



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

City of Newcastle

For the period January 1, 2021 through December 31, 2021

Published September 29, 2022

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

September 29, 2022

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor
Olympia, WA

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INDEPENDENT AUDITOR'S REPORT

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

City of Newcastle January 1, 2021 through December 31, 2021

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, 2021, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 29, 2022.

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 state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

REPORT ON 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) as a basis for designing 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 above 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 or significant deficiencies may exist that were not identified.

REPORT ON 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 its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

September 29, 2022

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

City of Newcastle January 1, 2021 through December 31, 2021

Council
City of Newcastle
Newcastle, Washington

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Unmodified and Adverse Opinions

We have audited the financial statements of the City of Newcastle, as of and for the year ended December 31, 2021, and the related notes to the financial statements, as listed in the table of contents.

Unmodified Opinion on the Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the City has prepared these financial statements to meet the financial reporting requirements of state law and 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 accompanying financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Newcastle, and its changes in cash and investments, for the year ended December 31, 2021, on the basis of accounting described in Note 1.

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, 2021, or the changes in financial position or cash flows thereof for the year then ended, because of the significance of the matter discussed below.

Basis for Unmodified and Adverse Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit unmodified and adverse opinions.

Matter Giving Rise to 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. As described in Note 1 of the financial statements, the financial statements are prepared by the City in accordance with state law using accounting practices prescribed by the BARS manual, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the BARS manual 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

Performing an audit in accordance with GAAS and *Government Auditing Standards* includes the following responsibilities:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed;
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements;
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time; and
- We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. 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 29, 2022 on our consideration of the City's internal control over financial reporting and on the 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 the effectiveness of the City's 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, reading "Pat McCarthy". The signature is fluid and cursive, with the first name "Pat" and last name "McCarthy" clearly distinguishable.

Pat McCarthy, State Auditor

Olympia, WA

September 29, 2022

FINANCIAL SECTION

City of Newcastle January 1, 2021 through December 31, 2021

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2021
Notes to the Financial Statements – 2021

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2021

City of Newcastle
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2021

		Total for All Funds (Memo Only)	001 General Fund	101 Street Fund	105 Cumulative Reserve Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	13,676,280	5,865,722	303,809	10,533
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	10,043,018	7,896,097	-	-
320	Licenses and Permits	647,638	647,638	-	-
330	Intergovernmental Revenues	2,736,084	340,842	262,521	1,716,418
340	Charges for Goods and Services	2,898,948	385,323	-	-
350	Fines and Penalties	60	60	-	-
360	Miscellaneous Revenues	788,676	133,423	188,807	2,785
Total Revenues:		17,114,424	9,403,383	451,328	1,719,203
Expenditures					
510	General Government	2,515,275	2,146,885	-	-
520	Public Safety	5,030,540	4,910,208	-	120,332
530	Utilities	874,376	-	-	-
540	Transportation	944,203	232,536	643,280	-
550	Natural/Economic Environment	1,228,956	1,228,956	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	595,968	595,968	-	-
Total Expenditures:		11,189,318	9,114,553	643,280	120,332
Excess (Deficiency) Revenues over Expenditures:		5,925,106	288,830	(191,952)	1,598,871
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	3,984,135	-	305,885	1,500,000
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	644,631	625,178	6,486	-
Total Other Increases in Fund Resources:		4,628,766	625,178	312,371	1,500,000
Other Decreases in Fund Resources					
594-595	Capital Expenditures	2,310,831	-	-	-
591-593, 599	Debt Service	526,796	-	-	-
597	Transfers-Out	3,984,135	1,805,885	-	-
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	539,133	520,622	825	-
Total Other Decreases in Fund Resources:		7,360,895	2,326,507	825	-
Increase (Decrease) in Cash and Investments:		3,192,977	(1,412,499)	119,594	3,098,871
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	8,220,175	-	423,403	-
50841	Committed	3,109,404	-	-	3,109,404
50851	Assigned	1,730,325	643,870	-	-
50891	Unassigned	3,809,353	3,809,353	-	-
Total Ending Cash and Investments		16,869,257	4,453,223	423,403	3,109,404

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, 2021

		202 Debt Service Fund	302 Trans Capital Investment	303 Parks Capital Investment	304 REET Fund
Beginning Cash and Investments					
308	Beginning Cash and Investments	132,574	622,549	1,090,137	3,384,769
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	-	-	2,146,921
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	174,841	144,767	-
340	Charges for Goods and Services	-	265,102	145,287	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	-	723	2,638	4,628
Total Revenues:		-	440,666	292,692	2,151,549
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural/Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		-	440,666	292,692	2,151,549
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	527,450	1,650,800	-	-
385	Special or Extraordinary Items	-	-	-	-
381, 382, 389, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		527,450	1,650,800	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	1,785,144	62,684	-
591-593, 599	Debt Service	526,796	-	-	-
597	Transfers-Out	-	176,475	-	1,541,065
585	Special or Extraordinary Items	-	-	-	-
581, 582, 589	Other Uses	-	12,873	3,536	-
Total Other Decreases in Fund Resources:		526,796	1,974,492	66,220	1,541,065
Increase (Decrease) in Cash and Investments:		654	116,974	226,472	610,484
Ending Cash and Investments					
50821	Nonspendable	-	-	-	-
50831	Restricted	133,228	739,523	1,316,609	3,995,253
50841	Committed	-	-	-	-
50851	Assigned	-	-	-	-
50891	Unassigned	-	-	-	-
Total Ending Cash and Investments		133,228	739,523	1,316,609	3,995,253

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, 2021

		401 SWM Mgmt & CIP Fund	501 Equipment Rental Fund	503 Facilities Fund
Beginning Cash and Investments				
308	Beginning Cash and Investments	1,365,560	477,111	423,516
388 / 588	Net Adjustments	-	-	-
Revenues				
310	Taxes	-	-	-
320	Licenses and Permits	-	-	-
330	Intergovernmental Revenues	96,695	-	-
340	Charges for Goods and Services	1,578,236	100,000	425,000
350	Fines and Penalties	-	-	-
360	Miscellaneous Revenues	5,815	624	449,233
Total Revenues:		1,680,746	100,624	874,233
Expenditures				
510	General Government	-	-	368,390
520	Public Safety	-	-	-
530	Utilities	874,376	-	-
540	Transportation	-	68,387	-
550	Natural/Economic Environment	-	-	-
560	Social Services	-	-	-
570	Culture and Recreation	-	-	-
Total Expenditures:		874,376	68,387	368,390
Excess (Deficiency) Revenues over Expenditures:		806,370	32,237	505,843
Other Increases in Fund Resources				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
381, 382, 389, 395, 398	Other Resources	12,967	-	-
Total Other Increases in Fund Resources:		12,967	-	-
Other Decreases in Fund Resources				
594-595	Capital Expenditures	463,003	-	-
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	109,735	-	350,975
585	Special or Extraordinary Items	-	-	-
581, 582, 589	Other Uses	-	-	1,277
Total Other Decreases in Fund Resources:		572,738	-	352,252
Increase (Decrease) in Cash and Investments:		246,599	32,237	153,591
Ending Cash and Investments				
50821	Nonspendable	-	-	-
50831	Restricted	1,612,159	-	-
50841	Committed	-	-	-
50851	Assigned	-	509,348	577,107
50891	Unassigned	-	-	-
Total Ending Cash and Investments		1,612,159	509,348	577,107

The accompanying notes are an integral part of this statement.

City of Newcastle
Notes to the Financial Statements
For the year ended December 31, 2021

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* Manual prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW. The state auditor's manual prescribes a financial reporting framework that differs from generally accepted accounting principles (GAAP) in the following manner:

- Financial transactions are recognized on the cash basis of accounting.
- 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 for proprietary and fiduciary are presented using classifications that are different from the ending net position classifications 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 two Special Revenue funds: The Street fund (101) account for specific revenue sources that are restricted or committed to expenditures specific to street maintenance and operations. The Cumulative Reserve fund (105) accounts for residual monies (10K) derived from the sale of property. During 2020 the scope of the fund changed by resolution to include a transfer in 2021 budget that would provide resources to the Cumulative Reserve fund and act as a rainy-day fund. City council by majority vote can appropriate monies from the Cumulative Reserve fund a change that occurred in 2020.

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 the first 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 appropriation for fund balances, revenue and expenditures for the legally adopted budgets were as follows:

2021 Budget Amendment					
	2020-620 Adopting Ordinance	2021-625 Amending Ordinance	2021-626 Amending Ordinance	2021-634 Amending Ordinance	2021 Final Budget Total
Revenue					
General Fund	\$10,205,455				\$10,205,455
Street Fund	763,185				763,185
Cumulative Reserve Fund	1,501,500			1,716,420	3,217,920
Debt Service Fund	527,450				527,450
Transportation Capital Fund	2,003,140	\$212,590		230,000	2,445,730
Parks Capital Fund	1,846,930		(450,000)		1,396,930
Real Estate Excise Tax Capital Fund	1,204,060				1,204,060
SWM Fund	1,918,180	12,750			1,930,930
Equipment Rental Fund	100,540				100,540
Facilities Fund	960,520				960,520
Total Revenue	\$20,806,300	\$225,340	(\$450,000)	\$1,946,420	\$22,752,720
Expenditure Appropriation					
General Fund	\$12,033,325	\$ 27,260			\$12,060,585
Street Fund	763,185	3,100			766,285
Cumulative Reserve Fund	0			120,575	120,575
Debt Service Fund	527,450				527,450
Transportation Capital Fund	1,714,265	\$218,610		152,615	2,085,490
Parks Capital Fund	1,605,445	22,505	(450,000)		1,177,950
Real Estate Excise Tax Capital Fund	1,497,700	\$43,365			1,541,065
SWM Fund	1,767,460	232,590			2,000,050
Equipment Rental Fund	110,500				110,500
Facilities Fund	908,975	550			909,525
Total Expenditure Appropriation	\$21,026,285	\$547,980	(\$450,000)	\$273,190	\$21,299,475
Estimated Beg Fund Balance					
General Fund	\$4,878,190	\$448,220			\$5,326,410
Street Fund	255,810	47,175			302,985
Cumulative Reserve Fund	10,560	(25)			10,535
Debt Service Fund	132,550	25			132,575
Transportation Capital Fund	673,680	(64,000)			609,680
Parks Capital Fund	1,086,335	265			1,086,600
Real Estate Excise Tax Capital Fund	3,235,800	148,970			3,384,770
SWM Fund	1,310,130	52,045			1,362,175
Equipment Rental Fund	417,355	59,755			477,110
Facilities Fund	232,280	91,070			323,350
Total Estimated Beg Fund Balance	\$13,016,190	\$783,500	\$0	\$0	\$13,016,190
Ending Fund Balance					
General Fund	\$3,471,280	\$420,960		\$0	\$3,892,240
Street Fund	299,885	44,075		0	343,960
Cumulative Reserve Fund	1,512,035	(25)		1,595,845	3,107,855
Debt Service Fund	132,575	25		0	132,600
Transportation Capital Fund	892,535	(70,020)		77,385	899,900
Parks Capital Fund	1,305,580	(22,240)		0	1,283,340
Real Estate Excise Tax Capital Fund	3,047,765	105,605		0	3,153,370
SWM Fund	1,293,055	(167,795)		0	1,125,260
Equipment Rental Fund	467,150	59,755		0	526,905
Facilities Fund	374,345	90,520		0	464,865
Total Ending Fund Balance	\$12,796,205	\$460,860	\$0	\$1,673,230	\$14,930,295

The Finance Director is authorized to transfer amounts within funds if 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 operating cash deposit accounts at year-end was \$16,869,257

Cash is classified as follows:

Cash, Governmental Funds	\$ 15,257,098
Cash, Business-Type Activities	\$ 1,612,159

It is the City of Newcastle’s policy to invest all temporary cash surpluses. The interest on these investments is allocated to city’s governmental and enterprise 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 on December 31, 2021, 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	\$1,436,605	\$0	0% to .10%	\$1,436,605
HomeStreet Bank Investment MMKT	5,078,981		0.40%	5,078,981
HomeStreet Brokerage Act	145,672		0.10%	145,672
Washington State Investment Pool	9,399,163		0.16%	9,399,163
Total Governmental Cash & Investments	<u>\$16,060,421</u>	<u>\$0</u>		<u>\$16,060,421</u>
<u>Business Type Activities</u>				
HomeStreet Bank Cash	\$556,458	\$0	0.10%	\$556,458
HomeStreet Brokerage Act	\$57,029		0.01%	57,029
Washington State Investment Pool	\$1,000,000		0.16%	1,000,000
Total Business Type Cash & Investments	<u>\$1,613,488</u>	<u>\$0</u>		<u>\$1,613,488</u>
Total Cash & Investments	<u>\$17,673,908</u>	<u>\$0</u>		<u>\$17,673,908 (A)</u>
Recap				
HomeStreet Bank	\$1,993,062.89	\$0	0% to .10%	\$1,993,063
HomeStreet Investments	\$5,281,682.76	0	0% to .40%	5,281,683
LGIP	\$10,399,162.65	0	0.16%	10,399,163
Total Cash & Investments	<u>\$17,673,908</u>	<u>\$0</u>		<u>\$17,673,908</u>

A. \$17,673,908 is the bank balance as of December 31, 2021. The financial statements reflect a balance of \$16,869,257 including \$250 petty cash. The \$804,650 lower cash balance than the bank balance for FY2021 is due to the net effect of \$804,753 outstanding checks and outstanding bank deposit of \$103 that cleared in FY2022.

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

All employees vacation leave may be accumulated up to 240 hours and is payable upon separation or retirement. Employees who have a minimum of 96 hours and less than 960 hours of accrued sick leave are paid 50% of their sick leave balance at the time of separation.

The accumulated leave decreased \$24,863 year over year. The balance on January 1, 2021, was \$300,269 and for the period ending December 31, 2021, the total accrued amount was \$275,406. The decline is attributed to ten employees leaving the city's employment and those employees were paid upon separation.

Expenditures for compensated absences are recognized when paid.

G. Long-Term Debt

See Note 3, *Long-Term Debt*.

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 cash flow changes.

I. Risk Management

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, 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, 2021, 262 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.

In April 2020, the Board of Trustees adopted a large employer policy, requiring newly enrolling groups with 600 or more employees to submit medical claims experience data in order to receive a quote for medical coverage. Outside of this, 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 2020, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through Intermediary Insurance Services. The aggregate policy is for 200% of expected medical claims.

Participating employers' contract to remain in the AWC Trust 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 AWC Trust 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 AWC Trust HCP. Similarly, the terminating member forfeits all rights and interest to the AWC Trust 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 AWC Trust HCP are maintained in accordance with methods prescribed by the State Auditor's office under the authority of Chapter 43.09 RCW. The AWC Trust HCP also follows applicable accounting standards established by the Governmental Accounting Standards Board ("GASB"). In 2018, the retiree medical plan subsidy was eliminated, and is noted as such in the report for the fiscal year ending December 31, 2018. 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.

J. Governmental Fund Balances

The City's financial statement shows governmental fund and business type fund balances that are available for appropriation or are legally restricted by outside parties designated for a specific purpose. Fund balances are categorized as follows:

- Restricted Fund Balance: fund resources that are constrained externally, such as those resulting from federal and state legislation, grant awards, bond covenants, and inter-local service agreements. Other restrictions that are legally enforceable by outside parties such as committed obligations. When expenditures that meet restrictions are incurred, the city intends to use the most restricted resources first.
- Committed Fund Balance is constrained by resolution as adopted by city council and requires the same action to remove the constraint.
- Assigned fund balances are constrained by the government's intent to be used for a specific purpose but are not restricted or committed.
- Unassigned fund balance is the residual classification for the General Fund.

The breakdown of what makes up each of the fund balance categories from the financial statement outlining the designation for a particular purpose is shown below:

	General Fund	Capital Improvements	Other Governmental Funds	Business Type Activities	Total
Restricted Cash and Investments:					
Debt Service			\$133,228		\$133,228
Transportation and Street Operations		\$739,523	423,403		\$1,162,926
Parks		\$1,316,609			\$1,316,609
Real Estate Excise Tax		\$3,995,253			\$3,995,253
Surface Water Management				\$1,612,159	\$1,612,159
Assigned Cash and Investments					
Capital Equipment Replacement			\$509,348		\$509,348
Facilities			\$577,107		\$577,107
Community Development	\$643,870				\$643,870
Committed Fund Balance					
Reserves			\$3,109,404		\$3,109,404
Unassigned Cash and Investments	\$3,809,353				\$3,809,353
Total Fund Balances	\$4,453,223	\$6,051,385	\$4,752,490	\$1,612,159	\$16,869,257

K. Program Costs

The amounts shown as current year expenditures represent both the city share and any federal grant portion of the program costs. Entire program costs, including the City of Newcastle's portion, are more than shown. Such expenditures are recognized following, as applicable, either the cost principles in the OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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 be liable for reimbursement.

During FY2021, the city received two federal grants. The city was reimbursed from these grants in the amount of \$9,143.75. The State of Washington was the cognizant agency. The City received a \$3,378.15 reimbursement, passed through from the Washington Department of Ecology, under the Department of Homeland Security FEMA High Hazard Potential Grant Program, for the Newport Hills Creek/Newcastle Railroad Embankment Dam Rehabilitation Project, as a 2018 dam safety inspection had determined that the condition of the dam posed a high hazard for adjacent properties. The City also received a \$5,765.42 reimbursement, passed through from the Washington State Military Department, under the Presidential Disaster Declaration # FEMA-4539-DR-WA Severe Storms, Flooding, Mudslides, Landslides public assistance grant program to help cover the costs incurred to enact emergency protective measures in order to mitigate and further prevent damage to homes and properties from a landslide which resulted from severe storms over the course of approximately 20 consecutive days in January and February 2020.

On March 11, 2021, President Biden signed into law HR 1319, the American Rescue Plan Act of 2021 ("ARPA"), which provides a total of \$1.9 trillion in financial assistance to individuals, businesses, and state and local government agencies to assist in the economic recovery from the COVID-19 pandemic. ARPA included a provision entitled "Coronavirus State and Local Fiscal Recovery Funds" ("SLFRF") that includes \$350 billion in funding for state and local governments of which \$65 billion was dedicated to local government agencies.

ARPA provided flexibility for each government to meet local needs in four areas: 1) supporting public health response to and economic impacts from the pandemic; 2) provide premium pay for essential workers; 3) replace lost public sector revenues; and 4) invest in water, wastewater and broadband infrastructure.

The City is classified as a non-entitlement unit within the provisions of SLFRF and will receive a total of \$3,434,639 in federal relief funds, divided in two equal payments (or "tranches") of approximately \$1,716,418. The City received its first payment on June 25, 2021, and the second payment will be received on or before the same date in 2022. The City did not spend any of the ARPA money in 2021 due to the final guidance issued on January 6, 2022. The US Treasury's final guidance was effective on April 1, 2022. Prior to January 6, 2022 the City was using the interim final rule issued on March 11, 2021. On April 5, 2022, city council approved resolution 2022-897 to execute the provisions and reporting requirements for the use of the SLFRF funds according to the Department of Treasury. The final rule specifies that the City of Newcastle is eligible to claim a minimum allowance of Ten Million Dollars (\$10,000,000) for revenue replacement resulting from revenue losses incurred during the pandemic, without regard to actual revenue

losses so incurred, that reduces the reporting and compliance requirements on the City of Newcastle.

The City shall report the use of ARPA SLFRF funds to the U.S. Treasury Department in the “Revenue Replacement – 6.1 Provision of Government Services” expenditure category based upon the cost of general government expenditures incurred in the City’s General Fund from the period on or after March 1, 2021, through December 31, 2024, until all such funds are exhausted. It is expected that the City will use this full provision as approved by the resolution during the calendar year 2022.

Additionally, the city received \$454,314 in state and local grant reimbursements supporting recycling, transportation, economic development, surface water management, and parks capital programs. The city received three grant reimbursements for recycling: \$13,281 was received from the Washington State Department of Ecology under their Public Participation Grants, \$10,976 from the King County Solid Waste Division under their Waste Reduction and Recycling grant program, and \$8,699 from the King County Health Department under their Local Hazardous Waste Management grant program. From the Washington Transportation Improvement Board (TIB), grant reimbursement was received by the city under two grant programs: \$76,500 from the Relight Washington program, and \$98,341 from the Fuel Tax Grant Program. The Relight Washington grant was for a multi-year program to convert existing streetlights from traditional/standard lighting to LED lighting. The Fuel Tax Grant was also for streetlight conversion to LED lighting. A grant for public safety enforcement was received for \$5,700 was received from the Washington State Traffic Safety Commission. The Port of Seattle through their Economic Development Partnership Program provided the city with a grant in the amount of \$8,500 for the development & implementation of a “Buy Local” campaign to help local businesses. The city received a total of \$96,695 for the surface water management (SWM) operations & capital programs. The four SWM grants include: \$35,800 received under the Municipal Stormwater Capacity Building Grant program through the Washington State Department of Ecology for NPDES-related improvements; \$38,922 from King County Council’s WaterWorks grant program for the City’s stormwater conveyance rehabilitation program; \$2,662 as a member jurisdiction of King Conservation District for control of invasive knotweed along Boren Creek; and \$10,168 from King County Flood Control District under their Flood Reduction Fund grant program for the pipe realignment project at the 116th Avenue SE and Edmonds Avenue NE intersection. As part of an inter-local agreement for the park’s capital program King County to the city \$134,602. The City’s pro-rated levy is part of the King County parks levy approved in 2019. Lastly, the City received \$10,165 from King County Parks under their Youth & Amateur Sports Fund Grant Program, helping to fund the completion of the CrossTown Trail, particularly the section near our local middle school.

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. Total property tax collection for 2021 was \$5,815,099. The amount collected did not meet city’s levy by \$10,966.

The City of Newcastle’s regular levy for the year 2021 was \$5,826,065 on an assessed valuation of \$3,870,44,962. The Levy rate per one thousand dollars of assessed value is \$1.50450.

Note 3 – Long-Term Debt Requirements

The accompanying Schedule of Liabilities (09) provides the City of Newcastle detailed outstanding debt and

liabilities for year ending December 31, 2021. The combined debt for limited general obligation bonds (\$4,070,000) and public works trust fund loan (\$881,725) as of December 31, 2021, is \$4,951,725.

During FY2016, the City issued both 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 December 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 at .5% and annual payments are July 1.

The current and long-term debt requirements for the limited general obligation bonds and PWTF loans include both principal and interest payments are as follows:

Limited Tax General Obligations Bond A (Non-Taxable) Bond B (Taxable)				
Year	Principal	Interest	Total	Balance
December 31, 2021 Balance				4,070,000
2022	250,000	95,809	345,809	3,820,000
2023	255,000	91,384	346,384	3,565,000
2024	260,000	86,360	346,360	3,305,000
2025	265,000	80,718	345,718	3,040,000
2026	275,000	73,550	348,550	2,765,000
2027-2031	1,465,000	266,976	1,731,976	1,300,000
2032-2035	1,300,000	86,713	1,386,713	0
Public Works Trust Fund Loans				
Year	Principal	Interest	Total	Balance
December 31, 2020 Balance				881,725
2022	171,199	4,409	175,607	539,327
2023	118,421	3,553	121,974	420,906
2024	118,421	2,961	121,382	302,485
2025	118,421	2,368	120,789	184,064
2026-2030	355,263	3,553	358,816	0

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. Employees participate in two PERS separate pension plans for membership purposes. PERS Plan 1, PERS Plan 2, and PERS Plan 3 are defined benefit plans with a defined contribution component. The City employees contribute to Plan 2 or 3. As of June 30, 2021, the City of Newcastle's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1 UAAL	\$107,271	0.014401%	\$175,870
PERS 2/3	175,016	0.018476%	(1,840,507)
Total			

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 Annual Comprehensive Financial Report that includes financial statements and required supplementary information for each plan. The DRS Annual Comprehensive Financial Report may be obtained by writing to:

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

Also, the DRS Annual Comprehensive Financial Report may be downloaded from the DRS website at www.drs.wa.gov.

PERS Plan 1 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) multiplied by the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. Members retiring from active status prior to the age of 65 may receive actuarially reduced benefits. Retirement benefits are actuarially reduced to reflect the choice of a survivor benefit. Other benefits include duty and non-duty disability payments, an optional cost-of-living adjustment (COLA), and a one-time duty-related death benefit, if found eligible by the Department of Labor and Industries. PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

PERS Plan 2/3 provides retirement, disability, and death benefits. Retirement benefits are determined as two percent of the member's average final compensation (AFC) times the member's years of service for Plan 2 and 1 percent of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. There is no cap on years of service credit. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

With a benefit that is reduced by three percent for each year before age 65; or with a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2/3 members hired on or after May 1, 2013, have the option to retire early by accepting a reduction of five percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service credit. PERS Plan 2/3 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other PERS Plan 2/3 benefits include duty and non-duty disability payments, a cost-of-living allowance (based on the CPI), capped at three percent annually and a one-time duty related death benefit, if found eligible by the Department of Labor and Industries. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. PERS Plan 3 members choose their contribution rate upon joining membership and have a chance to change rates upon changing employers. As established by statute, Plan 3 required defined contribution rates are set at a minimum of 5 percent and escalate to 15 percent with a choice of six options.

Employers do not contribute to the defined contribution benefits. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

Contributions

The **PERS Plan 1** member contribution rate is established by State statute at 6 percent. The employer contribution rate is developed by the Office of the State Actuary and includes an administrative expense component that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates. The PERS Plan 1 required contribution rates (expressed as a percentage of covered payroll) for 2021 were as follows:

PERS Plan 1		
Actual Contribution Rates	Employer	Employee*
January 1 – December 31, 2021		
PERS Plan 1	10.07%	6.00%
Administrative Fee	0.18%	
Total	10.25%	6.00%

The **PERS Plan 2/3** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. The Plan 2/3 employer rates include a component to address the PERS Plan 1 UAAL and an administrative expense that is currently set at 0.18 percent. Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 contribution rates. The PERS Plan 2/3 required contribution rates (expressed as a percentage of covered payroll) for 2020 were as follows:

PERS Plan 2/3		
Actual Contribution Rates	Employer 2/3	Employee 2*
January –August 31, 2020		
PERS Plan 2/3	10.21%	7.90%
PERS Plan 1 UAAL	4.76%	
Administrative Fee	0.18%	
Total	12.86%	7.90%

Employee PERS Plan 3		
September 1 to December 31, 2020		Varies
PERS Plan 2/3	7.92%	7.90%
PERS Plan 1 UAAL	4.87%	
Administrative Fee	0.18%	
Employee PERS Plan 3		Varies
Total	12.97%	7.90%

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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.

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Note 6 – COVID – 19 Pandemic

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of COVID-19. Precautionary measures to slow the spread of the virus continued throughout 2021. These measures included limitations on business operations, public events, gatherings, travel, and in-person interactions.

The impacts from COVID-19 to Newcastle during 2021 impacted operations because of the mandatory vaccination policy, limited training, employees continued to work remote, no city sponsored public recreational events, no town hall meetings, escalated employee turnover, and downturn in community development revenue.

The City implemented safety measures and core mandatory operations continued while still protecting our employees with most staff working remotely. Management continues to monitor the situation for any operational or financial effects. In response to the pandemic, services continued to be reduced in 2021 with no events including no town hall meeting for citizens or recreational opportunities. The city transferred \$1,500,000 from the General Fund to the Cumulative Reserve Fund in FY2021 for future planning in FY2022 when the city returns to pre-pandemic service levels. Another solution city council approved was to use ARPA grant funds as an eligible use for general government services in FY2022. During FY2021 and part of FY2022 management had city hall closed to the public periodically. Management has been dealing with staff shortages. Even office temporary employment agencies have difficulty recruiting and isn't a viable option. For over a year, many city employees continue to work remotely or a hybrid flexible schedule, and new procedures have been put in place to protect staff and citizens from the COVID pandemic. While some activities have been limited or temporarily curtailed, the City continues to operate all major functions and meet its public mandates.

Note 7 - Other Disclosures

- A. Unemployment claims are paid in related operating funds or departments. There were three claims totaling \$880.82 for the 2021 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 totaling 643,870.68 in the General Fund. 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. When combining this obligation with the other governmental and enterprise funds the monies held for others total \$801,183.13.
- 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 was \$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 combined remaining balance as of December 31, 2021, is \$4,070,000. The debt service schedule for the building this is in Note 3.

Note 7 - Other Disclosures – Continued

- D. In May 2015, the City purchased the former Coal Creek Utility District headquarters building, now known as the City Hall Annex. The sale was for \$250,000 below the then appraised value of \$750,000 in recognition of an included 10-year “non-assumption” clause that stated the City would not assume the District for at least ten years.
- 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. The City of Bellevue’s actuarial report included the City of Newcastle’s share on December 31, 2021, to be \$154,608. During FY2021, the city paid \$14,018 towards the LEOFF 1 pension liability. Additional reductions to the liability included \$115 interest and other actuarial reductions of \$3,839 provide a total reduction to the liability to the amount of \$11,622. The \$3,839 increase to the liability comes from the from the actuarial report provided by City of Bellevue. The Healthcare Analytics Consulting provided a valuation to the City of Bellevue’s liability of \$28,546,953 million. The LEOFF 1 ending liability on December 31, 2021, reported and represents the City of Newcastle’s allocated share of \$154,608.
- F. The City has no leases during the fiscal year December 31, 2021.

G. Litigation

As of December 31, 2021, the City of Newcastle in its normal course of various operations is involved in lawsuits and is the recipient of claims for damages alleging that the City is responsible for damages incurred by third parties. Claims and/or litigation arise in areas such as building, zoning, storm drain or road construction, other land-use regulations, property damage, as well as other areas. These claims or lawsuits are relatively natural consequences of conducting the City’s business. Please refer to Risk Management Note 1, section I. In the opinion of management, the City’s insurance policies and insurance reserves are adequate to pay all known or pending claims. In addition, the potential liability for any single claim or lawsuit, nor the aggregate potential liability arising from all actions currently pending, would not materially affect the condition of the City.

City of Newcastle
Schedule of Liabilities
For the Year Ended December 31, 2021

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
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	1,130,000	-	250,000	880,000
Total General Obligation Debt/Liabilities:			4,320,000	-	250,000	4,070,000
Revenue and Other (non G.O.) Debt/Liabilities						
259.12	Compensated Absences		300,269	322,154	347,017	275,406
263.88	Public Works Trust Fund Loan PW-02-691-038	7/1/2022	105,555	-	52,778	52,777
263.88	Public Works Trust Fund Loan PW-08-951-030	7/1/2028	947,369	-	118,421	828,948
264.30	LEOFF 1 City of Bellevue Fire Department		166,230	-	11,622	154,608
264.30	Net Pension Liability		789,306	-	613,436	175,870
Total Revenue and Other (non G.O.) Debt/Liabilities:			2,308,729	322,154	1,143,274	1,487,609
Total Liabilities:			6,628,729	322,154	1,393,274	5,557,609

ABOUT THE STATE AUDITOR'S OFFICE

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

We work with state agencies, local governments and the public to achieve our vision of increasing trust in government by helping governments work better and deliver higher value.

In fulfilling our mission to provide citizens with independent and transparent examinations of how state and local governments use public funds, we hold ourselves to those same standards by continually improving our audit quality and operational efficiency, and by developing highly engaged and committed employees.

As an agency, the State Auditor's Office has the independence necessary to objectively perform audits, attestation engagements and investigations. Our work is designed to comply with professional standards as well as to satisfy the requirements of federal, state and local laws. The Office also has an extensive quality control program and undergoes regular external peer review to ensure our work meets the highest possible standards of accuracy, objectivity and clarity.

Our audits look at financial information and compliance with federal, state and local laws for all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits and cybersecurity audits of state agencies and local governments, as well as state whistleblower, fraud and citizen hotline investigations.

The results of our work are available to everyone through the more than 2,000 reports we publish each year on our website, www.sao.wa.gov. Additionally, we share regular news and other information via an email subscription service and social media channels.

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