



# Washington State Auditor's Office

Government that works for citizens

## Financial Statements and Federal Single Audit Report

### City of Burlington

Skagit County

For the period January 1, 2015 through December 31, 2015

Published September 29, 2016

Report No. 1017579





## Washington State Auditor's Office

September 29, 2016

Mayor and City Council  
City of Burlington  
Burlington, Washington

### Report on Financial Statements and Federal Single Audit

Please find attached our report on the City of Burlington's financial statements and compliance with federal laws and regulations.

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

Sincerely,

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

## TABLE OF CONTENTS

Schedule Of Findings And Questioned Costs.....	4
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 .....	6
Independent Auditor’s Report On Compliance For Each Major Federal Program And Report On Internal Control Over Compliance In Accordance With The Uniform Guidance .....	9
Independent Auditor’s Report On Financial Statements .....	12
Financial Section.....	16
About The State Auditor’s Office.....	31

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**City of Burlington  
Skagit County  
January 1, 2015 through December 31, 2015**

### SECTION I – SUMMARY OF AUDITOR’S RESULTS

The results of our audit of the City of Burlington are summarized below in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

#### Financial Statements

We issued an unmodified opinion on the fair presentation of the City’s financial statements in accordance with its regulatory basis of accounting. Separately, we issued an adverse opinion on the fair presentation of all funds with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared using a basis of accounting other than GAAP.

##### Internal Control over Financial Reporting:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the City.

#### Federal Awards

##### Internal Control over Major Programs:

- *Significant Deficiencies:* We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the City’s compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed in accordance with 2 CFR 200.516(a).

### **Identification of Major Federal Programs:**

The following programs were selected as major programs in our audit of compliance in accordance with the Uniform Guidance.

<u>CFDA No.</u>	<u>Program or Cluster Title</u>
20.205	Highway Planning and Construction

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by the Uniform Guidance, was \$750,000.

The City did not qualify as a low-risk auditee under the Uniform Guidance.

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

## **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

**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, 2015 through December 31, 2015**

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, 2015 and the related notes to the financial statements, which collectively comprise the City's financial statements, and have issued our report thereon dated September 21, 2016.

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.

In addition, we noted certain matters that we have reported to the management of the City in a separate letter dated September 21, 2016.

## COMPLIANCE AND OTHER MATTERS

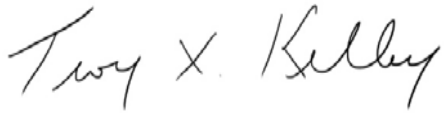
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 21, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND REPORT ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE**

**City of Burlington  
Skagit County  
January 1, 2015 through December 31, 2015**

Mayor and City Council  
City of Burlington  
Burlington, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL  
PROGRAM**

We have audited the compliance of the City of Burlington, Skagit County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2015. The City's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of 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 audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program 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 for each major federal program. Our audit does not provide a legal determination on the City's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

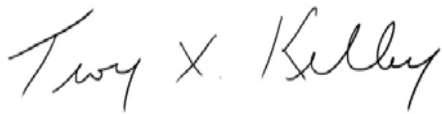
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program 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 type of compliance requirement of a federal program 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 type of compliance requirement of a federal program 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 material weaknesses or significant deficiencies. We did not identify any deficiencies

in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 "Troy X. Kelley". The signature is written in a cursive, flowing style.

TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 21, 2016

# INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

## **City of Burlington Skagit County January 1, 2015 through December 31, 2015**

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, 2015, and the related notes to the financial statements, which collectively comprise the City's financial statements, as listed on page 16.

#### **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, 2015, 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, 2015, 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**

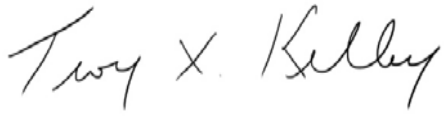
### ***Supplementary and Other Information***

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The accompanying Schedule of Liabilities is also presented for purposes of additional analysis, as required by the prescribed BARS manual. These schedules are 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 September 21, 2016 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.

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TROY KELLEY  
STATE AUDITOR  
OLYMPIA, WA

September 21, 2016

## **FINANCIAL SECTION**

**City of Burlington  
Skagit County  
January 1, 2015 through December 31, 2015**

### **FINANCIAL STATEMENTS**

Fund Resources and Uses Arising from Cash Transactions – 2015  
Fiduciary Fund Resources and Uses Arising from Cash Transactions – 2015  
Notes to Financial Statements – 2015

### **SUPPLEMENTARY AND OTHER INFORMATION**

Schedule of Liabilities – 2015  
Schedule of Expenditures of Federal Awards – 2015  
Notes to the Schedule of Expenditures of Federal Awards – 2015



**City of Burlington**  
**Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<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	2,209,856	113,297	-	396,685
30880	Unreserved	14,550,847	4,438,902	70,131	1,710,661
388 & 588	Prior Period Adjustments, Net	-	-	-	-
<b>Operating Revenues</b>					
310	Taxes	12,432,266	10,972,479	750,000	-
320	Licenses and Permits	539,923	502,694	21,165	-
330	Intergovernmental Revenues	3,374,801	635,287	177,953	2,310,590
340	Charges for Goods and Services	5,360,541	399,848	3,539	558,330
350	Fines and Penalties	130,098	103,188	-	-
360	Miscellaneous Revenues	393,625	230,070	13,014	23,891
Total Operating Revenues:		22,231,254	12,843,566	965,671	2,892,811
<b>Operating Expenditures</b>					
510	General Government	3,323,336	3,323,336	-	-
520	Public Safety	5,578,023	5,578,023	-	-
530	Utilities	2,188,523	79,122	-	-
540	Transportation	641,853	-	640,910	-
550	Natural and Economic Environment	1,059,224	879,733	-	-
560	Social Services	31,224	31,224	-	-
570	Culture and Recreation	1,752,252	1,749,603	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		14,574,435	11,641,041	640,910	-
Net Operating Increase (Decrease):		7,656,819	1,202,525	324,761	2,892,811
<b>Nonoperating Revenues</b>					
370-380, 395 & 398	Other Financing Sources	289,899	4,536	8,236	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	894,500	505,500	-	-
Total Nonoperating Revenues:		1,184,399	510,036	8,236	-
<b>Nonoperating Expenditures</b>					
580, 596 & 599	Other Financing Uses	46,669	13,710	-	22,652
591-593	Debt Service	536,288	-	-	274,771
594-595	Capital Expenditures	5,030,232	396,223	-	3,150,184
597	Transfers-Out	894,500	195,000	185,250	-
Total Nonoperating Expenditures:		6,507,689	604,933	185,250	3,447,607
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>2,333,529</b>	<b>1,107,628</b>	<b>147,747</b>	<b>(554,796)</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	3,282,182	155,232	-	932,263
5088000	Unreserved	15,812,047	5,504,598	217,874	620,286
<b>Total Ending Cash and Investments</b>		<b>19,094,229</b>	<b>5,659,830</b>	<b>217,874</b>	<b>1,552,549</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, 2015**

		<b>107 Park Endowment Fund</b>	<b>197 Lodging Tax Fund</b>	<b>201 General Obligation Bond Fund</b>	<b>301 Capital Projects &amp; Improvement</b>
<b>Beginning Cash and Investments</b>					
30810	Reserved	36,525	501,431	-	1,161,918
30880	Unreserved	-	-	224,773	388,222
388 & 588	Prior Period Adjustments, Net	-	-	-	-
<b>Operating Revenues</b>					
310	Taxes	-	293,037	25,000	391,750
320	Licenses and Permits	-	-	-	-
330	Intergovernmental Revenues	-	-	-	-
340	Charges for Goods and Services	-	-	-	137,655
350	Fines and Penalties	-	-	-	-
360	Miscellaneous Revenues	180	2,773	1,152	30,393
Total Operating Revenues:		180	295,810	26,152	559,798
<b>Operating Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	-	-	-	-
540	Transportation	-	-	-	-
550	Natural and Economic Environment	-	179,491	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	2,649	-	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		2,649	179,491	-	-
Net Operating Increase (Decrease):		(2,469)	116,319	26,152	559,798
<b>Nonoperating Revenues</b>					
370-380, 395 & 398	Other Financing Sources	-	-	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	-	-	-	-
Total Nonoperating Revenues:		-	-	-	-
<b>Nonoperating Expenditures</b>					
580, 596 & 599	Other Financing Uses	-	-	-	10,307
591-593	Debt Service	-	-	23,893	-
594-595	Capital Expenditures	-	-	-	83,928
597	Transfers-Out	-	-	-	-
Total Nonoperating Expenditures:		-	-	23,893	94,235
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>(2,469)</b>	<b>116,319</b>	<b>2,259</b>	<b>465,563</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	34,057	617,749	-	1,542,881
5088000	Unreserved	-	-	227,032	472,822
<b>Total Ending Cash and Investments</b>		<b>34,057</b>	<b>617,749</b>	<b>227,032</b>	<b>2,015,703</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, 2015**

		<b>401 Sewer Fund</b>	<b>425 Drainage 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	4,276,639	2,190,523	921,264	329,732
388 & 588	Prior Period Adjustments, Net	-	-	-	-
<b>Operating Revenues</b>					
310	Taxes	-	-	-	-
320	Licenses and Permits	16,064	-	-	-
330	Intergovernmental Revenues	-	250,971	-	-
340	Charges for Goods and Services	3,166,487	1,092,993	-	1,689
350	Fines and Penalties	26,910	-	-	-
360	Miscellaneous Revenues	66,377	12,801	4,876	8,098
Total Operating Revenues:		3,275,838	1,356,765	4,876	9,787
<b>Operating Expenditures</b>					
510	General Government	-	-	-	-
520	Public Safety	-	-	-	-
530	Utilities	1,743,589	365,812	-	-
540	Transportation	-	-	943	-
550	Natural and Economic Environment	-	-	-	-
560	Social Services	-	-	-	-
570	Culture and Recreation	-	-	-	-
598	Miscellaneous Expenses	-	-	-	-
Total Operating Expenditures:		1,743,589	365,812	943	-
Net Operating Increase (Decrease):		1,532,249	990,953	3,933	9,787
<b>Nonoperating Revenues</b>					
370-380, 395 & 398	Other Financing Sources	244,141	32,986	-	-
391-393	Debt Proceeds	-	-	-	-
397	Transfers-In	31,000	-	358,000	-
Total Nonoperating Revenues:		275,141	32,986	358,000	-
<b>Nonoperating Expenditures</b>					
580, 596 & 599	Other Financing Uses	-	-	-	-
591-593	Debt Service	-	237,624	-	-
594-595	Capital Expenditures	1,175,693	67,744	156,460	-
597	Transfers-Out	313,000	201,250	-	-
Total Nonoperating Expenditures:		1,488,693	506,618	156,460	-
<b>Net Increase (Decrease) in Cash and Investments:</b>		<b>318,697</b>	<b>517,321</b>	<b>205,473</b>	<b>9,787</b>
<b>Ending Cash and Investments</b>					
5081000	Reserved	-	-	-	-
5088000	Unreserved	4,595,335	2,707,844	1,126,737	339,519
<b>Total Ending Cash and Investments</b>		<b>4,595,335</b>	<b>2,707,844</b>	<b>1,126,737</b>	<b>339,519</b>

The accompanying notes are an integral part of this statement.

**City of Burlington**  
**Fiduciary Fund Resources and Uses Arising from Cash Transactions**  
**For the Year Ended December 31, 2015**

		<b>Total for All Funds (Memo Only)</b>	<b>625 Court Trust Account</b>	<b>630 Agency Fund</b>
308	Beginning Cash and Investments	35,821	1,105	34,716
388 & 588	Prior Period Adjustments, Net	-	-	-
310-360	Revenues	-	-	-
380-390	Other Increases and Financing Sources	456,050	243,705	212,345
510-570	Expenditures	-	-	-
580-590	Other Decreases and Financing Uses	425,891	243,846	182,045
	Net Increase (Decrease) in Cash and Investments:	30,159	(141)	30,300
508	Ending Cash and Investments	65,979	963	65,016

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

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2015

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 mayor-council form of government. The City of Burlington is a general purpose government and provides police protection, municipal court, legal, building, engineering and planning, code enforcement, cemetery, animal control, fire protection, street construction 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 City are reported in individual funds. Each fund uses a separate set of self-balancing accounts that comprises its cash, investments, revenues and expenditures. The City'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 by the City:

GOVERNMENTAL FUND TYPES:

General (Current Expense) Fund

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

Special Revenue Funds

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

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.

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2015

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 City on a cost-reimbursement basis.

FIDUCIARY FUND TYPES:

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

Agency Funds

These funds are used to account assets that the City holds for others in an agency capacity.

b. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Revenues are recognized only when cash is received and expenditures are recognized when paid, including those properly chargeable against the report year(s) budget appropriations as required by state law.

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

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

The basis of accounting described above represents a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

c. Budgets

The City adopts annual appropriated budgets for all funds except Fund 625 Court Trust Account and Fund 630 Agency Type Deposits. 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.

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2015

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

Fund	Final Appropriated Amounts	Actual Expenditures	Positive (Negative) Variance
General	\$ 12,906,254	\$ 12,287,573	\$ 618,681
City Street	\$ 892,141	\$ 826,163	\$ 65,978
Arterial Street	\$ 5,368,072	\$ 3,447,608	\$ 1,920,464
Park Endowment	\$ 4,000	\$ 2,649	\$ 1,351
Cemetery	\$ 73,293	\$ 63,833	\$ 9,460
Substance Abuse Control	\$ 4,835	\$ -	\$ 4,835
Lodging Tax	\$ 209,400	\$ 179,491	\$ 29,909
General Obligation Bonds	\$ 23,894	\$ 23,893	\$ 1
Current Exp Capital Reserve	\$ 413,450	\$ 344,565	\$ 68,885
Capital Improvement	\$ 11,091	\$ 11,091	\$ -
Parks & Rec. Capital Reserve	\$ 110,400	\$ 83,144	\$ 27,256
Sewer	\$ 5,980,520	\$ 5,756,588	\$ 223,932
Sewer Cumulative Reserve	\$ 2,328,000	\$ 1,175,693	\$ 1,152,307
Storm Drainage	\$ 2,957,240	\$ 2,949,721	\$ 7,519
Storm Drainage Capital Reserve	\$ 2,292,000	\$ 22,708	\$ 2,269,292
Equipment Rental & Repair	\$ 157,403	\$ 157,403	\$ -
Total	\$ 33,731,993	\$ 27,332,123	\$ 6,399,870

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

It is the City's policy to invest all temporary cash surpluses. The amount is included in the cash and investments shown on the statements of fund resources and uses arising from cash transactions. The interest on these investments is prorated to the various funds.

e. Deposits

The City's deposits and certificates of deposit are covered by the Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission.

f. Investments See Investment Note No. 3, Investments.

g. 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. The capital assets of the City are recorded as expenditures when purchased.

h. Compensated Absences

Vacation leave may be accumulated up to 200 hours (240 hours for Firefighters) and is payable upon separation or retirement.

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2015

Sick leave may be accumulated up to 960 hours. For every thirty-two (32) hours earned over the maximum bank of nine hundred-sixty (960) hours, eight (8) hours will be compensated back to the employee at his/her contractual rate of pay at the time of payment. Upon separation or retirement employees do not receive payment for unused sick leave.

i. Long-Term Debt See Note No. 5, Debt Service Requirements

j. Other Financing Sources or Uses

The City's *Other Financing Sources or Uses* consist of operating transfers in and out, sale of surplus property and special assessment bond proceeds.

k. 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 (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 179 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, public officials' errors or omissions, stop gap, and employee benefits liability. Limits are \$4 million per occurrence self-insured layer, and \$16 million per occurrence in the re-insured excess layer. The excess layer is insured by the purchase of reinsurance and insurance and is subject to aggregate limits. Total limits are \$20 million per occurrence subject to aggregate sublimits in the excess layers. The Board of Directors determines the limits and terms of coverage annually.

Insurance coverage for property, automobile physical damage, fidelity, inland marine, and boiler and machinery are purchased on a group basis. Various deductibles apply by type of coverage. Property insurance and auto physical damage are self-funded from the members' deductible to \$750,000, for all perils other than flood and earthquake, and insured above that amount by the purchase of insurance.

In-house services include risk management consultation, loss control field services, claims and litigation administration, and loss analyses. WCIA contracts for the claims investigation consultants for personnel issues and land use problems, insurance brokerage, 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 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.



CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2015

1. Reserved Fund Balance

The City's *Reserved Fund Balance* consists of unexpended impact fees, real estate excise taxes, legally required bond reserves and other funds as specified by the Burlington Municipal Code and adopted Resolutions:

**Fund 001: High Crime Monies \$44,832; Fire Impact Fees \$110,400**

**Fund 102: Street Impact Fees \$932,263**

**Fund 107: Park Endowment \$34,057**

**Fund 197: Hotel/Motel Tax \$617,749**

**Fund 301: Capital Projects & Improvement Fund ¼% REET per BMC \$574,543; Impact Fees \$297,603; ¼% REET per BMC \$670,735**

NOTE (2) - COMPLIANCE AND ACCOUNTABILITY

There have been no material violations of finance-related legal or contractual provisions.

There have been no expenditures exceeding legal appropriations in any of the funds of the City of Burlington.

NOTE (3) - INVESTMENTS

The City of Burlington's investments are insured, registered or held by the City or its agent in the City's name.

Investments are presented at cost.

Investments by type at December 31, 2015 are as follows:

Type of Investment	City's own investments	Investments held by City as an agent for other local governments, individuals or private organizations	Total
L.G.I.P.	\$ 12,687,807	\$ -	\$ 12,687,807
U.S. Government Securities	\$ 5,991,594	\$ -	\$ 5,991,594
Total	\$ 18,679,401	\$ -	\$ 18,679,401

NOTE (4) - PROPERTY TAX

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

Property tax revenues are recognized when cash is received by the 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 2015 was \$2.06829 per \$1,000 on an assessed valuation of \$1,201,470,405 for a total regular levy of \$2,484,993.

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2015

NOTE (5) – DEBT SERVICE REQUIREMENTS

The accompanying Schedule of Liabilities (09) provides more details of the outstanding debt and liability of the City and summarizes the City's debt transactions for year ended December 31, 2015.

The debt service payment for the fiscal year being reported and future payment requirements, including interest, are as follows:

Year(s)	General Obligation Bonds	Revenue Bonds	Total Bonds
2016	\$ 298,665	\$ 237,624	\$ 536,289
2017	\$ 298,665	\$ 571,011	\$ 869,676
2018	\$ 298,665	\$ -	\$ 298,665
2019	\$ 298,665	\$ -	\$ 298,665
2020	\$ 298,665	\$ -	\$ 298,665
2021-2025	\$ 1,493,323	\$ -	\$ 1,493,323
2026-2030	\$ 597,330	\$ -	\$ 597,330
Total	\$ 3,583,978	\$ 808,635	\$ 4,392,613

NOTE (6) - PENSION PLANS

Substantially all City 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).

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2015

At June 30, 2015 (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:

	<u>Allocation %</u>	<u>Liability (Asset)</u>
PERS 1	0.004163%	\$217,764
PERS 1 UAAL	0.034352%	\$1,796,929
PERS 2/3	0.044376%	\$1,585,580
LEOFF 1	0.007769%	\$(93,634)
LEOFF 2	0.094593%	\$(972,227)

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.

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 (7) - 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 benefits during the year and \$43,093 was paid out for those benefits during the year.

**City of Burlington  
Schedule of Liabilities  
For the Year Ended December 31, 2015**

<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	12/1/2022	3,598,383	-	258,215	3,340,168
<b>Total General Obligation Debt/Liabilities:</b>			<b>3,598,383</b>	<b>-</b>	<b>258,215</b>	<b>3,340,168</b>
<b>Revenue and Other (non G.O.) Debt/Liabilities</b>						
252.11	Storm Sewer	3/1/2017	1,035,235	-	231,955	803,280
259.12	Compensated Absences	12/31/2015	363,860	521,965	502,178	383,647
264.30	Net Pension Liability		-	3,600,272	-	3,600,272
<b>Total Revenue and Other (non G.O.) Debt/Liabilities:</b>			<b>1,399,095</b>	<b>4,122,237</b>	<b>734,133</b>	<b>4,787,199</b>
<b>Total Liabilities:</b>			<b>4,997,478</b>	<b>4,122,237</b>	<b>992,348</b>	<b>8,127,367</b>

**City of Burlington**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended December 31, 2015**

Federal Agency (Pass-Through Agency)	Federal Program	CFDA Number	Other Award Number	Expenditures			Note
				From Pass- Through Awards	From Direct Awards	Total	
Bureau Of Justice Assistance, Department Of Justice	Bulletproof Vest Partnership Program	16.607	70383381	-	1,139	1,139	1,2
<b>Highway Planning and Construction Cluster</b>							
Federal Highway Administration (fhwa), Department Of Transportation (via WA DOT)	Highway Planning and Construction	20.205	SB-WA11(001)	648,271	-	648,271	1,2
Federal Highway Administration (fhwa), Department Of Transportation (via WA DOT)	Highway Planning and Construction	20.205	HSIP-7323(003)	129,344	-	129,344	1,2
Federal Highway Administration (fhwa), Department Of Transportation (via WA DOT)	Highway Planning and Construction	20.205	STPUS-7308- (002)	37,018	-	37,018	1,2
<b>Total Highway Planning and Construction Cluster:</b>				<b>814,633</b>	<b>-</b>	<b>814,633</b>	
Department Of Homeland Security	Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	EMW-2012-FH- 00451	-	156,387	156,387	1,2
<b>Total Federal Awards Expended:</b>				<b>814,633</b>	<b>157,526</b>	<b>972,159</b>	

The accompanying notes are an integral part of this schedule.

CITY OF BURLINGTON, WASHINGTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended December 31, 2015**

NOTE 1 - BASIS OF ACCOUNTING

This schedule is prepared on the same basis of accounting as the city's financial statements. The city uses cash basis accounting.

NOTE 2 - PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the city's portion, are more than shown.

NOTE 3 – INDIRECT COST RATE

The City did not elect to use the 10-percent de Minimis indirect cost rate allowed under the Uniform Guidance.

## 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>