



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report
City of Mill Creek

For the period January 1, 2019 through December 31, 2019

Published January 11, 2021

Report No. 1027561





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

January 11, 2021

Council
City of Mill Creek
Mill Creek, Washington

Report on Financial Statements

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

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

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**City of Mill Creek
January 1, 2019 through December 31, 2019**

Council
City of Mill Creek
Mill Creek, 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 Mill Creek, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated January 5, 2021.

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.

As discussed in Note 11 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS Manual.

As discussed in Note 14 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the

City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

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

Pat McCarthy
State Auditor
Olympia, WA

January 5, 2021

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

City of Mill Creek January 1, 2019 through December 31, 2019

Council
City of Mill Creek
Mill Creek, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Mill Creek, for the year ended December 31, 2019, 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 state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Mill Creek has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Mill Creek, and its changes in cash and investments, for the year ended December 31, 2019, 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 Mill Creek, as of December 31, 2019, or the changes

in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Matters of Emphasis

As discussed in Note 11 to the financial statements, in 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS Manual. Our opinion is not modified with respect to this matter.

As discussed in Note 14 to the financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

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

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2021 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

January 5, 2021

FINANCIAL SECTION

City of Mill Creek January 1, 2019 through December 31, 2019

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2019
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2019
Notes to Financial Statements – 2019

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities – 2019

City of Mill Creek
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	001 General Fund	103 City Streets	125 Paths & Trails
Beginning Cash and Investments					
30810	Reserved	24,057	2,225	7,500	-
30880	Unreserved	19,213,494	6,249,675	63,995	13,467
388 / 588	Net Adjustments	4,361	(3,933)	8,294	-
Revenues					
310	Taxes	13,705,490	11,756,809	-	-
320	Licenses and Permits	962,530	930,255	32,275	-
330	Intergovernmental Revenues	2,283,863	418,545	758,192	1,708
340	Charges for Goods and Services	5,258,577	1,747,099	-	-
350	Fines and Penalties	132,292	132,292	-	-
360	Miscellaneous Revenues	726,063	247,691	4,809	316
Total Revenues:		23,068,815	15,232,691	795,276	2,024
Expenditures					
510	General Government	3,228,032	3,105,702	-	-
520	Public Safety	8,742,709	8,737,295	-	-
530	Utilities	308,093	(338)	-	-
540	Transportation	964,875	500,024	464,803	48
550	Natural and Economic Environment	735,913	735,913	-	-
560	Social Services	5,528	5,528	-	-
570	Culture and Recreation	1,076,107	1,076,107	-	-
Total Expenditures:		15,061,257	14,160,231	464,803	48
Excess (Deficiency) Revenues over Expenditures:		8,007,558	1,072,460	330,473	1,976
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	3,322,000	-	-	-
397	Transfers-In	994,918	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	169,437	162,945	-	-
Total Other Increases in Fund Resources:		4,486,355	162,945	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	5,892,001	57,672	14,915	-
591-593, 599	Debt Service	355,695	-	-	-
597	Transfers-Out	994,918	-	-	-
585	Special or Extraordinary Items	38,746	-	-	-
586 / 589	Custodial Activities	27,888	12,914	-	-
581, 582	Other Uses	162,945	-	-	-
Total Other Decreases in Fund Resources:		7,472,193	70,586	14,915	-
Increase (Decrease) in Cash and Investments:		5,021,720	1,164,819	315,558	1,976
Ending Cash and Investments					
5081000	Reserved	13,772	-	-	-
5088000	Unreserved	24,249,859	7,412,788	395,344	15,443
Total Ending Cash and Investments		24,263,631	7,412,788	395,344	15,443

The accompanying notes are an integral part of this statement.

City of Mill Creek
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		130 Drug Buy Fund	145 North City Hall Fund	226 Debt Service Fund	227 Local Revitalazion Fund
Beginning Cash and Investments					
30810	Reserved	-	14,332	-	-
30880	Unreserved	15,806	525,094	12,455	125,964
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	-	19,960	-	24,675
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	-
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	10,843	179,080	-	2,843
Total Revenues:		10,843	199,040	-	27,518
Expenditures					
510	General Government	-	122,330	-	-
520	Public Safety	5,414	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		5,414	122,330	-	-
Excess (Deficiency) Revenues over Expenditures:		5,429	76,710	-	27,518
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	-	-	-
591-593, 599	Debt Service	-	-	296,067	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	14,974	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	14,974	296,067	-
Increase (Decrease) in Cash and Investments:		5,429	61,736	(296,067)	27,518
Ending Cash and Investments					
5081000	Reserved	-	13,772	-	-
5088000	Unreserved	21,235	587,390	(283,613)	153,482
Total Ending Cash and Investments		21,235	601,162	(283,613)	153,482

The accompanying notes are an integral part of this statement.

City of Mill Creek
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		314 Real Estate Excise Tax	316 Capital Improvement Fund	317 Parks & Open Space Capital	318 Road Improvement Fund
Beginning Cash and Investments					
30810	Reserved	-	-	-	-
30880	Unreserved	3,425,872	1,416,557	2,843,816	2,210,485
388 / 588	Net Adjustments	-	-	-	-
Revenues					
310	Taxes	1,904,046	-	-	-
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	332,242	773,176
340	Charges for Goods and Services	-	162,640	669,803	1,200,886
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	73,921	31,699	54,954	44,846
Total Revenues:		1,977,967	194,339	1,056,999	2,018,908
Expenditures					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		-	-	-	-
Excess (Deficiency) Revenues over Expenditures:		1,977,967	194,339	1,056,999	2,018,908
Other Increases in Fund Resources					
391-393, 596	Debt Proceeds	-	3,322,000	-	-
397	Transfers-In	-	-	816,000	178,918
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 382, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	3,322,000	816,000	178,918
Other Decreases in Fund Resources					
594-595	Capital Expenditures	-	111,431	2,141,392	2,454,741
591-593, 599	Debt Service	-	-	-	-
597	Transfers-Out	994,918	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581, 582	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		994,918	111,431	2,141,392	2,454,741
Increase (Decrease) in Cash and Investments:		983,049	3,404,908	(268,393)	(256,915)
Ending Cash and Investments					
5081000	Reserved	-	-	-	-
5088000	Unreserved	4,408,922	4,821,465	2,575,422	1,953,570
Total Ending Cash and Investments		4,408,922	4,821,465	2,575,422	1,953,570

The accompanying notes are an integral part of this statement.

City of Mill Creek
Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		401 Surface Water Utility	509 Equipment Replacement Fund
Beginning Cash and Investments			
30810	Reserved	-	-
30880	Unreserved	649,684	1,660,624
388 / 588	Net Adjustments	-	-
Revenues			
310	Taxes	-	-
320	Licenses and Permits	-	-
330	Intergovernmental Revenues	-	-
340	Charges for Goods and Services	1,364,661	113,488
350	Fines and Penalties	-	-
360	Miscellaneous Revenues	39,631	35,430
Total Revenues:		1,404,292	148,918
Expenditures			
510	General Government	-	-
520	Public Safety	-	-
530	Utilities	308,431	-
540	Transportation	-	-
550	Natural and Economic Environment	-	-
560	Social Services	-	-
570	Culture and Recreation	-	-
Total Expenditures:		308,431	-
Excess (Deficiency) Revenues over Expenditures:		1,095,861	148,918
Other Increases in Fund Resources			
391-393, 596	Debt Proceeds	-	-
397	Transfers-In	-	-
385	Special or Extraordinary Items	-	-
386 / 389	Custodial Activities	-	-
381, 382, 395, 398	Other Resources	-	6,492
Total Other Increases in Fund Resources:		-	6,492
Other Decreases in Fund Resources			
594-595	Capital Expenditures	868,173	243,677
591-593, 599	Debt Service	59,628	-
597	Transfers-Out	-	-
585	Special or Extraordinary Items	38,746	-
586 / 589	Custodial Activities	-	-
581, 582	Other Uses	162,945	-
Total Other Decreases in Fund Resources:		1,129,492	243,677
Increase (Decrease) in Cash and Investments:		(33,631)	(88,267)
Ending Cash and Investments			
5081000	Reserved	-	-
5088000	Unreserved	616,055	1,572,356
Total Ending Cash and Investments		616,055	1,572,356

The accompanying notes are an integral part of this statement.

City of Mill Creek
Fiduciary Fund Resources and Uses Arising from Cash Transactions
For the Year Ended December 31, 2019

		Total for All Funds (Memo Only)	Custodial
308	Beginning Cash and Investments	0	0
388/588	Net Adjustments		
310-390	Additions	360,872	360,872
510-590	Deductions	221,192	221,192
	Net Increase (Decrease) in Cash and Investments:	139,680	139,680
508	Ending Cash and Investments	139,680	139,680

The accompanying notes are an integral part of this statement.

CITY OF MILL CREEK
Notes to the Financial Statements
For the year ended December 31, 2019

Note 1 – Summary of Significant Accounting Policies

The City of Mill Creek was incorporated on September 30, 1983 and operates under the laws of the State of Washington applicable to code cities with a Council-Manager form of government. The city is a general purpose local government and provides public safety, development services, land use and planning, street maintenance and improvements, parks and recreation, and general administrative services. Water and sewer utilities are provided by Alderwood Water District and Silver Lake Water District.

The City of Mill Creek 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, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used by the City of Mill Creek:

GOVERNMENTAL FUND TYPES:

General Fund – 001

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

Special Revenue Funds – 100

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

Debt Service Funds – 200

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.

Capital Projects Funds – 300

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

PROPRIETARY FUND TYPES:

Enterprise Funds – 400

These funds account for operations that provide goods or services to the general public and are supported primarily through user charges.

Internal Service Funds – 500

These funds account for operations that provide goods or services to other departments or funds of the City on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

Fiduciary funds account for asset held by the City in a trustee capacity or as a custodian on behalf of others.

Custodial Funds – 600

These funds are used to account for assets that the City holds on behalf of others in a custodial capacity.

B. Basis of Accounting and Measurement Focus

Financial statements are prepared using the cash basis of accounting and measurement focus. Revenues are recognized when cash is received and expenditures are recognized when paid.

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

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

C. Cash and Investments

See Note 3, Deposits and Investments.

D. Capital Assets

Capital assets are assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets and inventory are recorded as expenditures when purchased.

E. Compensated Absences

Vacation leave may be accumulated up to 200 hours for non-represented and American Federation of State, County and Municipal Employees (AFSCME) employees and up to 300 hours for Police Guild members. Accumulated vacation is payable upon resignation, retirement or death.

Sick leave may be accumulated for succeeding years up to a maximum of 1,040 hours. Upon separation or retirement, the following groups of the City employees shall be paid for unused sick leave benefits based on the following criteria:

- a. Upon separation of employment non-represented and AFSCME employees with at least ten (10) continuous years of service or total service of fifteen (15) years or more are paid 25% of their unused sick leave balance up to 200 hours.
- b. Officers who have served the City for a period of ten (10) consecutive years shall receive 25% of their unused sick leave upon separation of employment and as long as they are eligible for and are receiving LEOFF retirement benefits. Officers who die while off-duty at any time during their employment with the City will receive 25% of their unused sick leave. Officers

who die in the line of duty will receive 100% of their unused sick leave balance, as long as the officer was a current employee of the City and performing official duties consistent with the laws, regulations, and policies of the City at the time of death.

- c. All other employees receive no payment for any unused sick leave balance upon separation of employment with the City.

The projected December 31, 2019 liability for compensated balances is \$536,746.05. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 6, Debt Service Requirements.

G. Other Financing Sources and Uses

The City's "Other Financing Sources and Uses" consist of operating transfers in, operating transfers out and bond proceeds, if any. The following schedule shows operating transfers during 2019:

	Transfer In	Transfer Out
314 Real Estate Excise Tax		\$994,918
317 Parks & Open Space Capital Improvement Fund (CIF)	\$816,000	
318 Road Improvement Fund	\$178,918	
Total	\$994,918	\$994,918

H. Risk Management

The City of Mill Creek 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, 2019, 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 2019, 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 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"). In 2019, the retiree medical plan subsidy was eliminated, and is noted in the report for the fiscal year ending December 31, 2019. 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.

I. Reserved Portion of Ending Cash and Investments

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 established by the City Council. When expenditures that meet restrictions are incurred, the City intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of the following:

- Tenants in the Annex Building pay a security deposit as part of the leasing process. The funds are held and used to compensate the City for any unpaid rent or damages. Total security deposits of \$13,772 were held as of December 31, 2019.

Note 2 – Budget Compliance

The City adopts biennial appropriated budgets for all funds except fiduciary funds. These budgets are appropriated at the fund level except the general (current expense) fund, where the budget is adopted at the department level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for these funds lapse at the end of the two-year fiscal period.

Biennial appropriated budgets are adopted on the same basis of accounting as used for financial reporting. The appropriated and actual expenditures for the legally adopted budgets were as follows:

Fund No.	Fund Name	2019-2020 Budget	2019 Actual Expenditures	Variance
001	General Fund			
001-001	Legislative	\$ 225,102	\$ 120,960	\$ 104,142
001-002	City Manager	\$ 1,187,960	\$ 729,214	\$ 458,746
001-003	Finance & Administration	\$ 1,498,753	\$ 678,780	\$ 819,973
001-004	Communication & Marketing	\$ 895,938	\$ 464,958	\$ 430,980
001-005	Information Technology	\$ 1,099,698	\$ 432,978	\$ 666,720
001-006	Human Resources	\$ 344,388	\$ 151,126	\$ 193,262
001-007	City Clerk	\$ 292,457	\$ 136,164	\$ 156,293
001-008	Police	\$ 10,631,072	\$ 5,179,002	\$ 5,452,070
001-011	Fire	\$ 7,959,759	\$ 3,930,745	\$ 4,029,014
001-014	Non-Department	\$ 757,405	\$ 302,565	\$ 454,840
001-016	Community Development/Building	\$ 1,640,713	\$ 689,901	\$ 950,812
001-018	Public Works	\$ 2,106,786	\$ 1,068,415	\$ 1,038,371
001-019	Recreation	\$ 715,822	\$ 335,836	\$ 379,987
110	Council Contingency	\$ 2,500	\$ 249	\$ 2,251
115	Municipal Arts	\$ 30,000	\$ 13,851	\$ 16,149
	Total General Fund	\$ 29,388,353	\$ 14,234,744	\$ 15,153,609
103	City Street	\$ 1,381,477	\$ 471,426	\$ 910,051
125	Paths & Trails	\$ 10,500	\$ 48	\$ 10,452
130	Drug Buy	\$ 26,000	\$ 5,414	\$ 20,586
145	15720 Main St Property	\$ 817,441	\$ 137,305	\$ 680,136
226	Debt Service	\$ 34,632	\$ 296,067	\$ (261,435)
227	Local Revitalization	\$ -	\$ -	\$ -
314	Real Estate Excise Tax (REET)	\$ 5,491,641	\$ 994,918	\$ 4,496,723
316	Capital Improvement Fund (CIF)	\$ 3,012,640	\$ 111,430	\$ 2,901,210
317	Parks & Open Space CIF	\$ 5,180,000	\$ 2,141,393	\$ 3,038,607
318	Road Improvement Fund	\$ 6,290,000	\$ 2,454,741	\$ 3,835,259
401	Surface Water Utility	\$ 4,770,606	\$ 1,437,921	\$ 3,332,685
509	Equipment Replacement	\$ 770,155	\$ 243,677	\$ 526,478
521	Unemployment Comp/Self Ins.	\$ 20,000	\$ -	\$ 20,000
	Total All Funds	\$ 27,805,092	\$ 8,294,340	\$ 19,510,752

The City Manager is authorized to transfer budgeted amounts between departments within any fund or between object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the City Council.

The City originally decided to budget for a Revenue Bond however, opted for a Limited tax general obligation (LTGO) Bond. A May 2020 Budget Amendment moved the debt service to Fund 226 Debt Service.

Note 3 – Deposits and Investments

It is the City's policy to invest all temporary cash surpluses. The interest on investments in the Local Government Investment Pool is prorated to the various funds.

All deposits are covered by the Federal Deposit Insurance Corporation (FDIC) or Washington Public Deposit Protection Commission (PDPC). All investments are insured, registered or held by the City or its agent in the government's name.

Investments are reported at original cost. Cash, cash equivalents (including pooled investments) and investments by type as of December 31, 2019 are as follows:

Bank and Petty Cash Balance	\$167,211
Local Government Investment Pool	\$22,236,102
US Government Securities	\$1,999,999
Total Cash & Investments	\$24,403,312

Investments in the State Local Government Investment Pool (LGIP)

The City of Mill Creek is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with Chapter 43.250 RCW. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Note 4 – Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities. Collections are distributed after the end of each month.

Property Tax Calendar	
January 1	Taxes are levied and become an enforceable lien against properties.
February 15	Tax bills are mailed.
April 30	The first of two equal property tax installments is due.
May 31	Assessed value of property is established for next year's levy at 100 percent of market value.
October 31	The second annual installment is due.

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

The City's regular levy for the year 2019 was \$1.52 per \$1,000 on an assessed valuation of \$4,128,225,777 for a total regular levy of \$6,289,668.45.

The City is also authorized to levy an additional \$0.41 per \$1,000 of assessed valuation for emergency medical service (EMS). The City remits the revenue as part of its contract cost to Fire District No. 7, for fire and emergency medical services. This levy is valid for six years, and was renewed in November, 2016 through voter approval. The EMS levy for 2019 was \$0.41 per \$1,000 for a total levy of \$1,709,328.37.

Note 5 – Interfund Loans

The following table displays interfund loan activity during 2019:

Borrowing Fund	Lending Fund	Balance 1/1/2019	New Loans	Repayments	Balance 12/31/2019
Surface Water Fund	General Fund	\$ 500,000	\$ -	\$ 162,945	\$ 337,055

Note 6 – Debt Service Requirements

The accompanying Schedule of Liabilities provides more details of the outstanding debt and liabilities of the City and summarizes the City's debt transactions for year ended December 31, 2019.

In June 2019, the City of Mill Creek issued limited tax general obligation bonds for \$3,322,000 through a competitive bid process. A portion of these bonds are for the purpose of funding surface water capital improvements and other capital improvements. Repayment of the bonds occurs over 15 years with an interest rate of 2.44%.

Repayment began in December, 2019. As of December 31, 2019, remaining debt service, including principal and interest, is \$3,686,042.80.

Date		Principal Payment	Balance	Interest Payment
6/25/19	0	\$ -	\$ 3,322,000	\$ -
12/1/19	1	\$ 231,000	\$ 3,091,000	\$ 31,972
6/1/20	2	\$ -	\$ 3,091,000	\$ 37,710
12/1/20	3	\$ 188,000	\$ 2,903,000	\$ 37,710
6/1/21	4	\$ -	\$ 2,903,000	\$ 35,417
12/1/21	5	\$ 193,000	\$ 2,710,000	\$ 35,417
6/1/22	6	\$ -	\$ 2,710,000	\$ 33,062
12/1/22	7	\$ 197,000	\$ 2,513,000	\$ 33,062
6/1/23	8	\$ -	\$ 2,513,000	\$ 30,659
12/1/23	9	\$ 202,000	\$ 2,311,000	\$ 30,659
6/1/24	10	\$ -	\$ 2,311,000	\$ 28,194
12/1/24	11	\$ 207,000	\$ 2,104,000	\$ 28,194
6/1/25	12	\$ -	\$ 2,104,000	\$ 25,669
12/1/25	13	\$ 212,000	\$ 1,892,000	\$ 25,669
6/1/26	14	\$ -	\$ 1,892,000	\$ 23,082
12/1/26	15	\$ 217,000	\$ 1,675,000	\$ 23,082
6/1/27	16	\$ -	\$ 1,695,435	\$ 20,435
12/1/27	17	\$ 222,000	\$ 1,493,870	\$ 20,435
6/1/28	18	\$ -	\$ 1,511,597	\$ 17,727
12/1/28	19	\$ 228,000	\$ 1,301,323	\$ 17,727
6/1/29	20	\$ -	\$ 1,316,268	\$ 14,945
12/1/29	21	\$ 233,000	\$ 1,098,213	\$ 14,945
6/1/30	22	\$ -	\$ 1,110,316	\$ 12,102
12/1/30	23	\$ 239,000	\$ 883,418	\$ 12,102
6/1/31	24	\$ -	\$ 892,605	\$ 9,187
12/1/31	25	\$ 245,000	\$ 656,791	\$ 9,187
6/1/32	26	\$ -	\$ 662,989	\$ 6,198
12/1/32	27	\$ 251,000	\$ 418,186	\$ 6,198
6/1/33	28	\$ -	\$ 421,322	\$ 3,135
12/1/33	29	\$ 257,000	\$ 167,457	\$ 3,135
Total		\$ 3,091,000.00		\$ 595,042.80

The City has an outstanding loan in the amount of \$921,500, which was accepted in April 2008. The term of this loan is 20 years with an interest rate of one-half percent, with final payment due July 1, 2026. This loan was for construction work associated with the Penny Creek Culvert replacement at Mill Creek Road. This loan is the obligation of the Surface Water Utility Fund, and is being repaid with utility service charges. As of December 31, 2019, remaining debt service, including principal and interest, is \$353,080.

Date		Principal Payment	Balance	Interest Payment
1/1/18	0	\$ -	\$ 388,000.00	\$ -
12/1/19	1	\$ 48,500.00	\$ 339,500.00	\$ 1,940.00
6/1/20	2	\$ -	\$ 339,500.00	\$ 1,697.50
12/1/20	3	\$ 48,500.00	\$ 291,000.00	\$ 1,697.50
6/1/21	4	\$ -	\$ 291,000.00	\$ 1,455.00
12/1/21	5	\$ 48,500.00	\$ 242,500.00	\$ 1,455.00
6/1/22	6	\$ -	\$ 242,500.00	\$ 1,212.50
12/1/22	7	\$ 48,500.00	\$ 194,000.00	\$ 1,212.50
6/1/23	8	\$ -	\$ 194,000.00	\$ 970.00
12/1/23	9	\$ 48,500.00	\$ 145,500.00	\$ 970.00
6/1/24	10	\$ -	\$ 145,500.00	\$ 727.50
12/1/24	11	\$ 48,500.00	\$ 97,000.00	\$ 727.50
6/1/25	12	\$ -	\$ 97,000.00	\$ 485.00
12/1/25	13	\$ 48,500.00	\$ 48,500.00	\$ 485.00
6/1/26	14	\$ -	\$ 48,500.00	\$ 242.50
12/1/26	15	\$ 48,500.00	\$ -	\$ 242.50
Total		\$ 339,500.00		\$ 13,580.00

Note 7 – State Sponsored Pension Plans

Substantially all of the City's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans: Public Employees' Retirement System (PERS) and Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF).

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

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

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

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

At June 30, 2019 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities, as reported on Schedule 09 was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS Plan 1	\$ 121,333	0.016921%	\$ 650,673
PERS Plan 2/3	\$ 178,462	0.021851%	\$ 212,248
LEOFF Plan 1	\$ 0	0.001994%	(\$ 39,424)
LEOFF Plan 2	\$ 136,266	0.073908%	(\$ 1,712,221)

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. This special funding situation is not mandated by the state constitution and could be changed by statute.

Municipal Employees Benefit Trust

The Municipal Employees' Benefit Trust (MEBT) is a multiple-employer defined-contribution pension plan which was established as an alternative to the federal Social Security System. By majority vote, City employees approved the City's withdrawal from the Social Security System pursuant to U.S.C.A., Section 418(g), effective January 1, 1975. Employees who work 1,000 or more hours per year are eligible but not required to participate in the plan. There were 108 City employees who participated in the program during 2019, including seasonal employees. The City's contribution for 2019 was \$324,760; employee contributions were \$356,212 during the same period. The rate the City must pay and the employee may pay is equal to the Social Security rate of 6.2%. Assets of the Plan consist of stocks, bonds, and guaranteed insurance contracts, and are not the property of the City and are not subject to the claims of the City's general creditors. The Plan Committee administers the MEBT Plan according to the Plan Document adopted by the City and all applicable IRS regulations. Plan provisions may be established or amended by a majority vote of the Plan Committee. Actuarial determinations are not required because (1) long-term disability insurance and survivor income insurance are provided by a group insurance policy with the StanCorp Financial Group, Inc., and (2) each participant shall at his normal retirement instruct the trustee to either (a) acquire a non-forfeitable, non-transferable annuity contract, (b) pay the retirement benefits from the employee's deferred saving account to which no contribution by the City or the participant can be added after retirement, or (c) pay a single lump-sum payment equal to the accumulated balance in the employee's deferred saving account as of his retirement date.

Note 8 – Claims and Judgments

At the end of 2019, there were material claims or judgments pending against the City as noted in the three paragraphs below:

- Termination. Former Communications and Marketing Director was terminated by the City effective August 2, 2019. Prior to the termination, the City retained a third-party investigator who investigated, at the direction of our firm, facts that ultimately led to the termination. In August 2019, the prior employee's attorney submitted a tort claim notice alleging \$500,000 in damages.

At that time, the City submitted the claim to WCIA, who retained an attorney from Keating, Buckland & McCormick, Inc. to handle the claim. On December 5, 2019, the prior filed a lawsuit against the City, together with two other City officials, alleging retaliation, civil conspiracy, violation of the Washington Law Against Discrimination, defamation, false light, negligent infliction of emotional distress, and wrongful termination in violation of public policy. At the present time, because we have not concluded that the likelihood of an unfavorable outcome to the City is either probable or remote and we are unable to estimate the amount or range of any potential loss in the event of an unfavorable outcome.

- Termination. Former Maintenance Worker was terminated by the City effective February 28, 2020. Prior to the termination, the City retained a third-party investigator who investigated facts that ultimately led to the employee's termination. Since the termination, the former employee submitted a grievance through the union to grieve the determination decision. Through the grievance process, the former employee is seeking, without an express dollar amount in damages, reinstatement and back pay of her salary during this period of unemployment. We have not concluded that the likelihood of an unfavorable outcome to the City is either probable or remote and are unable to estimate the amount or range of any potential loss in the event of an unfavorable outcome.
- Seattle Hill Road Repair Project. On May 19, 2020, the City received a Request for Equitable Adjustment from Kamins Construction Co., the general contractor for the Seattle Hill Road repair project. The Request seeks \$52,000 for costs allegedly incurred by a claimed delay in receiving the Notice-To-Proceed with the work on the project. The City has initiated a review of the Request and while the City believes it has defenses to the merits of the claim, it is evaluating the possibility of a potential resolution outside of litigation. We have not concluded that the likelihood of an unfavorable outcome to the City is either probable or remote and are unable to estimate the amount or range of any potential loss in the event of an unfavorable outcome.

The City of Mill Creek participates in a number of federal and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in request for reimbursements to grantor agencies for expenditures disallowed under the terms of the grants. The City of Mill Creek management believes that such disallowances, if any, would be immaterial.

Note 9 – Joint Ventures

The City of Mill Creek and other Police and Fire entities jointly operate Snohomish County 911. Snohomish County 911, a cash basis, special purpose district, was created under the Interlocal Cooperation Act, as codified in RCW 39.34. This established the statutory authority necessary for Snohomish County, the cities, towns, fire districts, police districts and other service districts to enter into a contract and agreement to jointly establish, maintain and operate a support communications center. Control of Snohomish County 911 is with a 16 member Board of Directors which is specified in the Interlocal Agreement. Snohomish County 911 takes 911 calls, and performs emergency dispatch services for local governmental agencies including police, fire and medical aid.

In the event of the dissolution of Snohomish County 911, any money in the possession of Snohomish County 911 or the Board of Directors after payment of all costs, expenses and charges validly incurred under this Agreement shall be returned to the parties to this Agreement in proportion to their contribution during the fiscal year of dissolution. Before deducting the payment of all costs, expenses and charges validly incurred, the City's share was \$666,641 on December 31, 2019.

Complete financial statements for Snohomish County 911 can be obtained from Snohomish County 911's administrative office at 1121 SE Everett Mall Way, Suite 200, Everett, WA 98208.

AHA – Alliance for Housing Affordability:

In September, 2013, the City of Mill Creek joined the cities of Edmonds, Everett, Granite Falls, Lake Stevens, Lynnwood, Marysville, Mill Creek, Mountlake Terrace, Mukilteo, and Snohomish, the Town of Woodway, and Snohomish County to establish the Alliance for Housing Affordability (AHA). The agreement was amended in May, 2014 to add the City of Arlington and in June, 2014 to add the City of Stanwood.

The purpose of AHA is to cooperatively formulate affordable housing goals and policies and to foster efforts to provide affordable housing by providing expertise and information to member jurisdictions. Operating funding is provided by the member cities.

AHA is governed by a Joint Board composed of an elected official from each member. The Joint Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff housed at the Housing Authority for Snohomish County (HASCO). Fiscal agent duties were transferred to HASCO during fiscal year 2018. The values included in the table below were audited and updated by the new fiscal agent and may be different than what was reported in previous years.

Each member city is responsible for contributing operating revenues as determined from the AHA annual budget. Contributions from the member cities are based on each member's population. A grant from the Gates Foundation provided \$50,000 to assist with the first two years of organizational start-up. The City of Mill Creek's equity share to date is:

Fiscal Year 7/1/XX – 6/30/XX	AHA's Total Fiscal Year Budget	Mill Creek's Share of Budget	Mill Creek's Share as % of Total AHA Budget
2014	\$89,849	\$1,088	1.21%
2015	\$93,063	\$1,121	1.20%
2016	\$93,652	\$1,109	1.18%
2017	\$97,934	\$1,654	1.69%
2018	\$102,586	\$1,875	1.83%
2019	\$107,391	\$2,004	1.87%
2020	\$112,408	\$2,102	1.87%

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement provides for distribution of net assets among the members based on the percentage of the total annual contributions during the period of the Agreement paid by each member.

Budget monitoring information can be obtained from Pam Frost, Director of Finance, HASCO, 12711 4th Ave W, Everett WA 98204 (or email: pfrost@hasco.org) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.

Snohomish County Department of Emergency Management (DEM):

On January 1, 2019, the City of Mill Creek entered into an Interlocal Agreement (ILA) with the Snohomish County Department of Emergency Management (DEM) to provide emergency management service to Mill Creek. As of that date, all cities (except Everett) will be members of DEM, as well as unincorporated Snohomish County, Stillaguamish Tribe of Indians and Tulalip Tribes. DEM coordinates emergency management in partnership with the whole community to lessen the impact of disasters on people, property, the environment and the economy.

The initial term of the ILA will be three years, from January 1, 2016 to December 31, 2019. For 2019, the cost is \$1.18 per capita per year which amounted to \$24,357 that City of Mill Creek paid to the DEM.

NOTE 10 – Health & Welfare

The City of Mill Creek 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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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.

NOTE 11 – Other Post-Employment Benefits

During the year ended 2019, the City of Mill Creek adopted guidance for the presentation and disclosure of post-employment benefits other than pensions, as required by the BARS manual. This requirement resulted in the addition of a post-employment benefit liability reported on the Schedule of Liabilities.

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City of Mill Creek as required by RCW 41.26. The plan pays for 100% of eligible retirees' healthcare costs on a pay-as-you-go basis. As of December 31, 2019, the plan had one member, a retiree. As of December 31, 2019, the City of Mill Creek's total OPEB liability was \$669,451, as calculated using the alternative measurement method. For the year ended December 31, 2019, the City of Mill Creek paid \$4,851.37 in benefits.

Per state statute the City must provide for substantially all medical costs for retired members of the Law Enforcement Officers and Fire Fighters (LEOFF1) retirement system. To meet this responsibility the City purchases and pays premiums for medical and long-term care insurance. The City also reimburses the individual for any out of pocket costs such as deductibles and co-pays as determined by the County LEOFF1 Board. The City of Mill Creek has a commitment to pay for post-employment benefits for employees that belong to LEOFF I. These benefits include medical, vision, dental, hearing, and prescription costs. One retiree received benefits during the year 2019 and \$4,851.37 was paid out for those benefits during the year. The City feels the annual costs for these expenses are minimal and therefore does not maintain any reserves for their future payment. Other than this one individual, the City has no other obligation for post-employment benefits to any of its former employees.

NOTE 12 – Unemployment Compensation

The City opted to be self-insured and established an unemployment compensation fund in 1990 to accumulate and cover costs for payment of unemployment claims. The City does not pay unemployment on payroll, but rather, pays the State of Washington on a reimbursable basis in the event of an unemployment claim. The Unemployment Compensation Fund receives payments from operating funds and departments.

NOTE 13 – Other Disclosures

- Fire Services and Fire Station 76 - The City has a long-standing contractual relationship with Snohomish County Fire District No. 7 to provide Fire and Emergency Medical Services. The original 20-year contract, as amended, expired December 31, 2016. A new agreement was reached and is in effect as January 1, 2017 and shall continue through December 31, 2022. The contractual payments are as follows:

Assessment Year	Total Annual Payment
2019	\$3,930,745
2020	\$4,029,014
2021	\$4,129,740
2022	\$4,336,227

In addition to the Fire and Emergency Medical Services, the parties jointly own Fire Station 76, located at 1020 153rd St. SE, Mill Creek, Washington. The Parties have previously agreed to "freeze" the purchase price and equity as set forth in the 2012 amendment to the original 1996 Fire Service Contract. If the Purchase Price is not otherwise adjusted as provided for in the contract, the original purchase price for the Fire Station would be the difference between \$1,838,543 and the City's equity in the Fire Station of \$678,148, or \$1,160,395.

- Prior Period Adjustment - The City found prior year trial balance issues with the City Streets Fund of \$8,294 and with the General Fund of (\$3,933). The City made a net adjustment of 4,381 to correct the beginning fund balance.

NOTE 14 – Subsequent Events

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

The City of Mill Creek anticipates a potential 2020 financial impact of ~\$3.1 million in loss of Retail Sales and Use Tax revenue and REET revenue on the government. The City anticipated a decrease in our local economy and adopted a budget amendment to suspend hiring and create organizational efficiencies that mitigates the impact to the financial health of the City. The City has developed its information technology platform to support remote administrative operations and the ability to provide the public with access to scheduled Council meetings.

The length of time these measures will be in place, and the full extent of the financial impact on the City of Mill Creek is unknown at this time.

**City of Mill Creek
Schedule of Liabilities
For the Year Ended December 31, 2019**

ID. No.	Description	Due Date	Beginning Balance	Additions	Reductions	Ending Balance
General Obligation Debt/Liabilities						
251.11	2019 LTGO Bond	12/1/2033	-	3,322,000	231,000	3,091,000
263.81	800 MHZ Bonds	12/1/2019	31,519	-	31,519	-
Total General Obligation Debt/Liabilities:			31,519	3,322,000	262,519	3,091,000
Revenue and Other (non G.O.) Debt/Liabilities						
263.82	Public Works Trust Fund	7/1/2026	388,000	-	48,500	339,500
259.12	Compensated Absences	12/31/2019	660,355	-	123,609	536,746
264.30	Pension Liability	12/31/2019	1,245,749	-	382,829	862,920
264.40	OPEB Liability	12/31/2019	-	669,451	-	669,451
Total Revenue and Other (non G.O.) Debt/Liabilities:			2,294,104	669,451	554,938	2,408,617
Total Liabilities:			2,325,623	3,991,451	817,457	5,499,617

ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

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