



Office of the Washington State Auditor  
Pat McCarthy

# Financial Statements Audit Report

## City of Mill Creek

For the period January 1, 2022 through December 31, 2022

*Published August 22, 2024*

Report No. 1035085



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

August 22, 2024

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 activities and condition.

Sincerely,

Pat McCarthy, State Auditor  
Olympia, WA

***Americans with Disabilities***

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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 Mill Creek January 1, 2022 through December 31, 2022**

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, 2022, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated August 13, 2024.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

## **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

August 13, 2024

# INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

### **City of Mill Creek January 1, 2022 through December 31, 2022**

Council  
City of Mill Creek  
Mill Creek, Washington

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

### **Unmodified and Adverse Opinions**

We have audited the financial statements of the City of Mill Creek, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the financial section of our report.

### **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 Mill Creek, and its changes in cash and investments, for the year ended December 31, 2022, 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 Mill Creek, as of December 31, 2022, 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 an opinion 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 as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2024 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 written in a cursive, flowing style.

Pat McCarthy, State Auditor

Olympia, WA

August 13, 2024

## **FINANCIAL SECTION**

### **City of Mill Creek January 1, 2022 through December 31, 2022**

#### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2022  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2022  
Notes to Financial Statements – 2022

#### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2022

**City of Mill Creek**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2022**

|   |                                | <b>Total for All<br/>Funds<br/>(Memo Only)</b> | <b>001 General<br/>Fund</b> | <b>103 City Streets<br/>Fund</b> | <b>125 Paths &amp;<br/>Trails Fund</b> |
|---|--------------------------------|--|-----------------------------|----------------------------------|--|
| <b>Beginning Cash and Investments</b>               |                                |  |                             |                                  |  |
| 308   | Beginning Cash and Investments | 33,290,237                                     | 11,164,444                  | 333,078                          | 8,584                                  |
| 388 / 588   | Net Adjustments                | -  | -                           | -                                | -                                      |
| <b>Revenues</b>                                     |                                |  |                             |                                  |  |
| 310   | Taxes                          | 14,928,140                                     | 13,215,494                  | -                                | -                                      |
| 320   | Licenses and Permits           | 607,892  | 583,742                     | 24,150                           | -                                      |
| 330   | Intergovernmental Revenues     | 3,775,902                                      | 3,355,355                   | 419,002                          | 1,545                                  |
| 340   | Charges for Goods and Services | 3,128,684                                      | 961,788                     | -                                | -                                      |
| 350   | Fines and Penalties            | 57,452   | 57,452                      | -                                | -                                      |
| 360   | Miscellaneous Revenues         | 792,409  | 286,981                     | 812                              | 145                                    |
| Total Revenues:                                     |                                | 23,290,479                                     | 18,460,812                  | 443,964                          | 1,690                                  |
| <b>Expenditures</b>                                 |                                |  |                             |                                  |  |
| 510   | General Government             | 3,702,185                                      | 3,616,265                   | -                                | -                                      |
| 520   | Public Safety                  | 9,177,342                                      | 9,173,363                   | -                                | -                                      |
| 530   | Utilities                      | 421,178  | 2,923                       | -                                | -                                      |
| 540   | Transportation                 | 957,135  | 377,369                     | 579,766                          | -                                      |
| 550   | Natural/Economic Environment   | 517,676  | 517,676                     | -                                | -                                      |
| 560   | Social Services                | 6,208  | 6,208                       | -                                | -                                      |
| 570   | Culture and Recreation         | 880,501  | 880,501                     | -                                | -                                      |
| Total Expenditures:                                 |                                | 15,662,225                                     | 14,574,305                  | 579,766                          | -                                      |
| Excess (Deficiency) Revenues over Expenditures:     |                                | 7,628,254                                      | 3,886,507                   | (135,802)                        | 1,690                                  |
| <b>Other Increases in Fund Resources</b>            |                                |  |                             |                                  |  |
| 391-393, 596  | Debt Proceeds                  | -  | -                           | -                                | -                                      |
| 397   | Transfers-In                   | 473,124  | -                           | 50,000                           | -                                      |
| 385   | Special or Extraordinary Items | -  | -                           | -                                | -                                      |
| 381, 382, 389,<br>395, 398                          | Other Resources                | 11,175   | 2,172                       | -                                | -                                      |
| Total Other Increases in Fund Resources:            |                                | 484,299  | 2,172                       | 50,000                           | -                                      |
| <b>Other Decreases in Fund Resources</b>            |                                |  |                             |                                  |  |
| 594-595   | Capital Expenditures           | 1,365,008                                      | 256,156                     | 215,323                          | -                                      |
| 591-593, 599  | Debt Service                   | 321,568  | 8,731                       | -                                | -                                      |
| 597   | Transfers-Out                  | 473,124  | 50,000                      | -                                | -                                      |
| 585   | Special or Extraordinary Items | -  | -                           | -                                | -                                      |
| 581, 582, 589                                       | Other Uses                     | -  | -                           | -                                | -                                      |
| Total Other Decreases in Fund Resources:            |                                | 2,159,700                                      | 314,887                     | 215,323                          | -                                      |
| <b>Increase (Decrease) in Cash and Investments:</b> |                                | <b>5,952,853</b>                               | <b>3,573,792</b>            | <b>(301,125)</b>                 | <b>1,690</b>                           |
| <b>Ending Cash and Investments</b>                  |                                |  |                             |                                  |  |
| 50821   | Nonspendable                   | -  | -                           | -                                | -                                      |
| 50831   | Restricted                     | 22,921,735                                     | 5,594,025                   | -                                | -                                      |
| 50841   | Committed                      | 5,185,358                                      | -                           | 31,953                           | 10,274                                 |
| 50851   | Assigned                       | 5,502,666                                      | 3,510,880                   | -                                | -                                      |
| 50891   | Unassigned                     | 5,633,332                                      | 5,633,332                   | -                                | -                                      |
| <b>Total Ending Cash and Investments</b>            |                                | <b>39,243,091</b>                              | <b>14,738,237</b>           | <b>31,953</b>                    | <b>10,274</b>                          |

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, 2022**

|   |                                | 130 Drug Buy<br>Fund | 145 North City<br>Hall Building<br>Fund | 226 Debt<br>Service Fund | 227 Local<br>Revitalization<br>Fund |
|---|--------------------------------|----------------------|---|--------------------------|-------------------------------------|
| <b>Beginning Cash and Investments</b>               |                                |                      |   |                          |                                     |
| 308   | Beginning Cash and Investments | 26,267               | 588,063                                 | -                        | 223,876                             |
| 388 / 588   | Net Adjustments                | -                    | -                                       | -                        | -                                   |
| <b>Revenues</b>                                     |                                |                      |   |                          |                                     |
| 310   | Taxes                          | -                    | 5,384                                   | -                        | 43,072                              |
| 320   | Licenses and Permits           | -                    | -                                       | -                        | -                                   |
| 330   | Intergovernmental Revenues     | -                    | -                                       | -                        | -                                   |
| 340   | Charges for Goods and Services | -                    | 44,044                                  | -                        | -                                   |
| 350   | Fines and Penalties            | -                    | -                                       | -                        | -                                   |
| 360   | Miscellaneous Revenues         | 559                  | 162,547                                 | -                        | 3,930                               |
| Total Revenues:                                     |                                | 559                  | 211,975                                 | -                        | 47,002                              |
| <b>Expenditures</b>                                 |                                |                      |   |                          |                                     |
| 510   | General Government             | -                    | 85,920                                  | -                        | -                                   |
| 520   | Public Safety                  | 3,979                | -                                       | -                        | -                                   |
| 530   | Utilities                      | -                    | -                                       | -                        | -                                   |
| 540   | Transportation                 | -                    | -                                       | -                        | -                                   |
| 550   | Natural/Economic Environment   | -                    | -                                       | -                        | -                                   |
| 560   | Social Services                | -                    | -                                       | -                        | -                                   |
| 570   | Culture and Recreation         | -                    | -                                       | -                        | -                                   |
| Total Expenditures:                                 |                                | 3,979                | 85,920                                  | -                        | -                                   |
| Excess (Deficiency) Revenues over Expenditures:     |                                | (3,420)              | 126,055                                 | -                        | 47,002                              |
| <b>Other Increases in Fund Resources</b>            |                                |                      |   |                          |                                     |
| 391-393, 596  | Debt Proceeds                  | -                    | -                                       | -                        | -                                   |
| 397   | Transfers-In                   | -                    | -                                       | 263,124                  | -                                   |
| 385   | Special or Extraordinary Items | -                    | -                                       | -                        | -                                   |
| 381, 382, 389,<br>395, 398                          | Other Resources                | -                    | -                                       | -                        | -                                   |
| Total Other Increases in Fund Resources:            |                                | -                    | -                                       | 263,124                  | -                                   |
| <b>Other Decreases in Fund Resources</b>            |                                |                      |   |                          |                                     |
| 594-595   | Capital Expenditures           | -                    | 25,488                                  | -                        | -                                   |
| 591-593, 599  | Debt Service                   | -                    | -                                       | 263,124                  | -                                   |
| 597   | Transfers-Out                  | -                    | 160,000                                 | -                        | -                                   |
| 585   | Special or Extraordinary Items | -                    | -                                       | -                        | -                                   |
| 581, 582, 589                                       | Other Uses                     | -                    | -                                       | -                        | -                                   |
| Total Other Decreases in Fund Resources:            |                                | -                    | 185,488                                 | 263,124                  | -                                   |
| <b>Increase (Decrease) in Cash and Investments:</b> |                                | <b>(3,420)</b>       | <b>(59,433)</b>                         | <b>-</b>                 | <b>47,002</b>                       |
| <b>Ending Cash and Investments</b>                  |                                |                      |   |                          |                                     |
| 50821   | Nonspendable                   | -                    | -                                       | -                        | -                                   |
| 50831   | Restricted                     | 22,847               | -                                       | -                        | 270,878                             |
| 50841   | Committed                      | -                    | -                                       | -                        | -                                   |
| 50851   | Assigned                       | -                    | 528,630                                 | -                        | -                                   |
| 50891   | Unassigned                     | -                    | -                                       | -                        | -                                   |
| <b>Total Ending Cash and Investments</b>            |                                | <b>22,847</b>        | <b>528,630</b>                          | <b>-</b>                 | <b>270,878</b>                      |

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, 2022**

|   |                                | <b>314 Real Estate<br/>Excise Tax<br/>Fund</b> | <b>316 Capital<br/>Improvement<br/>Fund</b> | <b>317 Parks &amp;<br/>Open Space<br/>Capital</b> | <b>318 Road<br/>Improvement<br/>Fund</b> |
|---|--------------------------------|--|---|---|--|
| <b>Beginning Cash and Investments</b>               |                                |  |   |   |  |
| 308   | Beginning Cash and Investments | 4,164,696                                      | 2,180,795                                   | 819,148   | 7,140,382                                |
| 388 / 588   | Net Adjustments                | -  | -   | -   | -  |
| <b>Revenues</b>                                     |                                |  |   |   |  |
| 310   | Taxes                          | 1,664,190                                      | -   | -   | -  |
| 320   | Licenses and Permits           | -  | -   | -   | -  |
| 330   | Intergovernmental Revenues     | -  | -   | -   | -  |
| 340   | Charges for Goods and Services | -  | -   | -   | 61,674                                   |
| 350   | Fines and Penalties            | -  | -   | -   | -  |
| 360   | Miscellaneous Revenues         | 81,356   | 31,856                                      | 11,652  | 106,274                                  |
| Total Revenues:                                     |                                | 1,745,546                                      | 31,856                                      | 11,652  | 167,948                                  |
| <b>Expenditures</b>                                 |                                |  |   |   |  |
| 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:     |                                | 1,745,546                                      | 31,856                                      | 11,652  | 167,948                                  |
| <b>Other Increases in Fund Resources</b>            |                                |  |   |   |  |
| 391-393, 596  | Debt Proceeds                  | -  | -   | -   | -  |
| 397   | Transfers-In                   | -  | 160,000                                     | -   | -  |
| 385   | Special or Extraordinary Items | -  | -   | -   | -  |
| 381, 382, 389,<br>395, 398                          | Other Resources                | -  | -   | -   | -  |
| Total Other Increases in Fund Resources:            |                                | -  | 160,000                                     | -   | -  |
| <b>Other Decreases in Fund Resources</b>            |                                |  |   |   |  |
| 594-595   | Capital Expenditures           | -  | 94,120                                      | 46,238  | 78,163                                   |
| 591-593, 599  | Debt Service                   | -  | -   | -   | -  |
| 597   | Transfers-Out                  | -  | -   | -   | -  |
| 585   | Special or Extraordinary Items | -  | -   | -   | -  |
| 581, 582, 589                                       | Other Uses                     | -  | -   | -   | -  |
| Total Other Decreases in Fund Resources:            |                                | -  | 94,120                                      | 46,238  | 78,163                                   |
| <b>Increase (Decrease) in Cash and Investments:</b> |                                | <b>1,745,546</b>                               | <b>97,736</b>                               | <b>(34,586)</b>                                   | <b>89,785</b>                            |
| <b>Ending Cash and Investments</b>                  |                                |  |   |   |  |
| 50821   | Nonspendable                   | -  | -   | -   | -  |
| 50831   | Restricted                     | 5,910,242                                      | 2,278,531                                   | 172,892   | 7,230,167                                |
| 50841   | Committed                      | -  | -   | 611,670   | -  |
| 50851   | Assigned                       | -  | -   | -   | -  |
| 50891   | Unassigned                     | -  | -   | -   | -  |
| <b>Total Ending Cash and Investments</b>            |                                | <b>5,910,242</b>                               | <b>2,278,531</b>                            | <b>784,562</b>                                    | <b>7,230,167</b>                         |

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, 2022**

|   |                                | <b>401 Surface<br/>Water Utility<br/>Fund</b> | <b>509 Equipment<br/>Replacement<br/>Fund</b> |
|---|--------------------------------|---|---|
| <b>Beginning Cash and Investments</b>               |                                |   |   |
| 308   | Beginning Cash and Investments | 5,077,738                                     | 1,563,166                                     |
| 388 / 588   | Net Adjustments                | -   | -   |
| <b>Revenues</b>                                     |                                |   |   |
| 310   | Taxes                          | -   | -   |
| 320   | Licenses and Permits           | -   | -   |
| 330   | Intergovernmental Revenues     | -   | -   |
| 340   | Charges for Goods and Services | 1,938,396                                     | 122,782                                       |
| 350   | Fines and Penalties            | -   | -   |
| 360   | Miscellaneous Revenues         | 84,453  | 21,844  |
| Total Revenues:                                     |                                | 2,022,849                                     | 144,626                                       |
| <b>Expenditures</b>                                 |                                |   |   |
| 510   | General Government             | -   | -   |
| 520   | Public Safety                  | -   | -   |
| 530   | Utilities                      | 418,255                                       | -   |
| 540   | Transportation                 | -   | -   |
| 550   | Natural/Economic Environment   | -   | -   |
| 560   | Social Services                | -   | -   |
| 570   | Culture and Recreation         | -   | -   |
| Total Expenditures:                                 |                                | 418,255                                       | -   |
| Excess (Deficiency) Revenues over Expenditures:     |                                | 1,604,594                                     | 144,626                                       |
| <b>Other Increases in Fund Resources</b>            |                                |   |   |
| 391-393, 596  | Debt Proceeds                  | -   | -   |
| 397   | Transfers-In                   | -   | -   |
| 385   | Special or Extraordinary Items | -   | -   |
| 381, 382, 389,<br>395, 398                          | Other Resources                | -   | 9,003   |
| Total Other Increases in Fund Resources:            |                                | -   | 9,003   |
| <b>Other Decreases in Fund Resources</b>            |                                |   |   |
| 594-595   | Capital Expenditures           | 395,881                                       | 253,639                                       |
| 591-593, 599  | Debt Service                   | 49,713  | -   |
| 597   | Transfers-Out                  | 263,124                                       | -   |
| 585   | Special or Extraordinary Items | -   | -   |
| 581, 582, 589                                       | Other Uses                     | -   | -   |
| Total Other Decreases in Fund Resources:            |                                | 708,718                                       | 253,639                                       |
| <b>Increase (Decrease) in Cash and Investments:</b> |                                | <b>895,876</b>                                | <b>(100,010)</b>                              |
| <b>Ending Cash and Investments</b>                  |                                |   |   |
| 50821   | Nonspendable                   | -   | -   |
| 50831   | Restricted                     | 1,442,153                                     | -   |
| 50841   | Committed                      | 4,531,461                                     | -   |
| 50851   | Assigned                       | -   | 1,463,156                                     |
| 50891   | Unassigned                     | -   | -   |
| <b>Total Ending Cash and Investments</b>            |                                | <b>5,973,614</b>                              | <b>1,463,156</b>                              |

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, 2022**

|           |  | <b>Custodial</b> |
|-----------|--|------------------|
| 308       | Beginning Cash and Investments                   | 21,669           |
| 388 & 588 | Net Adjustments                                  | -                |
| 310-390   | Additions  | 81,029           |
| 510-590   | Deductions                                       | 98,416           |
|           | Net Increase (Decrease) in Cash and Investments: | (17,387)         |
| 508       | Ending Cash and Investments                      | 4,282            |

*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, 2022**

Note 1 - Summary of Significant Accounting Policies

The City of Mill Creek (City) 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 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 presented using classifications that are similar to the ending balance classification 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:

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

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

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 government on a cost reimbursement basis.

FIDUCIARY FUND TYPES:

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

Custodial Funds- 600

These funds are used to account assets that the government 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 also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

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 capital expenditures when purchased.

#### E. Compensated Absences

Annual 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. Due to staffing levels, the City Manager approved exceptions to certain employees to carry over more than the maximum accrual hours. In lieu of overtime pay, a non-exempt employee may choose to earn compensatory time at the rate of one and one-half hours off for each hour of overtime earned. The maximum accumulation of compensatory time off is up to 60 hours for AFSCME members and 80 hours for Police Guild members.

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) or more years of continuous service or an equivalent of fifteen (15) years of non-continuous service shall be paid 25% of their unused sick leave balance up to 200 hours.
- b) Police Guild members who have served the City for a period of ten (10) consecutive years shall receive 25% of their unused sick leave upon retirement from law enforcement. Employees who die while off-duty at any time during their employment with the City will receive 25% of their unused sick leave. Employees who die in the line of duty will receive 100% of their unused sick leave balance, as long as, the member 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.

Upon separation, annual leave, compensatory time and/or sick leave hours as described above shall be paid to the employee or beneficiary at the pay rate at the time of separation. The projected December 31, 2022 liability for compensated balances is \$524,497. 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 2022:

| Transfer Out          | Transfer In  |              |                     | Total     |
|-----------------------|--------------|--------------|---------------------|-----------|
|                       | City Streets | Debt Service | Capital Improvement |           |
| General Fund          | \$50,000     |              |                     | \$50,000  |
| City Hall North       |              | \$160,000    |                     | \$160,000 |
| Surface Water Utility |              |              | \$263,124           | \$263,124 |
| Total                 | \$50,000     | \$160,000    | \$263,124           | \$473,124 |

#### H. Restricted and Committed Portion of Ending Cash and Investments

Beginning and Ending Cash and Investments are reported as restricted or committed when it is subject to restrictions on use imposed by external parties or due to internal commitments established by City Council. When expenditures that meet restrictions are incurred, the City intends to use the most restricted resources first.

Restrictions and commitments of Ending Cash and Investments consist of:

| <b>Ending Cash &amp; Investments by Type</b> |                     |
|--|---------------------|
| Restricted                                   | \$22,921,735        |
| Committed                                    | \$5,185,358         |
| Assigned                                     | \$5,502,666         |
| Unassigned                                   | \$5,633,332         |
| Custodial                                    | \$4,282             |
| Total  | <u>\$39,247,373</u> |

#### Note 2 - Budget Compliance

The City adopts biennial appropriated budgets for all funds except fiduciary funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Biennial appropriations for these funds lapse at the fiscal year end.

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:

|  | <b>Final<br/>Appropriated<br/>Amount<br/>2021-2022</b> | <b>2021 Actual<br/>Expenditures</b> | <b>2022 Actual<br/>Expenditures</b> | <b>Variance</b>      |
|--|--|-------------------------------------|-------------------------------------|----------------------|
| <b>001 General Fund</b>                                    | \$ 30,326,508  | \$ 14,003,910                       | \$ 14,547,788                       | \$ 1,774,810         |
| <b>013 ARPA Fund</b>                                       | 5,839,053  | -                                   | 318,448                             | 5,520,605            |
| <b>110 Council Contingency Fund</b>                        | 10,000   | -                                   | -                                   | 10,000               |
| <b>115 Municipal Arts Fund</b>                             | 10,202   | 1,212                               | 8,990                               | -                    |
| <b>521 Unemployment Comp/Self Insurance Fund</b>           | 50,000   | 15,116                              | 13,964                              | 20,920               |
| <b>Total 001 General Fund</b>                              | \$ 36,235,763  | \$ 14,020,238                       | \$ 14,889,190                       | \$ 7,326,335         |
| <b>103 City Streets Fund</b>                               | \$ 1,229,003   | \$ 466,146                          | \$ 795,089                          | \$ (32,232)          |
| <b>125 Paths &amp; Trails Fund</b>                         | \$ -   | \$ -                                | \$ -                                | \$ -                 |
| <b>130 Drug Buy Fund</b>                                   | \$ 15,916  | \$ 3,979                            | \$ 3,979                            | \$ 7,958             |
| <b>145 North City Hall Building Fund</b>                   | \$ 441,209   | \$ 93,994                           | \$ 271,407                          | \$ 75,808            |
| <b>226 Debt Service Fund</b>                               | \$ 526,958   | \$ 263,833                          | \$ 263,124                          | \$ 1                 |
| <b>227 Local Revitalization Fund</b>                       | \$ -   | \$ -                                | \$ -                                | \$ -                 |
| <b>314 Real Estate Excise Tax Fund</b>                     | \$ 887,108   | \$ -                                | \$ -                                | \$ 887,108           |
| <b>316 Capital Improvement Fund</b>                        | \$ 4,810,246   | \$ 3,415,751                        | \$ 94,120                           | \$ 1,300,375         |
| <b>317 Parks &amp; Open Space Capital Improvement Fund</b> | \$ 1,052,222   | \$ 28,461                           | \$ 46,238                           | \$ 977,523           |
| <b>318 Road Improvement Fund</b>                           | \$ 3,307,005   | \$ 193,028                          | \$ 78,163                           | \$ 3,035,814         |
| <b>401 Surface Water Utility Fund</b>                      | \$ 4,160,505   | \$ 854,467                          | \$ 1,126,973                        | \$ 2,179,065         |
| <b>509 Equipment Replacement Fund</b>                      | \$ 346,000   | \$ 88,836                           | \$ 253,639                          | \$ 3,525             |
| <b>Total All Funds</b>                                     | <b>\$ 53,011,935</b>                                   | <b>\$ 19,428,733</b>                | <b>\$ 17,821,922</b>                | <b>\$ 15,761,280</b> |

Budgeted amounts are authorized to be transferred between departments within any fund or 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's legislative body.

### Note 3 – Deposits and Investments

Investments are reported at original cost. Deposits and investments by type at December 31, 2022 are as follows:

|   | <b>City Deposits &amp;<br/>Investments</b> | <b>Deposits held by the<br/>City as custodian for<br/>other local<br/>governments,<br/>individuals, or<br/>private organizations</b> | <b>Total</b>         |
|---|--|--|----------------------|
| Bank Deposits                             | \$ 2,801,205                               | \$ 4,282   | \$ 2,805,487         |
| WA State Local Government Investment Pool | \$ 31,370,554                              | \$ -   | \$ 31,370,554        |
| U.S Government Securities (US Bank)       | \$ 5,071,330                               | \$ -   | \$ 5,071,330         |
| <b>Total</b>                              | <b>\$ 39,243,089</b>                       | <b>\$ 4,282</b>  | <b>\$ 39,247,371</b> |

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

#### Investments in the State Local Government Investment Pool (LGIP)

The City 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 Securities and Exchange Commission. 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](http://www.tre.wa.gov).

#### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the City would not be able to recover its deposits or collateralized securities that are in the possession of outside parties.

The City minimizes custodial credit risk by adhering to restrictions set forth in state law. Statutes require cities to deposit funds in financial institutions that are physically located in Washington, unless otherwise expressly permitted by statute and authorized by the Washington Public Deposit Protection Commission (PDPC). The PDPC, established under chapter 39.58 of the Revised Code of Washington (RCW), makes and enforces regulations and administers a collateral pool program to ensure public funds are protected, if a financial institution becomes insolvent. Securities pledged are held by a trustee agent for the benefit of the collateral pool.

At December 31, 2022, all of the City's deposits with financial institutions were insured or collateralized. The City's deposits in financial institutions are entirely covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

#### 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 City. Delinquent taxes are considered fully collectible because a lien affixes to the property after tax is levied.

The City's regular levy for the year 2022 was \$1.29 per \$1,000 on an assessed valuation of \$5,094,563,007 for a total regular levy of \$6,566,892.

The City is also authorized to levy an additional \$0.35 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 was renewed in November, 2016 through voter approval and will continue through the end of 2022. The EMS levy for 2022 was \$0.35 per \$1,000 for a total levy of \$1,769,211.

The City of Mill Creek voted in April, 2022 to annexed into South Snohomish County Fire & Rescue Regional Fire Authority (South County Fire) for fire and EMS services. Beginning January of 2023, property owners will no longer pay an EMS property tax to the City of Mill Creek and will begin paying taxes for fire service to South County Fire.

#### Note 5 – Long-Term Debt

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, 2022.

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

The debt service requirements for general obligation bonds are as follows as of December 31, 2022:

| <b>Year</b>  | <b>Principal</b>   | <b>Interest</b>  | <b>Total</b>       |
|--------------|--------------------|------------------|--------------------|
| 2023         | \$202,000          | \$61,317         | \$263,317          |
| 2024         | \$207,000          | \$56,388         | \$263,388          |
| 2025         | \$212,000          | \$51,338         | \$263,338          |
| 2026         | \$217,000          | \$46,165         | \$263,165          |
| 2027         | \$222,000          | \$40,870         | \$262,870          |
| 2028-2032    | \$1,196,000        | \$120,316        | \$1,316,316        |
| 2033         | \$257,000          | \$6,271          | \$263,271          |
| <b>Total</b> | <b>\$2,513,000</b> | <b>\$382,665</b> | <b>\$2,895,665</b> |

The City has an outstanding Public Works Trust fund loan, which was accepted in April 2006 in the amount of \$921,500. The term of this loan is 20 years with an interest rate of 0.50%, with final payment due June 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.

The debt service requirements for the Public Works Trust Fund loan are as follows as of December 31, 2022:

| <b>Year</b>  | <b>Principal</b> | <b>Interest</b> | <b>Total</b>     |
|--------------|------------------|-----------------|------------------|
| 2023         | \$48,500         | \$970           | \$49,470         |
| 2024         | \$48,500         | \$728           | \$49,228         |
| 2025         | \$48,500         | \$485           | \$48,985         |
| 2026         | \$48,500         | \$243           | \$48,743         |
| <b>Total</b> | <b>\$194,000</b> | <b>\$2,425</b>  | <b>\$196,425</b> |

The City and Snohomish County Fire District No. 7 (District) jointly own Fire Station 76, located at 1020 153<sup>rd</sup> St. SE, Mill Creek, Washington. Per the agreement, City has the right to purchase Fire Station 76 from the District, if the District ceases to provide Fire/EMS Services to the City. Following the successful passage of the City of Mill Creek Proposition No.1 – the annexation of the City to South Snohomish County Fire and Rescue Regional Fire Authority (South County Fire) for Fire and Emergency Medical Services, the City exercised its right to ownership of the Fire Station 76. 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. The final Purchase Price of \$1,160,395 is the difference between the original purchase price for the Fire Station (\$1,838,543) and the City's equity (\$678,148). The transfer was concluded on December 13, 2022 with an initial payment of \$58,019.75 and the balance of \$1,102,375.25 shall be paid in equal annual payments over 20 years without interest, as evidenced by a promissory note.

The debt service requirement for the promissory note for the Mill Creek Fire Station No. 76 purchase are as follows as of December 31, 2022:

| <b>Year</b>  | <b>Amount Due</b>  |
|--------------|--------------------|
| 2023         | \$58,020           |
| 2024         | \$58,020           |
| 2025         | \$58,020           |
| 2026         | \$58,020           |
| 2027         | \$58,020           |
| 2028-2032    | \$290,099          |
| 2033-2037    | \$290,099          |
| 2038-2041    | \$232,079          |
| <b>Total</b> | <b>\$1,102,375</b> |



## Note 6 – Pension Plans

Substantially all 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 Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website at [www.drs.wa.gov](http://www.drs.wa.gov).

At June 30, 2022 (the measurement date of the plans), the City's proportionate share of the collective net pension liabilities (assets) was as follows:

| <b>Plan</b> | <b>Employer<br/>Contributions</b> | <b>Allocation %</b> | <b>Liability (Asset)</b> |
|-------------|-----------------------------------|---------------------|--------------------------|
| PERS 1      | \$80,944                          | 0.013208%           | \$367,759                |
| PERS 2/3    | \$138,332                         | 0.017219%           | (\$638,615)              |
| LEOFF 1     | \$0                               | 0.002145%           | (\$61,532)               |
| LEOFF 2     | \$123,960                         | 0.059875%           | (\$1,627,222)            |

### 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. All regular employees, hourly employees, and council members are required to participate in the plan. There were 79 City employees who participated in the program during 2022, including seasonal employees. The City's contribution for 2022 was \$301,986 while employees' contributions were \$326,939 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 MEPT 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 7 – Other Postemployment Benefit (OPEB) Plans

The LEOFF I Retiree Medical Plan is a closed, single-employer, defined-benefit OPEB plan administered by the City 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, 2022, the plan had one member, a retiree. As of December 31, 2022, the City's total OPEB liability was \$551,857, as calculated using the alternative measurement method. For the year ended December 31, 2022, the City paid \$12,336 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 (LEOFF 1) 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 LEOFF 1 Board. The City 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 2022 and \$12,336 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 postemployment benefits to any of its former employees.

#### Note 8 – Leases (Lessees)

During the fiscal year ended December 31, 2022, the City adopted guidance for the presentation and disclosure of leases, as required by the BARS manual. This requirement resulted in the addition of a lease liability reported on Schedule of Liabilities.

The City leased a postage meter machine from Pitney Bowes for \$142.52 per month and the term expired on August 18, 2022.

The City leases copiers and printers from Copiers Etcetera, Inc for \$799 per month under a 63-months term ending June 20, 2027. The contract has a non-appropriation clause.

The total amount paid for leases in 2022 was \$8,731. As of December 31, 2022, the future lease payments are as follows:

| <b>Year ended<br/>December 31</b> | <b>Total Lease<br/>Liability</b> |
|-----------------------------------|----------------------------------|
| 2023                              | \$9,588                          |
| 2024                              | \$9,588                          |
| 2025                              | \$9,588                          |
| 2026                              | \$9,588                          |
| 2027                              | \$4,394                          |
| Total                             | <b><u>\$42,746</u></b>           |

#### Note 9 – Claims and Judgements

At the end of 2022, there were no material claims or judgments pending against the City. The City 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’s management believes that such disallowances, if any, would be immaterial.

#### Note 10 – Joint Ventures

##### Snohomish County 911

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 of this Agreement and shall be apportioned among Principals based on the ratio that the average of each Principals’ contributions to the operating budget over the preceding five (5) years bears to the total of all then remaining Principals’ User

Fees paid during such five-year period. Before deducting the payment of all costs, expenses and charges validly incurred, the City's share was \$425,882 on December 31, 2022.

Snohomish County 911's 2022 operating budget was \$26,034,697, operating revenues received were \$26,904,022 and total operating expenditures were \$25,118,750. 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, Mountlake Terrace, Mukilteo, 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 prior 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 few years of organizational start-up. The City of Mill Creek's equity share to date is:

| <b>Fiscal Year<br/>7/1/XX –<br/>6/30/XX</b> | <b>AHA's Total<br/>Fiscal Year<br/>Budget</b> | <b>Mill Creek's Share of<br/>Budget</b> | <b>Mill Creek's Share as % of<br/>Total AHA Budget</b> |
|---|---|---|--|
| <b>2014</b>                                 | \$89,849                                      | \$1,088                                 | 1.21%  |
| <b>2015</b>                                 | \$93,063                                      | \$1,121                                 | 1.20%  |
| <b>2016</b>                                 | \$93,652                                      | \$1,109                                 | 1.18%  |
| <b>2017</b>                                 | \$97,934                                      | \$1,654                                 | 1.69%  |
| <b>2018</b>                                 | \$102,586                                     | \$1,875                                 | 1.83%  |
| <b>2019</b>                                 | \$107,391                                     | \$2,004                                 | 1.87%  |
| <b>2020</b>                                 | \$112,408                                     | \$2,102                                 | 1.87%  |
| <b>2021</b>                                 | \$117,673                                     | \$2,138                                 | 1.82%  |
| <b>2022</b>                                 | \$118,200                                     | \$2,130                                 | 1.80%  |
| <b>2023</b>                                 | \$135,522                                     | \$2,175                                 | 1.60%  |

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 (email: pfrost@hasco.org) or from Chris Collier, Program Manager, Alliance for Housing Affordability, 12711 4th Ave W, Everett WA 98204.

#### Note 11 – Health & Welfare

The 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, 2022, 262 cities/towns/non-city entities participate and have enrollment 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, Willamette Dental Group 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 2022, the AWC Trust HCP purchased medical stop loss insurance for Regence/Asuris and Kaiser plans at an Individual Stop Loss (ISL) of \$1.5 million through United States Fire Insurance Company. 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.

#### Note 12 - Risk Management

The City of Mill Creek is a member of the Washington Cities Insurance Authority (WCIA). Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), nine cities originally formed WCIA on January 1, 1981. WCIA was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, jointly self-insuring, and/or jointly contracting for risk management services. WCIA has a total of 166 members.

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

Liability coverage is written on an occurrence basis, without deductibles. Coverage includes general, automobile, police, errors or omissions, stop gap, employment practices, prior wrongful acts, and employee benefits liability. Limits are \$4 million per occurrence in the self-insured layer, and \$16 million in limits above the self-insured layer is provided by reinsurance. Total limits are \$20 million per

occurrence subject to aggregates and sublimits. The Board of Directors determines the limits and terms of coverage annually.

All members are provided a separate cyber risk policy and premises pollution liability coverage group purchased by WCIA. The cyber risk policy provides coverage and separate limits for security & privacy, event management, and cyber extortion, with limits up to \$1 million and subject to member deductibles, sublimits, and a \$5 million pool aggregate. Premises pollution liability provides Members with a \$2 million incident limit and \$10 million pool aggregate subject to a \$100,000 per incident Member deductible.

Insurance for property, automobile physical damage, fidelity, inland marine, and equipment breakdown coverage are purchased on a group basis. Various deductibles apply by type of coverage. Property coverage is self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that to \$400 million per occurrence subject to aggregates and sublimits. Automobile physical damage coverage is self-funded from the members' deductible to \$250,000 and insured above that to \$100 million per occurrence subject to aggregates and sublimits.

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

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

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

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

### Note 13 – 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.

During 2022, the City paid \$15,003 in benefits and recovered \$1,039 of overpayments.

## Note 14 – Other Disclosures

### Fire Services

The City has had a long-standing contractual relationship with Snohomish County Fire District No. 7 (District) to provide Fire and Emergency Medical Services (Fire/EMS). The original 20-year contract, as amended, expired December 31, 2016. A new agreement was reached and was in effect from January 1, 2017 through December 31, 2022 with the final 2022 contractual payments of \$4,336,226.

The City of Mill Creek Proposition No. 1 which seeks voter approval to annex the City into South Snohomish County Fire & Rescue Regional Fire Authority (South County Fire) effective August 1, 2022 was approved by 75.42% of voters during the April 26, 2022 Special Election. Beginning January 2023, property owners would no longer pay the \$4.3 million property taxes for the City's Fire/EMS contract. Instead, property owners would pay South County Fire directly for Fire/EMS services. Based on 2022 data, this was the most cost-effective choice for property owners to maintain the same quality and level of service.

## Note 15 – 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 City had an estimated financial impact of ~\$3 million in lost revenue throughout the 2020-2021 budget. The City anticipated a decrease in our local economy and adopted a budget amendment in 2020 to suspend hiring and create organizational efficiencies to mitigate the impact to the financial health of the City. The City developed and maintained its information technology platform to support remote administrative operations and the ability to provide the public with access to scheduled Council meetings. The steps taken in 2020 and 2021 to mitigate losses have been successful. However, the City's efforts to rebuild and retain its workforce have been challenging. In 2022, the City used \$318,448 of American Rescue Plan Act (ARPA) funds for employee retention incentives. The City will continue to review all expenditure options and appropriate the remaining ARPA dollars in accordance with the funding restrictions and to make certain funds are put to their best use.

The length of time COVID-19 measures will continue to be in place and the full extent of the financial impact on the City is unknown at this time.



**City of Mill Creek  
Schedule of Liabilities  
For the Year Ended December 31, 2022**

| <b>ID. No.</b>  | <b>Description</b>               | <b>Due Date</b> | <b>Beginning Balance</b> | <b>Additions</b> | <b>Reductions</b> | <b>Ending Balance</b> |
|---|----------------------------------|-----------------|--------------------------|------------------|-------------------|-----------------------|
| <b>General Obligation Debt/Liabilities</b>                  |                                  |                 |                          |                  |                   |                       |
| 251.11  | 2019 LTGO Bond (Surface Water)   | 12/1/2033       | 2,710,000                | -                | 197,000           | 2,513,000             |
| <b>Total General Obligation Debt/Liabilities:</b>           |                                  |                 | <b>2,710,000</b>         | <b>-</b>         | <b>197,000</b>    | <b>2,513,000</b>      |
| <b>Revenue and Other (non G.O.) Debt/Liabilities</b>        |                                  |                 |                          |                  |                   |                       |
| 263.88  | Public Works Trust Fund          | 6/1/2026        | 242,500                  | -                | 48,500            | 194,000               |
| 259.12  | Compensated Absences             |                 | 484,147                  | 40,350           | -                 | 524,497               |
| 264.40  | OPEB Liability                   |                 | 740,578                  | -                | 188,721           | 551,857               |
| 264.30  | Pension Liability                |                 | 161,264                  | 206,495          | -                 | 367,759               |
| 263.52  | Fire Station 76 Installment Note | 12/31/2041      | -                        | 1,102,375        | -                 | 1,102,375             |
| 263.57  | Postage Meter Machine Lease      | 4/29/2022       | 1,140                    | -                | 1,140             | -                     |
| 263.57  | Copiers & Printers Lease         | 6/20/2027       | -                        | 50,337           | 7,591             | 42,746                |
| <b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b> |                                  |                 | <b>1,629,629</b>         | <b>1,399,557</b> | <b>245,952</b>    | <b>2,783,234</b>      |
| <b>Total Liabilities:</b>                                   |                                  |                 | <b>4,339,629</b>         | <b>1,399,557</b> | <b>442,952</b>    | <b>5,296,234</b>      |

## 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.

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We take our role as partners in accountability seriously. The Office provides training and technical assistance to governments both directly and through partnerships with other governmental support organizations.

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