



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Newport

For the period January 1, 2016 through December 31, 2017

Published December 13, 2018

Report No. 1022730





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

December 13, 2018

Mayor and City Council
City of Newport
Newport, Washington

Report on Financial Statements

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

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

Sincerely,

A handwritten signature in cursive script that reads "Pat McCarthy".

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 Newport
January 1, 2016 through December 31, 2017**

Mayor and City Council
City of Newport
Newport, 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 Newport, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 5, 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 audits 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 opinions 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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated December 4, 2018.

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

Pat McCarthy

State Auditor

Olympia, WA

November 5, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Newport January 1, 2016 through December 31, 2017

Mayor and City Council
City of Newport
Newport, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Newport, for the years ended December 31, 2017 and 2016, 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 audits. We conducted our audits 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 Newport 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 Newport, for the years ended December 31, 2017 and 2016, 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 Newport, as of December 31, 2017 and 2016, or the changes in financial position or cash flows for the years 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 audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The Schedules of Liabilities are presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 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

November 5, 2018

FINANCIAL SECTION

City of Newport January 1, 2016 through December 31, 2017

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2017
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Schedule of Liabilities – 2016

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

		Total for All Funds (Memo Only)	001 Current Expense	101 Street Fund	103 Real Estate Excise Tax
Beginning Cash and Investments					
30810	Reserved	738,471	-	498,088	108,754
30880	Unreserved	2,033,529	1,071,782	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	987,886	614,468	308,388	47,697
320	Licenses and Permits	31,034	31,034	-	-
330	Intergovernmental Revenues	947,249	104,414	842,439	-
340	Charges for Goods and Services	1,392,502	5,955	-	-
350	Fines and Penalties	28,140	28,140	-	-
360	Miscellaneous Revenues	76,916	31,108	5,030	901
Total Revenues:		3,463,726	815,119	1,155,857	48,598
Expenditures					
510	General Government	289,896	289,896	-	-
520	Public Safety	479,725	479,725	-	-
530	Utilities	1,021,419	-	-	-
540	Transportation	1,149,436	-	1,149,436	-
550	Natural and Economic Environment	5,862	5,862	-	-
560	Social Services	663	663	-	-
570	Culture and Recreation	181,939	163,269	-	-
Total Expenditures:		3,128,941	939,415	1,149,436	-
Excess (Deficiency) Revenues over Expenditures:		334,786	(124,296)	6,421	48,598
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	133,242	116,442	6,000	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	10,201	3,423	5,473	-
Total Other Increases in Fund Resources:		143,442	119,865	11,473	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	208,303	65,074	10,335	80,302
591-593, 599	Debt Service	101,303	-	-	-
597	Transfers-Out	133,242	10,800	-	6,000
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		442,848	75,874	10,335	86,302
Increase (Decrease) in Cash and Investments:		35,381	(80,305)	7,559	(37,704)
Ending Cash and Investments					
5081000	Reserved	707,264	-	505,647	71,050
5088000	Unreserved	2,100,116	991,476	-	-
Total Ending Cash and Investments		2,807,379	991,476	505,647	71,050

The accompanying notes are an integral part of this statement.

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

		109 Tourism Promotion	410 Water/Sewer Combined Fund
Beginning Cash and Investments			
30810	Reserved	29,988	101,641
30880	Unreserved	-	961,747
388 / 588	Prior Period Adjustments, Net	-	-
Revenues			
310	Taxes	17,332	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	396
340	Charges for Goods and Services	-	1,386,547
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	275	39,601
Total Revenues:		17,608	1,426,545
Expenditures			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	-	1,021,419
540	Transportation	-	-
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	18,670	-
Total Expenditures:		18,670	1,021,419
Excess (Deficiency) Revenues over Expenditures:		(1,063)	405,125
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	10,800
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	-	1,304
Total Other Increases in Fund Resources:		-	12,104
Other Decreases in Fund Resources			
594-595	Capital Expenditures	-	52,591
591-593, 599	Debt Service	-	101,303
597	Transfers-Out	-	116,442
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
581	Other Uses	-	-
Total Other Decreases in Fund Resources:		-	270,336
Increase (Decrease) in Cash and Investments:		(1,063)	146,893
Ending Cash and Investments			
5081000	Reserved	28,926	101,641
5088000	Unreserved	-	1,108,640
Total Ending Cash and Investments		28,926	1,210,281

City of Newport
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		Total for All Funds (Memo Only)	001 Current Expense	101 Street Fund	103 Real Estate Excise Tax
Beginning Cash and Investments					
30810	Reserved	629,930	-	401,356	95,826
30880	Unreserved	1,975,443	1,059,367	-	-
388 / 588	Prior Period Adjustments, Net	-	-	-	-
Revenues					
310	Taxes	1,097,695	711,512	324,462	44,587
320	Licenses and Permits	41,243	41,243	-	-
330	Intergovernmental Revenues	288,424	102,220	167,069	-
340	Charges for Goods and Services	1,206,042	8,095	-	-
350	Fines and Penalties	26,931	26,931	-	-
360	Miscellaneous Revenues	59,607	22,771	2,369	424
Total Revenues:		2,719,941	912,771	493,900	45,011
Expenditures					
510	General Government	265,638	265,638	-	-
520	Public Safety	430,659	430,659	-	-
530	Utilities	1,033,558	-	-	-
540	Transportation	429,251	-	429,251	-
550	Natural and Economic Environment	10,965	10,965	-	-
560	Social Services	429	429	-	-
570	Culture and Recreation	143,783	125,380	-	-
Total Expenditures:		2,314,284	833,072	429,251	-
Excess (Deficiency) Revenues over Expenditures:		405,658	79,700	64,649	45,011
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	70,332	27,449	32,083	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		70,332	27,449	32,083	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	137,727	83,933	-	-
591-593, 599	Debt Service	101,303	-	-	-
597	Transfers-Out	70,332	10,800	-	32,083
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		309,362	94,733	-	32,083
Increase (Decrease) in Cash and Investments:		166,628	12,418	96,732	12,928
Ending Cash and Investments					
5081000	Reserved	738,471	-	498,088	108,754
5088000	Unreserved	2,033,529	1,071,782	-	-
Total Ending Cash and Investments		2,772,000	1,071,782	498,088	108,754

The accompanying notes are an integral part of this statement.

City of Newport
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		109 Tourism Promotion	410 Water/Sewer Combined Fund
Beginning Cash and Investments			
30810	Reserved	31,107	101,641
30880	Unreserved	-	916,076
388 / 588	Prior Period Adjustments, Net	-	-
Revenues			
310	Taxes	17,135	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	19,135
340	Charges for Goods and Services	-	1,197,947
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	149	33,893
Total Revenues:		17,285	1,250,975
Expenditures			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	-	1,033,558
540	Transportation	-	-
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	18,403	-
Total Expenditures:		18,403	1,033,558
Excess (Deficiency) Revenues over Expenditures:		(1,119)	217,417
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	10,800
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 395, 398	Other Resources	-	-
Total Other Increases in Fund Resources:		-	10,800
Other Decreases in Fund Resources			
594-595	Capital Expenditures	-	53,794
591-593, 599	Debt Service	-	101,303
597	Transfers-Out	-	27,449
585	Special or Extraordinary Items	-	-
586 / 589	Custodial Activities	-	-
581	Other Uses	-	-
Total Other Decreases in Fund Resources:		-	182,546
Increase (Decrease) in Cash and Investments:		(1,119)	45,671
Ending Cash and Investments			
5081000	Reserved	29,988	101,641
5088000	Unreserved	-	961,747
Total Ending Cash and Investments		29,988	1,063,388

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

		Agency
308	Beginning Cash and Investments	-
388 & 588	Prior Period Adjustment, Net	-
310-390	Additions	47,677
510-590	Deductions	47,673
	Net Increase (Decrease) in Cash and Investments:	4
508	Ending Cash and Investments	5

The accompanying notes are an integral part of this statement.

City of Newport
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2016

		633 State and Local Clearing Fund
308	Beginning Cash and Investments	32
388 & 588	Prior Period Adjustments, Net	-
310-360	Revenues	-
380-390	Other Increases and Financing Sources	48,681
510-570	Expenditures	-
580-590	Other Decreases and Financing Uses	48,713
	Net Increase (Decrease) in Cash and Investments:	(32)
508	Ending Cash and Investments	-

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS**Year Ending December 31, 2017****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Newport was incorporated in 1903 as the Town of Newport. In 1983 the City adopted to operate under the Provisions of Chapter 35A, RCW, the Optional Municipal Code, as a Code City. The City is a general purpose government and provides fire prevention, street improvements, parks and general administration. In addition, the City owns and operates a water and sewer system. The City uses the Mayor-Council form of Government with the mayor and five council members. The City uses single-entry, cash basis accounting which is a departure from Generally Accepted Accounting Principles (GAAP).

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

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

A. FUND ACCOUNTING

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

purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used by Newport:

GOVERNMENTAL FUND TYPES:

Current Expense Fund – 001

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

Special Revenue Funds – 100's

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of Newport. Special revenue funds in Newport consist of the Street Fund (101), Real Estate Excise Tax Fund (103) and the Tourism Promotion Fund (109).

Debt Service Funds – 200's

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt. Debt service funds are reported within Fund 410.

PROPRIETARY FUND TYPES:

Enterprise Funds – 400's

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. Newport has the Combined Water/Sewer Fund (410).

FIDUCIARY FUND TYPES:

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

Agency Funds – 600's

These funds are used to account assets that the government holds on behalf of others in a custodial capacity. The City of Newport collects or receives funds that are forwarded to Pend Oreille County or the state as well as park deposits that are accounted for in Fund 633.

B. BASIS OF ACCOUNTING & 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 Newport also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. BUDGETS

The City of Newport adopts an annual appropriated budget for all funds. These budgets are appropriated at the fund level except the current expense fund, where budgets are adopted at the department 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 budget were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Legislative	39,000.00	36,549.49	2,450.51
Judicial	64,500.00	62,400.00	2,100.00
Executive	91,500.00	85,438.83	6,061.17
Finance/Admin	85,000.00	70,707.62	14,292.38
Legal	37,000.00	34,800.00	2,200.00
Public Safety	615,500.00	479,724.61	135,775.39
Planning	10,500.00	5,862.34	4,637.66
Mental & Physical Health	1,000.00	663.26	336.74
Culture and Recreation	176,000.00	163,269.24	12,730.76
Capital Outlay	78,800.00	65,074.44	13,725.56
Transfers Out	11,000.00	10,800.00	200.00
Total General Fund:	1,209,800.00	1,015,289.83	194,510.17
Street	1,414,122.00	1,159,771.26	254,350.74
REET	162,500.00	86,302.13	76,197.87
Tourism	30,500.00	18,670.08	11,829.92
W/S Fund	1,451,600.00	1,291,755.39	159,844.61

The Clerk/Treasurer is authorized to transfer budgeted amounts between departments and object classes within a fund; however, any revisions that alter the total expenditures of a fund or the reserved ending fund balance 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's legislative body.

D. CASH and INVESTMENTS

See Note 2, Deposits and Investments.

E. CAPITAL ASSETS

Capital assets are assets with an individual cost of more than \$5,000.00. Capital assets and inventory are recorded as capital expenditures when purchased.

F. COMPENSATED ABSENCES

The City's policy on vacation and sick leave is that hours accrued every month may be used as they accrue. Vacation and sick hours are not recorded after maximum hours are accrued. The maximum number of vacation hours that may be accrued is 240; and the maximum number of sick hours that may be accrued is 960.

Vacation pay is payable upon termination, resignation, retirement, or death. If an employee's employment ceases due to death or bona fide retirement, such employee, or beneficiary, shall be paid for one-half (1/2) of any unused sick leave benefits up to 240 hours or 30 days upon cessation of employment at his/her current rate of pay. Employees employed prior to 05/14/1998 are grandfathered under the previous sick leave policy #3.07. Therefore they will be paid one-half (1/2) of any unused sick leave benefits up to 960 hours or 120 days upon cessation of employment at his/her current rate of pay. Payments are recognized as expenditures when paid.

G. LONG-TERM DEBT

See Long-Term Debt Note 5, Debt Service Requirements.

H. RESERVED PORTION OF ENDING CASH AND INVESTMENTS

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

In relation to internal commitments, the City Council must approve an ordinance or resolution to establish, modify or rescind a fund balance commitment.

Reservations of Ending Cash and Investments consist of a restriction on the fund balance for the 2004 Water/Sewer Bond as well as the 2013 Spruce Street Bond. The City is required to keep one annual payment in reserve until the bond is paid off. This amount is \$101,641.00 and it is budgeted in the Combined Ending and Beginning Fund Balance in Fund 410 Water/Sewer Combined Fund. In addition there are restrictions on Fund 101 Street Fund by Ordinance 985 stating the funds may only be used for street related expenses. The Street Fund Reserve Ending Cash and Investments reported for 2017 is \$505,646.92; Fund 103 Real Estate Excise Tax by RCW 35.43.040 to allow for expenses on REET 1 & RCW 82.46.035 to allow for expenses on REET 2. The Real Estate Excise Tax Ending Cash and Investments reported for 2017 is \$71,049.54; Fund 109 Tourism Fund by Ordinance 899 stating funds may only be used for tourism related expenses. The Tourism Fund Ending Cash and Investments reported for 2017 is \$28,926.04.

NOTE 2 – DEPOSITS and INVESTMENTS

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

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Share Insurance Fund (NCUSIF) which is administered by the National Credit Union Administration (NCUA) for the purpose of providing deposit insurance to protect deposits of credit union members at insured institutions in the United States and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City or its agent in the City's name.

Investments are reported at cost. Investments by type at December 31, 2017 are as follows based on year end statements from the different agencies:

<u>Type of Investment</u>	<u>City's Own Investments</u>	<u>Investments held by City as an agent for other local Governments, individuals Or private organizations</u>	<u>Total</u>
L.G.I.P	\$2,415,011.89		\$2,415,011.89
STCU	\$ 245,833.72		\$ 245,833.72
Total:	\$2,660,845.61	\$0.00	\$2,660,845.61

NOTE 3 – PROPERTY TAXES

The Pend Oreille County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.

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

The City's regular levy for 2017 was \$2.44411 per \$1,000 on an assessed valuation of \$120,183,908 for a total regular levy of \$293,743.

NOTE 4 – INTERFUND LOANS AND ADVANCES

The City did not have any interfund loans or advances in 2017.

NOTE 5 –DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2017.

The 2017 year end unpaid Principal on the 04 Water/Sewer Bonds was \$1,431,006.47 and the unpaid interest was \$2,822.80 according to the United States Department of Agriculture/Rural Development Mortgage Interest Statement. The 04 Water/Sewer Bonds will be paid in full on December 15, 2044.

The 2017 year end unpaid Principal on the Spruce Street Bond was \$195,818.10 and the unpaid interest was \$59.02 according to the United States Department of Agriculture/Rural Development Mortgage Interest Statement. The Spruce Street Water/Sewer Bonds will be paid in full on December 27, 2053.

The debt service requirements, including both principal & interest are as follows:

Debt Schedule

<u>YEAR</u>	<u>WWTP</u>		<u>SPRUCE ST.</u>		<u>TOTAL</u>
	<u>BONDS</u>		<u>DEBT</u>		
	<u>2004-2044</u>		<u>2013-2053</u>		
	Principal	Interest	Principal	Interest	
2018	28,267	64,395	3,256	5,385	101,303
2019	29,539	63,123	3,345	5,296	101,303
2020	30,868	61,794	3,438	5,203	101,303
2021	32,257	60,405	3,532	5,109	101,303
2022	33,709	58,953	3,629	5,012	101,303
2023-2027	192,708	270,602	19,699	23,506	506,515
2028-2032	240,150	223,160	22,561	20,644	506,515
2033-2037	299,270	164,040	25,838	17,367	506,515
2038-2042	372,945	90,365	29,592	13,613	506,515
2043-2047	171,293	11,594	33,891	9,314	226,092
2048-2052	0	0	38,814	4,391	43,205
2053	0	0	8,223	226	8,449
	1,431,006	1,068,431	195,818	115,066	2,810,321

NOTE 6 – PENSION PLANS

A. State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in PERS plans administered by the Washington State Department of Retirement Systems, 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
PO Box 48380
Olympia, WA 98504-8380

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

The city also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of

Washington CAFR available from the Office of Financial Management website at www.ofm.wa.gov.

At June 30, 2017 the city's proportionate share of the collective net pension liabilities, as reported on Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.001831%	\$86,882
PERS 1 UAAL	.004447%	\$211,014
PERS 2	.005719%	\$198,708
LEOFF 1	.001279%	(\$19,405)
VFFRPF	.13%	(\$46,804)

LEOFF Plan 1

The city also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

LEOFF Plan 2

The City also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. The special funding situation is not mandated by the state constitution and could be changed by statute.

NOTE 7 – RISK MANAGEMENT

The City of Newport is a member of the Cities Insurance Association of Washington. Chapter 48.62 Revised Code of Washington (RCW) authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 01, 2017, there are 201 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members; Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including

general, automobile and wrongful acts, are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions which is subject to a per-occurrence self insured retention (SIR) of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability which have a self-insurance retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over the \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,784,067.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention in addition to the deductible.

Privacy and Network Liability coverage is offered with a \$10,000 member deductible and \$40,000 self-insured retention for systems using encryption and \$50,000 member deductible and \$50,000 self-insured retention for those without encryption.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps and Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2017, were \$1,501,903.83.

NOTE 8 – OTHER DISCLOSURES

A. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City of Newport has a commitment to pay for post employment benefits for an employee that belongs to LEOFF 1. These benefits include medical insurance and co-pays as well as long term care insurance. One retiree received benefits during the year and \$13,552.02 was paid out for those benefits during the year.

B. HEALTH & WELFARE

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

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

As of December 31, 2017, 261 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: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2017, 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 Kaiser ISL at \$1 million with Companion Life

through ASG Risk Management. 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 operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns.

The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW. The Board of Trustees has decision authority consistent with the Trust Agreement, Health Care Program policies, Chapter 48.62 RCW and Chapter 200-110-WAC.

The accounting records of the 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.

NOTES TO FINANCIAL STATEMENTS**Year Ending December 31, 2016****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Newport was incorporated in 1903 as the Town of Newport. In 1983 the City adopted to operate under the Provisions of Chapter 35A, RCW, the Optional Municipal Code, as a Code City. The City is a general purpose government and provides fire prevention, street improvements, parks and general administration. In addition, the City owns and operates a water and sewer system. The City uses the Mayor-Council form of Government with the mayor and five council members. The City uses single-entry, cash basis accounting which is a departure from Generally Accepted Accounting Principles (GAAP).

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

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

A. FUND ACCOUNTING

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

purpose. Each fund is reported as a separate column in the financial statements. The following fund types are used by Newport:

GOVERNMENTAL FUND TYPES:

Current Expense Fund –001

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

Special Revenue Funds – 100's

These funds account for specific revenue sources that are restricted or committed to expenditures for specified purposes of the City of Newport. Special revenue funds in Newport consist of the Street Fund (101), Real Estate Excise Tax Fund (103) and the Tourism Promotion Fund (109).

Debt Service Funds – 200's

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt. Debt service funds are reported within Fund 410.

PROPRIETARY FUND TYPES:

Enterprise Funds – 400's

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges. Newport has the Combined Water/Sewer Fund (410).

FIDUCIARY FUND TYPES:

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

Agency Funds – 600's

These funds are used to account assets that the government holds on behalf of others in a custodial capacity. The City of Newport collects or receives funds that are forwarded to Pend Oreille County or the state as well as park deposits that are accounted for in Fund 633.

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

C. BUDGETS

The City of Newport adopts an annual appropriated budget for all funds. These budgets are appropriated at the fund level except the current expense fund, where budgets are adopted at the department 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 budget were as follows:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
General Fund:			
Legislative	21,500.00	16,411.30	5,088.70
Judicial	77,500.00	68,825.00	8,675.00
Executive	80,000.00	72,304.77	7,695.23
Finance/Admin	81,500.00	73,456.69	8,043.31
Legal	37,000.00	34,640.43	2,359.57
Public Safety	442,000.00	430,659.45	11,340.55
Planning	15,500.00	10,965.40	4,534.60
Mental & Physical Health	1,000.00	429.05	570.95
Culture and Recreation	132,000.00	125,380.15	6,619.85
Capital Outlay	84,500.00	83,932.50	567.50
Transfers Out	11,000.00	10,800.00	200.00
Total General Fund:	983,500.00	927,804.74	55,695.26
Street	1,207,500.00	429,250.92	778,249.08
REET	110,000.00	32,082.91	77,917.09
Tourism	30,500.00	18,403.03	12,096.97
W/S Fund	1,259,650.00	1,216,103.98	43,546.02

The Clerk/Treasurer is authorized to transfer budgeted amounts between departments and object classes within a fund; however, any revisions that alter the total expenditures of a fund or the reserved ending fund balance 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's legislative body.

D. CASH and INVESTMENTS

See Note 2, Deposits and Investments.

E. CAPITAL ASSETS

Capital assets are assets with an individual cost of more than \$5,000.00. Capital assets and inventory are recorded as capital expenditures when purchased.

F. COMPENSATED ABSENCES

The City's policy on vacation and sick leave is that hours accrued every month may be used as they accrue. Vacation and sick hours are not recorded after maximum hours are accrued. The maximum number of vacation hours that may be accrued is 240; and the maximum number of sick hours that may be accrued is 960.

Vacation pay is payable upon termination, resignation, retirement, or death. If an employee's employment ceases due to death or bona fide retirement, such employee, or beneficiary, shall be paid for one-half (1/2) of any unused sick leave benefits up to 240 hours or 30 days upon cessation of employment at his/her current rate of pay. Employees employed prior to 05/14/1998 are grandfathered under the previous sick leave policy #3.07. Therefore they will be paid one-half (1/2) of any unused sick leave benefits up to 960 hours or 120 days upon cessation of employment at his/her current rate of pay. Payments are recognized as expenditures when paid.

G. LONG-TERM DEBT

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

H. OTHER FINANCING SOURCES

The City's "Other Financing Sources or Uses" consist of transfers-in and transfers-out.

I. RISK MANAGEMENT

The City of Newport is a member of the Cities Insurance Association of Washington. Chapter 48.62 Revised Code of Washington (RCW) authorizes the governing body of any one or more governmental entities to form together into or join a program or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The program was formed on September 1, 1988 when 34 cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. As of December 01, 2016, there are 205 members in the program.

The program provides the following forms of joint self-insurance and reinsurance coverage for its members; Property, including automobile comprehensive and collision, equipment breakdown and crime protection, and liability, including general, automobile and wrongful acts, are included to fit members' various needs.

The program acquires liability insurance through their Administrator, Clear Risk Solutions which is subject to a per-occurrence self insured retention of \$100,000, with the exception of Wrongful Acts and Law Enforcement Liability which have a self-insurance retention of \$25,000. The standard member deductible is \$1,000 for each claim (deductible may vary per member), while the program is responsible for the \$100,000 self-insured retention. Insurance carriers cover insured losses over the \$101,000 to the limits of each policy. Since the program is a cooperative program, there is a joint liability among the participating members towards the sharing of the \$100,000 of the self-insured retention. The program also purchases a Stop Loss Policy as another layer of protection to its membership, with an attachment point of \$1,718,302.

Property insurance is subject to a per-occurrence self-insured retention of \$25,000. Members are responsible for a \$1,000 deductible for each claim. The program bears the \$25,000 self-insured retention in addition to the deductible.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$2,500, which may vary per member, with the exception of Pumps & Motors, which is \$10,000. Members are responsible for the deductible amount of each claim. There is no program self-insured retention on this coverage, with the exception of Pumps and Motors which is \$15,000 and is covered by the CIAW.

Members contract to remain in the program for a minimum of one year, and must give notice before December 1, to terminate participation the following December 1. The Interlocal Agreement is renewed automatically each year. In the event of termination, a member is still responsible for contributions to the program for any

unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

A board of ten members is selected by the membership from three geographic areas of the state on a staggered term basis and is responsible for conducting the business affairs of the program.

The program has no employees. Claims are filed by members/brokers with Clear Risk Solutions, who has been contracted to perform program administration, claims adjustment and loss prevention for the program. Fees paid to the third party administrator under this arrangement for the year ending December 1, 2016, were \$1,484,482.16.

J. RESERVED PORTION OF ENDING CASH AND INVESTMENTS

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

In relation to internal commitments, the City Council must approve an ordinance or resolution to establish, modify or rescind a fund balance commitment.

Reservations of Ending Cash and Investments consist of a restriction on the fund balance for the 2004 Water/Sewer Bond as well as the 2013 Spruce Street Bond. The City is required to keep one annual payment in reserve until the bond is paid off. This amount is \$101,641.00 and it is budgeted in the Combined Ending and Beginning Fund Balance in Fund 410 Water/Sewer Combined Fund. In addition there are restrictions on Fund 101 Street Fund by Ordinance 985 stating the funds may only be used for street related expenses. The Street Fund Reserve Ending Cash and Investments reported for 2016 is \$498,087.82; Fund 103 Real Estate Excise Tax by RCW 35.43.040 to allow for expenses on REET 1 & RCW 82.46.035 to allow for expenses on REET 2. The Real Estate Excise Tax Ending Cash and Investments reported for 2016 is \$108,753.82; Fund 109 Tourism Fund by Ordinance 899 stating funds may only be used for tourism related expenses. The Tourism Fund Ending Cash and Investments reported for 2016 is \$29,988.46.

NOTE 2 – DEPOSITS and INVESTMENTS

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

All deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Share Insurance Fund (NCUSIF) which is administered by the National Credit Union Administration (NCUA) for the purpose of providing deposit insurance to protect deposits of credit union members at insured

institutions in the United States and/or the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the City or its agent in the City's name.

Investments are reported at cost. Investments by type at December 31, 2016 are as follows based on year end statements from the different agencies:

<u>Type of Investment</u>	<u>City's Own Investments</u>	<u>Investments held by City as an agent for other local Governments, individuals Or private organizations</u>	<u>Total</u>
L.G.I.P	\$2,441,919.64		\$2,441,919.64
STCU	\$ 241,813.48		\$ 241,813.48
Total:	\$2,683,733.12	\$0.00	\$2,683,733.12

NOTE 3 – PROPERTY TAXES

The Pend Oreille County Treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Collections are distributed after the end of each month.

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

The City's regular levy for 2016 was \$2.43963 per \$1,000 on an assessed valuation of \$119,049,491 for a total regular levy of \$290,436.

NOTE 4 –DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2016.

The 2016 year end unpaid Principal on the 04 Water/Sewer Bonds was \$1,458,055.96 and the unpaid interest was \$2,876.16 according to the United States Department of Agriculture/Rural Development Mortgage Interest Statement. The 04 Water/Sewer Bonds will be paid in full on December 15, 2044.

The 2016 year end unpaid Principal on the Spruce Street Bond was \$198,986.96 and the unpaid interest was \$59.97 according to the United States Department of Agriculture/Rural Development Mortgage Interest Statement. The Spruce Street Water/Sewer Bonds will be paid in full on December 27, 2053.

The debt service requirements, including both principal & interest are as follows:

Debt Schedule

<u>YEAR</u>	<u>WWTP</u>		<u>SPRUCE ST.</u>		<u>TOTAL</u>
	<u>BONDS</u>		<u>DEBT</u>		
	<u>2004-2044</u>		<u>2013-2053</u>		
	Principal	Interest	Principal	Interest	
2017	27,049	65,613	3,169	5,472	101,303
2018	28,267	64,395	3,256	5,385	101,303
2019	29,539	63,123	3,345	5,296	101,303
2020	30,868	61,794	3,438	5,203	101,303
2021	32,257	60,405	3,532	5,109	101,303
2022-2026	184,410	278,900	19,172	24,033	506,515
2027-2031	229,808	233,502	21,957	21,248	506,515
2032-2036	286,383	176,927	25,147	18,058	506,515
2037-2041	356,885	106,425	28,800	14,405	506,515
2042-2046	252,590	22,960	32,984	10,221	318,755
2047-2051	0	0	37,776	5,429	43,205
2052-2053	0	0	16,412	677	17,089
	1,458,056	1,134,044	198,988	120,536	2,911,624

NOTE 5 – INTERFUND LOANS AND ADVANCES

The City did not have any interfund loans or advances in 2016.

NOTE 6 – PENSION PLANS

A. State Sponsored Pension Plans

Substantially all City full-time and qualifying part-time employees participate in PERS plans administered by the Washington State Department of Retirement Systems, 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
PO Box 48380
Olympia, WA 98504-8380

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

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

At June 30, 2016 the city's proportionate share of the collective net pension liabilities, as reported on Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	.001903%	\$102,200
PERS 1 UAAL	.004470%	\$240,060
PERS 2	.005721%	\$288,048
LEOFF 1	.001261%	(\$12,992)
VFFRPF	.16%	(\$27,281)

LEOFF Plan 1

The city also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

NOTE 7 – OTHER DISCLOSURES

A. OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City of Newport has a commitment to pay for post employment benefits for an employee that belongs to LEOFF 1. These benefits include medical insurance and co-pays as well as long term care insurance. One retiree received benefits during the year and \$12,003.72 was paid out for those benefits during the year.

B. HEALTH & WELFARE

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

An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The AWC Trust HCP was formed on January 1, 2014 when participating cities, towns, and non-city entities of the AWC Employee Benefit Trust in the State of Washington joined together by signing an Interlocal Governmental Agreement to jointly self-insure certain health benefit plans and

programs for participating employees, their covered dependents and other beneficiaries through a designated account within the Trust.

As of December 31, 2016, 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 operations of the Health Care Program are managed by the Board of Trustees or its delegates. The Board of Trustees is comprised of four regionally elected officials from Trust member cities or towns, the Employee Benefit Advisory Committee Chair and Vice Chair, and two appointed individuals from the AWC Board of Directors, who are from Trust member cities or towns. The Trustees or its appointed delegates review and analyze Health Care Program related matters and make operational decisions regarding premium contributions, reserves, plan options and benefits in compliance with Chapter 48.62 RCW.

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

The accounting records of the 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.

**City of Newport
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						
251.11	2013 Spruce Street W/S Bonds Issue Date 12/27/2013	12/27/2053	198,987	-	3,169	195,818
251.11	2004 WWTP Upgrade Bonds Issue Date 12/15/2004	12/15/2044	1,458,056	-	27,049	1,431,007
Total General Obligation Debt/Liabilities:			1,657,043	-	30,218	1,626,825
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	CE Employee Buyout		37,840	2,913	-	40,753
259.12	Street Employee Buyout		39,341	2,381	-	41,722
259.12	Water Employee Buyout		44,204	4,297	-	48,501
259.12	Sewer Employee Buyout		51,033	-	6,871	44,162
264.30	Net Pension Liability		630,308	-	133,704	496,604
Total Revenue and Other (non G.O.) Debt/Liabilities:			802,726	9,591	140,575	671,742
Total Liabilities:			2,459,769	9,591	170,793	2,298,567

City of Newport
Schedule of Liabilities
For the Year Ended December 31, 2016

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2013 Spruce Street W/S Bonds Issue Date 12/27/2013	12/27/2053	202,071	-	3,084	198,987
251.11	2004 WWTP Upgrade Bonds Issue Date 12/15/2004	12/15/2044	1,483,941	-	25,885	1,458,056
Total General Obligation Debt/Liabilities:			1,686,012	-	28,969	1,657,043
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	CE Employee Buyout		37,189	651	-	37,840
259.12	Street Employee Buyout		37,226	2,115	-	39,341
259.12	Water Employee Buyout		40,269	3,935	-	44,204
259.12	Sewer Employee Buyout		46,357	4,676	-	51,033
264.30	Net Pension Liability		535,076	95,232	-	630,308
Total Revenue and Other (non G.O.) Debt/Liabilities:			696,117	106,609	-	802,726
Total Liabilities:			2,382,129	106,609	28,969	2,459,769

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