

CITY OF WASHINGTON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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City of Washington

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Ed Brown	Mayor	January 2006
Don Allender	Mayor Pro-tem	January 2006
Bob Shepard	Councilperson 1st Ward	January 2004
Sherri Dusenbery	Councilperson 2nd Ward	January 2006
Craig Davis	Councilperson 3rd Ward	January 2004
Fred Stark	Councilperson 4th Ward	January 2006
Don Allender	Councilperson at Large	January 2006
Sandra Johnson	Councilperson at Large	January 2004
(After January 2004)		
Ed Brown	Mayor	January 2006
Don Allender	Mayor Pro-tem	January 2006
Bob Shepard	Councilperson 1st Ward	January 2007
Sherri Dusenbery	Councilperson 2nd Ward	January 2006
Mike Roth	Councilperson 3rd Ward	January 2007
Fred Stark	Councilperson 4th Ward	January 2006
Don Allender	Councilperson at Large	January 2006
Sandra Johnson	Councilperson at Large	January 2007
David Plyman	City Administrator	January 2005
Jeff Rosien	City Clerk	January 2006
Illa Earnest	Deputy City Clerk	January 2005
Craig Arbuckle	City Attorney	January 2006

City of Washington



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Washington's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective 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 Washington as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 14, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statements Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my report dated October 29, 2004 on my consideration of the City of Washington's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinion on the financial statements that collectively comprise the City of Washington's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fredrick J. Hensel, P.C.
October 29, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Washington provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 14%, or approximately \$789,000 from fiscal 2003 to fiscal 2004. Property tax decreased approximately \$516,000 and bond proceeds increased \$190,000.
- Disbursements decreased 3%, or approximately \$167,021, in fiscal 2004 from fiscal 2003. Public safety, public works and debt service disbursements decreased approximately \$722,600, \$348,174 and \$104,849 respectively, while capital projects increased \$1,370,988.
- The City's total cash basis net assets decreased 25%, or approximately \$239,112, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$640,000 and the assets of the business type activities increased by approximately \$400,889.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and sanitation. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and sanitation funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$2.53

million to \$1.891 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$210	115
Operating grants, contributions and restricted interest	125	1,920
Capital grants, contributions and restricted interest	--	--
General receipts:		
Property tax	1,789	2,305
Local option sales tax	74	110
Grants and contributions not restricted to specific purposes	--	--
Unrestricted investment earnings	23	34
Bond proceeds	190	--
Other general receipts	1,913	510
Transfers, net	364	483
Total receipts and transfers	4,688	5,477
Disbursements:		
Public safety	1,129	1,852
Public works	377	725
Health and social services	--	--
Culture and recreation	671	1,031
Community and economic development	32	67
General government	569	536
Debt service	922	1,027
Capital projects	1,628	258
Total disbursements	5,328	5,496
Increase (decrease) in cash basis net assets	(640)	(19)
Cash basis net assets beginning of year	2,531	2,550
Cash basis net assets end of year	\$1,891	2,531

The City's total receipts for governmental activities decreased by 14%, or \$789,000. The total cost of all programs and services decreased by approximately \$168,000 or .3%, with no new programs added this year. The significant decrease in receipts was offset with the proceeds received from the issuance of urban renewal tax increment financing revenue bonds.

The City decreased property tax rates for 2004 by an average of 22 percent.

The cost of all governmental activities this year was \$5.328 million compared to \$5.496 million last year. However, as shown in the Statement of Activities and Net Assets on pages 16-17, the amount taxpayers ultimately financed for these activities was only \$4.993 million because some of the cost was paid by those directly benefited from the programs (\$210,226) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$124,893). The City paid for the remaining "public benefit" portion of

governmental activities with approximately \$2,412,508 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Water	\$999	969
Sewer	1,047	1,003
Sanitation	225	273
General receipts:		
Unrestricted interest on investments	--	--
Bond proceeds	--	--
Other general receipts	5	47
Total receipts	2,276	2,292
Disbursements and transfers:		
Water	710	771
Sewer	615	1,184
Sanitation	186	241
Transfers	364	483
Total disbursements and transfers	1,875	2,679
Increase (decrease) in cash balance	401	(387)
Cash basis net assets beginning of year	354	742
Cash basis net assets end of year	\$755	355

Total business type activities receipts for the fiscal year were \$2.276 million compared to \$2.292 million last year. The cash balance increased by \$354,000 approximately from the prior year. Total disbursements and transfers for the fiscal year decreased by .30% to a total of \$1.875 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Washington completed the year, its governmental funds reported a combined fund balance of \$1,890,760 a decrease of \$640,00 below last year's total of \$2,530,761. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund cash balance decreased \$102,993 from the prior year to \$264,261.
- The Road Use Tax Fund cash balance increased by \$54,545 to \$709,616 during the fiscal year.

- The Urban Renewal Tax Increment Fund was established in the previous fiscal years to account for major urban renewal projects within the City. At the end of the fiscal year, the cash balance was \$(8,521) a decrease of \$4,041 from the previous year.
- The Debt Service Fund cash balance increased by \$450,022 to \$-0- during the fiscal year. This increase was due to an increase in property tax. Bond principal and interest payments decreased by \$104,849 in fiscal 2004.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$232,836 to \$766,943, due primarily to an increase in the sale of water and reductions in debt service payments over the prior year.
- The Sewer Fund cash balance increased by \$129,915 to a deficit of \$11,844, due primarily to a decrease in expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The first amendment was approved on May 28, 2004, to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$3,708,732 in bonds and other long-term debt, compared to approximately \$4,275,851 last year, as shown below.

	Outstanding Debt at Year-end (Expressed in Thousands)	
	June 30,	
	2004	2003
General obligation bonds	\$3,490	4,130
General obligation notes	--	90
Capital lease obligations	29	56
Revenue notes	190	--
Total	\$3,709	4,276

The City issued urban renewal tax increment financing revenue bonds for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,490,000 is significantly below its constitutional debt limit of \$13 million.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeff Rosien, City Clerk, 215 E. Washington, Washington, Iowa.

City of Washington

Basic Financial Statements

City of Washington
Statement of Activities and Net Assets – Cash Basis
As of and for the year ended June 30, 2004

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental Activities:				
Public safety	\$1,128,631	--	61,847	--
Public works	377,117	230	--	--
Health and social services	--	--	--	--
Culture and recreation	670,587	--	--	--
Community and economic development	32,679	--	--	--
General government	569,067	209,996	63,046	--
Debt service	921,882	--	--	--
Capital projects	1,628,901	--	--	--
Total governmental activities	5,328,864	210,226	124,893	--
Business type activities:				
Water	710,194	1,003,080	--	--
Sewer	614,715	1,048,930	--	--
Sanitation	186,686	224,774	--	--
Total business type activities	1,511,595	2,276,784	--	--
Total	6,840,459	2,487,010	124,893	--

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Grants / contributions not restricted to specific purpose
Unrestricted interest on investments
Bond proceeds
Miscellaneous
Sale of assets

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year, as restated

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

 Streets

 Urban renewal purposes

 Debt service

 Other purposes

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(1,066,784)	--	(1,066,784)
(376,887)	--	(376,887)
--	--	--
(670,587)	--	(670,587)
(32,679)	--	(32,679)
(296,025)	--	(296,025)
(921,882)	--	(921,882)
(1,628,901)	--	(1,628,901)
(4,993,745)	--	(4,993,745)
--	292,886	292,886
--	434,215	434,215
--	38,088	38,088
--	765,189	765,189
(4,993,745)	765,189	(4,228,556)

1,789,097	--	1,789,087
74,052	--	74,052
549,369	--	549,369
388,387	--	388,387
--	--	--
23,240	--	23,240
190,000	--	190,000
970,381	--	970,381
4,928	--	4,928
364,300	(364,300)	--
4,353,744	(364,300)	3,989,444
(640,001)	400,889	(239,112)
2,530,761	354,559	2,885,320
\$1,890,760	755,448	2,646,208

\$709,616	--	709,616
--	--	--
--	--	--
6,501	--	6,501
1,174,643	755,448	1,930,091
\$1,890,760	755,448	2,646,208

City of Washington
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$1,364,525	--	--
Tax increment financing collections	--	--	74,052
Other city tax	251,270	--	--
Licenses and permits	45,700	00	--
Use of money and property	50,826	--	305
Intergovernmental	241,919	586,927	--
Charges for service	209,996	230	--
Special assessments	--	84	--
Miscellaneous	28,847	4,042	--
Total receipts	2,193,083	591,283	74,357
Disbursements:			
Operating:			
Public safety	1,127,723	--	--
Public works	--	374,107	--
Health and social services	--	--	--
Culture and recreation	566,366	--	--
Community and economic development	25,913	--	--
General government	569,067	--	--
Debt service	--	--	--
Capital projects	390,504	162,631	209,964
Total disbursements	2,679,573	536,738	209,964
Excess of receipts over disbursements	(486,490)	54,545	(135,607)
Other financing sources (uses):			
Bond proceeds	--	--	190,000
Sale of capital assets	4,928	--	--
Operating transfers in	725,196	--	--
Operating transfers out	--	--	(58,434)
Total other financing sources (uses)	730,124	--	131,566
Net change in cash balances	243,634	54,545	(4,041)
Cash balances beginning of year	367,254	655,071	(4,480)
Cash balances end of year	610,888	709,616	(8,521)
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ --	--	--
Unreserved:			
General fund	610,888	--	--
Special revenue funds	--	709,616	(8,521)
Capital projects fund	--	--	--
Permanent fund	--	--	--
Total cash basis fund balances	\$610,888	709,616	(8,521)

See notes to financial statements.

Debt Service	Other Nonmajor Governmental Funds	Total
549,369	424,562	2,338,456
--	--	74,052
--	137,117	388,387
--	--	45,700
--	11,129	62,260
--	38,269	867,115
--	--	210,226
--	24,516	24,600
--	85,950	118,839
549,369	721,543	4,129,635

--	908	1,128,631
--	3,010	377,117
--	--	--
--	104,221	670,587
--	6,766	32,679
--	--	569,067
921,512	370	921,882
--	865,802	1,628,901
921,512	981,077	5,328,864
(372,143)	(259,534)	(1,199,229)

--	--	190,000
--	--	4,928
822,165	47,761	1,595,122
--	(1,172,389)	(1,230,822)
822,165	(1,124,627)	559,228
450,022	(1,384,161)	(640,001)
(450,022)	1,962,938	2,530,761
--	578,777	1,890,760

--	--	--
--	--	610,888
--	33,508	734,603
--	93,619	93,619
--	451,650	451,650
--	578,777	1,890,760

City of Washington

City of Washington

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Governmental Funds
As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 19)	\$1,890,760
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
Cash basis net assets of governmental activities (page 17)	None
	\$1,890,760
Net changes in cash balances (page 19)	\$(640,001)
<i>Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:</i>	
Change in cash balance of governmental activities (page 17)	None
	\$(640,001)

See notes to financial statements.

Exhibit D

City of Washington

Statement of Cash Receipts, Disbursements and Changes in Cash Balances

Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating receipts:				
Use of money and property	\$ --	--	--	--
Charges for service	999,927	1,047,207	224,774	2,271,908
Miscellaneous	3,153	1,723	--	4,876
Total operating receipts	<u>\$1,003,080</u>	<u>1,048,930</u>	<u>224,774</u>	<u>2,276,784</u>
Operating disbursements:				
Governmental activities:				
Public safety	--	--	--	--
Public works	--	--	--	--
Culture and recreation	--	--	--	--
General government	--	--	--	--
Business type activities:	710,194	614,715	186,686	1,511,595
Total operating disbursements	<u>710,194</u>	<u>614,715</u>	<u>186,686</u>	<u>1,511,595</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>292,886</u>	<u>434,215</u>	<u>38,088</u>	<u>765,189</u>
Excess (deficiency) of receipts over (under) disbursements	292,886	434,215	38,088	765,189
Operating transfers out	(60,000)	(304,300)	--	(364,300)
Net change in cash balance	232,886	129,915	38,088	400,889
Cash balances beginning of year	534,057	(141,759)	(37,739)	354,559
Cash balances end of year	<u>\$766,943</u>	<u>(11,844)</u>	<u>349</u>	<u>755,448</u>
Cash Basis Fund Balances				
Reserved for debt service	\$ --	--	--	--
Unreserved	766,943	(11,844)	349	755,448
Total cash basis fund balances	<u>\$766,943</u>	<u>(11,844)</u>	<u>349</u>	<u>755,448</u>

See notes to financial statements.

Internal Service Fund					
	Health Insurance	Gas Revolving	Payroll Clearing	Sales Tax Clearing	
\$	--	--	--	--	
	--	27,933	--	--	
	--	--	--	--	
	--	27,933	--	--	
	--	--	--	--	
	--	--	--	--	
	--	--	1,681	--	
	--	35,280	--	2,495	
	--	35,280	1,681	2,495	
	--	(7,347)	(1,681)	(2,495)	
	--	(7,347)	(1,681)	(2,495)	
15,855	--	--	11,084	--	
15,855	(7,347)	--	9,403	(2,495)	
(15,855)	12,663	--	(9,403)	2,495	
--	5,316	--	--	--	
	--	--	--	--	
	--	5,316	--	--	
	--	5,316	--	--	

City of Washington

Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets –
Proprietary Funds
As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 22)	\$755,448
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	None
Cash basis net assets of business type activities (page 17)	<u>\$755,448</u>
Net changes in cash balances (page 22)	\$400,889
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:</i>	None
Change in cash balance of business type activities (page 17)	<u>\$400,889</u>

See notes to financial statements.

City of Washington

Notes to Financial Statements

June 30, 2004

(1) **Summary of Significant Accounting Policies**

The City of Washington is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Washington has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Assessor's Conference Board, Washington County Emergency Management Commission, Washington County Joint E911 Service Board, Washington County Public Safety Committee, and Southeast Iowa Multi-County Solid Waste Agency.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for the operation of the City's solid wastes, recycling and yard waste collection systems.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Washington maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the capital projects activities functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. Government Securities	\$54,984	\$55,000
Stocks	6,009	8,740
Mutual Fund	71,230	82,966
Total	<u>\$132,223</u>	<u>146,706</u>

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,974,683 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bond and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and capital notes are as follows:

Year Ending June 30	General Obligation Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$760,000	131,450	--	--	760,000	131,450
2006	815,000	102,285	10,000	7,030	825,000	109,315
2007	845,000	73,790	15,000	6,660	860,000	80,450
2008	845,000	42,533	25,000	6,105	870,000	48,638
2009	225,000	9,563	25,000	5,180	250,000	14,743
2010	--	--	25,000	4,255	25,000	4,255
2011	--	--	30,000	3,330	30,000	3,330
2012	--	--	30,000	2,220	30,000	2,220
2013	--	--	30,000	1,110	30,000	1,110
	<u>\$3,490,000</u>	<u>359,621</u>	<u>190,000</u>	<u>35,890</u>	<u>3,680,000</u>	<u>395,511</u>

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions:

(a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$117,446, \$113,677 and \$116,405, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$137,751

This liability has been computed based on rates of pay as of June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt service	Enterprise:	
	Water	\$60,000
	Sewer	304,300
		<u>\$364,300</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$5,246 during the year ended June 30, 2004.

(8) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 475 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2004 were \$76,848.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all liability claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a liability claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by the amount equal to the annual operating contributions which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and surety bond. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Fund Balance

The following funds had a deficit balance at June 30, 2004: in the Special Revenue Fund the Urban Renewal Account had a deficit balance of \$8,521; in the Enterprise Funds, the Sewer Utility Account had a deficit balance of \$11,844; and the Capital Projects Account had a deficit balance of \$803,540.

(10) Capital Leases

The City leases a fire truck under a capital lease. The economic substance of the lease is that the City is financing the acquisition of the assets through the lease. The lease provides for lease payments to cover principal and interest and is secured by the equipment. Future minimum payments required under the lease agreements are as follows:

Year Ending June 30:

2005	\$30,442
Less amount representing interest	<u>-1,710</u>
Present value of minimum lease payment	<u><u>\$28,732</u></u>

(11) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statements Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business type activities.

(12) Budget Overexpenditures

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2004 disbursements in the Capital Projects functions exceeded the amounts budgeted.

Required Supplementary Information

City of Washington

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances --
Budget and Actual (Cash Basis) -- All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$2,338,456	--	--
Tax increment financing collections	74,052	--	--
Other city tax	388,387	--	--
Licenses and permits	45,700	--	--
Use of money and property	62,260	--	7,949
Intergovernmental	867,115	--	--
Charges for service	210,226	2,271,908	--
Special assessments	24,600	--	--
Miscellaneous	118,839	4,876	65,453
Total receipts	4,129,635	2,276,784	73,402
Disbursements:			
Public safety	1,128,631	--	--
Public works	377,117	--	--
Health and social services	--	--	--
Culture and recreation	670,587	--	93,365
Community and economic development	32,679	--	--
General government	569,067	--	55
Debt service	921,882	--	--
Capital projects	1,628,901	--	--
Business type activities	--	1,511,595	--
Total disbursements	5,328,864	1,511,595	93,420
Excess of receipts over disbursements	(1,199,229)	765,189	20,018
Other financing sources, net	559,228	(364,300)	--
Excess of receipts and other financing sources over disbursements and other financing uses	(640,001)	400,889	20,018
Balances beginning of year	2,530,761	354,559	--
Balances end of year	\$1,890,760	755,448	20,018

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$2,338,456	2,264,873	2,264,873	73,583
74,052	30,000	30,000	44,052
388,387	422,216	422,216	(33,829)
45,700	31,675	31,675	14,025
54,311	141,150	141,150	(86,839)
867,115	731,044	731,044	136,071
2,482,134	1,808,782	1,808,782	673,352
24,600	--	--	24,600
58,262	578,523	578,523	(520,261)
6,333,017	6,008,263	6,008,263	324,754
1,128,631	1,170,823	1,195,823	67,192
377,117	499,310	499,310	122,193
--	--	--	--
577,222	634,090	659,090	81,868
32,679	69,045	69,045	36,366
569,012	536,819	736,819	167,807
921,882	922,571	922,571	689
1,628,901	281,470	281,470	(1,347,431)
1,511,595	1,881,910	1,881,910	370,315
6,747,039	5,996,038	6,246,038	501,001
(414,022)	12,225	(237,775)	(176,247)
194,928	--	250,000	(55,072)
(219,094)	12,225	12,225	(231,319)
2,885,320	--	--	2,885,320
\$2,666,226	12,225	12,225	2,654,001

City of Washington

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Services Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$250,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the capital projects activities functions.

Other Supplementary Information

City of Washington

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Housing Rehabilitation	Employee Benefits	Special Liability Insurance
Receipts:			
Property tax	\$ --	359,599	64,963
Other city tax	--	--	--
Use of money and property	--	--	--
Intergovernmental	38,269	--	--
Special assessments	--	--	--
Miscellaneous	9,983	--	--
Total receipts	48,252	359,599	64,963
Disbursements:			
Operating:			
Public safety	--	--	--
Public works	--	--	--
Health and social services	--	--	--
Culture and recreation	--	--	--
General government	--	--	--
Debt service	--	--	--
Capital projects	45,361	--	--
Total disbursements	45,361	--	--
Excess (deficiency) of receipts over (under) disbursements	2,891	359,599	64,963
Other financing uses:			
Operating transfers in	47,761	--	--
Operating transfers (out)	--	(354,098)	(63,963)
Net change in cash balances	50,652	5,501	1,000
Cash balances beginning of year	(50,652)	--	--
Cash balances end of year	\$ --	5,501	1,000
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ --	5,501	1,000
Capital project fund	--	--	--
Permanent fund	--	--	--
Total cash basis fund balances	\$ --	5,501	1,000

See accompanying independent auditor's report.

Revenue	Capital Reserves	Capital Projects	Trusts	Total
Special Assessment Bonds / Notes				
\$ --	--	--	--	424,562
--	--	137,117	--	137,117
--	--	3,180	7,949	11,129
--	--	--	--	38,269
24,516	--	--	--	24,516
--	10,514	--	65,453	85,950
24,516	10,514	140,297	73,402	721,543
--	908	--	--	908
--	3,010	--	--	3,010
--	--	--	--	--
--	10,856	--	93,365	104,221
--	6,711	--	55	6,766
370	--	--	--	370
--	--	939,018	--	984,379
370	21,485	939,018	93,420	1,099,654
24,146	(10,971)	(798,721)	(20,018)	(378,111)
--	--	--	--	47,761
(260,887)	--	(374,863)	--	(1,053,811)
(230,941)	(10,971)	(1,173,584)	(20,018)	(1,384,161)
263,748	351,076	927,098	471,668	1,962,938
27,007	340,105	(246,486)	451,650	578,777
27,007	--	--	--	33,508
--	340,105	(246,486)	--	93,619
--	--	--	451,650	451,650
27,007	340,105	(246,486)	451,650	578,777

City Of Washington
Statement of Indebtedness
Year Ended June 30, 2004

Obligation	Date of Issue	Interest Rates
General Obligation Bonds:		
Essential corporate purpose	Nov 1, 1991	4.50-6.00%
Essential corporate purpose	May 1, 1995	4.50-5.25%
Essential corporate purpose	June 1, 1999	3.80-4.25%
Essential corporate purpose	June 1, 2002	2.60-3.80%
General Obligation Capital Notes:		
Series 1992	Dec 1, 1992	3.40-5.45%
Capital Lease Obligations:		
Fire Truck	Sep 30, 1997	5.95%
Revenue Notes:		
Urban Renewal Series 2004	Jan 12, 2004	3.70%

See notes to financial statements.

Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$2,700,000	--	--	--	--	--	--
1,500,000	370,000	--	180,000	190,000	19,425	--
1,900,000	1,225,000	--	185,000	1,040,000	50,323	--
2,535,000	2,535,000	--	275,000	2,260,000	85,518	--
	4,130,000	--	640,000	3,490,000	155,266	--
\$800,000	90,000	--	90,000	--	4,905	--
\$170,242	55,851	--	27,119	28,732	3,323	--
\$190,000	--	190,000	--	190,000	--	--

Schedule 3

City Of Washington
Bond and Notes Maturities
June 30, 2004

Year Ending June 30	General Obligation Bonds			
	Essential Corporate Purpose Issued May 1, 1995		Essential Corporate Purpose Issued June 1, 1999	
	Interest Rates	Amount	Interest Rates	Amount
2005	5.25%	\$190,000	4.00%	\$190,000
2006		--	4.10%	200,000
2007		--	4.15%	210,000
2008		--	4.20%	215,000
2009		--	4.25%	225,000
		<u>\$190,000</u>		<u>\$1,040,000</u>

Year Ending June 30	General Obligation Bonds		
	Essential Corporate Purpose Issued June 1, 2002		
	Interest Rates	Amount	Total
2005	3.05%	380,000	\$760,000
2006	3.30%	615,000	815,000
2007	3.55%	635,000	845,000
2008	3.60%	630,000	845,000
2009		--	225,000
		<u>\$2,260,00</u>	<u>\$3,490,000</u>

Year Ending June 30	Revenue Notes Series 2004 Issued Jun 12, 2004	
	Interest Rates	Amount
	2005	3.70%
2006	3.70%	10,000
2007	3.70%	15,000
2008	3.70%	25,000
2009	3.70%	25,000
2010	3.70%	25,000
2011	3.70%	30,000
2012	3.70%	30,000
2013	3.70%	30,000
		<u>\$190,000</u>

See accompanying independent auditor's report.

City of Washington

Schedule of Receipts By Source and Disbursements By Function –
All Governmental Funds

For the Last Four Years

	2004	2003	2002	2001
Receipts:				
Property tax	\$2,338,456	2,305,132	2,112,133	2,030,596
Tax increment financing	74,052	52,171	26,950	13,533
collections	388,387	223,692	82,494	78,502
Other city tax	45,700	37,740	35,719	39,512
Licenses and permits	62,260	82,208	25,332	109,413
Use of money and property	867,115	1,369,261	828,922	865,876
Intergovernmental	2,482,134	1,848,069	2,380,777	2,423,366
Charges for service	24,600	16,803	26,712	20,987
Special assessments	123,715	1,387,613	309,596	372,798
Miscellaneous				
Total	<u>\$6,406,419</u>	<u>7,322,689</u>	<u>5,828,635</u>	<u>5,954,583</u>
Disbursements:				
Operating:				
Public safety	\$1,128,631	1,851,231	1,116,047	1,120,294
Public works	1,888,712	2,921,218	2,696,919	3,007,253
Health and social services	--	--	--	--
Culture and recreation	670,587	1,030,803	505,988	483,657
Community and economic development	32,679	67,527	--	--
General government	569,067	583,296	663,488	603,454
Debt service	921,882	1,026,731	975,843	984,756
Capital projects	1,628,901	257,913	551,406	935,920
Total	<u>\$6,840,459</u>	<u>7,738,719</u>	<u>6,509,691</u>	<u>7,135,334</u>

See accompanying independent auditor's report.

City of Washington



FREDRICK J. HENSEL, P.C.
Certified Public Accountant

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

I have audited the financial statements of the City of Washington as of and for the year ended June 30, 2004, and have issued my report thereon, dated October 29, 2004. My report expressed an unqualified opinion on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with US generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Washington's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-A-04, II-G-04 and II-H-04.

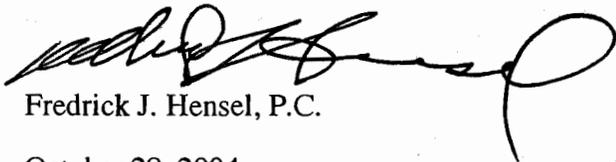
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Washington's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Washington's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-01 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-01.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Washington and other parties to whom the City of Washington may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Washington during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Fredrick J. Hensel, P.C.

October 29, 2004

City of Washington
Schedule of Findings
Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that employees having access to cash and mail receipts are also handling receivable ledger functions, and warrant preparation, and signing warrants are not separate from the approval function.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We are willing to review our financial procedures, but with the limited number of employees in the department, our options are limited. We do not anticipate adding an employee to the department.

Conclusion - Response acknowledged.

City of Washington
Schedule of Findings
Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the Capital Projects budget function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response acknowledged.

- II-C-04 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Don Allender, Council Member at Large, Owner, Carson Plumbing	Repairs, parts	\$5,246

The Council members always abstain from approving their own claims. The transactions listed above were entered into after obtaining best prices.

City of Washington
Schedule of Findings
Year ended June 30, 2004

II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, some were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should comply with the Code of Iowa and should publish minutes as required.

Response - We have always waited until the following council meeting to approve the prior meeting minutes, therefore the City does not comply with this Chapter of the Code of Iowa.

Conclusion - Response accepted.

II-H-04 Deposits and Investments - I noted instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and City's investment policy.

The Library Board has investments in stocks and mutual funds. These investments are not in accordance with Chapter 12B and 12C of the Code of Iowa and the City's investment policy. These stocks and the mutual funds were acquired by bequests and a gift. The board under the terms of the bequests may retain ownership.

II-I-04 Financial Condition - The following deficit fund balances were noted as of June 30, 2004: Special Revenue Fund: Urban Renewal Tax Increment \$8,521; Enterprise Funds: Sewer Utility \$11,844; Capital Projects \$ 246,486.

Recommendation - The City should eliminate these deficits in order to return these accounts to a sound financial position.

Response - We will look into complying with this recommendation.

Conclusion - Response accepted.