



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

**Financial Statements Audit Report**  
**City of Clyde Hill**

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

**Published November 19, 2020**

**Report No. 1027288**





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

November 19, 2020

Mayor and City Council  
City of Clyde Hill  
Clyde Hill, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

***Americans with Disabilities***

*In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at [webmaster@sao.wa.gov](mailto:webmaster@sao.wa.gov).*

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

**City of Clyde Hill  
January 1, 2019 through December 31, 2019**

Mayor and City Council  
City of Clyde Hill  
Clyde Hill, 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 Clyde Hill, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated November 10, 2020.

We issued an unmodified opinion on the fair presentation of the City's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the City using accounting practices prescribed by state law and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

As discussed in Note 11 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management's plans in response to the matter are also described in Note 11.

As discussed in Note 6 to the financial statements, during the year ended December 31, 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## COMPLIANCE AND OTHER MATTERS

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

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

## PURPOSE OF THIS REPORT

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

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

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

Pat McCarthy  
State Auditor  
Olympia, WA

November 10, 2020

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## City of Clyde Hill January 1, 2019 through December 31, 2019

Mayor and City Council  
City of Clyde Hill  
Clyde Hill, Washington

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the City of Clyde Hill, for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 11.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of state law and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

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

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

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

### **Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)**

As described in Note 1, the City of Clyde Hill has prepared these financial statements to meet the financial reporting requirements of state law using accounting practices prescribed by the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and investments of the City of Clyde Hill, and its changes in cash and investments, for the year ended December 31, 2019, on the basis of accounting described in Note 1.

### **Basis for Adverse Opinion on U.S. GAAP**

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the City used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

## **Adverse Opinion on U.S. GAAP**

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Clyde Hill, as of December 31, 2019, or the changes in financial position or cash flows thereof for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

## **Matters of Emphasis**

As discussed in Note 11 to the 2019 financial statements, in February 2020, a state of emergency was declared that could have a negative financial effect on the City. Management’s plans in response to this matter are also described in Note 11. Our opinion is not modified with respect to this matter.

As discussed in Note 6 to the financial statements, in 2019, the City adopted new accounting guidance for presentation and disclosure of postemployment benefits other than pensions, as required by the BARS manual. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***Supplementary and Other Information***

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

## OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2020 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Pat McCarthy  
State Auditor  
Olympia, WA

November 10, 2020

## **FINANCIAL SECTION**

### **City of Clyde Hill January 1, 2019 through December 31, 2019**

#### **FINANCIAL STATEMENTS**

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

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

Schedule of Liabilities – 2019

**City of Clyde Hill**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<b>Total for All Funds (Memo Only)</b>	<b>001 General Fund</b>	<b>301 Capital Projects Fund</b>
<b>Beginning Cash and Investments</b>				
30810	Reserved	3,020,439	-	3,020,439
30880	Unreserved	6,396,215	6,396,215	-
388 / 588	Net Adjustments	-	-	-
<b>Revenues</b>				
310	Taxes	3,508,908	2,484,184	1,024,724
320	Licenses and Permits	972,108	972,108	-
330	Intergovernmental Revenues	591,112	148,567	442,545
340	Charges for Goods and Services	734,678	734,678	-
350	Fines and Penalties	37,460	37,460	-
360	Miscellaneous Revenues	502,986	502,986	-
Total Revenues:		6,347,252	4,879,983	1,467,269
<b>Expenditures</b>				
510	General Government	1,189,130	1,189,130	-
520	Public Safety	2,374,932	2,374,932	-
530	Utilities	-	-	-
540	Transportation	886,163	851,081	35,082
550	Natural and Economic Environment	53,062	53,062	-
560	Social Services	830	830	-
570	Culture and Recreation	114,183	114,183	-
Total Expenditures:		4,618,300	4,583,218	35,082
Excess (Deficiency) Revenues over Expenditures:		1,728,952	296,765	1,432,187
<b>Other Increases in Fund Resources</b>				
391-393, 596	Debt Proceeds	-	-	-
397	Transfers-In	-	-	-
385	Special or Extraordinary Items	-	-	-
386 / 389	Custodial Activities	-	-	-
381, 382, 395, 398	Other Resources	-	-	-
Total Other Increases in Fund Resources:		-	-	-
<b>Other Decreases in Fund Resources</b>				
594-595	Capital Expenditures	835,275	7,000	828,275
591-593, 599	Debt Service	-	-	-
597	Transfers-Out	-	-	-
585	Special or Extraordinary Items	-	-	-
586 / 589	Custodial Activities	-	-	-
581, 582	Other Uses	-	-	-
Total Other Decreases in Fund Resources:		835,275	7,000	828,275
<b>Increase (Decrease) in Cash and Investments:</b>		<b>893,677</b>	<b>289,765</b>	<b>603,912</b>
<b>Ending Cash and Investments</b>				
5081000	Reserved	3,624,351	-	3,624,351
5088000	Unreserved	6,685,983	6,685,983	-
<b>Total Ending Cash and Investments</b>		<b>10,310,334</b>	<b>6,685,983</b>	<b>3,624,351</b>

The accompanying notes are an integral part of this statement.

**City of Clyde Hill**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2019**

		<u>Custodial</u>
308	Beginning Cash and Investments	325,966
388 & 588	Net Adjustments	-
310-390	Additions	130,569
510-590	Deductions	<u>105,253</u>
	Net Increase (Decrease) in Cash and Investments:	25,316
508	Ending Cash and Investments	351,282

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

# City of Clyde Hill

## Notes to the Financial Statements

### For the year ended December 31, 2019

#### **Note 1 - Summary of Significant Accounting Policies**

The City of Clyde Hill was incorporated on March 31, 1953 and operates under the laws of the state of Washington applicable to a non-charter Code City with a strong mayor city council type of government structure. The City of Clyde Hill is a general purpose local government and provides police, fire, public works and general government services.

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

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

#### **A. Fund Accounting**

Financial transactions of the government are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash and investments, revenues and expenditures. The government's resources are allocated to and accounted for in individual funds depending on their intended purpose. Each fund is reported as a separate column in the financial statements, except for fiduciary funds, which are presented by fund types. The total column is presented as "memo only" because any interfund activities are not eliminated. The following fund types are used:

#### **GOVERNMENTAL FUND TYPES:**

##### **General Fund**

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.

### Capital Projects Funds

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

## FIDUCIARY FUND TYPES:

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

### Pension (and Other Employee Benefit) Trust Funds

These funds are used to report fiduciary activities for pension and OPEB plans administered through trust.

### Investment Trust Funds

These funds are used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in trust.

### Private-Purpose Trust Funds

These funds report all trust arrangements under which principal and income benefit individuals, private organizations or other governments.

### Custodial Funds

These funds are used to account for 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 of Clyde Hill also recognizes expenditures paid during twenty (20) 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

Vacation leave may be accumulated within certain limits that are different for different types of employees and the amount under the applicable limit is payable upon separation or retirement.

Sick leave may be accumulated indefinitely for non-union employees. Police officers have a buy-back provision in their collective bargaining agreement after 60 days of accumulated sick leave. The buy rate is 25%. Upon separation or retirement, non-union employees do not receive payment for unused sick leave. Payments are recognized as expenditures when paid.

F. Long-Term Debt

See Note 5, *Debt Service Requirements*.

G. Reserved Portion of Ending Cash and Investments

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

The City of Clyde Hill has no legally required internal restrictions on the City's two fund balances. There is one external restriction on the fund balance in the City's Capital Projects Fund in the form of Real Estate Excise Tax (REET). At December 31, 2019, \$3,624,351 of Real Estate Excise Tax (REET) money was classified as "Reserved" for capital projects only.

**Note 2 – Budget Compliance**

A. Budgets

The City of Clyde Hill adopts annual appropriated budgets for two funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Total General Fund	\$7,092,425	\$4,590,216	\$2,502,209

Total Capital Projects	\$1,525,000	\$863,357	\$661,643

Budgeted amounts are authorized to be transferred between departments within any fund/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 of Clyde Hill legislative body.

### **Note 3 – Deposits and Investments**

Investments are reported at original cost. Deposits and investments by type at December 31, 2019 are as follows:

<b><u>Type of Deposit or Investment</u></b>	<b>City of Clyde Hill's own deposits and investments</b>	<b>Investments Held by Clyde Hill for Others</b>	<b>Total</b>
Bank deposits	\$ 258,609	\$ -	\$ 258,609
Local Government Investment Pool	10,593,220	-	10,593,220
<b>Total</b>	<b>\$ 10,851,828</b>	<b>\$ -</b>	<b>\$ 10,851,828</b>

It is the City of Clyde Hill's policy to invest all temporary cash surpluses. Per Policy Statement #9: Continue to consolidate and allocate all interest income earned on surplus City funds in the General Fund to better streamline the City's financial operations and further simplify the accounting system.

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

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

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

#### **Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the City of Clyde Hill would not be able to recover deposits or would not be able to recover collateral securities that are in possession of an outside party. The City of Clyde Hill's deposits and certificates of deposit are mostly 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).

All investments are insured, registered or held by the City of Clyde Hill or its agent in the government's name.

#### **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 at various times throughout each month.

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

The City of Clyde Hill's regular levy for the year 2019 was \$0.34504 per \$1,000 on an assessed valuation of \$2,938,691,119 for a total regular levy of \$1,013,973.

#### **Note 5 – Debt Service Requirements**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the City of Clyde Hill and summarizes the City of Clyde Hill's debt transactions for year ended December 31, 2019. The City had no formal, written financing agreement type debt in 2019. The City's other liabilities reported on Schedule 9 as of 12/31/19 include: 1) Compensated Absences \$103,199; 2) Department of Retirement Systems Pension Liability \$372,028; 3) Other Post-Employment Benefits (OPEB) Liability \$985,973; & 4) Bellevue Fire Contract LEOFF I Liability \$12,376. The total calculated for other liabilities and reported on the Schedule of Liabilities (09) is \$1,473,576 at the end of 2019.

#### **Note 6 - Other Post-Employment Benefits (OPEB)**

The City of Clyde Hill has a commitment to pay for post-employment benefits for employees that belonged to the Law Enforcement Officers and Fire Fighters Pension Plan 1 (commonly referred to as LEOFF 1). These benefits include medical, vision and long term care.

The LEOFF 1 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, 2019, the plan had two (2) Police Department members, all retirees. As of December 31, 2019, Clyde Hill's total OPEB liability was \$985,973, as calculated using the alternative measurement method. For the year ended December 31, 2019, the city paid \$32,720 in benefits.

The City's proportionate share of Fire Department retirees is included in contractual payments to the City of Bellevue. In 2019, the City of Clyde Hill did not pay Bellevue Fire the regular annual amount for LEOFF I Fire retirees as the actuarial beginning balance outstanding was \$16,727 (reported on Schedule 9). The City has currently made sufficient LEOFF 1 Reserve

contributions per the Fire Protection Services Agreement to the City of Bellevue.

## **Note 7 – Pension Plans**

### **State Sponsored Pension Plans**

Substantially all City of Clyde Hill'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 2 and 3) and Law Enforcement Officers and Fire Fighter's (LEOFF 2).

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

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

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

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

At June 30, 2019, the City of Clyde Hill's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Employer Contributions	Allocation %	Liability (Asset)
PERS 1	\$52,317	0.007296%	\$280,557
PERS 2/3	\$76,908	0.009417%	\$91,471
	\$129,225	<b>Subtotal</b>	<b>\$372,028</b>
LEOFF 1	\$0	0.004087%	(\$80,784)
LEOFF 2	\$44,542	0.024159%	(\$559,690)

### **LEOFF Plan 1**

The City of Clyde Hill 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 of Clyde Hill 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.

## **Note 8 – Risk Management**

- A. The City of Clyde Hill 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 163 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 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.

Insurance for property, automobile physical damage, fidelity, inland marine, and boiler and machinery 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 \$300 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.

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

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

As of December 31, 2019, 261 cities/towns/non-city entities participate in the AWC Trust HCP.

The AWC Trust HCP allows members to establish a program of joint insurance and provides health and welfare services to all participating members. The AWC Trust HCP pools claims without regard to individual member experience. The pool is actuarially rated each year with the assumption of projected claims run-out for all current members. The AWC Trust HCP includes medical, dental and vision insurance through the following carriers: Kaiser Foundation Health Plan of Washington, Kaiser Foundation Health Plan of Washington Options, Inc., Regence BlueShield, Asuris Northwest Health, Delta Dental of Washington, and Vision Service Plan. Eligible members are cities and towns within the state of Washington. Non-City Entities (public agency, public corporation, intergovernmental agency, or political subdivision within the state of Washington) are eligible to apply for coverage into the AWC Trust HCP, submitting application to the Board of Trustees for review as required in the Trust Agreement.

Participating employers pay monthly premiums to the AWC Trust HCP. The AWC Trust HCP is responsible for payment of all covered claims. In 2019, the AWC Trust HCP purchased stop loss insurance for Regence/Asuris plans at an Individual Stop Loss (ISL) of \$1.5 million through Commencement Bay Risk Management, and Kaiser ISL at \$1 million with Companion Life through ASG Risk Management. The aggregate policy is for 200% of expected medical claims.

Participating employers contract to remain in the AWC 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 9 – Joint Ventures and Related Parties**

### **ARCH – Housing Coalition**

A Regional Coalition for Housing (ARCH) was created in 1992 through an interlocal agreement of several suburban governments in Eastside King County. ARCH helps establish a teamwork approach to solving local housing issues. ARCH is comprised of 15 Eastside cities & King County. The City of Clyde Hill became a member of ARCH in 1999.

ARCH is governed by an Executive Board composed of the chief executive officer from each agency. The Executive Board is responsible for review and approval of all budgetary, financial, policy, and contractual matters. The Board is assisted by an administrative staff and a Citizen Advisory Board.

Each member city is responsible for contributing operating revenues as determined from the ARCH annual budget. Contributions from the member cities are based on each member's population. In 2019, the City of Clyde Hill paid \$4,193 to ARCH for operations and contributed \$25,000 to ARCH for low income housing here on the Eastside.

Members withdrawing from the agreement relinquish all rights to any reserve funds, equipment, or material purchased. Upon dissolution, the agreement, as amended, provides for distribution of net position among the members based on percentage of the total annual contributions during the period of the Agreement paid by each member. The City's share of the net position is deemed immaterial and thus is not reflected in the financial statement.

Budget monitoring information can be obtained from ARCH, 16625 NE 87<sup>th</sup> Street, Suite A-3, Redmond, WA 98052 (Email: [info@archhousing.org](mailto:info@archhousing.org) or Phone: 425 961-3676)

## **NORCOM**

In November of 2007, the City of Clyde Hill, with the cities of Bellevue, Kirkland, Bothell, Medina, Mercer Island and Snoqualmie, along with Eastside Fire and Rescue, King County Fire Protection Districts 27 and 45, King and Kittitas Fire Protection District 51, Northshore Fire Department, Shoreline Fire Department, and Woodinville Fire and Life Safety District entered into an interlocal agreement to establish and maintain a consolidated emergency service communications center. In 2008, the City of Redmond joined as a subscriber. Prior to the interlocal agreement, the formation efforts were carried out under a Joint Powers Agreement originally approved in 2005 and amended in 2006 and 2007. On July 1, 2009, the separate dispatch operations of the cities of Bellevue and Kirkland were combined and began operating as the North East King County Regional Public Safety Communications Agency (NORCOM). NORCOM includes 911 telephone answering, computer aided dispatch of fire, police and EMS resources, public safety field technology and a records management system.

Operating revenues are provided by user fees charged to each member based on average call volume. For 2019, the City of Clyde Hill's share of these fees was \$101,742.

Additional financial information can be obtained from NORCOM, c/o Finance Manager, PO Box 50911, Bellevue, WA 98015.

### **Note 10 – Other Disclosures**

#### **SR 520 Lid Maintenance**

WSDOT and the cities/towns of Clyde Hill, Medina, Hunts Point and Yarrow Point have been in negotiations to agree on the long-term maintenance and funding responsibility for new facilities, built by and wholly within SR 520, a State limited access highway.

Throughout the design phase, the cities/towns were promised various landscape and related amenities as requirements to soften the impact of the new state highway facility. Now that those facilities are in place, WSDOT wants to impose ongoing capital and maintenance costs on the cities/towns even though it is evident that those facilities are not addressed in any related guidance documents and demand greater maintenance than typical state highway facilities. The expected capital and maintenance costs (\$250,000 annual) are such that they exceed the fiscal capabilities of these small communities. Cities put in this rare situation should not be faced with having to choose between substandard maintenance conditions or fiscal irresponsibility for a project that was not of their making, for facilities that are wholly owned by the State and are located wholly within the State highway.

The City is hopeful that further negotiations or a legislative clarification will resolve the current dispute.

### **Note 11 - Subsequent Events**

In February 2020, the Governor of the state of Washington declared a state of emergency in response to the spread of a deadly new virus. In the weeks following the declaration, precautionary measures to slow the spread of the virus have been ordered. These measures

include closing schools, colleges and universities, cancelling public events, prohibiting public and private gatherings, and requiring people to stay home unless they are leaving for an essential function.

Clyde Hill's conservative Financial Policies serve it well and there are substantial reserves. Discretionary expenditures are frozen. Monthly revenue monitoring using Quarterly reporting criteria are in place for the remainder of the year. Deficits are anticipated in Investment, Sales Tax, and Development revenue.

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

**City of Clyde Hill**  
**Schedule of Liabilities**  
**For the Year Ended December 31, 2019**

<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>						
263.98	Bellevue Fire Contract - LEOFF 1		16,727	-	4,351	12,376
	<b>Total General Obligation Debt/Liabilities:</b>		<b>16,727</b>	<b>-</b>	<b>4,351</b>	<b>12,376</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
259.12	Compensated Absences		158,066	-	54,867	103,199
264.30	DRS Pension Liability		428,696	-	56,668	372,028
264.40	OPEB Liability		-	985,973	-	985,973
	<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>		<b>586,762</b>	<b>985,973</b>	<b>111,535</b>	<b>1,461,200</b>
	<b>Total Liabilities:</b>		<b>603,489</b>	<b>985,973</b>	<b>115,886</b>	<b>1,473,576</b>

## ABOUT THE STATE AUDITOR'S OFFICE

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

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

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

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

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

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

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

Contact information for the State Auditor's Office	
Public Records requests	<a href="mailto:PublicRecords@sao.wa.gov">PublicRecords@sao.wa.gov</a>
Main telephone	(564) 999-0950
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>