

**CITY OF BURLINGTON
BURLINGTON, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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CITY OF BURLINGTON
ROSTER OF CITY OFFICIALS
AS OF DECEMBER 31, 2019

Jeanine Kabanuk	Mayor
Rod Kremer	Council President
Jesse Cannon	Council Vice President
Justin Anderson	Council Member
Sherry Skees	Council Member
Mary Lynn Brooks	Auditor

INDEPENDENT AUDITOR'S REPORT

Governing Board
City of Burlington
Burlington, North Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Burlington, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

CITY OF BURLINGTON
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Burlington, as of December 31, 2019, and the respective changes in the modified cash basis financial position and, where applicable, cash flows, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the 2018 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Burlington's basic financial statements. The Roster of City Officials, budgetary comparison schedule – modified cash basis, notes to the budgetary comparison schedule, schedule of employer's proportionate share of net pension liability, schedule of employer's proportionate share of net OPEB liability, schedule of employer contributions and notes to the supplementary information are presented for additional analysis and are not a required part of the basic financial statements.

CITY OF BURLINGTON
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

The budgetary comparison schedule – modified cash basis, notes to the budgetary comparison schedule, schedule of employer's proportionate share of net pension liability, schedule of employer's proportionate share of net OPEB liability, schedule of employer contributions and notes to the supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with the modified cash basis of accounting. In our opinion, the budgetary comparison schedule – modified cash basis, notes to the budgetary comparison schedule, schedule of employer's proportionate share of net pension liability, schedule of employer's proportionate share of net OPEB liability, schedule of employer contributions and notes to the supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Roster of City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2023, on our consideration of the City of Burlington'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 solely 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 effectiveness of the City of Burlington's 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 of Burlington's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
MINOT, NORTH DAKOTA

February 8, 2023

CITY OF BURLINGTON
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
DECEMBER 31, 2019

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Current assets			
Cash, cash equivalents, and investments	\$ 1,365,829	\$ 201,911	\$ 1,567,740
Noncurrent assets			
Capital assets (net of accumulated depreciation)	11,066,736	2,010,888	13,077,624
Total assets	<u>12,432,565</u>	<u>2,212,799</u>	<u>14,645,364</u>
LIABILITIES			
Current liabilities			
Bonds payable - current portion	235,000	-	235,000
Long-term liabilities			
Bonds payable - net of current portion	3,575,000	-	3,575,000
Total liabilities	<u>3,810,000</u>	<u>-</u>	<u>3,810,000</u>
NET POSITION			
Net investment in capital assets	7,256,736	2,010,888	9,267,624
Restricted for:			
Streets and public works	2,425	-	2,425
Emergency purposes	6,506	-	6,506
Debt service	940,371	-	940,371
Unrestricted	<u>416,527</u>	<u>201,911</u>	<u>618,438</u>
TOTAL NET POSITION	<u>\$ 8,622,565</u>	<u>\$ 2,212,799</u>	<u>\$ 10,835,364</u>

See Notes to the Financial Statements

CITY OF BURLINGTON
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
DECEMBER 31, 2019

Functions/Programs	Expenses	Program Revenues		Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Governmental Activities						
General government	\$ 252,044	\$ 32,699	\$ -	\$ (219,345)	\$ -	\$ (219,345)
Public safety	176,846	33,942	-	(142,904)	-	(142,904)
Streets and public works	614,291	-	-	(614,291)	-	(614,291)
Other	14,684	-	-	(14,684)	-	(14,684)
Bond issuance	504	-	-	(504)	-	(504)
Total governmental activities	<u>1,058,369</u>	<u>66,641</u>	<u>-</u>	<u>(991,728)</u>	<u>-</u>	<u>(991,728)</u>
Business-Type Activities						
Enterprise	480,913	428,005		-	(52,908)	(52,908)
Total business-type activities	<u>\$ 480,913</u>	<u>\$ 428,005</u>	<u>\$ -</u>	<u>-</u>	<u>(52,908)</u>	<u>(52,908)</u>
General revenues:						
General property taxes				891,894	-	891,894
Special assessments				5,313	-	5,313
City sales tax				81,280	-	81,280
Intergovernmental				179,067	-	179,067
Interest earned				8,237	6,913	15,150
Miscellaneous revenues				7,895	49,808	57,703
Transfers				(92,060)	92,060	-
Total general receipts and transfers				<u>1,081,626</u>	<u>148,781</u>	<u>1,230,407</u>
Changes in net position				<u>89,898</u>	<u>95,873</u>	<u>185,771</u>
Net position, January 1, as previously reported				6,407,773	2,116,926	8,524,699
Prior period adjustment (Note 12)				<u>2,124,894</u>	<u>-</u>	<u>2,124,894</u>
Net position, January 1 - restated				<u>8,532,667</u>	<u>2,116,926</u>	<u>10,649,593</u>
Net position, December 31				<u>\$ 8,622,565</u>	<u>\$ 2,212,799</u>	<u>\$ 10,835,364</u>

See Notes to the Financial Statements

CITY OF BURLINGTON
STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES – MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2019

	Major Funds						
	General	Water Tank Project	Highlands Ranch Improvement District	Chip Sealing Project - 2017	Harvest Heights Access Road	Other Governmental Funds	Total
ASSETS							
Cash, cash equivalents, and investments	\$ 278,351	\$ -	\$ 756,297	\$ 92,241	\$ 51,299	\$ 187,641	\$ 1,365,829
TOTAL ASSETS	<u>\$ 278,351</u>	<u>\$ -</u>	<u>\$ 756,297</u>	<u>\$ 92,241</u>	<u>\$ 51,299</u>	<u>\$ 187,641</u>	<u>\$ 1,365,829</u>
FUND BALANCE							
Restricted	\$ -	\$ -	\$ 756,297	\$ 92,241	\$ 51,299	\$ 49,465	\$ 949,302
Assigned	-	-	-	-	-	18,655	18,655
Unassigned	<u>278,351</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,521</u>	<u>397,872</u>
TOTAL FUND BALANCE	<u>\$ 278,351</u>	<u>\$ -</u>	<u>\$ 756,297</u>	<u>\$ 92,241</u>	<u>\$ 51,299</u>	<u>\$ 187,641</u>	<u>\$ 1,365,829</u>

See Notes to the Financial Statements

CITY OF BURLINGTON
RECONCILIATION OF STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
MODIFIED CASH BASIS – GOVERNMENTAL FUNDS
TO STATEMENT OF NET POSITION – MODIFIED CASH BASIS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2019

Total fund balance - governmental funds	\$	1,365,829
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in governmental funds.

Cost of capital assets	13,661,652		
Less accumulated depreciation	<u>(2,594,916)</u>		
Net capital assets			11,066,736

Long-term liabilities applicable to the City's governmental activities are not due and payable
in the current period and, accordingly, are not reported in the governmental funds:

Bonds payable		<u>(3,810,000)</u>	
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Total net position - governmental activities	\$	<u><u>8,622,565</u></u>
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See Notes to the Financial Statements

CITY OF BURLINGTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	General	Water Tank Project	Highlands Ranch Improvement District	City Sealing Project - 2017	Harvest Heights Access Road	Other Governmental Funds	Total
Revenues:							
Property taxes	\$ 325,285	\$ 67,645	\$ 259,149	\$ 144,971	\$ 49,278	\$ 45,566	\$ 891,894
City sales tax	81,280	-	-	-	-	-	81,280
Special assessments	-	5,313	-	-	-	-	5,313
Licenses, permits and fees	32,699	-	-	-	-	-	32,699
Intergovernmental	109,332	-	-	-	-	69,735	179,067
Fines and forfeitures	33,942	-	-	-	-	-	33,942
Miscellaneous revenues	7,895	-	-	-	-	-	7,895
Interest earned	7,172	-	-	-	-	1,065	8,237
Total revenues	<u>597,605</u>	<u>72,958</u>	<u>259,149</u>	<u>144,971</u>	<u>49,278</u>	<u>116,366</u>	<u>1,240,327</u>
Expenditures:							
Current:							
General government	244,210	-	-	-	-	6,902	251,112
Public safety	176,846	-	-	-	-	-	176,846
Streets and public works	-	504	1,003	954	1,003	66,459	69,923
Other	-	-	-	-	-	14,685	14,685
Capital outlay	-	-	-	-	247,505	-	247,505
Debt service:							
Principal retirement	-	-	115,000	70,000	20,000	25,000	230,000
Interest	-	-	82,863	12,925	21,750	3,381	120,919
Total expenditures	<u>421,056</u>	<u>504</u>	<u>198,866</u>	<u>83,879</u>	<u>290,258</u>	<u>116,427</u>	<u>1,110,990</u>
Excess of revenues over (under) expenditures	<u>176,549</u>	<u>72,454</u>	<u>60,283</u>	<u>61,092</u>	<u>(240,980)</u>	<u>(61)</u>	<u>129,337</u>
Operating transfers in (out)	<u>(9,710)</u>	<u>(77,852)</u>	<u>78,814</u>	<u>-</u>	<u>10,124</u>	<u>(93,435)</u>	<u>(92,059)</u>
Net change in fund balances	166,839	(5,398)	139,097	61,092	(230,856)	(93,496)	37,278
Fund balance, January 1, as previously reported	101,796	5,398	617,200	31,149	282,155	281,137	1,318,835
Prior period adjustment (See Note 12)	9,716	-	-	-	-	-	9,716
Fund balance, January 1, restated	<u>111,512</u>	<u>5,398</u>	<u>617,200</u>	<u>31,149</u>	<u>282,155</u>	<u>281,137</u>	<u>1,328,551</u>
Fund balance (deficit), December 31	<u>\$ 278,351</u>	<u>\$ -</u>	<u>\$ 756,297</u>	<u>\$ 92,241</u>	<u>\$ 51,299</u>	<u>\$ 187,641</u>	<u>\$ 1,365,829</u>

See Notes to the Financial Statements

CITY OF BURLINGTON
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES – MODIFIED CASH BASIS
TO STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

Net change in fund balance - total governmental funds	\$	37,278
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset purchases capitalized	\$ 247,505	
Depreciation expense	<u>(424,885)</u>	(177,380)

Repayment of noncurrent liabilities is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the Statement of Net Position. Additionally, premiums or discounts related to the debt are included on the Statement of Net Position and amortized to interest expense over the life of the debt in the Statement of Activities.

Principal payments of bonds payable		<u>230,000</u>
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Net change in net position of governmental activities	\$	<u>89,898</u>
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CITY OF BURLINGTON
STATEMENT OF NET POSITION – MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2019

	Major Enterprise Fund
	<u>Enterprise</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ <u>201,911</u>
Noncurrent assets	
Capital assets (net of accumulated depreciation)	<u>2,010,888</u>
TOTAL ASSETS	<u>2,212,799</u>
NET POSITION	
Net investment in capital assets	2,010,888
Unrestricted	<u>201,911</u>
TOTAL NET POSITION	<u><u>\$ 2,212,799</u></u>

See Notes to the Financial Statements

CITY OF BURLINGTON
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –
MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Major Enterprise Fund
	<u>Enterprise</u>
Operating revenues	
Charges for services	\$ 425,890
Fines and forfeitures	<u>2,115</u>
Total operating revenues	<u>428,005</u>
Operating expenses	
Salaries	142,233
Health insurance	17,538
Life insurance	317
Engineering	16,399
Insurance	7,968
Auto expense	2,413
Schools/dues/meetings	2,553
Utilities	14,317
Chemicals	1,312
Improvements and maintenance	15,881
Purchased water	93,377
Meter reader	1,200
Garbage contract	69,131
Supplies	13,705
Equipment expense	967
Street lights/sirens	12,528
Miscellaneous	689
Depreciation	<u>68,385</u>
Total operating expenses	<u>480,913</u>
Operating income (loss)	<u>(52,908)</u>
Non-operating revenues (expenses)	
Miscellaneous revenues	49,808
Interest earned	<u>6,913</u>
Total non-operating revenues (expenses)	<u>56,721</u>
Other financing sources (uses)	
Operating Transfers In	210,701
Operating Transfers Out	<u>(118,641)</u>
Operating transfers in (out)	<u>92,060</u>
Change in net position	95,873
Net position, January 1	<u>2,116,926</u>
Net position, December 31	<u><u>\$ 2,212,799</u></u>

See Notes to the Financial Statements

CITY OF BURLINGTON
STATEMENT OF CASH FLOWS – MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Major Enterprise Fund
	<u>Enterprise</u>
CASH FLOWS FROM (TO) OPERATING ACTIVITIES	
Receipts from customers	\$ 428,005
Payments to suppliers	(252,440)
Payments to/on behalf of employees	(160,088)
Net cash provided by operating activities	<u>15,477</u>
CASH FLOWS FROM (TO) NON-CAPITAL FINANCING ACTIVITIES	
Miscellaneous revenues	49,808
Transfers in (out)	92,060
Net cash provided by non-capital financing activities	<u>141,868</u>
CASH FLOWS FROM (TO) CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of property and equipment	(204,481)
Net cash used by capital and related financing activities	<u>(204,481)</u>
CASH FLOWS FROM (TO) INVESTING ACTIVITIES	
Interest income	6,913
Net cash provided by investing activities	<u>6,913</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(40,223)
CASH AND CASH EQUIVALENTS, JANUARY 1, 2019	<u>242,134</u>
CASH AND CASH EQUIVALENTS, DECEMBER 31, 2019	<u>\$ 201,911</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating income	\$ (52,908)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	68,385
Net cash provided (used) by operating activities	<u>\$ 15,477</u>

See Notes to the Financial Statements

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Burlington, North Dakota (the City) operates under a city council form of government. The City provides general public services to property owners within the City, including but not limited to roads, water, sewer and garbage collection services.

The more significant of the government's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the activities of the City of Burlington. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body or an organization being fiscally dependent and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City.

Based on these criteria, there are no component units to be included within the City of Burlington as a reporting entity.

Basis of Presentation

The City's accounting policy is to maintain the accounting records and present its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government taken as a whole. They include all funds of the reporting entity except any fiduciary funds. Eliminations have been made to minimize the double-counting of internal activities. The statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Fund Financial Statements

The fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are typically organized into three categories: governmental, proprietary, and fiduciary.

An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of an individual fund are at least 10 percent of the corresponding total for all funds of that type, AND
2. Total assets, liabilities, revenues or expenditures/expenses of the individual fund are at least 5% of the corresponding total for the total of all governmental and enterprise funds combined.

Major funds of the City's financial reporting entity are described below.

Governmental Funds

General Fund

The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Funds

Water Tank Project

This fund is used to accumulate resources to pay the principal and interest payments of the Refunding Improvement Bonds, Series 2013.

Highlands Ranch Improvement District

This fund is used to accumulate resources to pay the principal and interest payments of the Refunding Improvement Bonds, Series 2015.

Chip Sealing Project - 2017

This fund is used to accumulate resources to pay the principal and interest payments of the Refunding Improvement Bonds, Series 2017.

Harvest Heights Access Road

This fund is used to accumulate resources to pay the principal and interest payments of the Refunding Improvement Bonds, Series 2018.

Proprietary Funds

The City's proprietary fund consists of one enterprise funds. Enterprise funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activities focuses on net income measurement similar to the private sector.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

The City reports the following major enterprise fund:

Enterprise Fund

This fund accounts for the activities of the City's water distribution system, sewage collection system, and garbage collection system.

Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Government-wide financial statements: In the government-wide Statement of Net Position and the Statement of Activities, the government-type activities and business-type activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Fund financial statements: In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate.

- a. All governmental funds utilize a "current financial resources" measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Proprietary funds distinguish *operating* revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City of Burlington's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Basis of Accounting

The basis of accounting determines “when” transactions are recorded regardless of the measurement focus applied.

The government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities, are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for capital assets and related depreciation and long-term debt in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Budgets and Budgetary Accounting

The governing board adopts an annual budget on a basis consistent with the modified cash basis of accounting for each of its major governmental funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements.

- On or before September 10th of the preceding fiscal year, the city prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All annual appropriations lapse at year-end.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Cash and Equivalents

Deposits must either be deposited in the Bank of North Dakota or in another financial institution situated and doing business within this state. Deposits, other than those with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the City to invest in:

1. Bonds, treasury bills and notes, or other securities that are a direct obligation of or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
2. Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above.
3. Certificates of Deposit fully insured by the Federal Deposit Obligations of the state.
4. Obligations of the state.

At December 31, 2019, the City of Burlington's cash and cash equivalents included \$804,917 of certificates of deposits stated at cost.

Capital Assets

Capital assets include infrastructure, buildings, and equipment. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is not capitalized.

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

Buildings and Infrastructure	25 to 75 years
Machinery and Vehicles	5 to 20 years

Long-Term Debt

In the government-wide statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business-type activities and proprietary fund financial statements. Bond premiums, discounts, and issuance costs are recognized in the current period since the amounts are not material.

In the governmental fund financial statements, long-term debt is not recognized as a liability. Instead, proceeds from the issuance of debt and repayment of debt principal are recognized as "Other Financing Sources" and "Expenditures", respectively, in the fund financial statements.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Compensated Absences

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Vested or accumulated vacation leave is not reported in the government-wide Statement of Net Position as if it is considered immaterial.

Net Position

In the government-wide financial statements, equity is classified as “net position” and displayed in three components:

1. Net Investment in Capital Assets – Consists of the remaining undepreciated cost of the assets less the outstanding debt associated with the purchase or construction of the related asset.
2. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Balance

The difference between assets, deferred inflows/outflows and liabilities is “Net Position” on the government-wide financial statements and “Fund Balance” on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

Non-spendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance represents a portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority, which is the Board, through a resolution.

Assigned fund balance represents amounts constrained by the government’s intent to be used for specific purposes, but neither restricted nor committed. The assigned amounts are determined by the Board.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The first priority is to utilize the restricted before unrestricted fund balance when both are available. Committed funds will be considered spent first when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

Minimum Fund Balance Policy

The Council has not formally adopted a fund balance policy for the General Fund.

Estimates

The preparation of financial statements in conformity with the special reporting framework (SRF) used by the City requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Internal and Interfund Balances and Activity

In the process of aggregating the financial information for the government-wide Statement of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund financial statements

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- 1) Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables. Advance to and advance from represent noncurrent interfund receivables and payables.
- 2) Interfund services – Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
- 3) Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
- 4) Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Government-wide financial statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- 1) Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as internal balances.
- 2) Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as transfers. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

NOTE 2 - CUSTODIAL CREDIT RISK

For deposits and investments, the custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover any collateral securities that are not in the possession of an outside party. State statutes require that the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. At December 31, 2019, the City's bank balance totaled approximately \$1,757,000. The deposits of the City were entirely covered by federal depository insurance or by the collateral held by the City's custodial bank in the City's name.

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 3 - PROPERTY TAXES

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

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1 and may be paid in two installments. The first installment includes one-half of the real estate taxes and all the special assessments, and the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount on property taxes is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the discount on the property taxes.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 4 - CAPITAL ASSETS

Changes in capital assets for the governmental activities for the year ended December 31, 2019 are as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 1,939,310	\$ -	\$ -	\$ 1,939,310
Construction in process	402,232	-	402,232	-
Total capital assets not being depreciated	<u>2,341,542</u>	<u>-</u>	<u>402,232</u>	<u>1,939,310</u>
Capital assets being depreciated				
Buildings & infrastructure	10,798,920	649,737	-	11,448,657
Machinery & vehicles	288,685	-	15,000	273,685
Total capital assets being depreciated	<u>11,087,605</u>	<u>649,737</u>	<u>15,000</u>	<u>11,722,342</u>
Less Accumulated depreciation				
Buildings & infrastructure	1,959,525	410,168	-	2,369,693
Machinery & vehicles	225,506	14,717	15,000	225,223
Total accumulated depreciation	<u>2,185,031</u>	<u>424,885</u>	<u>15,000</u>	<u>2,594,916</u>
Total capital assets being depreciated, net	<u>8,902,574</u>	<u>224,852</u>	<u>-</u>	<u>9,127,426</u>
Governmental capital assets, net	<u><u>\$ 11,244,116</u></u>	<u><u>\$ 224,852</u></u>	<u><u>\$ 402,232</u></u>	<u><u>\$ 11,066,736</u></u>

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Changes in capital assets for the business-type activities for the year ended December 31, 2019 are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 40,000	\$ -	\$ -	\$ 40,000
Total capital assets not being depreciated	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
Capital assets being depreciated				
Buildings & infrastructure	2,572,965	204,481	-	2,777,446
Machinery & vehicles	<u>20,725</u>	<u>-</u>	<u>-</u>	<u>20,725</u>
Total capital assets being depreciated	<u>2,593,690</u>	<u>204,481</u>	<u>-</u>	<u>2,798,171</u>
Less Accumulated depreciation				
Buildings and improvements	749,574	67,349	-	816,923
Machinery & vehicles	<u>9,324</u>	<u>1,036</u>	<u>-</u>	<u>10,360</u>
Total accumulated depreciation	<u>758,898</u>	<u>68,385</u>	<u>-</u>	<u>827,283</u>
Total capital assets being depreciated, net	<u>1,834,792</u>	<u>136,096</u>	<u>-</u>	<u>1,970,888</u>
Business-type activities capital assets, net	<u>\$ 1,874,792</u>	<u>\$ 136,096</u>	<u>\$ -</u>	<u>\$ 2,010,888</u>

Depreciation expenses charged to the various functions in the Statement of Activities for the year ended December 31, 2019 are as follows:

Governmental activities	
General government	\$ 933
Streets and public works	<u>423,952</u>
Total	<u>\$ 424,885</u>
Business-type activities	
Enterprise	<u>\$ 68,385</u>

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 5 - BONDS PAYABLE

The following is a summary of changes in the governmental activities bonds payable by individual issue for the year ended December 31, 2019:

Debt Issuance	Balance 12-31-18	New Issues	Retired	Balance 12-31-19	Due within One Year
Refunding improvement bonds series 2018	\$ 660,000	\$ -	\$ 20,000	\$ 640,000	\$ 25,000
Refunding improvement bonds series 2017	625,000	-	70,000	555,000	65,000
Refunding improvement bonds series 2016	230,000	-	25,000	205,000	25,000
Refunding improvement bonds series 2015	<u>2,525,000</u>	<u>-</u>	<u>115,000</u>	<u>2,410,000</u>	<u>120,000</u>
	<u>\$ 4,040,000</u>	<u>\$ -</u>	<u>\$ 230,000</u>	<u>\$ 3,810,000</u>	<u>\$ 235,000</u>

Bonds Payable

The City has issued special assessment bonds to provide funds for the construction of streets and/or water and sewer lines. Bonds outstanding at December 31, 2019 are as follows:

Refunding improvement bonds series 2018: In 2018, the City entered into a long-term bond agreement with US Bank. The bond was in the amount of \$270,000 and is due in annual installments of \$20,000 to \$45,000. The bond carries an interest rate of 2.25% to 4% and will mature in May 2038.

Refunding improvement bonds series 2017: In 2017, the City entered into a long-term bond agreement with US Bank. The bond was in the amount of \$680,000 and is due in annual installments of \$65,000 to \$70,000. The bond carries an interest rate of 1.375% to 3% and will mature in May 2027.

Refunding improvement bonds series 2016: In 2016, the City entered into a long-term bond agreement with United Community Bank of ND. The bond was in the amount of \$270,000 and is due in annual installments of \$25,000 to \$30,000. The bond carries an interest rate of 0.95% to 1.75% and will mature in May 2026.

Refunding improvement bonds series 2015: In 2015, the City entered into a long-term bond agreement with US Bank. The bond was in the amount of \$2,855,000 and is due in annual installments of \$115,000 to \$195,000. The bond carries an interest rate of 1.5% to 4% and will mature in May 2035.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Debt service requirements are as follows:

Year Ending December 31	Principal	Interest	Total
2020	\$ 235,000	\$ 117,135	\$ 352,135
2021	245,000	112,719	357,719
2022	250,000	107,650	357,650
2023	250,000	102,051	352,051
2024	260,000	95,809	355,809
2025-2029	1,150,000	364,089	1,514,089
2030-2034	1,055,000	179,496	1,234,496
2035-2038	365,000	17,900	382,900
Totals	<u>\$ 3,810,000</u>	<u>\$ 1,096,849</u>	<u>\$ 4,906,849</u>

NOTE 6 - PENSION PLAN

North Dakota Public Employees' Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 will be replaced with the Rule of 90 with a minimum age of 60. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member is not vested (is not 65 for the Main System or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 24 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Information about the City's Proportionate Share of Pension Obligation

Commitment Related to Proportionate Share of Net Pension Liability

At December 31, 2019, the City reported a liability of \$176,772 for its proportionate share of the net pension liability of the Main System. Because of the use of a modified cash basis of accounting framework in the preparation of these financial statements, this proportionate share of the NDPERS net pension liability is not reported in the City's financial statements as a liability, and is instead disclosed herein as a commitment. In accordance with the modified cash basis of accounting, pension expense or expenditures are only reported when contributions are paid by the City to NDPERS.

The net pension liability was measured as of July 1, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System and Law Enforcement employers. At July 1, 2019, the City's proportion was 0.015% which was a decrease of 0.005% from its proportion measured as of July 1, 2018.

Actuarial Assumptions

Actuarial assumptions used in the determination of net pension liability, including mortality rates and life expectancies, long-term expected rate of return, discount rate and sensitivity of the net pension liability to changes in discount rate are available in the separately issued NDPERS financial report that can be obtained at <https://ndpers.nd.gov/>.

NDPERS Law Enforcement Retirement System (Law Enforcement System)

The following brief description of the Law Enforcement System is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

The Law Enforcement System is a cost-sharing multiple-employer defined benefit pension plan that covers peace officers and correctional officers employed by participating political subdivisions. Effective August 1, 2015, the plan will include National Guard Security Officers and Firefighters. The Law Enforcement System provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Pension Benefits

Benefits are set by statute. The Law Enforcement System has no provision or policies with respect to automatic and ad hoc post-retirement benefit increases. Members of the Law Enforcement System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (55) with three or more years of service. The monthly pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. For members first enrolled in the plan after December 31, 2019 the multiplier was reduced from 2.0% to 1.75%. The plan permits early retirement at ages 50-55 with three or more years of service.

Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service in the Law Enforcement System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Law Enforcement System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition of disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Law Enforcement System is not vested (is not 55 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Member and Employer Contributions

Member and employer contributions paid to NDPERS are established as a percent of covered compensation. Member contribution rates are set by statute and employer contribution rates are set by the Board. Contribution rates for the Law Enforcement System are established as follows:

Plan	Member contribution rate	Employer contribution rate
Law Enforcement with previous service		
Political Subdivisions	5.50%	9.81%
State	6.00%	9.81%
National Guard	5.50%	9.81%
Law Enforcement without previous service	5.50%	7.93%

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is \$25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or \$25
- 13 to 25 months of service – Greater of two percent of monthly salary or \$25
- 25 to 36 months of service – Greater of three percent of monthly salary or \$25
- Longer than 36 months of service – Greater of four percent of monthly salary or \$25

Information about the City's Proportionate Share of Pension Obligation

Commitment Related to Proportionate Share of Net Pension Liability

At December 31, 2019, the City reported a liability of \$34,620 for its proportionate share of the net pension liability. Because of the use of a modified cash basis of accounting framework in the preparation of these financial statements, this proportionate share of the NDPERS net pension liability is not reported in the City's financial statements as a liability, and is instead disclosed herein as a commitment. In accordance with the modified cash basis of accounting, pension expense or expenditures are only reported when contributions are paid by the City to NDPERS.

The net pension liability was measured as of July 1, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the Employer's share of covered payroll/contributions in the Law Enforcement System pension plan relative to the covered payroll/contributions of all participating Law Enforcement System employers. At July 1, 2019 the City's proportion was 0.291% which was a decrease of 0.054% from its proportion measured as of July 1, 2018.

Actuarial Assumptions

Actuarial assumptions used in the determination of net pension liability, including mortality rates and life expectancies, long-term expected rate of return, discount rate and sensitivity of the net pension liability to changes in discount rate are available in the separately issued NDPERS financial report that can be obtained at <https://ndpers.nd.gov/>.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDAC Chapter 71-06 for more complete information.

NDPERS OPEB plan is a cost-sharing multiple-employer defined benefit OPEB plan that covers members receiving retirement benefits from the PERS, the HPRS, and Judges retired under Chapter 27-17 of the North Dakota Century Code a credit toward their monthly health insurance premium under the state health plan based upon the member's years of credited service. Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The Retiree Health Insurance Credit Fund is advance-funded on an actuarially determined basis.

Responsibility for administration of the NDPERS defined benefit OPEB plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; three members elected by the active membership of the NDPERS system, one member elected by the retired public employees and two members of the legislative assembly appointed by the chairman of the legislative management.

OPEB Benefits

The employer contribution for the PERS, the HPRS and the Defined Contribution Plan is set by statute at 1.14% of covered compensation. The employer contribution for employees of the state board of career and technical education is 2.99% of covered compensation for a period of eight years ending October 1, 2015.

Employees participating in the retirement plan as part-time/temporary members are required to contribute 1.14% of their covered compensation to the Retiree Health Insurance Credit Fund. Employees purchasing previous service credit are also required to make an employee contribution to the Fund. The benefit amount applied each year is shown as "*prefunded credit applied*" on the Statement of Changes in Plan Net Position for the OPEB trust funds. Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There were no other benefit changes during the year.

Retiree health insurance credit benefits and death and disability benefits are set by statute. There are no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Employees who are receiving monthly retirement benefits from the PERS, the HPRS, the Defined Contribution Plan, the Chapter 27-17 judges or an employee receiving disability benefits, or the spouse of a deceased annuitant receiving a surviving spouse benefit or if the member selected a joint and survivor option are eligible to receive a credit toward their monthly health insurance premium under the state health plan.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

Effective July 1, 2015, the credit is also available to apply towards monthly premiums under the state dental, vision and long-term care plan and any other health insurance plan. Effective August 1, 2019 the benefit may be used for any eligible health, prescription drug plan, dental, vision, or long term care plan premium expense. The benefits are equal to \$5.00 for each of the employee's, or deceased employee's years of credited service not to exceed the premium in effect for selected coverage. The retiree health insurance credit is also available for early retirement with reduced benefits.

Information about the City's Proportionate Share of OPEB Obligation

Commitment Related to Proportionate Share of Net OPEB Liability

At December 31, 2019, the City reported a liability of \$19,734 for its proportionate share of the net OPEB liability. Because of the use of a modified cash basis of accounting framework in the preparation of these financial statements, this proportionate share of the net OPEB liability is not reported in the City's financial statements as a liability, and is instead disclosed herein as a commitment. In accordance with the modified cash basis of accounting, pension expense or expenditures are only reported when contributions are paid by the City to NDPERS.

The net OPEB liability was measured as of July 1, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The City's proportion of the net OPEB liability was based on the City's share of covered payroll in the OPEB plan relative to the covered payroll of all participating OPEB employers. At July 1, 2019, the City's proportion was 0.025% which was a decrease of 0.005% from its proportion measured as of July 1, 2018.

Actuarial Assumptions

Actuarial assumptions used in the determination of net OPEB liability, including mortality rates and life expectancies, long-term expected rate of return, discount rate and sensitivity of the net OPEB liability to changes in discount rate are available in the separately issued NDPERS financial report that can be obtained at <https://ndpers.nd.gov/>.

NOTE 8 - RISK MANAGEMENT

The City of Burlington is exposed to various risks of loss relating to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDIRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City of Burlington pays an annual premium to NDIRF for its general liability, automobile, and public assets insurance coverage. The coverage by NDIRF is limited to losses of \$2,000,000 dollars per occurrence for general liability and automobile insurance and \$497,250 for public assets coverage.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

The City of Burlington also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The City pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third-party insurance carrier for losses in excess of \$1,000,000 dollars per occurrence during a 12-month period.

The State Bonding Fund currently provides the City with a blanket fidelity bond coverage in the amount of \$1,100,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

The City of Burlington has insurance with North Dakota Workforce Safety and Insurance.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9 - CONTINGENCIES

A lawsuit has been brought against the City that is civil in nature. The matter is still outstanding and awaiting a trial date expected in 2023. The outcome of the trial is unknown and any potential loss cannot be estimated.

NOTE 10 - FUND BALANCE

At December 31, 2019, a summary of the governmental fund balance classifications are as follows:

	General	Highlands Ranch Improvement District	Chip Sealing Project 2017	Harvest Heights Access Road	Other Governmental Funds	Total
Restricted						
Streets and public works	\$ -	\$ -	\$ -	\$ -	\$ 2,425	\$ 2,425
Emergency purposes	-	-	-	-	6,506	6,506
Debt service	-	756,297	92,241	51,299	40,534	940,371
Assigned						
Streets and public works	-	-	-	-	18,655	18,655
Unassigned						
General government	278,351	-	-	-	9,900	288,251
Streets and public works	-	-	-	-	90,250	90,250
Technology/computer	-	-	-	-	8,844	8,844
Other purposes	-	-	-	-	10,527	10,527
Total fund balance	<u>\$ 278,351</u>	<u>\$ 756,297</u>	<u>\$ 92,241</u>	<u>\$ 51,299</u>	<u>\$ 187,641</u>	<u>\$ 1,365,829</u>

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 11 - TRANSFERS

The following is a reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2019:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
To subsidize expenditures/eliminate deficits		
Highlands Ranch Improvement District	78,814	
Harvest Heights Access Road	10,124	
Street Sealing Reserve	79,837	
Technology/Computer Fund	4,000	
Enterprise Fund	92,060	
General Fund		125,690
Highway Fund		74,664
Surge Funding		64,481
To close fund		
General Fund	77,852	
Water Tank Project		77,852

NOTE 12 - PRIOR PERIOD ADJUSTMENTS

A prior period adjustment was made to remove the net pension assets and liabilities in accordance with the modified cash basis of accounting, increasing beginning net position of governmental activities by \$118,336.

A prior period adjustment was made to record capital assets not previously recognized. This resulted in an increase of \$1,996,842 to fixed assets, increasing beginning net position of governmental activities by \$1,996,842.

A prior period adjustment was made to adjust the cash balance for previously unrecorded interest earned of \$9,716. This resulted in an increase of \$9,716 to cash, increasing beginning net position of governmental activities and beginning fund balance of the general fund by \$9,716.

NOTE 13 - NEW PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, provides guidance to address accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR), most notable, the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. This statement provides exceptions and clarifications regarding hedging derivative instruments for such transactions that result from the replacement of IBOR. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, improves financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The statement provides definitions of PPPs and APAs and provides uniform guidance on accounting and financial reporting for transactions that meet those definitions. A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32* provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 99, *Omnibus 2022*, provides guidance on the following accounting matters:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP).
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements— and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statement.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements of this statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

GASB Statement No. 100, *Accounting Changes and Error Corrections – An Amendment of GASB Statement No. 62*, provides guidance on accounting and financial reporting requirements for accounting changes and error corrections. Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement. This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

CITY OF BURLINGTON
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

GASB Statement No. 101, *Compensated Absences*, provides guidance on the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used. This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities. This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined the effect these statements will have on its financial statements.

NOTE 14 - SUBSEQUENT EVENTS

No significant events have occurred subsequent to the City's year end. Subsequent events have been evaluated through February 8, 2023, which is the date these financial statements were available to be issued.

CITY OF BURLINGTON
BUDGETARY COMPARISON SCHEDULE – MODIFIED CASH BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2019

	Original / Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
Revenue:			
Property taxes	\$ 299,475	\$ 325,285	\$ 25,810
City sales tax	-	81,280	81,280
Licenses, permits and fees	30,750	32,699	1,949
Intergovernmental	89,740	109,332	19,592
Fines and forfeitures	25,000	33,942	8,942
Miscellaneous revenues	100	7,895	7,795
Interest earned	2,400	7,172	4,772
	<u>447,465</u>	<u>597,605</u>	<u>150,140</u>
Total revenues			
Expenditures:			
Current:			
General government	252,854	244,210	11,644
Public safety	193,863	176,846	14,017
	<u>446,717</u>	<u>421,056</u>	<u>25,661</u>
Total expenditures			
Excess of Revenues Over (Under)			
Expenditures	<u>748</u>	<u>176,549</u>	<u>175,801</u>
Other Financing Sources (Uses):			
Operating transfers in (out)	<u>-</u>	<u>(9,710)</u>	<u>(9,710)</u>
Net Change in Fund Balance	748	166,839	166,091
Fund Balance (Deficit), Beginning of Year, as restated	<u>111,512</u>	<u>111,512</u>	<u>-</u>
Fund Balance (Deficit), End of Year	<u>\$ 112,260</u>	<u>\$ 278,351</u>	<u>\$ 166,091</u>

See Note to the Budgetary Comparison Schedules

CITY OF BURLINGTON
NOTE TO BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 1 - BUDGETARY COMPARISON

Basis of Accounting

Based upon available financial information, the city auditor prepares the City's budget. The budget is prepared on the modified cash basis of accounting. The budget includes the proposed expenditures and the means of financing them.

Relevant Dates

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- On or before September 10th of the preceding fiscal year, the city prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor or against any proposed disbursements or tax levies requested in the preliminary budget. After budget hearing and on or before October 7th, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All annual appropriations lapse at year-end.

CITY OF BURLINGTON
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

Main System

For the Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.015082%	\$ 176,772	\$ 156,874	112.68%	71.66%
2018	0.019820%	334,484	203,613	164.27%	62.80%
2017	0.017974%	288,901	183,489	157.45%	61.98%
2016	0.018065%	176,061	182,052	96.71%	70.46%
2015	0.014278%	97,088	127,203	76.33%	77.15%

Law Enforcement

For the Fiscal Year Ended June 30	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered- Employee Payroll	Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.291098%	\$ 34,620	\$ 117,289	29.52%	84.95%
2018	0.345351%	80,481	119,219	67.51%	71.64%
2017	0.373487%	82,228	107,436	76.54%	69.86%
2016	0.377651%	43,273	106,596	40.60%	78.73%
2015	0.477676%	29,021	70,014	41.45%	83.61%

The amounts presented for each fiscal year were determined as of the measurement date of the City's net pension liability which is June 30 of the previous year for PERS.

See Notes to the Other Information

CITY OF BURLINGTON
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
LAST TEN YEARS (PRESENTED PROSPECTIVELY)

OPEB

For the Fiscal Year Ended June 30	Employer's proportion of the net OPEB liability (asset)	Employer's proportionate share of the net OPEB liability (asset)	Employer's covered- employee payroll	Employer's proportionate share of the net OPEB liability (asset) as a percentage of its covered- employee payroll	Plan fiduciary net position as a percentage of the total OPEB liability
2019	0.024570%	\$ 19,734	\$ 274,163	7.20%	63.13%
2018	0.029503%	23,236	322,832	7.20%	59.78%

The amounts presented for each fiscal year were determined as of the measurement date of the collective net OPEB liability which is June 30 of the previous fiscal year.

See Notes to the Other Information

CITY OF BURLINGTON
SCHEDULE OF EMPLOYER CONTRIBUTIONS
ND PUBLIC EMPLOYEES RETIREMENT SYSTEM
DECEMBER 31, 2019

Main System

Year Ended Dec 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2019	\$ 12,049	\$ (12,049)	-	\$ 169,232	7.12%
2018	14,171	(14,171)	-	199,037	7.12%
2017	13,877	(13,877)	-	194,901	7.12%
2016	13,216	(13,216)	-	185,616	7.12%
2015	12,008	(12,008)	-	168,651	7.12%

Law Enforcement

Year Ended Dec 31	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2019	\$ 11,532	\$ (11,532)	-	\$ 117,549	9.81%
2018	11,391	(11,391)	-	116,121	9.81%
2017	11,195	(11,195)	-	114,114	9.81%
2016	10,662	(10,662)	-	108,680	9.81%
2015	9,561	(9,561)	-	97,457	9.81%

OPEB

Year Ended Dec 31	Statutorily required contribution	Contributions in relation to the statutorily required contribution	Contribution deficiency (excess)	Employer's covered- employee payroll	Contributions as a percentage of covered- employee payroll
2019	\$ 3,269	\$ (3,269)	-	\$ 286,781	1.14%
2018	3,593	(3,593)	-	315,157	1.14%

The amounts presented for each fiscal year were determined as of the City's year end which is December 31.

See Notes to the Other Information

CITY OF BURLINGTON
NOTES TO THE SUPPLEMENTARY INFORMATION
DECEMBER 31, 2019

NOTE 1 - DEFINED BENEFIT PLANS

Changes of benefit terms.

The interest rate earned on member contributions will decrease from 7.25 percent to 7.00 percent effective January 1, 2020 (based on the adopted decrease in the investment return assumption). New Main System and Public Safety members who are hired on or after January 1, 2020 will have a benefit multiplier of 1.75 percent (compared to the current benefit multiplier of 2.00 percent). The fixed employer contribution for new members of the Main System will increase from 7.12 percent to 8.26 percent. For members who terminate after December 31, 2019, final average salary is the higher of the final average salary calculated on December 31, 2019 or the average salary earned in the three highest periods of twelve consecutive months employed during the last 180 months of employment. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.75% to 7.50%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

NOTE 2 - OTHER POST EMPLOYMENT BENEFITS

Changes of benefit terms.

Beginning January 1, 2020, members first enrolled in the NDPERS Main System and the Defined Contribution Plan on or after that date will not be eligible to participate in RHIC. Therefore, RHIC will become for the most part a closed plan. There have been no other changes in plan provisions since the previous actuarial valuation as of July 1, 2018.

Changes of assumptions.

The Board approved the following changes to the actuarial assumptions beginning with the July 1, 2019 valuation:

- The investment return assumption was lowered from 7.50% to 7.25%

All other actuarial assumptions and the actuarial cost method are unchanged from the last actuarial valuation as of July 1, 2018.

**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**

Governing Board
City of Burlington
Burlington, North Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Burlington, North Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City of Burlington's basic financial statements and have issued our report thereon dated February 8, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Burlington's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Burlington's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Burlington'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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001, 2019-002 and 2019-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Burlington, North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

City of Burlington's Response to Findings

City of Burlington's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of Burlington's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
MINOT, NORTH DAKOTA

February 8, 2023

CITY OF BURLINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2019

Section II – Financial Statement Findings

2019-001 – Segregation of Duties – Material Weakness

Criteria

Generally, an appropriate system of internal control has the proper separation of duties between authorization, custody, record keeping, and reconciliation functions.

Condition

The City's internal control structure does not provide for the proper segregation of duties and reconciliation.

Cause

Size and budget constraints limit the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The above functions should be reviewed periodically and consideration given to improving the segregation of duties. Compensating controls over the underlying financial information may be obtained through oversight by management and the Council.

Views of Responsible Officials and Planned Corrective Actions

The City is aware of the condition and segregates duties whenever possible.

CITY OF BURLINGTON
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

2019-002 – *Financial Statement Preparation – Material Weakness*

Criteria

An appropriate system of internal control requires the City to prepare financial statements in compliance with accounting principles generally accepted in the United States of America, as applied under the modified cash basis of accounting.

Condition

The City's personnel prepare periodic financial information for internal use that meets the needs of management and the Board. However, the City does not currently prepare financial statements, including accompanying note disclosures, as required by the modified cash basis of accounting. The City has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause

The City elected to not allocate resources for the preparation of the financial statements.

Effect

There is an increased risk of material misstatement to the City's financial statements.

Recommendation

We recommend the City consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control the City should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions

Due to financial, efficiency and time constraints, it has been determined by the City's management that it is in the best interest of the City to have the financial statements and accompanying note disclosures prepared by the auditing firm at the time of the audit.

CITY OF BURLINGTON
SCHEDULE OF FINDINGS AND RESPONSES – CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2019

2019-003 – *Proposition of Journal Entries – Material Weakness*

Criteria

The City is required to maintain internal controls at a level where underlying support for general ledger accounts can be developed and a determination can be made that the general ledger accounts are properly reflected in accordance with GAAP.

Condition

During our audit, adjusting entries to the financial statements were proposed in order to properly reflect the financial statements in accordance with GAAP.

Cause

The City's internal controls have not been designed to address the specific training needs required of its personnel to identify the adjustments necessary to properly reflect the financial statements in accordance with GAAP.

Effect

The City's financial statements were materially misstated prior to adjustments detected as a result of audit procedures.

Recommendation

Accounting personnel will need to determine the proper balance in each general ledger account prior to the audit.

Views of Responsible Officials and Planned Corrective Actions

The City is aware of this. Due to financial, efficiency and time constraints, it has been determined by the City's management to monitor this situation and have the auditor attend trainings in the future if it is feasible.