – *Long-term Debt*.

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 intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of:

Unassigned Ending Cash and Investments:

001 Current Expense

Assigned Ending Cash and Investments-Council intent to save or use monies for a specific purpose:

030 Fire & EMS Capital Reserve

110 Transportation Benefit District Managerial Fund

401 Water Fund-Provide safe drinking water to Town

402 Sewer Fund-Provide sewer to Town

403 Stormwater Fund-Provide appropriate stormwater drainage to Town.

413 Water Emergency Reserve-Immediate Capital Needs was not budgeted for.

414 Water Operations & Maintenance Reserve (45 Days of O&M)

423 Sewer Emergency Reserve-Immediate Capital Needs was not budgeted for

424 Sewer Operations & Maintenance Reserve (45 Days of O&M)

Committed Ending Cash and Investments-By Council Ordinance-very specific with details

010 Education Scholarship Fund

105 Emergency Medical Services

401 Water Fund-Provide safe drinking water to Town

402 Sewer Fund-Provide sewer to Town

403 Stormwater Fund-Provide appropriate stormwater drainage to Town.

701 Education Fund

Restricted Ending Cash and Investments-By State, Federal, or contractual basis requirements

101 Street Fund

301 Capital Improvement Fund

410 Water Capital Improvement Reserve Fund (Construction)

411 Water USDA-RD Debt Reserve-Restricted-2 loans

412 Water USDA-RD Short Lived Assets (for items less than \$5,000 not budgeted for Res 276)

- 420 Sewer Capital Improvement Reserve Fund (Construction)
- 421 Sewer USDA-RD Debt Reserve-Restricted-2 loans
- 422 Sewer USDA-RD Short Lived Assets (for items less than \$5,000 not budgeted for Res-276)

Non-spendable Ending Cash and Investments-Holding Money that does not belong to the Town:

631 Pass Through Funds (State Building Fee)

Note 2 - Budget Compliance

The town adopts annual appropriated budgets for all funds except Permanent Funds and 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 follow:

Fund#	Title	Actual Expenditures	Final Appropriated Amounts	Variance
001	Current Expense	\$363,394.96	\$364,231	\$836.04
002	Cemetery CD	\$1,230.00	\$1,230	\$0.00
010	Education Scholarship Fund	\$5,000.00	\$10,000	\$5,000.00
030	Fire & EMS Capital Reserve	\$26,043.90	\$62,150	\$36,106.10
101	City Streets	\$171,524.37	\$578,256	\$406,731.63
103	Education	\$99,694.10	\$99,700	\$5.90
105	Emergency Medical Services	\$22,998.96	\$27,832	\$4,833.04
110	TBD-Street Managerial Fund	\$0.00	\$0	\$0.00
301	Capital Improvement Fund	\$0.00	\$4,000	\$4,000.00
401	Water Utility	\$358,215.76	\$421,637	\$63,421.24
402	Sewer Utility	\$196,939.50	\$299,485	\$102,545.50
403	Stormwater Utility	\$100.82	\$6,000	\$5,899.18
410	Water Capital Improvement Reserves	\$2,089,825.05	\$4,674,000	\$2,584,174.95
420	Sewer Capital Improvement Reserve	\$530,756.41	\$9,393,890	\$8,863,133.59
631	Pass Through Funds	\$265.50	\$0	(\$265.50)
701	Education Fund	\$0.00	\$0	\$0.00
Grand Totals		\$3,865,989.33	\$15,942,411	\$12,076,421.67

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

The Town employee hours never changed but were modified. Financially, the Town had to purchase IT equipment for Zoom meetings, TeamViewer software for financial consultant, and the major issue was the inability to collect late fees, \$7,325.00. The IT equipment and software were paid for through the federal pass-through CARES ACT grant. The Town lost the late fee revenues. This will continue through the year 2021. The length and time these measures will continue to be in place, and the full extent of financial impact on the Town is unknown at this time.

Note 4 – Long-term Debt

The Town had one Certificate of Deposit, \$1,230.00, for the Cemetery fund (002) that Bank of America closed and returned to the Town. This was placed in Current Expense to cover cemetery expenditures.

In 2021, the Town's goal is to approve policy to invest temporary cash surpluses above reserves for cashflow. The interest on these investments is prorated to the various funds.

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

Note 5 – Long-Term Debt

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

The debt service requirements for revenue bonds for water and sewer projects are as follows:

YEARS	PRINCIPAL	INTEREST	TOTAL
2021	\$89,865.46	\$88,695.23	\$178,560.69
2022	\$91,219.44	\$86,304.66	\$177,524.10
2023	\$92,617.53	\$83,870.02	\$176,487.55
2024	\$94,041.99	\$81,389.79	\$175,431.78
2025	\$78,676.92	\$78,862.43	\$157,539.35
2026-2030	\$343,304.99	\$359,770.66	\$703,075.65
2031-2035	\$313,817.78	\$310,292.22	\$624,110.00
2036-2040	\$367,151.35	\$256,958.65	\$624,110.00
2041-2045	\$429,968.03	\$194,142.00	\$624,110.03
2046-2050	\$378,247.98	\$127,607.97	\$505,855.95

2051-2055	\$382,189.34	\$76,930.66	\$459,120.00
2056-2059	\$344,789.50	\$21,655.26	\$366,444.76
TOTALS	\$3,005,890.31	\$1,766,479.55	\$4,772,369.86

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 2 and PERS 3.

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

The Department of Retirement Systems, a department within the primary government of the State of Washington, issues a publicly available Comprehensive Annual Financial Report that includes financial statements and required supplementary information for each plan. The DRS Comprehensive Annual Financial Report may be obtained by writing to:

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

Also, the DRS Comprehensive Annual Financial Report 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 Comprehensive Annual Financial Report available from the Office of Financial Management website at www.ofm.wa.gov.

On June 30, 2020 (the measurement date of the plans), the Town'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	\$ 9,553	0.001318%	\$46,532.52
PERS 2/3	\$ 15,744	0.001709%	\$21,857.14
VFFRPF	\$ 390.00	0.20%	(\$70,752.12)

Note 7 - 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 2020 was \$0.974862118932 per \$1,000 on an assessed valuation of \$76,902,980 for a total regular levy of \$68,605.75.

The Town's EMS levy for the year 2020 was \$0.259847147666 per \$1,000 on an assessed valuation of \$76,902,980 for a total regular levy of \$38,451.49.

Note 8 – 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, 2020, 103 municipalities/entities participate in the AWC RMSA pool.

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

Members pay an annual assessment to the AWC RMSA. The AWC RMSA is responsible for payment of all covered causes of loss against the jurisdiction above the stated retention. All members in the AWC RMSA have \$15 million in both per occurrence and aggregate liability limits. For the first \$1 million in liability limits, AWC RMSA is self-insured for its Self-Insured Retention (SIR) of \$250,000, per occurrence, and is reinsured by National League of Cities Mutual Insurance Company (NLC MIC) for the additional \$750,000. The \$9 million in excess liability coverage limits is provided through an excess liability policy purchased from Argonaut Insurance Company. The \$5 million in excess liability coverage limits above the first layer of excess coverage is purchased from Hallmark Specialty Insurance Company. Since AWC RMSA is a cooperative program, there is joint liability among the participating members. The reinsurance coverage is purchased through NLC MIC and excess property coverage is purchased through Lexington Insurance Company and CHUBB in 2020, AWC RMSA carried a retention of \$200,000, NLC MIC reinsures up to \$3 million, Lexington provides excess insurance up to \$50 million,

and limits up to \$250 million. All commercial policies have been purchased through the Pool's Broker of Record, Aon.

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

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

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

Note 9 – Other Disclosures

WARRANT: With the implementation of Schedule 06, there was an outstanding warrant that showed up. The actual warrant was reconciled in 2015. The Town has been working with the software vendor, Vision Municipal Solutions, to remove the warrant. It is a warrant for \$28.30, Council Member pay. That person was reissued a check for the lost warrant, (Pesky warrant). Vision Municipal Solutions has not yet reconciled the item.

EMPLOYMENT TAX ISSUE: The Town has been authorized by the State Auditor's to remove \$874.69 from our financial system since 2015. This amount is unreconciled difference for 941 checks that were deleted by a previous Clerk. Our consultant has tried to remove it from the financial system but has been able to. We are in contact with our software vendor, Vision Municipal Solutions, to help us remove this amount, (941 mess that keeps on giving). Vision Municipal Solutions has not yet reconciled this item.

FUND NUMBER REQUIRED CHANGES: Because of changes in the BARS manual concerning the Education fund, it has been moved multiple times. The original money came from Carbon Hill Coal Company as a conveyance of land and mineral rights to be used for public education. The Town Council decided in Ordinance 195, dated May 19, 1990, that \$25,000 would always be kept for generation of revenue for the scholarships that the Town offers. All the revenues, \$25,000 plus additional monies for scholarships, went from Fund 103, a special revenue fund, to Fund 701, a permanent fund. Then it was found that only the amount held for investment, \$25,000, should be in Fund 701, a permanent fund. All other monies for scholarships are moved to Fund 010, a managerial fund of Current Expense. The budget follows the money.

TRANSPORTATION BENEFIT DISTRICT FUNDS: Because of staffing issues, the TIB grant monies match which was supposed to come from the Transportation Benefit District monies in 2019 but needs to come from Current Expense was not budgeted for in 2020. This has been discovered and will be budgeted and transferred in 2021 to Fund 110 Transportation Benefit District Managerial Fund.

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

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.12	Compensated Absences	12/31/2020	7,691	6,306	6,709	7,288
Total General Obligation Debt/Liabilities:			7,691	6,306	6,709	7,288
Revenue and Other (non G.O.) Debt/Liabilities						
252.11	USDA/US Bank Water Loan 2007	4/20/2047	537,706	-	10,930	526,776
263.82	USDA Water Distribution Replacement Project WA2020-\$1,298,000	7/22/2059	1,298,362	-	18,336	1,280,026
263.82	DWSRF-Water Loan 05-9600-007	10/1/2026	51,854	-	7,408	44,446
263.82	DWSRF-Water Loan 03-65103-013	10/1/2024	84,472	-	16,894	67,578
263.84	PWB-Emergency Loan	7/1/2028	201,821	-	22,424	179,397
263.82	EPA/ECY-Sewer Plan LI4S0012	12/1/2020	11,035	-	11,035	-
264.30	Net Pension	12/31/2020	65,229	3,161	-	68,390
263.82	USDA Sewer Collection Replacement Project-SW2020-\$921,000	7/15/2059	921,292	-	12,875	908,417
Total Revenue and Other (non G.O.) Debt/Liabilities:			3,171,771	3,161	99,902	3,075,030
Total Liabilities:			3,179,462	9,467	106,611	3,082,318

Town of Carbonado
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	Passed through to Subrecipients
RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760	USDA-RD Water Grant	-	1,122,930	1,122,930	- 1, 2
RURAL UTILITIES SERVICE, AGRICULTURE, DEPARTMENT OF	Water and Waste Disposal Systems for Rural Communities	10.760	USDA-RD Water Grant	-	465,105	465,105	- 1, 2
CDBG - Entitlement Grants Cluster				-	1,588,035	1,588,035	-
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF (via Department of Commerce/Pierce County)	Community Development Block Grants/Entitlement Grants	14.218	NOFA-16-001- CDBG-PF	29,262	-	29,262	- 1, 2
Total CDBG - Entitlement Grants Cluster:				29,262	-	29,262	-
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE (via Department of Commerce)	COVID 19 - Coronavirus Relief Fund	21.019	20-6541C-130	3,161	-	3,161	- 1, 2
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF	Assistance to Firefighters Grant	97.044	EMW-2018-FO- 02716 Bunker Gear	-	26,044	26,044	- 1, 2
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via Washington State Emergency Management Division)	BRIC: Building Resilient Infrastructure and Communities	97.047	PDM 18 Generator- Water Treatment Plant	1,411	-	1,411	- 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, 2020

Federal Agency (Pass-Through Agency)	Federal Program	Expenditures				Passed through to Subrecipients	Note
		CFDA Number	Other Award Number	From Pass- Through Awards	From Direct Awards	Total	
		Total Federal Awards Expended:				1,647,913	-
				33,834	1,614,079		

Town of Carbonado
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2020

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 as prescribed in the BARS manual.

Note 2 – Federal De Minimis Indirect Cost Rate

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

Note 3 - Federal Loans

The town was approved by the USDA Rural Utilities Service to receive a loan totaling \$1,298,000 to build water transmission lines. Interim loan financing was received for the construction period. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The balance owing at the end of the period is \$1,279,663.90.

The town was approved by the USDA Rural Utilities Service to receive a loan totaling \$921,000 to build wastewater collection transmission lines. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The balance owing at the end of the period is \$ 908,125.45.

Both the current and prior year loans are reported on the Town's Schedule of Liabilities, Schedule 09.

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. 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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