



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

## **Financial Statements Audit Report**

# **City of Burlington**

**Skagit County**

**For the period January 1, 2016 through December 31, 2016**

**Published October 19, 2017**

**Report No. 1020065**





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

October 19, 2017

Mayor and City Council  
City of Burlington  
Burlington, Washington

**Report on Financial Statements**

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

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

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA

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

**City of Burlington  
Skagit County  
January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Burlington  
Burlington, 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 Burlington, Skagit County, Washington, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated October 13, 2017.

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 Washington State statutes 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.

## **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 opinion 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

October 13, 2017

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Burlington Skagit County January 1, 2016 through December 31, 2016**

Mayor and City Council  
City of Burlington  
Burlington, Washington

### **REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the City of Burlington, Skagit County, Washington, for the year ended December 31, 2016, 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 Washington State statutes 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 an opinion 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 Burlington has prepared these financial statements to meet the financial reporting requirements of Washington State statutes 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 financial position and results of operations of the City of Burlington, for the year ended December 31, 2016, 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 Burlington, as of December 31, 2016, or the changes in financial position or cash flows 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.

## **Other Matters**

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

Our audit was performed 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 October 13, 2017 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report

is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Pat McCarthy

State Auditor

Olympia, WA

October 13, 2017

## **FINANCIAL SECTION**

**City of Burlington  
Skagit County  
January 1, 2016 through December 31, 2016**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2016  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2016  
Notes to Financial Statements – 2016

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2016

**City of Burlington**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>001 Current Expense Fund</b>	<b>101 City Street Fund</b>	<b>102 Arterial Street Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	3,282,182	155,232	-	932,263
30880	Unreserved	15,812,047	5,504,598	217,874	620,286
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	12,674,084	11,125,661	800,946	-
320	Licenses and Permits	514,603	481,459	20,647	-
330	Intergovernmental Revenues	2,783,915	554,957	191,926	904,602
340	Charges for Goods and Services	5,076,791	312,668	2,239	263,767
350	Fines and Penalties	134,367	103,912	-	-
360	Miscellaneous Revenues	584,571	163,256	29,268	178,254
Total Revenues:		21,768,331	12,741,913	1,045,026	1,346,623
<b>Expenditures</b>					
510	General Government	3,598,138	3,598,138	-	-
520	Public Safety	6,094,561	6,094,561	-	-
530	Utilities	2,397,213	53,862	-	-
540	Transportation	967,018	330,241	605,711	-
550	Natural and Economic Environment	595,548	392,395	-	-
560	Social Services	15,795	15,795	-	-
570	Culture and Recreation	1,950,743	1,948,551	-	-
Total Expenditures:		15,619,016	12,433,543	605,711	-
Excess (Deficiency) Revenues over Expenditures:		6,149,315	308,370	439,315	1,346,623
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	884,655	415,153	-	250,000
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	21,988	21,988	-	-
Total Other Increases in Fund Resources:		906,643	437,141	-	250,000
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	6,102,053	601,754	-	1,227,782
591-593, 599	Debt Service	556,091	-	-	274,772
597	Transfers-Out	884,653	298,750	139,883	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	11,364	-	-	11,364
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		7,554,161	900,504	139,883	1,513,918
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(498,203)</b>	<b>(154,993)</b>	<b>299,432</b>	<b>82,705</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	3,920,880	114,623	-	1,196,030
5088000	Unreserved	14,675,155	5,390,224	517,307	439,224
<b>Total Ending Cash and Investments</b>		<b>18,596,035</b>	<b>5,504,847</b>	<b>517,307</b>	<b>1,635,254</b>

The accompanying notes are an integral part of this statement.

**City of Burlington**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>107 Park Endowment Fund</b>	<b>197 Lodging Tax Fund</b>	<b>201 Debt Service Fund</b>	<b>301 Local Capital Improvement</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	34,057	617,749	-	1,542,881
30880	Unreserved	-	-	227,032	472,822
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	293,790	25,144	428,543
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	10,021
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	223	4,423	1,525	14,416
Total Revenues:		223	298,213	26,669	452,980
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	203,153	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	2,192	-	-	-
Total Expenditures:		2,192	203,153	-	-
Excess (Deficiency) Revenues over Expenditures:		(1,969)	95,060	26,669	452,980
<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, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		-	-	-	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	-	-	-	149,125
591-593, 599	Debt Service	-	-	23,893	-
597	Transfers-Out	-	-	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		-	-	23,893	149,125
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(1,969)</b>	<b>95,060</b>	<b>2,776</b>	<b>303,855</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	32,088	712,808	-	1,865,331
5088000	Unreserved	-	-	229,808	454,227
<b>Total Ending Cash and Investments</b>		<b>32,088</b>	<b>712,808</b>	<b>229,808</b>	<b>2,319,558</b>

**City of Burlington**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>401 Sewer Fund</b>	<b>425 Storm Drain Fund</b>	<b>501 Equipment Rental &amp; Repair Fund</b>	<b>701 Cemetery Endowment Fund</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	-	-	-	-
30880	Unreserved	4,595,335	2,707,844	1,126,737	339,519
388 / 588	Prior Period Adjustments, Net	-	-	-	-
<b>Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	12,497	-	-	-
330	Intergovernmental Revenues	-	1,132,430	-	-
340	Charges for Goods and Services	3,348,751	1,137,090	-	2,255
350	Fines and Penalties	30,438	17	-	-
360	Miscellaneous Revenues	39,023	144,629	7,290	2,264
Total Revenues:		3,430,709	2,414,166	7,290	4,519
<b>Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	1,828,229	515,122	-	-
540	Transportation	-	-	31,066	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
Total Expenditures:		1,828,229	515,122	31,066	-
Excess (Deficiency) Revenues over Expenditures:		1,602,480	1,899,044	(23,776)	4,519
<b>Other Increases in Fund Resources</b>					
391-393, 596	Debt Proceeds	-	-	-	-
397	Transfers-In	7,750	-	211,752	-
385	Special or Extraordinary Items	-	-	-	-
386 / 389	Custodial Activities	-	-	-	-
381, 395, 398	Other Resources	-	-	-	-
Total Other Increases in Fund Resources:		7,750	-	211,752	-
<b>Other Decreases in Fund Resources</b>					
594-595	Capital Expenditures	1,694,274	2,304,071	125,047	-
591-593, 599	Debt Service	-	257,426	-	-
597	Transfers-Out	325,369	120,651	-	-
585	Special or Extraordinary Items	-	-	-	-
586 / 589	Custodial Activities	-	-	-	-
581	Other Uses	-	-	-	-
Total Other Decreases in Fund Resources:		2,019,643	2,682,148	125,047	-
<b>Increase (Decrease) in Cash and Investments:</b>		<b>(409,413)</b>	<b>(783,104)</b>	<b>62,929</b>	<b>4,519</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	4,185,920	1,924,743	1,189,665	344,037
<b>Total Ending Cash and Investments</b>		<b>4,185,920</b>	<b>1,924,743</b>	<b>1,189,665</b>	<b>344,037</b>

**City of Burlington**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2016**

		<b>Total for All Funds (Memo Only)</b>	<b>625 CourtTrust Account</b>	<b>630 Agency Fund</b>
308	Beginning Cash and Investments	65,979	963	65,016
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	-	-	-
380-390	Other Increases and Financing Sources	486,539	281,737	204,802
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	485,565	280,298	205,267
	Net Increase (Decrease) in Cash and Investments:	974	1,439	(465)
508	Ending Cash and Investments	66,954	2,403	64,551

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

**City of Burlington**  
**Notes to the Financial Statements**  
**For the year ended December 31, 2016**

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

The City of Burlington was incorporated on June 2, 1902 and operates under the laws of the state of Washington applicable to a code city with a strong mayor – council form of government. The City of Burlington is a general purpose local government and provides police protection, municipal court, legal, building, engineering and planning, code enforcement, cemetery, animal control, fire protection, street construction, maintenance and improvements, parks and recreation, public library, storm water and sewage disposal, senior services, finance and accounting and general administrative services.

The City of Burlington 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. 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.

**Special Revenue Funds**

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



### Debt Service Funds

These funds account for the financial resources that are restricted, committed, or assigned to expenditures for principal, interest and related costs on general long-term debt.

### Capital Projects Funds

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

### Permanent Funds

These funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support programs for the benefit of the government or its citizenry.

### PROPRIETARY FUND TYPES:

#### Enterprise Funds

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

#### Internal Service Funds

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

### FIDUCIARY FUND TYPES:

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

#### Private-Purpose Trust Funds

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

#### Agency Funds

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

### B. Basis of Accounting and Measurement Focus

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

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

### C. Budgets

The City of Burlington adopts annual appropriated budgets for all funds except Fund 625 Court Trust Fund and Fund 630 Agency Fund. 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	Final Appropriated Amounts	Actual Expenditures	Variance
Current Expense Fund	\$14,893,668	\$13,059,225	\$1,834,443
City Street Fund	\$940,675	\$653,976	\$286,699
Arterial Street Fund	\$3,781,302	\$1,512,908	\$2,268,394
Park Endowment Fund	\$2,200	\$2,192	\$8
Cemetery Fund	\$73,334	\$43,623	\$29,711
Substance Abuse Fund	\$4,835	\$0	\$4,835
Lodging Tax Fund	\$308,650	\$203,154	\$105,496
Debt Service Fund	\$23,894	\$23,893	\$1
Current Expense Reserve	\$849,976	\$660,364	\$189,612
Park & Rec Cap Improve	\$229,500	\$149,125	\$80,375
Sewer Fund	\$3,890,919	\$2,708,635	\$1,182,284
Sewer Reserve Fund	\$3,030,000	\$1,694,274	\$1,335,726
Storm Drain Fund	\$1,327,559	\$885,359	\$442,200
Storm Drain Reserve	\$2,827,000	\$2,305,081	\$521,919
Equip Rental & Repair	\$176,000	\$156,113	\$19,887

Budgeted amounts are authorized to be transferred between departments within any fund; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must be approved by the city's legislative body.

### D. Cash and Investments

See Note 2, *Deposits and Investments*.

### E. Capital Assets

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

### F. Compensated Absences

Vacation leave may be accumulated up to 25 days (10 24-hour "days" for firefighters) and is payable upon separation or retirement. Sick leave may be accumulated up to 960 hours. Eight (8) hours is

compensable to the employee at his/her contractual rate of pay at the time of payment for every 32 hours accrued in excess of the 960 hour limit. Upon separation or retirement employees do not receive payment for unused sick leave.

G. Long-Term Debt

See Note 4, *Debt Service Requirements*.

H. Other Financing Sources or Uses

The government's *Other Financing Sources or Uses* consist of operating inter-fund transfers, sale of surplus property and special assessment bond proceeds.

I. Risk Management

The City of Burlington is a member of the Washington Cities Insurance Authority (WCIA).

Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Inter-local 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 168 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 sub-limits. 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 sub-limits. 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 sub-limits.

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, and administrative expenses. As outlined in the inter-local, 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.

#### J. 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 Burlington Municipal Code. When expenditures that meet restrictions are incurred, the city intends to use reserved resources first before using unreserved amounts.

Reservations of Ending Cash and Investments consist of Fire Impact Fees \$114,623, Street Impact Fees \$1,196,030, Park Endowment \$32,088, Lodging Tax \$712,808, Capital Improvements REET and Parks Impact Fees \$322,450

### **Note 2 – Deposits and Investments**

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

All deposits and certificates of deposit are covered by the Washington Public Deposit Protection Commission. All investments are insured, registered or held by the city or its agent in the government's name.

Investments are reported at original cost. Investments by type at December 31, 2016 are as follows:

<u>Type of Investment</u>	City's Own <u>own investments</u>	Investments held by City as an agent for other local governments, individuals <u>or private organizations</u>	<u>Total</u>
L.G.I.P.	\$13,232,672	\$ 0	\$13,232,672
U.S. Government Securities	<u>5,509,782</u>	<u>0</u>	<u>5,509,782</u>
Total	<u>\$18,742,454</u>	<u>\$ 0</u>	<u>\$18,742,454</u>

### **Note 3 - 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 the end of each month.

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

The City's regular levy for the year 2016 was \$2.038769 per \$1,000 on an assessed valuation of \$1,250,754,876 for a total regular levy of \$2,550,000.

#### **Note 4 – Debt Service Requirements**

##### **Debt Service**

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liabilities of the city and summarizes the city's debt transactions for year ended December 31, 2016.

The debt service requirements for general obligation bonds and revenue bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$834,367	\$35,299	\$869,667
2018	\$267,470	\$31,195	\$298,665
2019	\$270,516	\$28,149	\$298,665
2020	\$273,525	\$25,140	\$298,665
2021	\$276,711	\$21,954	\$298,665
2022	<u>\$1,727,710</u>	<u>\$64,278</u>	<u>\$1,791,988</u>
TOTALS	<u>\$3,650,298</u>	<u>\$206,015</u>	<u>\$3,856,313</u>

#### **Note 5 – Pension Plans**

##### **A. State Sponsored Pension Plans**

Substantially all city's full-time and qualifying part-time employees participate in the following statewide retirement systems administered by the Washington State Department of Retirement Systems (DRS), under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans.

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).

The city also participates in the Volunteer Fire Fighters' and Reserve Officers' Relief and Pension

Fund (VFFRPF) administered by the State Board for Volunteer Fire Fighters and Reserve Officers. Detailed information about the plan is included in the State of Washington CAFR available from the Office of Financial Management website at [www.ofm.wa.gov](http://www.ofm.wa.gov).

At June 30, 2016 (the measurement date of the plans), the city's proportionate share of the collective net pension liabilities, as reported on the Schedule 09, was as follows:

	Allocation %	Liability (Asset)
PERS 1	0.036750%	\$1,973,648
PERS 2/3	0.047148%	\$2,373,865
LEOFF 1	0.007433%	\$(76,581)
LEOFF 2	0.097285%	\$(565,839)

#### LEOFF Plan 1

The city also participates in LEOFF Plan 1. The LEOFF Plan 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. Starting on July 1, 2000, employers and employees contribute zero percent.

#### LEOFF Plan 2

The city also participates in the LEOFF Plan 2. The Legislature, by means of a special funding arrangement, appropriates money from the state general fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute.

#### **Note 6 - Other Disclosures**

OPEB: The City of Burlington has a commitment to pay for post-employment benefits for employees that belong to LEOFF I. These benefits include medical, vision, nursing care and Medicare cost reimbursement. Four retirees received \$37,565 in benefits in 2016.

**City of Burlington  
Schedule of Liabilities  
For the Year Ended December 31, 2016**

<b>ID. No.</b>	<b>Description</b>	<b>Due Date</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>General Obligation Debt/Liabilities</b>						
251.11	North Burlington Boulevard	12/1/2027	3,339,832	-	261,377	3,078,455
<b>Total General Obligation Debt/Liabilities:</b>			<b>3,339,832</b>	<b>-</b>	<b>261,377</b>	<b>3,078,455</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	Storm Sewer	4/1/2017	803,280	-	252,847	550,433
259.12	Compensated Absences	12/31/2016	383,647	930,578	925,420	388,805
264.30	Net Pension Liability		3,600,272	747,241	-	4,347,513
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>4,787,199</b>	<b>1,677,819</b>	<b>1,178,267</b>	<b>5,286,751</b>
<b>Total Liabilities:</b>			<b>8,127,031</b>	<b>1,677,819</b>	<b>1,439,644</b>	<b>8,365,206</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	(360) 902-0370
Toll-free Citizen Hotline	(866) 902-3900
Website	<a href="http://www.sao.wa.gov">www.sao.wa.gov</a>