



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

City of Newcastle

King County

For the period January 1, 2013 through December 31, 2013

Published January 26, 2015

Report No. 1013493





Washington State Auditor
Troy Kelley

January 26, 2015

Mayor and City Council
City of Newcastle
Newcastle, Washington

Report on Financial Statements

Please find attached our report on the City of Newcastle's financial statements.

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

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

TABLE OF CONTENTS

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	4
Independent Auditor’s Report on Financial Statements	7
Financial Section.....	11
About The State Auditor’s Office.....	25

**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**

**City of Newcastle
King County
January 1, 2013 through December 31, 2013**

Mayor and City Council
City of Newcastle
Newcastle, 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 City of Newcastle, King County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 15, 2015.

We issued an unmodified opinion on the fair presentation of the City'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 City 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 City'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 City's financial statements are free from material misstatement, we performed tests of the City'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 City'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 City'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 cursive script that reads "Troy X. Kelley". The signature is written in dark ink and is positioned above the printed name.

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 15, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Newcastle King County January 1, 2013 through December 31, 2013

Mayor and City Council
City of Newcastle
Newcastle, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Newcastle, King County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of 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 an opinion 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 City'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 City'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 City of Newcastle has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City of Newcastle, for the year ended December 31, 2013, 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 City 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 City of Newcastle, as of December 31, 2013, 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 performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Liabilities is presented for purposes of additional analysis as required by the prescribed BARS manual. This schedule is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2015 on our consideration of the City’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 City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

January 15, 2015

FINANCIAL SECTION

**City of Newcastle
King County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds*	001 General Fund	101 Street Fund	104 Impact Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	5,044,857	1,910,927	71,322	227,757
30880	Beg Fund Bal-Unreserved	2,107,819	1,660,370	0	0
38800/58800	Prior Period Adjustments, net	11,343	4,843	0	0
Operating Revenues					
310	Taxes	6,166,330	5,281,325	0	0
320	Licenses & Permits	556,858	556,858	0	0
330	Intergovernmental Revenues	1,149,011	152,741	216,238	0
340	Charges for Goods and Services	1,325,093	432,744	0	49,412
350	Fines & Penalties	17,978	17,978	0	0
360	Miscellaneous Revenues	118,468	103,630	70	180
Total Operating Revenues:		9,333,738	6,545,276	216,308	49,592
Operating Expenditures					
510	General Government	1,294,154	1,294,025	0	0
520	Public Safety	3,226,586	3,226,586	0	0
530	Utilities	301,062	0	0	0
540	Transportation	1,075,903	708,290	328,328	0
550	Natural and Economic Environment	481,006	481,006	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	224,278	224,278	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:		6,602,989	5,934,185	328,328	
Net Operating Increase (Decrease):		2,730,749	611,091	-112,020	49,592
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	903,992	874,518	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	2,367,355	53,000	122,385	0
Total Nonoperating Revenues:		3,271,347	927,518	122,385	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	20,773	11,005	0	0
591-593	Debt Service	183,312	0	0	0
594-595	Capital Expenditures	3,400,220	126,937	0	0
597	Transfers-Out	2,367,354	363,911	10,364	183,311
Total Nonoperating Expenditures:		5,971,659	501,853	10,364	183,311
Increase (Decrease) in Cash and Investments		30,437	1,036,756	1	-133,719
Ending Cash and Investments					
50810	End Fund Bal-Reserved	4,552,214	2,554,734	27,000	94,038
50880	End Fund Balance-Unreserved	2,642,241	2,058,162	44,323	0

The accompanying notes are an integral part of this Statement.

BARS Code		107 Parks Fund	302 CIP	303 CIP Parks & Debt	304 Reet Fund
Beginning Cash and Investments					
30810	Beg Fund Bal-Reserved	185,359	10,176	0	912,053
30880	Beg Fund Bal-Unreserved	406,738	0	0	0
38800/58800	Prior Period Adjustments, net	6,500	0	0	0
Operating Revenues					
310	Taxes	0	0	0	885,005
320	Licenses & Permits	0	0	0	0
330	Intergovernmental Revenues	15,201	470,313	0	0
340	Charges for Goods and Services	34,203	25,473	0	0
350	Fines & Penalties	0	0	0	0
360	Miscellaneous Revenues	195	4	0	531
Total Operating Revenues:		49,599	495,790		885,536
Operating Expenditures					
510	General Government	0	0	0	0
520	Public Safety	0	0	0	0
530	Utilities	0	0	0	0
540	Transportation	0	0	0	0
550	Natural and Economic Environment	0	0	0	0
560	Social Services	0	0	0	0
570	Culture And Recreation	0	0	0	0
598	Intergovernmental Payments	0	0	0	0
Total Operating Expenditures:					
Net Operating Increase (Decrease):		49,599	495,790		885,536
Nonoperating Revenues					
370, 380, 395, 398	Other Financing Sources	9,847	434	0	0
391-393	Debt Proceeds	0	0	0	0
397	Transfers-In	0	1,700,641	313,237	0
Total Nonoperating Revenues:		9,847	1,701,075	313,237	
Nonoperating Expenditures					
580, 596, 599	Other Financing Uses	0	1,077	0	0
591-593	Debt Service	0	0	183,312	0
594-595	Capital Expenditures	0	2,196,430	129,924	0
597	Transfers-Out	123,763	0	0	1,405,641
Total Nonoperating Expenditures:		123,763	2,197,507	313,236	1,405,641
Increase (Decrease) in Cash and Investments		-64,317	-642	1	-520,105
Ending Cash and Investments					
50810	End Fund Bal-Reserved	443,390	9,534	0	0
50880	End Fund Balance-Unreserved	90,890	0	0	391,948

The accompanying notes are an integral part of this Statement.

BARS Code		401 Surface Water Mgmt Fund	501 Equipment Rental Fund	502 Unemployment Fund
Beginning Cash and Investments				
30810	Beg Fund Bal-Reserved	1,711,071	16,192	0
30880	Beg Fund Bal-Unreserved	0	35,225	5,486
38800/58800	Prior Period Adjustments, net	0	0	0
Operating Revenues				
310	Taxes	0	0	0
320	Licenses & Permits	0	0	0
330	Intergovernmental Revenues	294,518	0	0
340	Charges for Goods and Services	783,261	0	0
350	Fines & Penalties	0	0	0
360	Miscellaneous Revenues	13,817	30	11
Total Operating Revenues:		1,091,596	30	11
Operating Expenditures				
510	General Government	0	0	129
520	Public Safety	0	0	0
530	Utilities	301,062	0	0
540	Transportation	0	39,285	0
550	Natural and Economic Environment	0	0	0
560	Social Services	0	0	0
570	Culture And Recreation	0	0	0
598	Intergovernmental Payments	0	0	0
Total Operating Expenditures:		301,062	39,285	129
Net Operating Increase (Decrease):		790,534	-39,255	-118
Nonoperating Revenues				
370, 380, 395, 398	Other Financing Sources	13,809	5,384	0
391-393	Debt Proceeds	0	0	0
397	Transfers-In	0	168,092	10,000
Total Nonoperating Revenues:		13,809	173,476	10,000
Nonoperating Expenditures				
580, 596, 599	Other Financing Uses	8,691	0	0
591-593	Debt Service	0	0	0
594-595	Capital Expenditures	807,841	139,088	0
597	Transfers-Out	280,364	0	0
Total Nonoperating Expenditures:		1,096,896	139,088	
Increase (Decrease) in Cash and Investments		-292,553	-4,867	9,882
Ending Cash and Investments				
50810	End Fund Bal-Reserved	1,418,518	0	5,000
50880	End Fund Balance-Unreserved	0	46,550	10,368

The accompanying notes are an integral part of this Statement.

FIDUCIARY FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		Total for All funds	601 Housing Trust Fund
308	Beginning Cash and Investments	28,214	28,214
388 and 588	Prior Period Adjustments, net	0	0
310-360	Revenues	0	0
380-390	Other Increases and Financing Sources	0	0
510-570	Expenditures	0	0
580-590	Other Decreases and Financing Uses	25,000	25,000
Increase (Decrease) in Cash and Investments		-25,000	-25,000
508	Ending Cash and Investments	3,214	3,214

The accompanying notes are an integral part of this Statement.

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The City of Newcastle reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the *Cash Basis Budgeting, Accounting and Reporting System* (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

The City of Newcastle was incorporated in 1994 and operates under the laws of the State of Washington applicable to a Code City. The City of Newcastle is a general purpose government and provides street improvement, parks and recreation, and general administrative services. The City of Newcastle uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

A. Fund Accounting

The accounts of the City of Newcastle are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City of Newcastle's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types used by the City of Newcastle:

GOVERNMENTAL FUND TYPES:

General Fund (001)

The General Fund (001) is the primary operating fund of the City of Newcastle. It accounts for all financial resources except those required or elected to be accounted for in another fund.

Special Revenue Funds (100-199)

The City has four of these types of funds: Street (101), Transportation Impact Fee (104), Cumulative Reserves (105), and the Parks Open Space & Acquisition Fund (107). These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of Newcastle.

Capital Projects Funds (300-399)

The City has three capital project funds entitled Transportation Capital Investment Program Fund (302), General Capital Investment Program Fund (303), and the Real Estate Excise Tax Capital Investment Program Fund (304). These funds account for financial resources which are restricted, committed, or assigned for the acquisition and/or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds (401)

This fund accounts for operations that provide goods or services to the general public and are supported primarily through user charges.

The City has one enterprise fund entitled Surface Water Management Fund (401). The Surface Water Management Fund is used to account for the City's surface water management fees and includes the repair, maintenance and capital costs for storm water infrastructure.

Internal Service Funds (500-599)

These funds account for operations that provide goods or services to other departments or funds of the City of Newcastle on a cost reimbursement basis. The City has an Equipment Rental Fund (501) that records monies for replacement of City assets in the future and for fuel and vehicle maintenance costs. The Unemployment Reserve Fund (502) facilitates the City's ability to place aside reserves for any future unemployment claims against the City.

FIDUCIARY FUND TYPES:

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

Agency Fund (601)

The City has one Agency Fund Housing Fund that is used for funds appropriated for ARCH (A Regional Coalition for Housing). Its purpose is to support the development and preservation of affordable housing. In 2010 the City of Newcastle entered into an agreement with ARCH whereby all account balances will be transferred to the City of Bellevue for administration and the fund was closed. Any remaining funds will be transferred to the General Fund.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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

Purchases of capital assets are expensed during the year of acquisition. There is no capitalization of capital assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

C. Budgets

The City of Newcastle adopts annual appropriated budgets for the general, special revenue, capital project, and enterprise funds. These budgets are appropriated at the fund level. The budgets constitute the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

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

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Executive	\$ 563,056.	\$ 578,720.	\$ <15,664.>
Administration	\$ 761,015.	\$ 843,265.	\$ <82,250.>
Community Development	\$ 545,175.	\$ 478,181.	\$ 66,994.
Public Safety	\$ 3,208,810.	\$ 3,222,624.	\$ <13,814.>
Public Works	\$ 790,279.	\$ 938,330.	\$ <148,051.>
Operating Transfers	\$ 579,308.	\$ 363,911.	\$ 215,397.
Total General Fund	\$ 6,447,643.	\$ 6,425,031.	\$ 22,612.
Street Fd	\$ 407,296.	\$ 338,693.	\$ 68,603.
Trans Impact Fees Fd	\$ 184,000.	\$ 183,311.	\$ 689.
Cumulative Reserve Fd	\$ - 0 -	\$ - 0 -	\$ - 0 -
Parks & Open Space Fd	\$ 163,566.	\$ 123,763.	\$ 39,803.
Trans Capital Invest Prog Fd	\$ 2,393,469.	\$ 2,196,432.	\$ 197,037.
Gen Capital Invest Prog Fd	\$ 387,000.	\$ 313,237.	\$ 73,763.
Real Estate Excise Tax Capital Invest Prog Fd	\$ 1,643,469.	\$ 1,405,641.	\$ 237,828.
Surface Water Mgmt Fd	\$ 1,697,900.	\$ 1,389,268.	\$ 308,632.
Equipment Rental Fd	\$ 178,390.	\$ 178,373.	\$ 17.
Unemployment Reserve Fd	\$ 7,000.	\$ 129.	\$ 6,871.
Housing Trust Fd	\$ 25,000.	\$ 25,000.	\$ - 0 -
Total All Funds	\$ 13,534,733.	\$ 12,578,878.	\$ 955,855.

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

The Finance Director is authorized to transfer budgeted amounts within funds; 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 City of Newcastle's legislative body.

D. Cash

It is the City of Newcastle's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is allocated to all funds.

E. Deposits

The City of Newcastle's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC) and/or the Washington Public Deposit Protection Commission.

F. Investments See Note 2, *Investments*.

G. Capital Assets

Capital assets are assets with a life greater than one year and a value exceeding \$5,000. The capital assets of the City of Newcastle are recorded as expenditures when purchased.

H. Compensated Absences

With the exception of one represented employee, all represented employees vacation leave may be accumulated up to 30 days and is payable upon separation or retirement. The one employee exception may accumulate up to twice the employee's annual earned vacation days.

Non-represented employees vacation leave may be accumulated up to 30 days and is payable upon separation or retirement.

Sick leave hours for all employees accumulate indefinitely. Upon separation or retirement employees are paid out 25% of their accrued and unused sick leave to a maximum of 960 hours, provided they have a minimum of 96 hours accrued but unused sick leave at the time of separation or retirement.

I. Long-Term Debt See Note 4, *Debt Service Requirements*.

J. Other Financing Sources or Uses

The City of Newcastle's "*Other Financing Sources or Uses*" consist of Transfers-In and Out between funds.

K. Risk Management

The City of Newcastle is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and / or jointly contracting for risk management services. WCIA has a total of 153 Members.

New members initially contract for a three-year term, and thereafter automatically renew on an annual basis. A one-year withdrawal notice is required before membership can be terminated. Termination does not relieve a former member from its unresolved loss history incurred during membership.

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sub limits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance. Insurance coverage for crime/fidelity limit is \$2.5 million and has a \$10 thousand dollar deductible.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobbyist services.

WCIA is fully funded by its members, who make annual assessments on a prospectively rated basis, as determined by an outside, independent actuary. The assessment covers loss, loss adjustment, and administrative expenses. As outlined in the interlocal, WCIA retains the right to additionally assess the membership for any funding shortfall.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments which comply with all State guidelines.

A Board of Directors governs WCIA, which is comprised of one designated representative from each member. The Board elects an Executive Committee and appoints a Treasurer to provide general policy direction for the organization. The WCIA Executive Director reports to the Executive Committee and is responsible for conducting the day to day operations of WCIA.

L. Reserved Fund Balance

The reserved portion of the ending balance for all funds includes amount needed to cover the upcoming year's appropriation. Also reserved are any deposits, sureties, or retainage being held by the City that may be refunded to the payee at the end of the project or term.

Note 2 - Investments

The City's investments are insured, registered or held by the City or its agent in the City's name. There were no investments held by the City of Newcastle as an agent for other local governments, individuals, or private organizations.

Investments by type as of December 31, 2013 are as follows:

<u>Investments</u>	<u>Balance</u>
U.S. Government Securities	\$3,719,269.
Certificates of Deposit	267,693.
Local Government Investment Pool	1,372,826.
Total Investments	\$5,359,788.

Note 3 - Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property tax revenues are recognized when cash is received by the City of Newcastle. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is deemed delinquent.

The City's regular levy rate for 2013 is \$2.32529 per \$1,000 on an assessed valuation of \$1,776,800,812. for a total regular levy of \$4,173,447.

Note 4 – Debt Service Requirements

The accompanying Schedule of Long-Term Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Newcastle and summarizes the City's debt transactions for year ended December 31, 2013.

A. Outstanding Loans

On April 16, 2002 the City entered into an agreement with the Department of Trade and Community Development of the State of Washington. Under the terms of this agreement, the City received a Public Works Trust Fund Loan for the purpose of financing Phase I of the Coal Creek Parkway Improvement Project. The terms of the loan authorized a borrowing not to exceed \$1,000,000 payable within 20 years at an interest rate of one-half percent (1/2%) per annum. As of December 31, 2004 the City had borrowed the \$1,000,000. Principal and interest payments are now due on July 1st of each year until the debt is paid.

On April 1, 2008 the City entered into an additional agreement with the Department of Trade and Community Development of the State of Washington. Under the terms of this agreement, the City received a Public Works Trust Fund Loan for the purpose of financing Phase 2 & 3 of the Coal Creek Parkway Improvement Project. The terms of the loan authorized a borrowing not to exceed \$5,000,000 payable within 20 years at an interest rate of one-half percent (1/2%) per annum. As of December 31, 2008 the City had borrowed \$2,250,000. Principal and interest payments are due on July 1st of each year until the debt is paid. There are no plans to borrow any additional funds.

The total debt service requirements for both loans, including principle and interest, are as follows:

	General Obligation Bonds	Revenue Bonds	Other Debt Total PWTF Loans	Total Debt
2014	\$	\$	182,455.41	182,455.41
2015			181,599.44	181,599.44
2016			180,743.40	180,743.40
2017			179,887.43	179,887.43
2018			179,031.43	179,031.43
2019-2023			829,539.48	829,539.48
2024-2028			600,986.83	600,986.83
Totals	\$	\$	\$ 2,334,243.42	\$ 2,334,243.42

B. Leases

Office Space:

On February 7, 2011 the City entered into a lease with the Newcastle Professional Center, LLC. The term of this lease is for sixty (60) consecutive calendar months, commencing January 1, 2012 and ending on December 31, 2016. The base lease payments are as follows:

01/01/2013 – 12/31/2013	\$ 15,606.25 per month
01/01/2014 – 12/31/2014	\$ 16,230.50 per month
01/01/2015 – 12/31/2015	\$ 16,854.75 per month
01/01/2016 – 12/31/2016	\$ 17,479.00 per month

Copiers:

The City leases 3 copiers from Pacific Office Automation. Listed below are the future minimum lease payments.

2013	\$36,999.
2014	<u>\$36,234.</u>
TOTAL	\$73,233.

C. Compensated Absences

All accrued vacation leave will be paid to the employee upon separation from City service due to termination, resignation, retirement, layoff or death; given they have passed their six month probationary period. As of 12/31/2013 the amount of vested vacation leave was \$81,768.

Sick leave is paid out upon termination (i.e. resignation, retirement, layoff, death), at 25% of accrued and unused sick leave to a maximum of 960 hours, provided he/she has a minimum of 96 sick hours accrued. As of 12/31/2013 the amount of vested sick leave totaled \$26,483.

Note 5 - Pension Plans

All City of Newcastle full-time and qualifying part-time employees participate in Public Employees Retirement System (PERS) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution

retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems
Communications Unit
PO Box 48380
Olympia, WA 98504-8380

Note 6 - Other Disclosures

A) The Cumulative Reserve Fund #105, with an ending fund balance of \$1,509,000. has been combined with the General Fund #001 for reporting purposes. This fund's only revenue source is operating transfers from other funds.

B) The ending cash balance in the General Fund #001 includes a cash deposit from a developer for \$804,430. This deposit is in place of a surety or performance bond. If performance on the development project is completed to City standards, the monies in total will be refunded.

C) The City is contemplating an action in Superior Court to abate certain existing public nuisances/code violations being maintained by specific property owners. State law authorizes the City to obtain a warrant of abatement where the costs of such abatement would be the responsibility of the property owner. If the costs are not paid by the property owner, the City has the authority to put a lien on the real property to recover the costs. Abatement costs could be approximately \$10,000.

D) The City has an approved line of credit with Key Bank for \$2.6 million. This line is collateralized by the City's investments at Key Bank. There has been no draws on the line of credit and none anticipated in the near future.

E) The City is preparing a Long-term Strategic Financial Plan (SFP) to address forecasted revenue shortfalls in the near future. Also included in the SFP will be capital projects costs with actions necessary to fund these projects. The plan will be an integral part of the City's 2015 Budget and the update to the Capital Facilities Plan.

F) The City contracts with Bellevue for fire services. In 2013 a worksheet was given to all the contract cities documenting the future liability for retired fire fighters medical expenses. The City of Newcastle has enough in reserve to pay costs until 2015 so no payments have been made. Starting in 2015 the City will pay amounts to fund the City's share of the actuarial estimated costs. The total liability is \$336,057.

City of Newcastle
For Year Ended December 31, 2013
Schedule of Liabilities

ID. No.	Description	Maturity/Payment Due Date __/__/20__	Beginning Balance 01/01/2013	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2013
259.11	Buy-out vested Leave Balances (Vacation Leave)		77,377	92,773	88,382		81,768
259.11	Buy-out vested Leave Balances (Sick)		26,359	9,107	8,982		26,483
263.51	Capital Lease		73,091		37,141	594.14	35,950
263.81	Public Works Trust Fund Loan PW-02-691-038	7/1/2022	527,778		52,778	591.95.7X	475,000
263.81	Public Works Trust Fund Loan PW-08-951-030	7/1/2028	1,894,737		118,421	591.95.7X	1,776,316
263.98	Performance Deposits		0	804,430		263.98	804,430
	Total		2,599,342	906,310	305,704		3,199,947

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.

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