

MILLCREEK

**Basic Financial Statements
and
Independent Auditor's Report
Year Ended June 30, 2020**

MILLCREEK

Table of Contents

Page

FINANCIAL SECTION

Independent Auditor’s Report..... 1-2

Management's Discussion and Analysis 3-8

Basic Financial Statements:

 Government-wide Financial Statements:

 Statement of Net Position 9

 Statement of Activities..... 10

 Fund Financial Statements:

 Balance Sheet - Governmental Funds..... 11

 Reconciliation of the Balance Sheet of Governmental Funds to
 the Statement of Net Position 12

 Statement of Revenues, Expenditures, and Changes in
 Fund Balance - Governmental Funds 13

 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balance of Governmental Funds to the
 Statement of Activities..... 14

 Statement of Revenues, Expenditures and Changes in Fund
 Balance - Budget and Actual - General Fund 15

 Statement of Revenues, Expenditures, and Changes in Fund Balance –
 Budget to Actual – Community Reinvestment Agency –
 Special Revenue Fund 16

 Notes to Financial Statements..... 17-37

Supplemental Information:

 Schedule of Revenues, Expenditures, and Changes in Fund Balance –
 Budget to Actual – Capital Projects Fund..... 38

Required Supplementary Information:

 Schedule of the Proportionate Share of Net Pension Liability 39

 Schedule of Pension Contributions..... 40

 Notes to the Required Supplementary Information 41

COMPLIANCE SECTION

Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*..... 42-43

Independent Auditor’s Report on Compliance and on Internal Control Over Compliance
in Accordance with the State of Utah Legal Compliance Audit Guide 44-46



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**CERTIFIED PUBLIC
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the City Council
Millcreek, Utah

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Millcreek, Utah (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City, as of June 30, 2020, and the respective changes in financial position and the respective budgetary comparison for the general fund and for the special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 and the pension schedules on pages 39 through 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2020, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

HBMC, LLC

November 16, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This document is a narrative overview and analysis of the financial activities of Millcreek for the fiscal year ending June 30, 2020. Millcreek was incorporated as of January 1, 2017. Millcreek management encourages readers to consider the information presented here in conjunction with the financial statements which follow this section. To help the reader with navigation of this report, the city's activities are classified in the following manner: government activities refers to general administration, parks, streets, police, planning etc., and presently the City has no business-type activities.

FINANCIAL HIGHLIGHTS

- The total net position of Millcreek City increased from \$161,559,131 to \$165,085,550.
- The total net position of governmental activities is \$165,085,550 and is made up of \$144,748,866 in capital assets, such as land, infrastructure and equipment and \$20,336,684 in other net position. The \$20,336,684 in other net position is made up of \$7,504,204 which is restricted for capital projects; the remaining \$12,832,480 is unrestricted assets.
- Total liabilities of the City increased by \$19,565,543. This large increase was due to the City issuing Sales Tax Revenue Bonds in the amount of \$17,345,000 in July of 2019. Also, the net pension liability decreased by \$206,991. In addition, the City issued and redeemed Tax Anticipation Notes in the amount \$10,835,000 for the purpose of funding the contract with Unified Police Department. Deferred Inflows of Property taxes increased by \$553,620.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to Millcreek's basic financial statements. Millcreek City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Millcreek City's finances, in a manner similar to a private-sector business.

- The statement of net position presents information on all of Millcreek's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Millcreek is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- The statement of activities presents information showing how the City's net position changed during the fiscal year reported. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The government-wide financial statements distinguish functions of Millcreek that are principally supported by taxes and intergovernmental revenues (governmental activities). The government-wide financial statements can be found on pages 9-10 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Millcreek also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The City maintains three individual governmental funds, which are all major funds. The funds include the General Fund, the Capital Projects Fund and the Community Reinvestment Agency Special Revenue Fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, and special revenue fund. The basic governmental fund financial statements can be found on pages 11-14 of this report. The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of Millcreek, assets exceed liabilities by \$165,085,550.

By far the largest portion of Millcreek's net position (87.68%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt.

STATEMENT OF NET POSITION

	Governmental	Activities
	2020	2019
Current and Other Assets	\$ 35,466,807	\$ 24,520,715
Capital Assets	164,926,168	151,794,288
Total Assets	<u>200,392,975</u>	<u>176,315,003</u>
Deferred outflows of resources		
Deferred related to pensions	<u>760,483</u>	<u>866,502</u>
Long-term Debt Outstanding	20,997,544	1,027,233
Other Liabilities	<u>2,745,354</u>	<u>3,150,122</u>
Total Liabilities	<u>23,742,898</u>	<u>4,177,355</u>
Deferred inflows of resources		
Deferred property tax revenue	11,979,600	11,425,980
Deferred related to pensions	<u>345,410</u>	<u>19,039</u>
	<u>12,325,010</u>	<u>11,445,019</u>
Net Position:		
Net Investment in Capital Assets	151,622,208	151,713,437
Restricted	7,504,204	443,245
Unrestricted	<u>5,959,138</u>	<u>9,402,449</u>
Total Net Position	<u>\$ 165,085,550</u>	<u>\$ 161,559,131</u>

CHANGES IN NET POSITION

	Governmental	Activities
	2020	2019
Revenues		
Program Revenues		
Charges for Services	\$ 2,419,849	\$ 2,019,350
Capital Grants and Contributions	3,979,471	3,197,802
General Revenues		
Property Taxes	11,262,340	11,778,207
Franchise Taxes	560,514	561,162
General Sales Taxes	11,211,027	10,518,731
Other Taxes	-	-
Other Revenues	791,104	429,559
Total Revenues	<u>30,224,305</u>	<u>28,504,811</u>
Expenses		
General Government	6,229,633	4,980,155
Public Safety	11,374,782	11,007,678
Streets/Public Works	8,172,979	6,381,250
Debt service	920,492	283,887
Total Expenses	<u>26,697,886</u>	<u>22,652,970</u>
Change in Net Position	3,526,419	5,851,841
Net Position Beginning	161,559,131	155,707,290
Net Position Ending	<u>\$ 165,085,550</u>	<u>\$ 161,559,131</u>

ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. As of June 30, 2020, the City's governmental funds equity is \$7,100,777. The General Fund is the chief operating fund and the only fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund was amended resulting in an increase from the original budget of \$25,973,018 to \$29,109,877. Most of the increase related to a transfer from the General Fund to the Capital Projects Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets – Millcreek’s investment in capital assets for its governmental activities as of June 30, 2020, amounts to \$164,926,168 (net of accumulated depreciation). This investment in capital assets includes land, infrastructure (streets, sidewalks, curb and gutter, bridges, etc.), and equipment.

The City’s capital asset additions during fiscal year 2020 include the following:

- Infrastructure, streets, parks and storm drain in the amount of \$1,481,495.
- Land & building additions (related to the purchase of properties & buildings within the City Center Community Reinvestment Area (CRA)) in the amount of \$13,466,320.

MILLCREEK’S CAPITAL ASSETS

	Governmental	Activities
	2020	2019
Capital Assets		
Land	\$ 85,847,988	\$ 73,005,060
Building	1,149,259	525,867
Improvements	1,756,065	995,481
Infrastructure	82,440,971	81,720,060
Machinery and equipment	513,313	567,437
Total	171,707,596	156,813,905
Less Accumulated Depreciation	(6,781,428)	(5,019,617)
Total Capital Assets	\$ 164,926,168	\$ 151,794,288

Additional information on the City’s capital assets can be found in the footnotes to this financial report and the supplemental section.

Long-term debt - At June 30, 2020, the City had \$17,345,000 in long-term debt due to the City issuing Sales Tax Revenue Bonds in July 2019 to fund the acquisition of real property and construction of public space within the City Center Community Reinvestment Area (CRA).

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

- The Unemployment rate for Salt Lake County (of which Millcreek is part) was 6.5% compared with the State unemployment rate of 5.3% as of June 30, 2020.
- In spite of the COVID-19 pandemic, the City continues to receive sales tax revenues and building permit related revenues comparable to previous years. However, the City will continue to monitor economic trends to insure expenditures do not outpace revenues.
- The City continues to contract for the following services:
 - Police protection (Unified Police Department)
 - Animal services (Salt Lake County Animal Services)
 - Public works services (Salt Lake County Public Works)

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Millcreek's finances for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

Millcreek Finance Director
3330 South 1300 East
Millcreek, UT 84106

MILLCREEK
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 13,465,934
Receivables:	
Property and other taxes	14,496,669
Due from other governments	357,318
Restricted cash	7,146,886
Capital assets:	
Land	85,847,988
Buildings	1,149,259
Improvements	1,756,065
Machinery and equipment	513,313
Infrastructure	82,440,971
Accumulated depreciation	(6,781,428)
Total assets	<u>200,392,975</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows related to pensions	760,483
Total deferred outflows of resources	<u>760,483</u>
<u>LIABILITIES</u>	
Accounts payable	1,069,809
Accrued interest payable	60,150
Accrued liabilities	55,364
Construction bonds	1,560,031
Non-current liabilities:	
Due within one year	184,603
Due in more than one year	20,164,779
Net pension liability	648,162
Total liabilities	<u>23,742,898</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred property tax revenue	11,979,600
Deferred inflows relating to pensions	345,410
Total deferred inflows of resources	<u>12,325,010</u>
<u>NET POSITION</u>	
Net investment in capital assets	151,622,208
Restricted for:	
Capital projects	7,504,204
Unrestricted	5,959,138
Total net position	<u><u>\$ 165,085,550</u></u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Statement of Activities
For the Year Ended June 30, 2020

	Charges for	Operating	Program	Capital	Net (Expense)
<u>GOVERNMENTAL ACTIVITIES</u>	Expenses	Grants and	Revenues	Grants and	Revenues and
	Services	Contributions	Contributions	Contributions	Changes in
					Net Position
					Governmental
					Activities
General government	\$ 6,229,633	\$ 2,419,849	\$ -	\$ -	\$ (3,809,784)
Public safety	11,374,782	-	-	-	(11,374,782)
Streets and public works	8,172,979	-	3,116,658	862,813	(4,193,508)
Debt service - interest and fiscal charges	920,492	-	-	-	(920,492)
Total governmental activities	26,697,886	2,419,849	3,116,658	862,813	(20,298,566)
<u>GENERAL REVENUES</u>					
Taxes:					
Property taxes					11,262,340
Franchise taxes					560,514
General sales taxes					11,211,027
Interest income					575,273
Miscellaneous					215,831
Total general revenues					<u>23,824,985</u>
Change in net position					3,526,419
Net position - beginning					161,559,131
Net position - ending					<u><u>\$ 165,085,550</u></u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Balance Sheet – Governmental Funds
June 30, 2020

	General	Capital Projects Fund	CRA Special Revenue Fund	Totals Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents	\$ 6,686,553	\$ 6,058,566	\$ 720,815	\$ 13,465,934
Restricted cash and investments	-	-	7,146,886	7,146,886
Receivables:				
Sales, property and franchise taxes	13,511,069	-	985,600	14,496,669
Class C road funds	357,318	-	-	357,318
Total assets	\$ 20,554,940	\$ 6,058,566	\$ 8,853,301	\$ 35,466,807
<u>LIABILITIES</u>				
Liabilities:				
Accounts payable	\$ 844,768	\$ 223,160	\$ 1,881	\$ 1,069,809
Accrued liabilities	55,364	-	-	55,364
Construction bonds	1,560,031	-	-	1,560,031
Total liabilities	2,460,163	223,160	1,881	2,685,204
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred property tax revenue	10,994,000	-	985,600	11,979,600
Total deferred inflows of resources	10,994,000	-	985,600	11,979,600
<u>FUND BALANCE</u>				
Restricted				
Class C road projects	357,318	-	-	357,318
Capital projects	-	-	7,146,886	7,146,886
Total restricted	357,318	-	7,146,886	7,504,204
Assigned to:				
Special revenue fund	-	-	718,934	718,934
Capital projects fund	-	5,835,406	-	5,835,406
Total assigned	-	5,835,406	718,934	6,554,340
Unassigned	6,743,459	-	-	6,743,459
Total fund balance	7,100,777	5,835,406	7,865,820	20,802,003
Total liabilities, deferred inflows of resources, and fund balances	\$ 20,554,940	\$ 6,058,566	\$ 8,853,301	\$ 35,466,807

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Reconciliation to the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2020

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total Fund Balances - Total Governmental Funds (page 11)	\$ 20,802,003
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	164,926,168
Net pension assets and liabilities are not available to pay for current period expenditures and, therefore, are either deferred or not applicable to funds.	(233,089)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(20,409,532)</u>
Net Position - Governmental Activities (page 9)	<u><u>\$ 165,085,550</u></u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Statement of Revenues, Expenditures, and
Change in Fund Balance – Governmental Funds
For the Year Ended June 30, 2020

	General	Capital Projects Fund	CRA Special Revenue Fund	Totals Governmental Funds
<u>REVENUES</u>				
Taxes	\$ 22,914,081	\$ -	\$ 119,800	\$ 23,033,881
Licenses and permits	2,221,762	-	-	2,221,762
Charges for services	99,585	-	98,502	198,087
Intergovernmental	3,116,658	-	862,813	3,979,471
Interest	282,229	85,249	207,795	575,273
Miscellaneous	45,044	170,787	-	215,831
Total revenues	28,679,359	256,036	1,288,910	30,224,305
<u>EXPENDITURES</u>				
General government	5,803,968	-	-	5,803,968
Public safety	11,374,782	-	-	11,374,782
Streets and public works	6,010,739	-	719,449	6,730,188
Capital outlay	-	1,899,725	12,801,154	14,700,879
Debt service:				
Interest and fiscal charges	109,093	-	603,505	712,598
Debt issuance costs	44,500	-	233,462	277,962
Total expenditures	23,343,082	1,899,725	14,357,570	39,600,377
Excess of revenues over (under) expenditures	5,336,277	(1,643,689)	(13,068,660)	(9,376,072)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	-	3,926,285	-	3,926,285
Transfers out	(3,926,285)	-	-	(3,926,285)
Proceeds from bond issuance	-	-	20,233,462	20,233,462
Total other financing sources (uses)	(3,926,285)	3,926,285	20,233,462	20,233,462
Net change in fund balance	1,409,992	2,282,596	7,164,802	10,857,390
Fund balance, beginning of year	5,690,785	3,552,810	701,018	9,944,613
Fund balance, end of year	<u>\$ 7,100,777</u>	<u>\$ 5,835,406</u>	<u>\$ 7,865,820</u>	<u>\$ 20,802,003</u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of
Governmental Funds To the Statement of Activities
For the Year Ended June 30, 2020

Amounts reported for governmental activities in the statement of activities (page 10) are different because:

Net change in fund balances - total governmental funds (page 12)	\$ 10,857,390
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays and contributions exceed depreciation in the current period.	13,131,880
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the payment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Repayment of principal on debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(20,163,394)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(299,457)
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Change in net position - governmental activities (page 10)	<u><u>\$ 3,526,419</u></u>
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The accompanying notes are an integral part of this financial statement.

MILLCREEK
Statement of Revenues, Expenditures, and Changes in Fund Balance –
Budget to Actual – General Fund
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget - Positive (Negative)
REVENUES				
Taxes	\$ 21,411,410	\$ 21,442,262	\$ 22,914,081	\$ 1,471,819
Licenses and permits	1,742,500	2,151,500	2,221,762	70,262
Charges for service	60,000	110,000	99,585	(10,415)
Intergovernmental	1,995,000	2,893,361	3,116,658	223,297
Interest	250,000	375,000	282,229	(92,771)
Miscellaneous	826	43,778	45,044	1,266
Total revenues	<u>25,459,736</u>	<u>27,015,901</u>	<u>28,679,359</u>	<u>1,663,458</u>
EXPENDITURES				
General government				
Mayor	353,000	358,500	329,168	29,332
Administration	214,600	210,500	201,249	9,251
Recorder	182,500	161,300	149,967	11,333
Building services	689,800	861,500	773,737	87,763
Communications and programs	500,200	518,500	433,020	85,480
Emergency management	93,500	104,500	86,739	17,761
Court	210,000	217,000	212,073	4,927
Legal	477,000	497,000	442,010	54,990
Information center	288,200	276,200	250,778	25,422
IT management	532,000	519,000	387,245	131,755
Economic development	248,700	327,700	306,166	21,534
Business license administration	157,200	158,200	136,653	21,547
Finance	224,500	276,000	249,721	26,279
Human resources	45,500	50,500	45,576	4,924
Nondepartmental	128,750	748,021	172,423	575,598
Legislative policy	551,000	455,000	431,165	23,835
Facilities	341,870	397,500	389,751	7,749
Fleet	35,500	30,500	18,330	12,170
Planning and zoning	694,500	773,500	698,065	75,435
Promise program	93,326	101,278	90,132	11,146
Public safety	11,359,222	11,382,278	11,374,782	7,496
Streets and public works	6,646,750	6,694,000	6,010,739	683,261
Debt service	375,000	211,000	153,593	57,407
Transfers	1,750,000	4,000,000	3,926,285	73,715
Total expenditures	<u>26,192,618</u>	<u>29,329,477</u>	<u>27,269,367</u>	<u>2,060,110</u>
Net change in fund balance	(732,882)	(2,313,576)	1,409,992	3,723,568
Fund balance, beginning of year	5,690,785	5,690,785	5,690,785	-
Fund balance, end of year	<u>\$ 4,957,903</u>	<u>\$ 3,377,209</u>	<u>\$ 7,100,777</u>	<u>\$ 3,723,568</u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Community Reinvestment Agency – Special Revenue Fund
For the year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>REVENUES</u>				
Taxes	\$ 500,000	\$ 588,852	\$ 119,800	\$ (469,052)
Charges for services	-	90,000	98,502	8,502
Intergovernmental	-	-	862,813	862,813
Interest	5,000	135,000	207,795	72,795
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	505,000	813,852	1,288,910	475,058
<u>EXPENDITURES</u>				
Public works	505,000	6,780,747	719,449	6,061,298
Capital outlay	-	13,800,000	12,801,154	998,846
Debt service	-	733,398	836,967	(103,569)
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	505,000	21,314,145	14,357,570	6,956,575
Excess of revenues over expenditure	<hr/>	<hr/>	<hr/>	<hr/>
	-	(20,500,293)	(13,068,660)	7,431,633
<u>OTHER FINANCING SOURCES</u>				
Proceeds from bond issuance	-	20,174,316	20,233,462	59,146
	<hr/>	<hr/>	<hr/>	<hr/>
Net change in fund balance	-	(325,977)	7,164,802	7,490,779
Fund balance, beginning of year	701,018	701,018	701,018	-
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 701,018</u>	<u>\$ 375,041</u>	<u>\$ 7,865,820</u>	<u>\$ 7,490,779</u>

The accompanying notes are an integral part of this financial statement.

MILLCREEK
Notes to the Financial Statements
June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the City and its component unit. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Reporting Entity

Millcreek, Utah (the City) was incorporated in 2017 under the laws of the State of Utah. The City operates under a Mayor-Council form of government. The City is a municipal corporation governed by an elected five-member Council and Mayor. The City provides the following services as authorized by its charter: general administrative, highway and streets, and planning and zoning. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government.

The Community Reinvestment Agency of Millcreek (CRA) was established to prepare and carry out plans to improve, rehabilitate, and redevelop blighted areas within the City. The CRA is governed by a board of trustees composed of the City Mayor and members of the City Council. Although it is a legally separate entity from the City, the CRA is reported as if it were part of the primary government because of the City's ability to impose its will upon the operations of the CRA. The CRA is included in these financial statements as the Community Reinvestment Agency Special Revenue Fund as a blended component unit. Separate financial statements are not issued for the CRA.

Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation – Government-Wide Financial Statements (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its blended component units. Separate statements for the governmental fund category are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.
- The *capital projects fund* accounts for the acquisition and construction of the government's major capital facilities.
- The *CRA special revenue fund* is used to account for financial resources to be used for the revitalization of blighted areas within the City. This fund is a blended component unit.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the government.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Cash Equivalents The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

Investments City policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer’s Investment Fund and other investments allowed by the State of Utah’s Money Management Act. Investments are reported at fair value. The State Treasurer’s Investment Fund operates in accordance with state laws and regulations. The reported value of the Fund is the same as the fair value of the Fund shares.

Prepaid Items Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	50 years
Buildings	50 years
Machinery and equipment	5 years

Compensated Absences For governmental funds, amounts of vested or accumulated personal time off (PTO) are not expected to be liquidated with expendable available financial resources are reported as liabilities in the government-wide statement of net position and as expenses in the government-wide statement of activities. No expenditures are reported for these amounts in the fund financial statements. Accumulated PTO may be paid to employees upon termination or retirement if approved by the City Manager.

Deferred Inflows and Outflows of Resources Deferred inflows of resources represent an acquisition of net position that applies to a future period and is therefore deferred until that time.

Governmental funds report revenue that is unavailable as deferred inflows of resources. Governmental funds report unavailable revenue from property taxes and from special assessments. These amounts are deferred and recognized as revenue in the period that the amount become available.

Deferred outflows of resources represent a consumption of net position that applies to a future period and is therefore deferred until that time. The City recognizes a deferred outflow related to pensions.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Governmental fund balance is reported in five separate categories: Nonspendable, restricted, committed, assigned, and unassigned. When both restricted and unrestricted fund balance is available for use, it is the City's policy to use restricted fund balance first. When expenditures qualify for more than one unrestricted fund balance classification, it is the City's policy to use resources in the following order: Committed, assigned, and then unassigned.

Restricted Assets Restricted assets are comprised of receivables for Class C road projects and unspent bond proceeds.

Use of Estimates The preparation of the financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of certain financial statement balances. Actual results could vary from the estimates used.

Pensions For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by the URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net position of governmental activities as reported in the government-wide statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental funds balance sheet.

Capital related items:

When capital assets (property, plant and equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the City as a whole.

Cost of capital assets	\$ 171,707,596
Accumulated depreciation	(6,781,428)
Capital assets, net	\$ 164,926,168

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position (Continued)

Long-term debt transactions:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund financials. All liabilities (both current and long-term) are reported in the statement of net position. Balances at June 30, 2020 were:

Sales Tax Revenue bonds	\$ 17,345,000
Premiums	2,758,244
Interest payable on long-term debt	60,150
Compensated absences	246,138
	\$ 20,409,532

Explanation of Certain Differences Between Governmental Funds Operating Statements and the Statement of Net Activities

The governmental funds statement of revenues, expenditures, and change in fund balances includes a reconciliation between net change in fund balances - total governmental funds and change in net position of governmental activities as reported in the government-wide statement of activities. The first element of this reconciliation states that capital outlays and contributions are reported in the governmental fund as expenditures while the government-wide statement of activities allocates these costs over the useful lives of the assets as depreciation. While shown in the reconciliation as the net difference, the elements of this difference are as follow:

Capital outlays and contributions	\$ 14,893,691
Depreciation expense	(1,770,340)
	\$ 13,123,351

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

- For the fiscal year beginning July 1, the Mayor submits a proposed budget to the City Council by the first City Council meeting in May. The budget includes proposed expenditures and the means of financing them.
- By passage of a resolution, the budget is legally enacted on or before June 30, after a public hearing has been held.
- Once adopted, the budget can be amended by subsequent City Council action. The budget officer is authorized to transfer budgeted amounts between departments within any fund; however, the City Council must approve any revisions that alter the total expenditures of any fund. Increased appropriations require a public hearing to amend the budget.
- Interim adjustments of estimated revenues and appropriations, during the year ended June 30, 2020, have been included in the final budget approved by the City Council, as presented in the basic financial statements.
- As determined by state law, the level by which expenditures may not legally exceed appropriations is the total departmental budgets within a given fund.
- Unencumbered appropriations lapse at the end of each fiscal year.

An annual budget for the General Fund was legally adopted by the City and is prepared on the modified-accrual method of accounting.

Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of actual versus such budgets for governmental funds.

Tax Revenues

Property taxes are collected by the Salt Lake County Treasurer and remitted to the City in two to three installments in November, December, and January of each fiscal year and a final settlement by March 31st. Taxes are levied and are due and payable on November 1st and delinquent after November 30th of each year at which time they become liens if not paid. An accrual of delinquent current and prior year's property taxes beyond that which was received within 60 days after fiscal year end has not been made, as the amounts are not deemed to be material. An accrual for current year property taxes estimated to be collected the following November and December is made each year.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Tax Revenues (Continued)

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. An accrual has been made for all taxes received by the State for the period ended June 30th and thus due and payable to the City.

Franchise taxes are charged to cable television companies. The fees are remitted on a quarterly basis.

4. DEPOSITS AND INVESTMENTS

Utah State law establishes the rules and regulations for deposits and investments and is known as the Utah Money Management Act. The Act established the Money Management Council that promulgates additional rules and determines which financial institutions may qualify to hold deposits and investments for state and local entities. The City has complied with the Utah Money Management Act and rules of the Money Management Council with regard to deposits and investments.

As of June 30, 2020, the City's demand deposits amounted to \$789,771.

As of June 30, 2020, the City had investments in the Utah Public Treasurer's Investment Fund of \$13,391,432. The fund is not rated, and the weighted average maturity was less than 90 days.

Custodial Credit Risk - Deposits This is the risk that in the event of a bank failure, the City's deposits may not be returned. As of June 30, 2020, \$250,000 of the City's \$789,771 bank balance was insured by FDIC limits and, therefore, is not exposed to custodial credit risk. The Utah Money Management Act does not require deposits to be insured or collateralized and the City has no formal policy regarding deposit credit risk. The Act requires that the City keep deposits in a qualified depository, which the City has done.

Custodial Credit Risk - Investments This is the risk that in the event of the failure of the counterparty, the City will not be able to recover the value of its investments that are in the possession of an outside party. The City has no formal policy regarding custodial credit risk for investments. Money invested in the Utah Public Treasurer's Investment Fund is pooled with many other state and local entities, and is managed by the Utah State Treasurer. The Fund is not categorized as to custodial credit risk.

Interest Rate Credit Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss from changes in interest rates is to follow the Utah Money Management Act and only invest in instruments that mature in one year or less. Investments within the Public Treasurer's Investment Fund have a weighted average maturity of less than ninety days.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

4. DEPOSITS AND INVESTMENTS

Credit Risk is the risk that an issuer will not fulfill its obligations. The City policy is consistent with and complies with the Utah State Money Management Act. Investment is limited to U.S. Treasuries, U.S. Government Agency instruments, Utah Public Treasurer’s Investment Fund, and other instruments that are rated A or higher by Standard & Poor’s or Moody’s. The City only invested in the Utah Public Treasurer’s Investment Fund and U.S. Treasury securities during the year.

Concentration of Credit risk – City policy requires diversification and limits the amount that may be invested in the same company. First, the City may not invest more than 20% of its idle funds outside of the Utah Public Treasurer’s Investment Fund. Second, not more than 10% of the total portfolio may be invested in a single company’s credit instruments. The Utah Public Treasurer’s Investment Fund is highly diversified and must comply with various rules of the Utah State Money Management Act and Money Management Council.

The deposits and investments described above are included on the government-wide statement of net position as follows:

Cash and cash equivalents	\$ 13,465,934
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5. ACCOUNTS RECEIVABLE

Receivables as of June 30, 2020 for the City’s individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Special Revenue Fund	Total
Receivables:			
Taxes	\$ 13,511,069	\$ 985,600	\$ 14,496,669
Intergovernmental	357,318	-	357,318
Gross receivables	13,868,387	985,600	14,853,987
Less: allowance for uncollectibles	-	-	-
Net total receivables	<u>\$ 13,868,387</u>	<u>\$ 985,600</u>	<u>\$ 14,853,987</u>

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

5. ACCOUNTS RECEIVABLE (CONTINUED)

Governmental funds report deferred revenue as deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2020, the various components of deferred revenue and unearned revenue reported in the government fund were as follows:

	Deferred Inflows of Resources	Unearned
Property taxes receivable	\$ 10,994,000	\$ -
Property taxes receivable (CRA)	985,600	-
Total deferred inflows of resources/ unearned revenue, governmental funds	\$ 11,979,600	\$ -

6. CAPITAL ASSETS

Capital asset activity for governmental activities for the year ended June 30, 2020 was as follows:

	7/1/19	Increases	Decreases	6/30/20
<u>Governmental activities</u>				
Capital assets:				
Land	\$ 73,005,060	\$ 12,842,928	\$ -	\$ 85,847,988
Buildings	525,867	623,392	-	1,149,259
Improvements	995,481	1,178,814	(418,230)	1,756,065
Infrastructure	81,720,060	720,911	-	82,440,971
Machinery and equipment	567,437	59,299	(113,423)	513,313
Total capital assets	156,813,905	15,425,344	(531,653)	171,707,596
Accumulated depreciation:				
Buildings	(876)	(42,570)	-	(43,446)
Improvements	(22,039)	(962)	8,529	(14,472)
Infrastructure	(4,857,932)	(1,635,603)	-	(6,493,535)
Machinery and equipment	(138,770)	(91,205)	-	(229,975)
Total accumulated depreciation	(5,019,617)	(1,770,340)	8,529	(6,781,428)
Net governmental capital assets	\$ 151,794,288	\$ 13,655,004	\$ (523,124)	\$ 164,926,168

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

6. CAPITAL ASSETS (CONTINUED)

In the government-wide financial statements depreciation was charged as follows by program or activity:

Governmental activities:	
General government	\$ 134,737
Highways and public improvements	<u>1,635,603</u>
Total depreciation expense - governmental activities	<u><u>\$ 1,770,340</u></u>

7. SHORT-TERM DEBT – TAX AND REVENUE ANTICIPATION NOTES

The City issues tax and revenue anticipation notes in advance of property tax and other revenue collections, depositing the proceeds in its general fund. These notes are necessary because the City's payments for contract services are made throughout the year, whereas property tax collections are received primarily in November and December.

Short-term debt activity for the year ended June 30, 2020 was as follows:

	<u>7/1/19</u>	<u>Issued</u>	<u>Redeemed</u>	<u>6/30/20</u>
Tax and revenue anticipation notes	\$ -	\$ 10,835,000	\$ (10,835,000)	\$ -

8. REVENUE BONDS

The City has issued bonds where the revenues and assets of the issuing fund are pledged as security for the bonds. Revenue bonds outstanding at June 30, 2020, by issue, are as follows:

<u>Bond Description</u>	<u>Original Issue</u>	<u>Annual Principal</u>	<u>Interest Rate</u>	<u>Final Due Date</u>	<u>Outstanding as of 6/30/20</u>
Sales Tax Revenue Bonds, Series 2019	\$17,345,000	\$140,000 to \$1,770,000	4% to 5%	12/1/39	\$ 17,345,000
	<u>\$17,345,000</u>				<u>\$ 17,345,000</u>

On July 30, 2019, the City issued Sales Tax Revenue Bonds Series 2019 in the amount of \$17,345,000. The bonds were sold at a premium of \$2,888,462 with an underwriter's discount and bond issuance costs totaling \$233,462, resulting in total proceeds of \$20,000,000. The bonds were issued for the acquisition and improvement of property within the City's reinvestment area.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

8. REVENUE BONDS (CONTINUED)

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2021	\$ -	\$ 721,800	\$ 721,800
2022	-	721,800	721,800
2023	-	721,800	721,800
2024	-	721,800	721,800
2025	140,000	718,300	858,300
2026 - 2030	2,660,000	3,307,500	5,967,500
2031 - 2035	6,355,000	2,318,300	8,673,300
2036 - 2040	8,190,000	845,200	9,035,200
	<u>\$17,345,000</u>	<u>\$ 10,076,500</u>	<u>\$ 27,421,500</u>

9. CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the governmental activities for the year ended June 30, 2020 was as follows:

	7/1/19	Additions	Reductions	6/30/20	Due in One Year
<u>Governmental activities</u>					
Bonds payable:					
Sales tax revenue	\$ -	\$ 17,345,000	\$ -	\$ 17,345,000	\$ -
Premium	-	2,888,462	(130,218)	2,758,244	-
Total bonds payable	-	20,233,462	(130,218)	20,103,244	-
Compensated absences	172,080	207,792	(133,734)	246,138	184,603
Net pension liability	855,153	-	(206,991)	648,162	-
Governmental activity long-term liabilities	<u>\$ 1,027,233</u>	<u>\$ 20,441,254</u>	<u>\$ (470,943)</u>	<u>\$ 20,997,544</u>	<u>\$ 184,603</u>

10. OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries insurance through the Utah Local Government Insurance Trust for all of these risks of loss. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years. Expenses and claims not covered by insurance are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. City Management estimates that the amount of other actual or potential claims against the City as of June 30, 2020 will not materially affect the financial condition of the City.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

10. OTHER INFORMATION (CONTINUED)

Reinvestment Agency

In connection with the activities of the Community Reinvestment Agency (CRA), incremental tax revenues totaling \$862,813 were generated. The CRA was not required to pay any portion of this revenue to other taxing agencies. The CRA has outstanding sales tax revenue bonds of \$17,345,000 as of June 30, 2020.

During the year ended June 30, 2020, funds expended by the CRA were limited to affordable housing, capital outlay, and debt service.

11. PENSION PLANS

General Information About the Pension Plan

Plan Description Eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following pension trust funds:

Public Employees Noncontributory Retirement System (Noncontributory System); is a multiple employer, cost sharing, public employee retirement system.

Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) is a multiple employer, cost sharing, public employee retirement system.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning work on or after July 1, 2011, who has no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (Systems) are established and governed by the respective sections of Title 49 of the Utah Code Annotated 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

URS issues a publicly available financial report that can be obtained by writing Utah Retirement System, 560 E 200 S, Salt Lake City, Utah 84102 or visiting the website: www.urs.org/general/publications.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

11. PENSION PLANS (CONTINUED)

Benefits Provided

URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

System	Final Average Salary	Years of Service Required and/or Age Eligible for Benefit	Benefit Percent Per Year of Service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years any age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.50%

*with actuarial reductions

**All post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

Contribution Rate Summary

As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable), is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of June 30, 2020 are as follows:

	Employee Paid	Employer Contribution Rates	Employer Rate for 401(k) Plan
Contributory System			
111- Local Governmental Division Tier 2	N/A	15.66%	1.03%
Noncontributory System			
15- Local Governmental Division Tier 1	N/A	18.47%	N/A
Tier 2 DC Only			
211 - Local Government	N/A	6.69%	10.00%

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

11. PENSION PLANS (CONTINUED)

For fiscal year ended June 30, 2020, the employer and employee contributions to the System were as follows:

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 246,160	N/A
Tier 2 Public Employees System	128,272	-
Tier 2 DC Only System	15,459	N/A
Total Contributions	\$ 389,891	\$ -

Contributions reported are the URS Board-approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems.

Combined Pension Assets, Liabilities, Expense, and Deferred Outflows and Inflows of Resources Relating to Pensions

At June 30, 2020, the City reported a net pension asset of \$0 and a net pension liability of \$648,162.

	(Measurement Date): December 31, 2019				
	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share December 31, 2018	Change
Noncontributory System	\$ -	\$ 634,758	0.1684213%	0.1140939%	0.0543274%
Tier 2 Public Employees System	-	13,404	0.0595987%	0.0350169%	0.0245818%
Total Net Pension Asset / Liability	\$ -	\$ 648,162			

The net pension asset and liability was measured as of December 31, 2019, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2019 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

For the year ended June 30, 2020, the City recognized pension expense of \$615,184.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

11. PENSION PLANS (CONTINUED)

Combined Pension Assets, Liabilities, Expense, and Deferred Outflows and Inflows of Resources Relating to Pensions (Continued)

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 61,489	\$ 13,718
Changes in assumptions	72,952	385
Net difference between projected and actual earnings on pension plan investments	-	331,307
Changes in proportion and differences between contributions and proportionate share of contributions	433,839	-
Contributions subsequent to the measurement date	192,203	-
Total	\$ 760,483	\$ 345,410

\$192,203 reported as deferred outflows of resources related to pensions results from contributions made by the City prior to the fiscal year end, but subsequent to the measurement date of December 31, 2019.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, will be recognized in pension expense as follows:

Year Ended December 31,	Deferred Outflows (Inflows) of Resources
2020	\$ 191,897
2021	98,274
2022	44,544
2023	(124,519)
2024	1,642
Thereafter	11,031

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

11. PENSION PLANS (CONTINUED)

Noncontributory System Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2020, the City recognized pension expense of \$539,534.

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 57,739	\$ 9,118
Changes in assumptions	67,228	-
Net difference between projected and actual earnings on pension plan investments	-	321,003
Changes in proportion and differences between contributions and proportionate share of contributions	419,084	-
Contributions subsequent to the measurement date	121,119	-
Total	\$ 665,170	\$ 330,121

\$121,119 reported as deferred outflows of resources related to pensions results from contributions made by the City prior to the fiscal year end, but subsequent to the measurement date of December 31, 2019.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, will be recognized in pension expense as follows:

Year Ended December 31,	Deferred Outflows (Inflows) of Resources
2020	\$ 193,036
2021	99,212
2022	43,721
2023	(122,039)
2024	-
Thereafter	-

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

11. PENSION PLANS (CONTINUED)

Tier 2 Public Employees System Pension Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2020, the City recognized pension expense of \$75,650.

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources relating to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,750	\$ 4,600
Changes in assumptions	5,724	385
Net difference between projected and actual earnings on pension plan investments	-	10,304
Changes in proportion and differences between contributions and proportionate share of contributions	14,755	-
Contributions subsequent to the measurement date	71,085	-
	<hr/>	<hr/>
Total	<u>\$ 95,314</u>	<u>\$ 15,289</u>

\$71,085 reported as deferred outflows of resources related to pensions results from contributions made by the City prior to the fiscal year end, but subsequent to the measurement date of December 31, 2019.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, will be recognized in pension expense as follows:

Year Ended December 31,	Deferred Outflows (Inflows) of Resources
2020	\$ (1,139)
2021	(938)
2022	822
2023	(2,480)
2024	1,642
Thereafter	11,031

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

11. PENSION PLANS (CONTINUED)

Actuarial Assumptions

The total pension liability in December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 - 9.75 percent, average, including inflation
Investment rate of return	6.95 percent, net of pension plan investment expense, including inflation

Mortality rates were developed from actual experience and mortality tables based on gender, occupation and age as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2016.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return or each major asset class are summarized in the following table:

Asset Class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term Expected Portfolio Real Rate of Return
Equity securities	40%	6.15%	2.46%
Debt securities	20%	0.40%	0.08%
Real assets	15%	5.75%	0.86%
Private equity	9%	9.95%	0.89%
Absolute return	16%	2.85%	0.46%
Cash and cash equivalents	0%	0.00%	0.00%
Totals	100%		4.75%
		Inflation	2.50%
		Expected arithmetic nominal return	7.25%

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

11. PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

The 6.95% assumed investment rate of return is comprised of an inflation rate of 2.50% and a real return of 4.45% that is net of investment expense.

Discount Rate

The discount rate used to measure the total pension liability was 6.95 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate was of 6.95 percent was unchanged from the prior measurement period.

Sensitivity to the Proportionate Share of the Net Pension Asset and Liability to Changes in the Discount Rate

The following presents the proportionate share of the net pension liability calculated using the discount rate of 6.95 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.95 percent) or 1-percentage-point higher (7.95 percent) than the current rate:

<u>System</u>	1% Decrease (5.95%)	Discount Rate (6.95%)	1% Increase (7.95%)
Noncontributory System	\$ 1,982,570	\$ 634,758	\$ (489,303)
Tier 2 Public Employees System	115,590	13,404	(65,567)
Total	<u>\$ 2,098,160</u>	<u>\$ 648,162</u>	<u>\$ (554,870)</u>

Defined Contribution Savings Plans

The Defined Contribution Savings Plans are administered by the Utah Retirement Systems Board and are generally supplemental plans to the basic retirement benefits of the Retirement Systems but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue Code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

MILLCREEK
Notes to the Financial Statements (Continued)
June 30, 2020

11. PENSION PLANS (CONTINUED)

Defined Contribution Savings Plans (Continued)

Millcreek City participates in the following Defined Contribution Savings Plans with Utah Retirement Systems:

- 401(k) Plan
- 457(b) Plan
- Roth IRA Plan

Employee and employer contributions to the Utah Retirement Defined Contribution Savings Plans for fiscal year ended June 30 were as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
401(k) Plan*			
Employer contributions	\$ 260,538	\$ 214,189	\$ 94,723
Employee contributions	174,862	143,063	57,381
457 Plan			
Employer contributions	-	-	1,750
Employee contributions	28,400	12,552	3,652
Roth IRA Plan			
Employer contributions	N/A	N/A	N/A
Employee contributions	5,510	7,405	2,730

* The employer paid 401(k) contributions include the totals paid for employees in the Tier 2 Defined Contribution 401(k) Plan.

12. SUBSEQUENT EVENTS

On July 1, 2020, the City issued \$6,035,000 of tax and revenue anticipation notes. The notes have a .71% coupon rate and mature on December 31, 2020. The proceeds will be used to pay for contract services until the City receives the majority of property tax collections during November and December 2020.

MILLCREEK
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual – Capital Projects Fund
For the year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With
	<u>Original</u>	<u>Final</u>		Final Budget
				Positive
				(Negative)
<u>REVENUES</u>				
Interest	\$ -	\$ -	\$ 85,249	\$ 85,249
Miscellaneous	-	170,787	170,787	-
Total revenues	-	170,787	256,036	85,249
<u>EXPENDITURES</u>				
Capital outlay	1,751,000	5,474,597	1,899,725	3,574,872
Total expenditures	1,751,000	5,474,597	1,899,725	3,574,872
Excess (deficiency) of revenues over (under) expenditures	(1,751,000)	(5,303,810)	(1,643,689)	3,660,121
<u>OTHER FINANCING SOURCES</u>				
Transfers in	1,750,000	4,000,000	3,926,285	(73,715)
Total other financing sources	1,750,000	4,170,787	3,926,285	(244,502)
Net change in fund balance	(1,000)	(1,133,023)	2,282,596	3,415,619
Fund balance at beginning of year	3,552,810	3,552,810	3,552,810	-
Fund balance at end of year	<u>\$ 3,551,810</u>	<u>\$ 2,419,787</u>	<u>\$ 5,835,406</u>	<u>\$ 3,415,619</u>

MILLCREEK
Schedule of the Proportionate Share of the Net Pension Liability
Last Ten Fiscal Years

	As of December 31,	Proportion of Net Pension Liability (Asset)	Proportionate Share of the Net Pension Liability (Asset)	Covered Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of its Covered Payroll
Noncontributory System	2018	0.1140939%	\$ 840,156	\$ 920,290	91.29%	87.00%
	2019	0.1684213%	634,758	1,297,950	48.90%	93.70%
Tier 2 Public Employees System	2018	0.0350169%	\$ 14,997	\$ 406,399	3.69%	90.80%
	2019	0.0595987%	13,404	828,342	1.62%	96.50%

Note:

* This schedule usually covers the 10 most recent fiscal years; however, this is the information available as of the implementation year of GASB 68.

MILLCREEK
Schedule of Pension Contributions
Last Ten Fiscal Years

	As of fiscal year ended June 30,	Actuarial Determined Contributions	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
Noncontributory System	2018	\$ 83,431	\$ 83,431	\$ -	\$ 451,711	18.47%
	2019	214,893	214,893	-	1,165,396	18.44%
	2020	246,160	246,160	-	1,332,755	18.47%
Tier 2 Public Employees System*	2018	28,752	28,752	-	190,281	15.11%
	2019	103,052	103,052	-	663,143	15.54%
	2020	128,272	128,272	-	819,108	15.66%
Tier 2 Public Employees DC Only System*	2018	942	942	-	14,080	6.69%
	2019	5,844	5,844	-	87,351	6.69%
	2020	15,459	15,459	-	228,177	6.78%

Note:

This schedule usually covers the 10 most recent fiscal years; however, this is the information available as of the implementation year of GASB 68.

Contributions as a percentage of covered-employee payroll may be different than the Board certified rate due to rounding or other administrative issues.

* Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems. Tier 2 systems were created effective July 1, 2011.

MILLCREEK
Notes to the Required Supplementary Information
June 30, 2020

1. ACTUARIALLY DETERMINED PENSION CONTRIBUTIONS

Contribution rates include an amount for normal cost, the estimated amount necessary to finance benefits earned by the members during the current year, and an amount for amortization of the unfunded or excess funded actuarial accrued liability over a closed 20-year amortization period. The rates are determined using the entry age actuarial cost method.

Contributions made were in accordance with actuarially computed funding requirements. For contribution rate purposes, the actuary evaluates the assets of the plan based on a 5-year smoothed expected return wherein 20 percent of a year's excess or shortfall of expected return is recognized each year for five years.

2. CHANGE IN ASSUMPTIONS

As a result of the passage of SB 129 during the 2019 Utah legislative session, the retirement rates for members in the Tier 2 Public Safety and Firefighter Hybrid System have been modified to be the same as the assumption used to model the retirement plan in the Tier I Public Safety and Firefighter Systems, except for a 10% load at first eligibility for unreduced retirement prior to age 65.



COMMITTED. EXPERIENCED. TRUSTED

CERTIFIED PUBLIC ACCOUNTANTS

- E. LYNN HANSEN, CPA
- CLARKE R. BRADSHAW, CPA
- GARY E. MALMROSE, CPA
- EDWIN L. ERICKSON, CPA
- MICHAEL L. SMITH, CPA
- JASON L. TANNER, CPA
- ROBERT D. WOOD, CPA
- AARON R. HIXSON, CPA
- TED C. GARDINER, CPA
- JEFFREY B. MILES, CPA
- SHAWN F. MARTIN, CPA

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

Mayor and City Council
Millcreek, Utah

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 governmental activities and each major fund of Millcreek, Utah (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated November 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 entity’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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

NBMC, LLC

November 16, 2020



COMMITTED. EXPERIENCED. TRUSTED

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**INDEPENDENT AUDITOR’S REPORT IN ACCORDANCE WITH
THE STATE COMPLIANCE AUDIT GUIDE ON COMPLIANCE
WITH GENERAL STATE COMPLIANCE REQUIREMENTS,
AND INTERNAL CONTROL OVER COMPLIANCE**

Mayor and City Council
Millcreek, Utah

Report On Compliance with General State Compliance Requirements

We have audited Millcreek, Utah's (the City) compliance with general and major State program compliance requirements described in the *State Compliance Audit Guide* issued by the Office of the Utah State Auditor, that could have a direct and material effect on the City for the year ended June 30, 2020.

General state compliance requirements were tested for the year ended June 30, 2020 in the following areas:

- | | |
|------------------------------|---------------------------------------|
| Budgetary Compliance | Fund Balance |
| Open and Public Meetings Act | Restricted Taxes and Related Revenues |
| Fraud Risk Assessment | Impact Fees |

Management’s Responsibility

Management is responsible for compliance with the general state requirements referred to above.

Auditor’s Responsibility

Our responsibility is to express an opinion on the City’s compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the City occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements. However, our audit does not provide a legal determination of the City's compliance.

Opinion on General State Compliance Requirements

In our opinion, Millcreek, Utah complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the state compliance requirements referred to above to determine the audit that are appropriate in the circumstances for the purpose of expressing our opinion on compliance with those state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a state compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a state compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this communication is not suitable for any other purpose.

ABMC, LLC

November 16, 2020