



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Newcastle

For the period January 1, 2017 through December 31, 2017

Published September 20, 2018

Report No. 1022132





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

September 20, 2018

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,

Pat McCarthy
State Auditor
Olympia, WA

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**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
January 1, 2017 through December 31, 2017**

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, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 13, 2018.

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.

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Pat McCarthy

State Auditor

Olympia, WA

September 13, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Newcastle January 1, 2017 through December 31, 2017

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, for the year ended December 31, 2017, 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 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 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 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 financial position and results of operations of the City of Newcastle, for the year ended December 31, 2017, 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, 2017, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2018 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 black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy

State Auditor

Olympia, WA

September 13, 2018

FINANCIAL SECTION

City of Newcastle January 1, 2017 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
Notes to the Financial Statements – 2017

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2017

City of Newcastle
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	202 Debt Service Fund
Beginning Cash and Investments					
30810	Reserved	5,501,544	421,017	144,785	105,884
30880	Unreserved	4,066,909	4,066,909	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	8,225,426	6,618,910	-	-
320	Licenses and Permits	700,885	700,885	-	-
330	Intergovernmental Revenues	1,074,347	231,198	251,837	-
340	Charges for Goods and Services	2,103,379	566,548	-	-
350	Fines and Penalties	41,045	29,725	-	-
360	Miscellaneous Revenues	642,266	169,815	2,021	-
Total Revenues:		12,787,348	8,317,081	253,858	-
Expenditures					
510	General Government	1,589,900	1,570,453	-	-
520	Public Safety	4,009,765	4,009,765	-	-
530	Utilities	880,329	-	-	-
540	Transportation	1,098,569	200,926	469,017	-
550	Natural and Economic Environment	954,512	954,512	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	584,057	584,057	-	-
Total Expenditures:		9,117,132	7,319,713	469,017	-
Excess (Deficiency) Revenues over Expenditures:		3,670,216	997,368	(215,159)	-
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	2,755,495	60,000	296,215	530,385
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	671,709	651,859	792	-
381, 395, 398	Other Resources	86,926	-	2,659	-
Total Other Increases in Fund Resources:		3,514,130	711,859	299,666	530,385
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,903,894	-	-	-
591-593, 599	Debt Service	531,496	-	-	530,372
597	Transfers-Out	2,755,495	570,077	29,050	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	608,487	551,981	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		6,799,372	1,122,058	29,050	530,372
Increase (Decrease) in Cash and Investments:		384,974	587,169	55,457	13
Ending Cash and Investments					
5081000	Reserved	5,407,619	529,287	200,242	105,897
5088000	Unreserved	4,545,808	4,545,808	-	-
Total Ending Cash and Investments		9,953,427	5,075,095	200,242	105,897

The accompanying notes are an integral part of this statement.

City of Newcastle
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		302 Trans Capital Investment	303 Parks Capital Investment	304 REET Fund	401 SWM Mgmt & CIP Fund
Beginning Cash and Investments					
30810	Reserved	505,791	963,375	1,768,636	1,135,598
30880	Unreserved	-	-	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	-	-	1,606,516	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	362,150	30,162	-	199,000
340	Charges for Goods and Services	333,905	228,340	-	974,586
350	Fines and Penalties	-	-	-	11,320
360	Miscellaneous Revenues	3,934	6,039	14,385	8,877
Total Revenues:		699,989	264,541	1,620,901	1,193,783
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	880,329
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	880,329
Excess (Deficiency) Revenues over Expenditures:		699,989	264,541	1,620,901	313,454
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	1,458,945	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	334	16,647	-	1,961
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		1,459,279	16,647	-	1,961
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,055,445	591,597	-	8,593
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	179,900	-	1,425,600	200,383
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	13,299	-	-	2,733
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		2,248,644	591,597	1,425,600	211,709
Increase (Decrease) in Cash and Investments:		(89,376)	(310,409)	195,301	103,706
Ending Cash and Investments					
5081000	Reserved	416,415	652,966	1,963,937	1,239,304
5088000	Unreserved	-	-	-	-
Total Ending Cash and Investments		416,415	652,966	1,963,937	1,239,304

City of Newcastle
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2017

		501 Equipment Rental Fund	503 Facilities Fund
Beginning Cash and Investments			
30810	Reserved	266,866	189,592
30880	Unreserved	-	-
388 / 588	Prior Period Adjustments, Net	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	-	-
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	2,060	435,135
Total Revenues:		2,060	435,135
Expenditures			
510	General Government	19,447	-
520	Public Safety	-	-
530	Utilities	-	-
540	Transportation	39,553	389,073
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		59,000	389,073
Excess (Deficiency) Revenues over Expenditures:		(56,940)	46,062
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	120,785	289,165
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	116
381, 395, 398	Other Resources	84,267	-
Total Other Increases in Fund Resources:		205,052	289,281
Other Decreases in Fund Resources			
594-595	Capital Expenditures	248,259	-
591-593, 599	Debt Service	-	1,124
597	Transfers-Out	-	350,485
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	40,474
581	Other Uses	-	-
Total Other Decreases in Fund Resources:		248,259	392,083
Increase (Decrease) in Cash and Investments:		(100,147)	(56,740)
Ending Cash and Investments			
5081000	Reserved	166,719	132,852
5088000	Unreserved	-	-
Total Ending Cash and Investments		166,719	132,852

City of Newcastle
Notes to the Financial Statements
For the year ended December 31, 2017

Note 1 - Summary of Significant Accounting Policies

The City of Newcastle incorporated September 30, 1994; operates under the laws of the State of Washington applicable to a Code City. The City of Newcastle, a general-purpose local government, provides general administrative services, street maintenance and improvement, parks and recreation and surface water management.

The City of Newcastle 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. The BARS 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.
- The City has no component units. If they did, then it would be necessary to disclose and report them with the city's financial statements.
- Government-wide statements, as defined in GAAP, are not presented.
- All funds are presented, rather than a focus on major funds.
- The *Schedule of Liabilities* is required to be presented with the financial statements as supplementary information.
- Supplementary information required by GAAP is not presented.
- Ending balances are not presented using the classifications defined in GAAP.

A. Fund Accounting

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used:

GOVERNMENTAL FUND TYPES:

General Fund (001)

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 (100-199)

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

The City has one Special Revenue fund: The Street fund (101) account for specific revenue sources that are restricted or committed to expenditures specific to street maintenance and operations.

Debt Service Funds

The City has a Debt Service Fund (202). This fund accounts for the financial resources that are

restricted to expenditures for principal, interest and related costs on general long-term debt.

Capital Projects Funds

The City has three capital project funds entitled; Transportation Capital Investment Program Fund (302), Parks 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 for the acquisition or construction of capital facilities or other capital assets.

PROPRIETARY FUND TYPES:

Enterprise Funds (400-499)

The City has one enterprise fund entitled Surface Water Management Fund (401) and it accounts for all surface water and the management, maintenance and operation of the program. The fees collected from property owners support repairs, operations, 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 government on a cost reimbursement basis. The City's Equipment Rental Fund (501) records monies for replacement of city assets as well as costs associated with operation and maintenance of vehicles and equipment. The Facilities Fund (503) records the operation, maintenance and repair to all City facilities. It includes all cost recovery for the City Hall, City Annex and the Lake Boren garage.

FIDUCIARY FUND TYPES:

Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. The City of Newcastle does not have fiduciary funds or Private-Purpose Trust Funds.

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

C. Budget Compliance

The City of Newcastle adopts annual appropriated budgets for all 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:

	2017 Amended Budget	2017 Actual	Variance
Expenditure Appropriation			(Unfavorable)
001 General Fund	\$9,123,505	\$8,541,690	\$581,815
101 Street Fund	613,675	498,066	115,609
105 Cumulative Reserve Fund	0	0	0
202 Debt Service Fund	530,385	530,371	14
302 Transportation Capital Fund	2,544,385	2,235,345	309,040
303 Parks Capital Fund	794,355	591,597	202,758
304 Real Estate Excise Tax Capital Fund	1,778,985	1,425,600	353,385
401 SWM Fund	1,368,675	1,089,304	279,371
501 Equipment Rental Fund	327,125	307,258	19,867
503 Facilities Fund	742,190	740,682	1,508
Total Expenditure Appropriation	\$17,823,280	\$15,959,913	\$1,863,367

The Finance Director is authorized to transfer amounts within funds as long as it does not violate the fund's budget authorization. The City of Newcastle's legislative body must approve 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.

D. Cash and Investments

The City of Newcastle is a member of the State of Washington Local Government Investment Pool (LGIP).

Deposits in the Washington State Treasurer's Local Government Investment Pool are stated at fair value, which is the same as the value of the pool shares. The Washington State Treasurer oversees the Local Government Investment Pool under state statute RCW 43.250.

The State Treasurer combines deposits from all governmental entities in the State, which participate in the Pool and purchases the following types of investments:

- Certificates of Deposit, Commercial Paper, Demand Deposits,
- Repurchase Agreements
- U.S. Government Securities
- Obligations of the State of Washington or its political subdivisions

The entities participating in the Pool own a percentage of each investment held. This percentage is calculated by dividing the individual entity's deposits by the total deposits held in the pool. The purpose of this is to:

- Increase the overall rate of return.
- Reduce the risk of default.
- Place each entity under the FDIC and SLIC limits of \$250,000.

The City of Newcastle's Deposits and Investments

The amount of the City's cash deposits at year-end was \$2,484,998.

Cash is classified as follows:

Cash, Governmental Funds	\$1,983,283
Cash, Business-Type Activities	\$ 501,715

It is the City of Newcastle's policy to invest all temporary cash surpluses. The interest on these investments is allocated to the various funds.

The Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission cover all deposits and certificates of deposit. All investments are insured, registered or held by the city or its agent in the government's name. Daily cash is swept to overnight investments to protect the amounts exceeding FDIC insurance limits.

Investments are reported at original cost or cash value. Cash and investments by type at December 31, 2017 are as follows:

<u>Government Activities</u>	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Interest Rate</u>	<u>Fair Value</u>
HomeStreet Bank Cash	460,778		0.00%	460,778
HomeStreet Bank Investment MMKT	1,522,504		.20%	1,522,504
U.S. Government Securities	995,740	298,666	.20% to 1.3%	1,294,406
Washington State Investment Pool	5,909,094		0.31%	5,909,094
Business Type Activities				
HomeStreet Bank Cash	299,754		0.00%	299,754
HomeStreet Bank Investment MMKT	201,961		.20%	201,961
Washington State Investment Pool	317,811		0.31% .20%	317,811
U.S. Government Securities	419,778		to 1.30%	419,778
Total Cash & Investments	<u>\$10,127,420</u>	<u>\$ 298,666</u>		<u>\$ 10,426,086(A)</u>

A. \$10,426,086 is the bank balance as of December 31, 2017. The financial statements reflect a balance of \$9,953,427. The \$472,659 lower cash balance than the bank balance for FY2017 is due to the net effect of \$472,975 outstanding checks and a bank deposit of \$66 that cleared in FY2018 and an increase of \$250 related to petty cash.

E. 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.

F. 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.

Upon separation or retirement, employees are paid 25% of their accrued sick leave balance based upon two criteria. First, the employee has a minimum of 96 hours of accrued sick leave. Second, the payout does not exceed 960 hours of sick leave at the time of separation or retirement. Expenditures for unused sick leave are recognized when paid.

G. Long-Term Debt

See Note 3, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The City of Newcastle's "*Other Financing Sources or Uses*" consist of Transfers-In and Out between funds and asset and/or liability account receipts/disbursements.

I. 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 providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 165 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 \$21 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance. Insurance is subject to aggregate limits. Total limits are \$25 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 \$10,000 dollar deductible.

WCIA provides risk management consultation, loss control field services, claims, litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, and lobby 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. Any funding shortfall can be assessed to the membership authorized by the Interlocal agreement.

An investment committee, using investment brokers, produces additional revenue by investment of WCIA's assets in financial instruments that 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.

Unemployment Compensation – Reimbursable: The City of Newcastle has a reimbursable status and we are considered self-insured. The City of Newcastle is approved for this status by the Employment Security Department. The City of Newcastle reports quarterly wages to the Employment Security Department, but only pay when an unemployment claim is filed.

Worker’s Compensation limits its exposure by not self-insuring against loss from claims. The City of Newcastle limits exposure by paying premiums to the Department of Labor and Industries. Premiums are adjusted annually based upon claims history. The City of Newcastle maintains a low loss history resulting in a discount for its premiums annually.

J. Reserved Portion of Ending Cash and Investments

The reserved portion of the ending balance for all funds includes amount needed to cover the upcoming year’s appropriation. A fund will reserve cash balances for the purpose of any deposits, sureties, or retainage being held by the City that may be refunded to the payee upon completion of a project. A fund will restrict fund balance for legal city commitments for committed obligations by the City like checks authorized, issued and not cleared by the bank by year-end. Other reservations include special revenue funds that are designated for a specific purpose, council adopted fiscal policies for working capital, and enterprise funds whose cash is for a specific purpose.

Reservations of Ending Cash and Investments consist of \$5,407,619.

K. Program Costs

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the City of Newcastle’s portion, are more than shown.

L. Grants

Grant and contract expenditures are subject to the approval of various granting agencies. To be eligible for reimbursement of expenditures made under federal, state, and locally funded programs, the City must comply with regulations established by the related agency, non-compliance could result in disallowed costs, and a liability for reimbursement received. During FY2017, the city had \$7,764 in federal grants whereby the State of Washington is the cognizant agency. The \$7,764 federal award is traffic emphasis patrol.

M. Indirect Cost Rate

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

Note 2 - 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 of Newcastle’s regular levy for the year 2017 was \$5,283,256 on an assessed valuation of \$3,265,994,606. The Levy rate per one thousand dollars of assessed value is \$1.61585.

Note 3 – Debt Service Requirements

The accompanying Schedule of Liabilities (09) provides the City of Newcastle detailed outstanding debt and liabilities for year ending December 31, 2017. The combined debt for limited general obligation and public works trust fund loan as of December 31, 2017 is \$6,611,520.

During FY2016, the City issued both a taxable and nontaxable Limited Tax General Obligation (LTGO) Bonds. The City also has two Public Works Trust Fund (PWTF) loans. The City has never issued Revenue Bonds.

The 2016 Series A LTGO Bonds (tax-exempt) mature in 2035. The 2016 Series B LGTO Bonds (taxable) mature December 1, 2025. The final maturity over twenty years has an interest rate of .85% to 2.75% with true cost for the 2.179819%. Principal and interest payments are semi-annual on June 1 and Dec 1.

The \$1 million PWTF loan issued in 2003 matures July 1, 2022. The \$2.5 million PWTF loan issued in 2009 matures on July 1, 2028. Both PWTF loans are twenty years with a .5% and annual payments are July 1.

The debt service requirements for the limited general obligation bonds and PWTF loans include both principle and interest payments are as follows:

Limited Tax General Obligations Bond A (Non-Taxable) Bond B (Taxable)				
Year	Principal	Interest	Total	Balance
2018	240,000	108,444	348,444	5,045,000
2019	240,000	106,044	346,044	4,805,000
2020-2025	1,525,000	557,169	2,082,169	3,305,000
2026-2030	1,435,000	299,913	1,734,913	1,605,000
2031-2035	1,605,000	127,326	1,732,326	-
Public Works Trust Fund Loans				
Year	Principal	Interest	Total	Balance
2018	171,199	7,833	179,031	1,566,520
2019	171,199	6,977	178,175	1,395,322
2020-2025	868,860	24,675	893,535	355,263
2026-2030	355,263	3,553	358,816	-

Note 4 – Pension Plans

A. State Sponsored Pension Plans

Substantially all City 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.

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

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

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

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

As of June 30, 2017 (the measurement date of the plans), the City of Newcastle's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

City of Newcastle's allocation for PERS 1 & PERS 2 and 3 total \$192,813 for FY2017.

	Allocation %	Annual Employer Contributions	12/31/17 Ending Balance
PERS 1UAAL	0.013077%	\$ 83,611	\$ 659,566
PERS 2/3	0.016732%	109,202	621,210
TOTAL		<u>\$ 192,813</u>	<u>\$ 1,280,776</u>

Note 5 – Health & Welfare

The City of Newcastle is a member of the Association of Washington Cities Employee Benefit Trust Health Care Program (AWC Trust HCP). Chapter 48.62 RCW provides that two or more local government entities may, by Interlocal agreement under Chapter 39.34 RCW, form together or join a pool or organization for the joint purchasing of insurance, and/or joint self-insurance, to the same extent that they may individually purchase insurance, or self-insure.

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014. Participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2017, 258 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Group Health Cooperative/Group Health Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities

and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2016, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Life Map, and Group Health ISL at \$750,000 through Sun Life. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC HCP for a minimum of three years. Participating employers with over 250 employees must provide written notice of termination of all coverage a minimum of 12 months in advance of the termination date, and participating employers with under 250 employees must provide written notice of termination of all coverage a minimum of 6 months in advance of termination date. When all coverage is being terminated, termination will only occur on December 31. Participating employers terminating a group or line of coverage must notify the HCP a minimum of 60 days prior to termination. A participating employer's termination will not obligate that member to past debts, or further contributions to the HCP. Similarly, the terminating member forfeits all rights and interest to the HCP Account.

The Board of Trustees or its delegates manage the operations of the Health Care Program. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). Year-end financial reporting is done on an accrual basis and submitted to the Office of the State Auditor as required by Chapter 200-110 WAC. The audit report for the AWC Trust HCP is available from the Washington State Auditor's office.

Note 6 - Other Disclosures

- A. Unemployment claims are paid in related operating funds or departments. There were no claims during the 2017 fiscal year.
- B. The ending cash balance in the General Fund #001 includes payments to other vendors that had not cleared the bank on December 31, refundable cash deposits from developers and other deposits total \$519,273. When combining this obligation and all other governmental and enterprise funds the monies held for others total \$587,974.81. Some developers have selected cash deposits in lieu of securing surety or performance bonds. If performance on the development project is completed to City standards, the deposits will be refunded back to the developer.

- C. On August 18, 2016 the City purchased the City Hall building. It is a collaborative arrangement between private and public uses. The debt service included with the sale is \$2,095,000 of taxable and \$3,190,000 nontaxable bonds with an interest rate of 2.18%. The taxable bonds provide the financing for the tenant occupied space while the remaining is nontaxable occupied by the City. The debt service schedule for this is located in footnote 3.
- D. On May 2015 the City has an agreement with Coal Creek Utility District to not assume their operations. The consideration provided was from the purchase of the “City Hall Annex” formerly a CCUD Headquarters at a cost of \$250,000 a lower cost than the appraised value of \$750,000. The agreement of the lower price was settled for \$250,000 plus a 10-year non-assumption clause.
- E. The City of Newcastle contracts with the City of Bellevue Fire Department for fire and emergency services. The contract includes an allocation of the actuarial estimate of the LEOFF 1 pension payments to each of the contracting cities. For Newcastle, the total estimated liability at December 31, 2017 is \$274,577. During FY2017, the city paid \$13,960 towards the LEOFF 1 pension liability. The City of Bellevue’s actuarial report reported balance value on December 31, 2017 was \$274,577. The ending balance on December 31, 2016 reported was \$303,708. An adjustment to reflect the actuarial report was made by \$15,171 to agree with the City of Bellevue’s actuarial report balance of \$274,577.
- F. The City’s copy and production equipment is leased from Pacific Office Automation. The long term liability as of December 31, 2017 is \$47,210 and expires November 2019. The City paid \$40,724 comprised of \$15,931 for maintenance and operation and \$24,793 for the office copier equipment lease.
- G. Grant and contract expenditures are subject to the approval of various granting agencies. To be eligible for reimbursement of expenditures made under federal, state, and locally funded programs, the City must comply with regulations established by the related agency, non-compliance could result in disallowed costs, and a liability for reimbursement received. During the FY2017, the city had \$372,977 in grants of which \$3,063 is a State Grant from the Department of Ecology, and \$362,150 is a State Grant from the Washington State Transportation Improvement Board. The City also received federal grants whereby the Washington State Safety Commission is the cognizant agency. The amount of the federal grants is \$7,764 relating to traffic emphasis patrol.

H. Litigation

As of December 31, 2017, the City of Newcastle has either pending or threatening litigation claims. These claims are as follows:

1. Claim for Damages: On May 1, 2015, the City received a claim for damages in the amount of \$500,000. The claim for damages states that “NORCOM did not have the correct address information. Result was delay of in treatment causing death.” The claim was forwarded to the City’s insurance authority. On May 4, 2015, the Washington Cities Insurance Authority denied the claim, by stating, “The City of Newcastle does not operate any emergency dispatch services. Norcom is a separate municipal corporation. The City of Newcastle is not a participating member of the NORCOM interlocal. Your claim for damages does not make any allegations against the City of Newcastle. Your claim for damages against the City of Newcastle is respectfully denied.” To date, the City has not been named or served as a party in any litigation relating to the May 1, 2015 claim for damages.
2. Potential Refund Claim. The City’s Preliminary 2016 Operating and Capital Budget was prepared incorporating a 1% increase in the property tax rate. However, on November 3, 2015, the City Council approved Ordinance No. 2015-525, setting the ad

valorem property tax for the fiscal year 2016. The ordinance presented in the November 3, 2015 agenda packet included a 1% property tax increase, but after deliberation, the Council voted to bank the 1% for future use. It was anticipated that staff would prepare a revised ordinance that accurately reflected the banking of 1%. But, the ordinance was only partially updated. While the recitals reflected the intent to bank 1%, the main body of the ordinance was not revised and retained the original text to take the 1% property tax increase in 2016. The Assessor's office did not look at the ordinance recitals, but only looked at the unrevised adopted ordinance text, and levied the 1% tax increase. When City staff learned of the levy and asked the Assessor's office if it could be reversed, the Assessor's office confirmed that nothing could be done to reverse it. Chapters 84.68 and 84.69 RCW identify procedures for property tax refunds, which include among other things, tax-payer initiation of the process, and if approved, payment of authorized refunds by the County treasurer from available City tax revenue. To date, the City has not been named or served as a party in any litigation relating to a potential property tax refund claim.

**City of Newcastle
Schedule of Liabilities
For the Year Ended December 31, 2017**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
263.51	Capital Lease	11/1/2019	72,003	-	24,793	47,210
251.11	2016A Limited Tax General Obligation (LTGO) Bonds Exempt	12/1/2035	3,190,000	-	-	3,190,000
251.11	2016B Limited Tax General Obligation (LTGO) Bonds Taxable	12/1/2025	2,095,000	-	240,000	1,855,000
263.81	Public Works Trust Fund Loan PW-02-691-038	7/1/2022	316,666	-	52,778	263,889
263.81	Public Works Trust Fund Loan PW-08-951-030	7/1/2028	1,421,053	-	118,421	1,302,632
263.98	Performance Deposits		421,017	98,257	-	519,273
263.98	LEOFF 1 City of Bellevue Fire Department		303,708	-	29,131	274,577
Total General Obligation Debt/Liabilities:			7,819,447	98,257	465,123	7,452,581
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		142,686	163,163	148,086	157,763
264.30	Net Pension Liability		1,544,739	-	263,963	1,280,776
Total Revenue and Other (non G.O.) Debt/Liabilities:			1,687,425	163,163	412,049	1,438,539
Total Liabilities:			9,506,872	261,420	877,172	8,891,120

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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