

**Washington State Auditor's Office**  
**Financial Statements Audit Report**

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**City of Burlington**  
**Skagit County**

Audit Period  
**January 1, 2010 through December 31, 2010**

**Report No. 1007005**

Issue Date  
**January 9, 2012**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

January 9, 2012

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,

A handwritten signature in black ink, appearing to read "Brian Sonntag".

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Skagit County  
January 1, 2010 through December 31, 2010**

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# Schedule of Audit Findings and Responses

**City of Burlington  
Skagit County  
January 1, 2010 through December 31, 2010**

- 1. The City's internal controls are inadequate to ensure accurate accounting and financial reporting, resulting in a material misstatement on its financial statements.**

## **Background**

City management, the state Legislature, state and federal agencies and bondholders rely on financial statement information to reflect the entities position, enabling accurate decisions to be made. It is the responsibility of City management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified a material weakness in controls that affects the City's ability to produce accurate financial statements.

We issued a similar finding to the City during the audit of the fiscal year 2008 financial statements.

*Government Auditing Standards* prescribed by the Comptroller General of the United States require the auditor to communicate a material weakness, as defined below in the Applicable Laws and Regulations section, as a finding.

## **Description of Condition**

We identified the following significant deficiencies in internal controls that, when taken together, represent a material weakness in the City's controls over financial reporting:

- Management's knowledge of governmental accounting principles and reporting requirements is not sufficient to prevent or detect significant reporting errors and omissions.
- The City does not have written policies and procedures outlining expectations and responsibilities related to accounting system access, oversight and documentation requirements. This contributes to a lack of communication between management and staff.
- The City does not adequately segregate duties or put in place compensating controls over cash activity. Access to cash and the accounting software is not restricted.
- The City does not have an effective review of monthly bank reconciliations to ensure they are complete and accurate.

## Cause of Condition

The controls established by the City over financial functions are not effective to detect presentation errors, and ensure the accuracy and reasonableness of financial reporting. Although the City has received prior audit recommendations to improve internal controls within the Finance Department, it has not acted on them.

## Effect of Condition

- Inadequate segregation of duties within financial software increases the risk of error or misappropriation and limits accountability over accounting system transactions.
- The financial statements included an overstatement of general fund non-revenue and non-expenditure balances, totaling \$5,112,720 for each balance.
- The City did not comply with *Budget, Accounting and Reporting System* requirements for the accounting of clearing funds.
- The City's payroll warrant clearing account had a negative balance of \$3,672 to \$222,204 every month during 2010. The year-end balance was negative \$222,204.
- Without adequate documentation, we were unable to confirm or examine internal controls over monthly journal entries.

The City has corrected the material misstatements noted above.

## Recommendation

We recommend the City:

- Ensure each employee's access to accounting software is limited to only those capabilities necessary to perform assigned duties, and ensure system access is adequately monitored.
- Provide adequate training for staff responsible for financial reporting to ensure compliance with reporting requirements and accounting principles, and reduce the likelihood of misstatement.
- Establish written policies and procedures on expectations and responsibilities related to accounting system access, oversight and documentation requirements to improve communication between the departments. This would include addressing documentation and evidencing the review of journal entries.
- Complete bank reconciliations for all bank accounts, and include an independent reconciliation between bank account activity and the general ledger.

## City's Response

1. We recommend the City ensure each employee's access to accounting software is limited to only those capabilities necessary to perform assigned duties, and ensure system access is adequately monitored.

The City has limited access to the various accounting software modules only to employees who perform those specific assigned duties. MS SQL server or Windows authentication is required, and individual passwords are maintained confidentially by the IT manager. Further, all finance staff are subject to auto-lock; if finance staff leave their personal computers unattended for more than fifteen (15) minutes, their computer locks up until a password is entered.

There will always be some access risk due to the fact that the City has a limited number of finance staff whose duties overlap. To help mitigate this risk, a monthly access transaction audit list will be printed out and reviewed by the finance director and the accounting manager to monitor transactions and the system users that created them.

The City has discussed access control concerns with Vision, our current software provider. They remain confident in the software's capability to ensure proper access controls, and are not aware of significant problems with other clients in this area.

In the ASP budgetary module (the old accounting software), posting rights have been restricted to the finance director and accounting manager. In the ASP cash receipts module, posting rights have been restricted to the accounting tech that runs the monthly auto-pay. In the ASP utility billing module, the accounting manager's access has been restricted to a maintenance level.

2. We recommend the City provide adequate training for staff responsible for financial reporting to ensure compliance with reporting requirements and accounting principles, and reduce the likelihood of misstatement.

Under the "Effect of Condition" section above, the report states:

- The financial statements included an overstatement of general fund nonrevenue and non-expenditure balances, totaling \$5,112,720 for each balance.
- The City did not comply with Budget Accounting and Reporting System BARS requirements for the accounting of clearing funds.

Up until mid-2011, the City has used warrants instead of checks as its method of payment. Warrants require the City to maintain a separate "clearing" bank account, from which warrants are ultimately redeemed. During 2010, the City coded \$5,112,720 to non-revenues in the current expense fund to reflect monies transferred to the clearing account for payment of IRS taxes and payroll direct deposits. Subsequently during 2010, when these warrants were redeemed, the City coded \$5,112,720 to non-expenditures in the current expense fund. In the end, debits equal credits in these non-revenue and non-expenditure accounts, which means that the City's revenues and expenditures were accurately reported in the 2010 financial statements.

According to the State Auditor, the prescribed method is to report the \$5,112,720 of offsetting transactions in a separate fund designated for that purpose, rather than the current expense fund.

While the City regrets the misstatement, it is worth noting that the City has been reporting this way for the past several years without comment from the State Auditor, creating an expectation that this practice was allowable.

In 2011 the City switched from warrants to checks, eliminating warrant claims activity altogether. The City will adopt the above recommendation to prepare the 2011 financial report, and then this condition will no longer exist in 2012 and future years.

3. We recommend the City establish written policies and procedures on expectations and responsibilities related to accounting system access, oversight and documentation requirements to improve communication between the departments. This would include addressing documentation and evidencing the review of journal entries.

Beginning in 2012, the City will prepare a formal, written policy that will address:

- Which staff members will be granted access to each accounting software module, including the level of access
  - The process for setting up employee access
  - The process for removing employee access
  - The process for monitoring access on a regular monthly basis
4. Complete bank reconciliations for all bank accounts, and include an independent reconciliation between bank account activity and the general ledger.

The City's prior practice has been for the finance director to reconcile monthly bank statements and then forward to the mayor for review and signature. While month end check register balances were tied out to the general ledger (via the monthly "cash activity out" report), due to staff reductions this was not performed by an independent party without the ability to post transactions. To remedy, this final step will be performed by the administrative assistant who has read-only access to the financial accounting software program.

### **Auditor's Remarks**

The City is required to comply with the accounting and reporting requirements prescribed by the *Budgeting, Accounting and Reporting Systems* manual irrespective of whether an issue is identified during an audit.

We will review the access levels and capabilities assigned to employees along with the City's policy and reconciliation processes during our next audit to determine whether the City has addressed our concerns.

## Applicable Laws and Regulations

RCW 43.09.200 states:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform or every public institution, and every public office, and every public account of the same class.

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, and other persons. The accounts shall show the receipt, use, and disposition of all public funds properly, and the income, if any, derived there from; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain; and all reports published or required to be published, for the information of the people regarding any and all details of the financial administration of public affairs.

*Government Auditing Standards*, July 2007 Revision, Section 5.11, states in part:

For all financial audits, auditors should report the following deficiencies in internal control:

- a. Significant deficiency: a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with GAAP such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.
- b. Material weakness: a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented detected.

*Budget Accounting and Reporting System (BARS)* manual – Part 3, Accounting, Chapter 1, Accounting Principles and General Procedures, Section B, Internal Control, states in part:

Internal control is defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), in standards adopted by the American Institute of Certified Public Accountants and by the Federal Office of Management and Budget as follows:

Internal control is a process – affected by those charged with governance, management and other personnel designed to provide reasonable



assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations
- Reliability of financial reporting

Management and the governing body are responsible for the government's performance, compliance and financial reporting. Therefore, the adequacy of internal control to provide reasonable assurance of achieving these objectives is also the responsibility of management and the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management.

*Budget Accounting and Reporting System* (BARS) manual – Part 3, Accounting, Chapter 3, Expenditures and Disbursements, Section E, Use of Payroll and Claims Funds, states in part:

For the purposes of the BARS, the term *clearing fund* includes both payroll and claims clearing funds...These clearing funds cannot be provided with any working capital. Therefore, the money for redemption of warrants must be transferred to the clearing fund from the appropriate operating fund on the same day that the clearing fund warrants are issued . . . The cash balance in a clearing fund must equal at all times the total warrants outstanding against the fund plus any amounts withheld from payrolls and temporarily unremitted (such as quarterly L&I payments). When a clearing fund warrant is canceled, the amount of the canceled warrant must be transferred back to the appropriate operating fund.

The distribution of expenditures from the vouchers to the budgetary control records must agree with the totals accumulated in the warrant registers and should be reconciled monthly to ensure accuracy in posting. The money transferred to the clearing fund should be coded in the clearing fund as nonrevenues (389) and disbursements should be coded as nonexpenditures (589).

The clearing funds are not operating funds, so their statements should be limited to beginning net cash, nonrevenues, nonexpenditures and ending net cash.

The local governments are required to prepare a separate C-5 statement for each payroll and claims clearing fund.

# Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards*

**City of Burlington  
Skagit County  
January 1, 2010 through December 31, 2010**

Mayor and City Council  
City of Burlington  
Burlington, Washington

We have audited the financial statements of the City of Burlington, Skagit County, Washington, as of and for the year ended December 31, 2010, and have issued our report thereon dated November 18, 2011.

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.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Responses as Finding 1 to be material weaknesses.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of 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*.

The City's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of management and the Mayor and City Council. 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, appearing to read "Brian Sonntag", written in a cursive style.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

November 18, 2011

# Independent Auditor's Report on Financial Statements

## **City of Burlington Skagit County January 1, 2010 through December 31, 2010**

Mayor and City Council  
City of Burlington  
Burlington, Washington

We have audited the accompanying financial statements of the City of Burlington, Skagit County, Washington, for the year ended December 31, 2010. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the City prepares its financial statements on the basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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, 2010, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt 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 has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag". The signature is fluid and cursive, with the first name "Brian" and the last name "Sonntag" clearly distinguishable.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

November 18, 2011

# **Financial Section**

**City of Burlington  
Skagit County  
January 1, 2010 through December 31, 2010**

## ***FINANCIAL STATEMENTS***

Fund Resources and Uses Arising from Cash Transactions – 2010  
Notes to Financial Statements – 2010

## ***SUPPLEMENTAL INFORMATION***

Schedule of Long-Term Debt – 2010

## CITY OF BURLINGTON

## FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2010

BARS CODE		Total for All Funds	001/002/010 104/105/115 General	101 City Street
		Total Amount	Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>				
308.10	Reserved	\$ 1,672,204	\$ -	\$ -
308.80	Unreserved	\$ 12,399,505	\$ 2,378,450	\$ 2,436,105
	Prior Period Adjustments (388.80 and 588.80)	\$ -	\$ -	\$ -
<b>Revenues and Other Sources</b>				
310	Taxes	\$ 9,596,254	\$ 7,648,240	\$ 880,000
320	Licenses and Permits	\$ 823,194	\$ 416,220	\$ 19,456
330	Intergovernmental	\$ 1,153,107	\$ 449,910	\$ 192,122
340	Charges for Goods and Services	\$ 4,691,998	\$ 215,956	\$ 13,351
350	Fines and Penalties	\$ 189,306	\$ 189,306	\$ -
360	Miscellaneous	\$ 325,562	\$ 176,499	\$ 66,092
370	Capital Contributions	\$ -	\$ -	\$ -
390	Other Financing Sources	\$ 698,768	\$ 321,881	\$ 76,887
<b>Total Revenues and Other Financing Sources</b>		\$ 17,478,189	\$ 9,418,012	\$ 1,247,908
<b>Total Resources</b>		\$ 31,549,898	\$ 11,796,462	\$ 3,684,013
Operating Expenditures:				
510	General Government	\$ 2,291,056	\$ 2,291,056	\$ -
520	Public Safety	\$ 4,294,889	\$ 4,294,889	\$ -
530	Physical Environment	\$ 2,107,683	\$ 377,680	\$ -
540	Transportation	\$ 647,044	\$ -	\$ 647,044
550	Economic Environment	\$ 565,744	\$ 358,091	\$ -
560	Mental and Physical Health	\$ 24,455	\$ 24,455	\$ -
570	Culture and Recreational	\$ 1,356,784	\$ 1,356,784	\$ -
<b>Total Operating Expenditures</b>		\$ 11,287,655	\$ 8,702,955	\$ 647,044
591-593	Debt Service	\$ 1,788,197	\$ -	\$ -
594-595	Capital Outlay	\$ 1,799,337	\$ 132,556	\$ 49,358
<b>Total Expenditures</b>		\$ 14,875,189	\$ 8,835,511	\$ 696,402
597-599	Other Financing Uses	\$ 698,762	\$ -	\$ 25,000
<b>Total Expenditures and Other Financing Uses</b>		\$ 15,573,951	\$ 8,835,511	\$ 721,402
<b>Excess (Deficit) of Resources Over Uses</b>		\$ 15,975,947	\$ 2,960,951	\$ 2,962,611
380	Nonrevenues (Except 384)	\$ 269,618	\$ 260,782	\$ 5,788
580	Nonexpenditures (Except 584)	\$ 1,466,002	\$ 231,065	\$ 3,755
<b>Ending Cash and Investments:</b>				
508.10	Reserved	\$ 1,856,478	\$ 5,859	\$ -
508.80	Unreserved	\$ 12,923,085	\$ 2,984,809	\$ 2,964,644

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, 2010

BARS CODE		102	116/117	119
		Arterial Street	Cemetery	Substance Abuse Control
		Actual Amount	Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>				
308.10	Reserved	\$ -	\$ -	\$ -
308.80	Unreserved	\$ 1,035,596	\$ 80,438	\$ 4,910
	Prior Period Adjustments (388.80 and 588.80)	\$ -	\$ -	\$ -
<b>Revenues and Other Sources</b>				
310	Taxes	\$ -	\$ -	\$ -
320	Licenses and Permits	\$ -	\$ -	\$ -
330	Intergovernmental	\$ 394,478	\$ -	\$ -
340	Charges for Goods and Services	\$ 243,208	\$ 59,441	\$ -
350	Fines and Penalties	\$ -	\$ -	\$ -
360	Miscellaneous	\$ 11,555	\$ 241	\$ 11
370	Capital Contributions	\$ -	\$ -	\$ -
390	Other Financing Sources	\$ -	\$ -	\$ -
<b>Total Revenues and Other Sources</b>		\$ 649,241	\$ 59,682	\$ 11
<b>Total Resources</b>		\$ 1,684,837	\$ 140,120	\$ 4,921
Operating Expenditures:				
510	General Government	\$ -	\$ -	\$ -
520	Public Safety	\$ -	\$ -	\$ -
530	Physical Environment	\$ -	\$ 63,721	\$ -
540	Transportation	\$ -	\$ -	\$ -
550	Economic Environment	\$ -	\$ -	\$ -
560	Mental and Physical Health	\$ -	\$ -	\$ -
570	Culture and Recreation	\$ -	\$ -	\$ -
<b>Total Operating Expenditures</b>		\$ -	\$ 63,721	\$ -
591-593	Debt Service	\$ 366,090	\$ -	\$ -
594-595	Capital Outlay	\$ 207,524	\$ -	\$ -
<b>Total Expenditures</b>		\$ 573,614	\$ 63,721	\$ -
597-599	Other Financing Uses	\$ 19,000	\$ -	\$ -
<b>Total Expenditures and Other Financing Uses</b>		\$ 592,614	\$ 63,721	\$ -
<b>Excess (Deficit) of Resources Over Uses</b>		\$ 1,092,223	\$ 76,399	\$ 4,921
380	Nonrevenues (Except 384 )	\$ 309	\$ -	\$ -
580	Nonexpenditures (Except 584 )	\$ -	\$ 400	\$ -
<b>Ending Cash and Investments:</b>				
508.10	Reserved	\$ 71,135	\$ -	\$ -
508.80	Unreserved	\$ 1,021,397	\$ 75,999	\$ 4,921

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, 2010

BARS CODE		311	401/402	425
		Parks & Rec. Capital Reserve	Sewer	Storm Drainage
		Actual Amount	Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>				
308.10	Reserved	\$ 372,055	\$ 855,000	\$ 435,800
308.80	Unreserved	\$ 198,698	\$ 3,722,485	\$ 1,262,774
	Prior Period Adjustments (388.80 and 588.80)	\$ -	\$ -	\$ -
<b>Revenues and Other Sources</b>				
310	Taxes	\$ 47,487	\$ -	\$ -
320	Licenses and Permits	\$ -	\$ 192,668	\$ 194,850
330	Intergovernmental	\$ -	\$ -	\$ 86,541
340	Charges for Goods and Services	\$ 13,048	\$ 3,197,865	\$ 949,129
350	Fines and Penalties	\$ -	\$ -	\$ -
360	Miscellaneous	\$ 1,422	\$ 57,531	\$ 4,082
370	Capital Contributions	\$ -	\$ -	\$ -
390	Other Financing Sources	\$ -	\$ -	\$ -
<b>Total Revenues and Other Sources</b>		\$ 61,957	\$ 3,448,064	\$ 1,234,602
<b>Total Resources</b>		\$ 632,710	\$ 8,025,549	\$ 2,933,176
Operating Expenditures:				
510	General Government	\$ -	\$ -	\$ -
520	Public Safety	\$ -	\$ -	\$ -
530	Physical Environment	\$ -	\$ 1,625,601	\$ 40,681
540	Transportation	\$ -	\$ -	\$ -
550	Economic Environment	\$ -	\$ -	\$ -
560	Mental and Physical Health	\$ -	\$ -	\$ -
570	Culture and Recreation	\$ -	\$ -	\$ -
<b>Total Operating Expenditures</b>		\$ -	\$ 1,625,601	\$ 40,681
591-593	Debt Service	\$ -	\$ 145,100	\$ 102,595
594-595	Capital Outlay	\$ 44,268	\$ 875,054	\$ 378,487
<b>Total Expenditures</b>		\$ 44,268	\$ 2,645,755	\$ 521,763
597-599	Other Financing Uses	\$ -	\$ 183,420	\$ 171,342
<b>Total Expenditures and Other Financing Uses</b>		\$ 44,268	\$ 2,829,175	\$ 693,105
<b>Excess (Deficit) of Resources Over Uses</b>		\$ 588,442	\$ 5,196,374	\$ 2,240,071
380	Nonrevenues (Except 384 )	\$ -	\$ 934	\$ 872
580	Nonexpenditures (Except 584 )	\$ -	\$ 896,724	\$ 334,058
<b>Ending Cash and Investments:</b>				
508.10	Reserved	\$ 424,674	\$ 885,000	\$ 435,785
508.80	Unreserved	\$ 163,768	\$ 3,415,584	\$ 1,471,100

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, 2010

BARS CODE		197	201	301
		Lodging Tax	General Obligation Bonds	Capital Improvement
		Actual Amount	Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>				
308.10	Reserved	\$ -	\$ -	\$ 9,349
308.80	Unreserved	\$ 428,848	\$ 342,524	\$ 508,677
	Prior Period Adjustments (388.80 and 588.80)	\$ -	\$ -	\$ -
<b>Revenues and Other Sources</b>				
310	Taxes	\$ 223,040	\$ 750,000	\$ 47,487
320	Licenses and Permits	\$ -	\$ -	\$ -
330	Intergovernmental	\$ -	\$ -	\$ 30,056
340	Charges for Goods and Services	\$ -	\$ -	\$ -
350	Fines and Penalties	\$ -	\$ -	\$ -
360	Miscellaneous	\$ 997	\$ 647	\$ 6,485
370	Capital Contributions	\$ -	\$ -	\$ -
390	Other Financing Sources	\$ -	\$ 300,000	\$ -
<b>Total Revenues and Other Sources</b>		\$ 224,037	\$ 1,050,647	\$ 84,028
<b>Total Resources</b>		\$ 652,885	\$ 1,393,171	\$ 602,054
Operating Expenditures:				
510	General Government	\$ -	\$ -	\$ -
520	Public Safety	\$ -	\$ -	\$ -
530	Physical Environment	\$ -	\$ -	\$ -
540	Transportation	\$ -	\$ -	\$ -
550	Economic Environment	\$ 207,653	\$ -	\$ -
560	Mental and Physical Health	\$ -	\$ -	\$ -
570	Culture and Recreation	\$ -	\$ -	\$ -
<b>Total Operating Expenditures</b>		\$ 207,653	\$ -	\$ -
591-593	Debt Service	\$ -	\$ 1,174,412	\$ -
594-595	Capital Outlay	\$ -	\$ -	\$ 112,090
<b>Total Expenditures</b>		\$ 207,653	\$ 1,174,412	\$ 112,090
597-599	Other Financing Uses	\$ -	\$ -	\$ 300,000
<b>Total Expenditures and Other Financing Uses</b>		\$ 207,653	\$ 1,174,412	\$ 412,090
<b>Excess (Deficit) of Resources Over Uses</b>		\$ 445,232	\$ 218,759	\$ 189,964
380	Nonrevenues (Except 384 )	\$ -	\$ -	\$ 933
580	Nonexpenditures (Except 584 )	\$ -	\$ -	\$ -
<b>Ending Cash and Investments:</b>				
508.10	Reserved	\$ -	\$ -	\$ 34,025
508.80	Unreserved	\$ 445,232	\$ 218,759	\$ 156,872

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 Ending December 31, 2010**

	Total for All Funds	601 Cemetery Endowment		602 Park Endowment		621 L.I.D. Guarantee	
		Total Amount	Actual Amount	Actual Amount	Actual Amount	Actual Amount	Actual Amount
<b>Beginning Cash and Investments</b>	\$ 507,573	\$ 288,054	\$ 214,963	\$ 4,556			
Prior Period Adjustments	\$ -	\$ -	\$ -	\$ -			
Revenue and Other Financing Sources	\$ 16,948	\$ 17,186	\$ (249)	\$ 11			
<b>Total Resources</b>	\$ 524,521	\$ 305,240	\$ 214,714	\$ 4,567			
Expenditures And Other Financing Uses	\$ 13,788	\$ -	\$ 13,788	\$ -			
<b>Excess (Deficit) of Resources Over Uses</b>	\$ 510,733	\$ 305,240	\$ 200,926	\$ 4,567			
Nonrevenues (Except 384)	\$ -	\$ -	\$ -	\$ -			
Nonexpenditures (Except 584)	\$ -	\$ -	\$ -	\$ -			
<b>Ending Cash and Investments</b>	\$ 510,733	\$ 305,240	\$ 200,926	\$ 4,567			

*The Accompanying Notes Are An Integral Part Of This Statement.*

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Burlington reports financial activity using the revenue and expenditure classifications, statements, and schedules contained in the Cash Basis Budgeting, Accounting and Reporting System (BARS) manual. This basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

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 departments, 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 uses single-entry, cash basis accounting which is a departure from generally accepted accounting principles (GAAP).

a. Fund Accounting

The accounts of the City of Burlington are organized on the basis of funds, each of which is considered a separate accounting entity. Each fund is accounted for with a separate set of single-entry accounts that comprises its cash, investments, revenues and expenditures, as appropriate. The City's resources are allocated to and accounted for in individual funds depending on their intended purpose. The following are the fund types 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  
2010

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.

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. 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  
2010

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

Fund	Final Appropriated Amounts	Actual Expenditures	Positive (Negative) Variance
General	\$ 9,386,005	\$ 8,835,511	\$ 550,494
City Street	\$ 1,052,140	\$ 721,402	\$ 330,738
Arterial Street	\$ 843,100	\$ 592,614	\$ 250,486
Cemetery	\$ 60,940	\$ 63,721	\$ (2,781)
Substance Abuse Control	\$ 4,675	\$ -	\$ 4,675
Lodging Tax	\$ 434,660	\$ 207,653	\$ 227,007
General Obligation Bonds	\$ 1,174,420	\$ 1,174,412	\$ 8
Capital Improvement	\$ 400,000	\$ 412,090	\$ (12,090)
Parks & Rec. Capital Reserve	\$ 124,400	\$ 44,268	\$ 80,132
Sewer	\$ 6,356,110	\$ 2,829,175	\$ 3,526,935
Storm Drainage	\$ 1,946,460	\$ 693,105	\$ 1,253,355
Cemetery Endowment	\$ -	\$ -	\$ -
Park Endowment	\$ 22,000	\$ 13,788	\$ 8,212
LID Guarantee	\$ -	\$ -	\$ -
Total	\$ 21,804,910	\$ 15,587,739	\$ 6,217,171

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.

Deposits

The City 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.

g. Capital Assets

Capital assets are long-lived assets of the City and are recorded as expenditures when purchased.

h. Compensated Absences

Vacation leave may be accumulated up to 25 days and is payable upon separation or retirement.

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2010

Sick leave may be accumulated up to 960 hours. Upon separation or retirement employees do not receive payment for unused sick leave. Any hours accrued beyond 960 may be cashed in by the employee at the rate of one day for every four days of sick leave.

i. Long-Term Debt See Long-Term Debt Note No. 5.

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 145 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 \$500,000, 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.

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2010

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. These revenues directly offset portions of the membership's annual assessment.

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.

1. Reserved Fund Balance

The City of Burlington reported ending cash and investments reserved balances as follows:

Description	General 001	Arterial Street 102	Capital Improve. 301	P&R Capital 311	Sewer 401	Storm Drainage 425
Real Estate Excise Tax	\$ -	\$ -	\$ 34,025	\$ 226,760	\$ -	\$ -
Impact Fees	\$ 5,859	\$ 71,135	\$ -	\$ 197,914	\$ -	\$ -
Required Debt Reserves	\$ -	\$ -	\$ -	\$ -	\$ 885,000	\$ 435,800
Totals	\$ 5,859	\$ 71,135	\$ 34,025	\$ 424,674	\$ 885,000	\$ 435,800

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

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

Expenditures exceeded legal appropriations in two (2) of the funds of the City of Burlington as follows:

Fund	Final Appropriated Amounts	Actual Expenditures	Positive (Negative) Variance
Cemetery	\$ 60,940	\$ 63,721	\$ (2,781)
Capital Improvement	\$ 400,000	\$ 412,090	\$ (12,090)
Total	\$ 460,940	\$ 475,811	\$ (14,871)

The Cemetery Fund incurred \$5,796 of part time wages, plus associated payroll taxes, that were not included in the original expenditure appropriation.



CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2010

The Capital Improvement Fund received federal funding in the amount of \$30,056 from U.S. Department of Homeland Security (passed through Skagit County) to install fiber optic cable on Burlington Hill to improve Department of Emergency Management communications. Neither the revenue nor expenditure for this funding was included in the original budget appropriation.

Both funds had adequate cash reserves to cover the negative variance and ended with a positive fund balance.

**NOTE 3 - INVESTMENTS**

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

Investments by type at December 31, 2010 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.	\$ 9,065,793.61	\$ 90,298.91	\$ 9,156,092.52
U.S. Government Securities	\$ 2,199,825.00	\$ -	\$ 2,199,825.00
Certificates of Deposit	\$ 490,000.00	\$ 289,000.00	\$ 779,000.00
State of Washington Securities	\$ 620,000.00	\$ -	\$ 620,000.00
State of Hawaii Securities	\$ 250,000.00	\$ -	\$ 250,000.00
State of Washington Political Subdivision Securities	\$ -	\$ 110,000.00	\$ 110,000.00
Total	\$ 12,625,618.61	\$ 489,298.91	\$ 13,114,917.52

**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 2010 was \$1.86610 per \$1,000 on an assessed valuation of \$1,276,473,786 for a total regular levy of \$2,382,031.

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2010

NOTE 5 - LONG-TERM DEBT

The accompanying Schedule of Long-Term Debt (09) provides a listing of the outstanding debt of the City and summarizes the City's debt transactions for 2010. 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
2010	\$ 1,540,502	\$ 1,465,881	\$ 3,006,383
2011	\$ 1,235,027	\$ 1,462,694	\$ 2,697,721
2012	\$ 1,235,027	\$ 1,463,381	\$ 2,698,408
2013	\$ 1,235,027	\$ 1,465,381	\$ 2,700,408
2014	\$ 1,234,876	\$ 1,332,660	\$ 2,567,536
2015-2019	\$ 2,542,290	\$ -	\$ 2,542,290
2020-2024	\$ 1,445,420	\$ -	\$ 1,445,420
Total	\$ 10,468,169	\$ 7,189,997	\$ 17,658,166

NOTE 6 - PENSION PLANS

Substantially all City of Burlington full-time and qualifying part-time employees participate in Public Employees' Retirement System (PERS) or Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit and defined contribution retirement plans. Actuarial information is on a system-wide basis and is not considered pertinent to the City's financial statements. Contributions to the systems by both employee and employer are based upon gross wages covered by plan benefits.

Historical trend or other information regarding each plan is presented in the Washington State Department of Retirement Systems annual financial report. A copy of this report may be obtained by writing to:

Department of Retirement Systems  
Communications Unit  
PO Box 48380  
Olympia, WA 98504-8380

NOTE 7 - OTHER DISCLOSURES

The City of Burlington was a member of the Cities Insurance Association of Washington (CIAW) from June 25, 1992 to August 31, 2007. Utilizing Chapter 48.62 RCW (self-insurance regulation) and Chapter 39.34 RCW (Interlocal Cooperation Act), 34 cities in the State of Washington originally formed CIAW on September 1, 1988. CIAW was created for the purpose of providing a pooling mechanism for jointly purchasing insurance, and/or jointly contracting for risk management services. CIAW contracted with Canfield & Associates to perform the day-to-day administration of the pool.

CITY OF BURLINGTON  
NOTES TO FINANCIAL STATEMENTS  
2010

The City has recently been made aware that CIAW has contacted other current and former members of their pool in an attempt to assess them for expenses associated with past liabilities. The City of Burlington has received a request for five (5) annual payments of \$8,814 (\$44,070) from CIAW for its estimated share of funding plan reassessment. The City is disputing CIAW's claim, and to date has not made a payment.

General fund ending net cash for the prior year (2009) did not include \$2,050 of authorized petty cash and change funds, which was appropriately included in the General fund beginning net cash fund for the 2010 fiscal year.

**CITY OF BURLINGTON**  
**SCHEDULE OF LONG-TERM DEBT**  
**For the Year Ended December 31, 2010**

ID. No.	Description	(1)			(2)		(3)		(4)	
		Beginning Balance 01/01/2010	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance Debt 12/31/2010 (1)+(2)-(3)				
251.11	City Hall/Library Refunding	\$ 3,407,261	\$ -	\$ 647,213	591 19 71	\$ 2,760,048				
251.11	North Burlington Boulevard	\$ 5,050,030	\$ -	\$ 306,744	591 19 71	\$ 4,743,286				
251.11	Skagit River Park Refunding	\$ 300,000	\$ -	\$ 300,000	591 76 71	\$ -				
252.11	Sanitary Sewer	\$ 3,740,000	\$ -	\$ 885,000	582 35 72	\$ 2,855,000				
252.11	Storm Sewer	\$ 2,732,204	\$ -	\$ 333,186	582 38 72 10	\$ 2,399,018				
259.12	Compensated Absences	\$ 267,056	\$ -	\$ -		\$ 267,056				
	<b>Total</b>	\$ 15,496,551	\$ -	\$ 2,472,143		\$ 13,024,408				



## **ABOUT THE STATE AUDITOR'S OFFICE**

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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.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. 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.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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 and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

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

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Larisa Benson**  
**Jim Brittain, CPA**  
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