CITY OF WASHINGTON

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

JUNE 30, 2005

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City of Washington

FREDRICK J. HENSEL, P.C.
Certified Public Accountant
1052 West Madison Suite B • P.O. Box 842 • Washington, IA 52353 • (319) 653-7617 • FAX (319) 653-5739

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, 2005, 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 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 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 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.

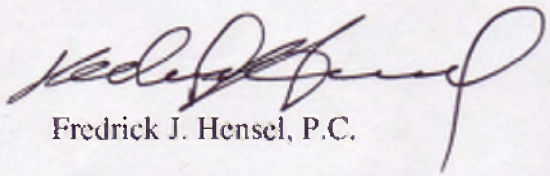
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Washington as of June 30, 2005, 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.

In accordance with Government Auditing Standards, I have also issued my report dated October 28, 2005 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 grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal controls over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That

report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 32 through 34 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 inquires of management regarding the methods of measurement and presentation of the required 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, 2004 (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 28, 2005

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 7%, or approximately $297,000 from fiscal 2004 to fiscal 2005. Property tax increased approximately $29,542.
- Disbursements decreased 19%, or approximately $828,518, in fiscal 2005 from fiscal 2004. Public safety, public works and debt service disbursements increased approximately $296,848, $182,533 and $1,210 respectively, while capital projects decreased $1,394,407.
- The City's total cash basis net assets increased 18%, or approximately $466,467, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased approximately $122,000 and the assets of the business type activities increased by approximately $588,200.
- 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,	
	2005	2004
Receipts and transfers:		
Program receipts:		
Charges for service	$207	$210
Operating grants, contributions and restricted interest	--	125
Capital grants, contributions and restricted interest	--	--
General receipts:		
Property tax	2,462	1,789
Local option sales tax	545	74
Grants and contributions not restricted to specific purposes	--	--
Unrestricted investment earnings	99	23
Bond proceeds	--	190
Other general receipts	1,112	1,913
Transfers, net	(47)	364
Total receipts and transfers	4,378	4,688
Disbursements:		
Public safety	1,426	1,129
Public works	560	377
Health and social services	--	--
Culture and recreation	621	671
Community and economic development	--	32
General government	736	569
Debt service	923	922
Capital projects	234	1,628
Total disbursements	4,500	5,328
Increase (decrease) in cash basis net assets	(122)	(640)
Cash basis net assets beginning of year	1,891	2,531
Cash basis net assets end of year	$1,769	1,891

The City's total receipts for governmental activities decreased by 7%, or $310,000. The total cost of all programs and services decreased by approximately $828,000 or 16%, with no new programs added this year. The significant decrease in receipts was offset with the decrease in expenditures.

The City increased property tax rates for 2005 by an average of 2 percent.

The cost of all governmental activities this year was $4.500 million compared to $5.328 million last year. However, as shown in the Statement of Activities and Net Assets on pages 14-15, the amount taxpayers ultimately financed for these activities was only $4.097 million because some of the cost was paid by those directly benefited from the programs $402,655. The City paid

for the remaining "public benefit" portion of governmental activities with approximately $2,462,484 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,	
	2005	2004
Receipts:		
Program receipts:		
Charges for service:		
Water	$987	999
Sewer	1,036	1,047
Sanitation	220	225
General receipts:		
Unrestricted interest on investments	--	--
Bond proceeds	--	--
Other general receipts	--	5
Total receipts	2,243	2,276
Disbursements and transfers:		
Water	805	710
Sewer	661	615
Sanitation	237	186
Transfers	(48)	364
Total disbursements and transfers	1,655	1,875
Increase (decrease) in cash balance	588	401
Cash basis net assets beginning of year	755	354
Cash basis net assets end of year	$1,343	$755

Total business type activities receipts for the fiscal year were $2.243 million compared to $2.276 million last year. The cash balance increased by $588,000 approximately from the prior year. Total disbursements and transfers for the fiscal year decreased by .12% to a total of $1.655 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Washington completed the year, its governmental funds reported a combined fund balance of $1,768,025 a decrease of $121,732 below last year's total of $1,890,760. 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 increased $221,820 from the prior year to $832,708.

- The Road Use Tax Fund cash balance increased by $157,775 to $867,391 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 $(16,769) a decrease of $8,248 from the previous year.

- The Debt Service Fund cash balance decreased by $341,861 to $115,996 during the fiscal year. Bond principal and interest payments increased by $1,580 in fiscal 2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by $182,090 to $949,033, 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 $375,185 to $363,341, due primarily to a decrease in transfers.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 31, 2005, 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, 2005, the City had approximately $2,920,000 in bonds and other long-term debt, compared to approximately $3,708,732 last year, as shown below.

Outstanding Debt at Year-end
(Expressed in Thousands)

	June 30,	
	2005	2004
General obligation bonds	$2,730	$3,490
Capital lease obligations	--	29
Revenue notes	190	190
Total	$2,920	$3,709

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 $2,920,000 is significantly below its constitutional debt limit of $14 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, 2005

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental Activities:				
Public safety	$1,425,479	--	--	--
Public works	559,650	--	144,152	--
Health and social services	--	--	--	--
Culture and recreation	620,817	--	2,550	--
Community and economic development	--	--	--	--
General government	736,814	204,648	51,305	--
Debt service	923,092	--	--	--
Capital projects	234,494	--	--	--
Total governmental activities	4,500,346	204,648	198,007	--
Business type activities:				
Water	804,671	986,761	--	--
Sewer	661,224	1,036,409	--	--
Sanitation	237,053	220,181	--	--
Total business type activities	1,702,948	2,243,351	--	--
Total	6,203,294	2,447,999	198,007	--
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.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(1,425,479)	--	(1,425,479)
(415,498)	--	(415,498)
--	--	--
(618,267)	--	(618,267)
--	--	--
(480,861)	--	(480,861)
(923,092)	--	(923,092)
(234,494)	--	(234,494)
(4,097,691)	--	(4,097,691)
--	182,090	182,090
--	375,185	375,185
--	(16,872)	(16,872)
--	540,403	540,403
(4,097,691)	540,403	(3,557,288)
1,786,775	--	1,786,775
94,486	--	94,486
581,223	--	581,223
545,406	--	545,406
--	--	--
99,077	--	99,077
--	--	--
916,788	--	916,788
--	--	--
(47,796)	47,796	--
3,975,959	47,796	4,023,755
(121,732)	588,199	466,244
1,890,760	755,448	2,646,208
1,769,028	1,343,647	3,112,675
$ 867,391	--	867,391
--	--	--
--	--	--
--	--	--
901,637	1,343,647	2,245,284
$1,769,028	1,343,647	3,112,675

City of Washington
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

		Special Revenue	
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	$1,354,951	--	--
Tax increment financing collections	--	--	94,486
Other city tax	545,406	--	--
Licenses and permits	53,880	--	--
Use of money and property	88,484	--	236
Intergovernmental	95,956	585,929	--
Charges for service	204,648	2,181	--
Special assessments	--	--	--
Miscellaneous	177,013	1,381	--
Total receipts	2,520,338	589,491	94,722
Disbursements:			
Operating:			
Public safety	1,425,479	--	--
Public works	127,934	431,716	--
Health and social services	--	--	--
Culture and recreation	593,998	--	--
Community and economic development	--	--	--
General government	719,098	--	--
Debt service	--	--	--
Capital projects	--	--	44,536
Total disbursements	2,857,509	431,716	44,536
Excess of receipts over disbursements	(337,171)	157,775	50,186
Other financing sources (uses):			
Bond proceeds	--	--	--
Sale of capital assets	--	--	--
Operating transfers in	764,489	--	--
Operating transfers out	(205,498)	--	(58,434)
Total other financing sources (uses)	558,991	--	(58,434)
Net change in cash balances	221,820	157,775	(8,248)
Cash balances beginning of year	610,888	709,616	(8,521)
Cash balances end of year	832,708	867,391	(16,769)
Cash Basis Fund Balances			
Reserved:			
Debt service	$ --	--	--
Unreserved:			
General fund	832,708	--	--
Special revenue funds	--	867,391	(16,769)
Capital projects fund	--	--	--
Permanent fund	--	--	--
Total cash basis fund balances	$832,708	867,391	(16,769)

See notes to financial statements.

Debt Servce	Other Nonmajor Governmental Funds	Total
581,223	431,824	2,367,998
--	--	94,486
--	--	545,406
--	--	53,880
--	10,357	99,077
--	153,253	835,138
--	315	207,144
--	17,801	17,801
--	27,086	205,480
581,223	640,636	4,426,410
--	--	1,425,479
--	--	559,650
--	--	--
--	26,819	620,817
--	--	--
--	26,716	736,814
923,092	--	923,092
--	189,958	234,494
923,092	243,493	4,500,346
(341,869)	397,143	(73,936)
--	--	--
--	--	--
457,865	130,763	1,353,117
--	(1,136,981)	(1,400,913)
457,865	(1,006,218)	(47,796)
115,996	(609,075)	(121,732)
--	578,777	1,890,760
115,996	(30,298)	1,769,028
--	--	--
--	--	832,708
115,996	(191,875)	774,743
--	(288,134)	(288,134)
--	449,711	449,711
115,996	(32,298)	1,769,028

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, 2005

Total governmental funds cash balances (page 17)	$1,768,805
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	None
Cash basis net assets of governmental activities (page 15)	$1,768,805
Net changes in cash balances (page 17)	$(121,732)
Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:	None
Change in cash balance of governmental activities (page 15)	$(121,732)

See notes to financial statements.

City of Washington

Statement of Cash Receipts, Disbursements and Changes in Cash Balances

Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating receipts:				
Use of money and property	$ 126	--	--	126
Charges for service	986,467	1,029,811	219,626	2,235,904
Miscellaneous	168	6,598	555	7,321
Total operating receipts	986,761	1,036,409	220,181	2,243,351
Operating disbursements:				
Governmental activities:				
Public safety	--	--	--	--
Public works	--	--	--	--
Culture and recreation	--	--	--	--
General government	--	--	--	--
Business type activities:	804,671	661,224	237,053	1,702,948
Total operating disbursements	804,671	661,224	237,053	1,702,948
Excess (deficiency) of operating receipts over (under) operating disbursements	182,090	375,185	(16,872)	540,403
Operating transfers in	--	--	47,796	47,796
Net change in cash balance	182,090	375,185	30,924	588,199
Cash balances beginning of year	766,943	(11,844)	349	755,448
Cash balances end of year	$949,033	363,341	31,273	1,343,647
Cash Basis Fund Balances				
Reserved for debt service	$ --	--	--	--
Unreserved	949,033	363,341	31,273	1,343,647
Total cash basis fund balances	$949,033	363,341	31,273	1,343,647

See notes to financial statements.

Internal Service Fund		
Health Insurance	Gas Revolving	Payroll Clearing
$ --	--	--
1,096	23,928	1,170
--	--	--
1,096	23,928	1,170
--	--	--
--	--	--
--	--	--
--	--	--
--	31,420	1,170
--	31,420	1,170
1,096	(7,492)	(1,170)
--	--	--
1,096	(7,492)	--
--	5,316	--
1,096	(2,176)	--
--	--	--
1,096	(2,176)	--
1,096	(2,176)	--

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, 2005

Total enterprise funds cash balances (page 20)	$1,343,647
Amounts reported for business type activities in the Statement of Activities and Net Assets are difference because:	None
Cash basis net assets of business type activities (page 15)	$1,343,647
Net changes in cash balances (page 20)	$588,199
Amounts reported for business type activities in the Statement of Activities and Net Assets are difference because:	None
Change in cash balance of business type activities (page 15)	$588,199

See notes to financial statements.

(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.

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.

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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, 2005, 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, 2005 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.

At June 30, 2005, the City had the following investments:

Type	Carrying Amount	Fair Value
U.S. Government Securities	$34,995	34,745
Stocks	6,009	9,095
Mutual Fund	71,830	87,727
Total	$112,834	131,567

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of $2,569,094 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Pubic Agency Investment Trust is unrated.

(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
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
	$2,730,000	228,171	190,000	35,890	2,920,000	264,061

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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were $125,923, $117,446 and $113,677, 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, 2005, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$105,712

This liability has been computed based on rates of pay as of June 30, 2005.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Enterprise:	General	
Sanitation		$47,796

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 $4,427 during the year ended June 30, 2005.

(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 509 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, 2005 were $78,999.

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 $10,000,000, such excess coverage is also reinsured.

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, 2005, 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 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 an amount equal to the annual operating contribution 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, 2005: in the Enterprise Funds, the Sanitation Account had a deficit balance of $16,374; and the Capital Projects Account had a deficit balance of $805,717.

(10) Budget Overexpenditures

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2005 disbursements in the Capital Projects functions exceeded the amounts budgeted.

City of Washington

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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	$2,367,998	--	--
Tax increment financing collections	94,486	--	--
Other city tax	545,406	--	--
Licenses and permits	53,880	--	--
Use of money and property	99,077	126	6,671
Intergovernmental	835,138	--	--
Charges for service	207,144	2,235,904	315
Special assessments	17,801	--	--
Miscellaneous	205,480	7,321	14,840
Total receipts	4,426,410	2,243,351	21,826
Disbursements:			
Public safety	1,425,479	--	--
Public works	559,650	--	--
Health and social services	--	--	--
Culture and recreation	620,817	--	17,132
Community and economic development	--	--	--
General government	736,814	--	--
Debt service	923,092	--	--
Capital projects	234,494	--	6,633
Business type activities	--	1,702,948	--
Total disbursements	4,500,346	1,702,948	23,765
Excess of receipts over disbursements	(73,936)	540,403	(1,939)
Other financing sources, net	(47,796)	47,796	--
Excess of receipts and other financing sources over disbursements and other financing uses	(121,732)	588,199	(1,939)
Balances beginning of year	1,890,760	755,448	--
Balances end of year	$1,769,028	1,343,647	(1,939)

See accompanying independent auditor's report.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance
$2,367,998	2,301,485	2,301,485	66,513
94,486	84,926	84,926	9,560
545,406	432,434	432,434	112,972
53,880	37,315	37,315	16,565
92,532	49,900	49,900	42,632
835,138	631,208	631,208	203,930
2,442,733	2,389,237	2,389,237	53,496
17,801	8,000	8,000	9,801
197,961	595,648	595,648	(397,687)
6,647,935	6,530,153	6,530,153	117,782
1,425,479	1,203,087	1,328,087	(97,392)
559,650	782,061	782,061	222,411
--	--	--	--
603,685	636,904	636,904	33,219
--	19,005	24,005	24,005
736,814	917,353	937,353	200,539
923,092	926,407	926,407	3,315
227,861	108,000	108,000	(119,861)
1,702,948	1,937,336	1,937,336	234,388
6,179,529	6,530,153	6,680,153	500,624
468,406	--	(150,000)	618,406
--	--	150,000	(150,000)
468,406	--	--	468,406
2,646,208	2,425,877	2,425,877	220,331
$3,114,614	2,425,877	2,425,877	688,737

City of Washington

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 $150,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, 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, 2005

	Housing Rehabilitation	Employee Benefits	Special Liability Insurance
Receipts:			
Property tax	$ --	313,053	118,771
Other city tax	--	--	--
Use of money and property	--	--	--
Intergovernmental	153,253	--	--
Special assessments	--	--	--
Miscellaneous	--	--	--
Total receipts	153,253	313,053	118,771
Disbursements:			
Operating:			
Public safety	--	--	--
Public works	--	--	--
Health and social services	--	--	--
Culture and recreation	--	--	--
General government	--	26,716	--
Debt service	--	--	--
Capital projects	168,968	--	--
Total disbursements	168,968	26,716	--
Excess (deficiency) of receipts over (under) disbursements	(15,715)	286,337	118,771
Other financing uses:			
Operating transfers in	47,761	--	--
Operating transfers (out)	--	(327,159)	(63,963)
Net change in cash balances	32,046	(40,822)	54,808
Cash balances beginning of year	--	5,501	1,000
Cash balances end of year	$32,046	(35,321)	55,808
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	$32,046	(35,321)	55,808
Capital project fund	--	--	--
Permanent fund	--	--	--
Total cash basis fund balances	$32,046	(35,321)	55,808

See accompanying independent auditor's report.

Revenue	Capital Reserves	Capital Projects	Trusts	
Special Assessment Bonds / Notes				Total
$ --	--	--	--	431,824
--	--	--	--	--
--	--	3,686	6,671	10,357
--	--	--	--	153,253
17,801	--	--	--	17,801
--	12,246	--	15,155	27,421
17,801	12,246	3,686	21,826	640,636
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	9,687	--	17,132	26,819
--	--	--	--	26,716
--	--	--	--	--
1,222	5,070	8,065	6,633	189,958
1,222	14,757	8,065	23,765	243,493
16,579	(2,511)	(4,379)	(1,939)	397,143
--	--	83,002	--	130,763
(287,994)	--	(457,865))	--	(1,136,981)
(271,415)	(2,511)	(379,242)	(1,939)	(609,075)
27,007	340,105	(246,486)	451,650	578,777
(244,408)	337,594	(625,728)	449,711	(30,298)
(244,408)	--	--	--	(191,875)
--	337,594	(625,728)	--	(288,134)
--	--	--	449,771	449,771
(244,408)	337,594	(625,728)	449,771	(30,298)

City Of Washington

Statement of Indebtedness

Year Ended June 30, 2005

Obligation	Date of Issue	Interest Rates
General Obligation Bonds:		
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%
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
$1,500,000	190,000	--	190,000	--	9,975	--
1,900,000	1,040,000	--	190,000	850,000	43,108	--
2,535,000	2,260,000	--	380,000	1,880,000	78,368	--
	3,490,000	--	760,000	2,730,000	131,451	--
$170,242	28,732	--	28,732	--	1,710	--
$190,000	190,000	--	--	190,000	9,958	--

Schedule 3

City Of Washington

Bond and Notes Maturities

June 30, 2005

Year Ending June 30	General Obligation Bonds Essential Corporate Purpose Issued June 1, 1999 Interest Rates	Amount
2006	4.10%	$200,000
2007	4.15%	210,000
2008	4.20%	215,000
2009	4.25%	225,000
		$850,000

Year Ending June 30	General Obligation Bonds Essential Corporate Purpose Issued June 1, 2002 Interest Rates	Amount	Total
2006	3.30%	615,000	815,000
2007	3.55%	635,000	845,000
2008	3.60%	630,000	845,000
2009		--	225,00
		$1,880,00	$2,730,000

Year Ending June 30	Revenue Notes Series 2004 Issued Jun 12, 200 Interest Rates	Amount
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
		$190,000

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

	2005	2004	2003	2002
Receipts:				
Property tax	$2,367,998	2,338,456	2,305,132	2,112,133
Tax increment financing collections	94,486	74,052	52,171	26,950
Other city tax	545,406	388,387	223,692	82,494
Licenses and permits	53,880	45,700	37,740	35,719
Use of money and property	99,203	62,260	82,208	25,332
Intergovernmental	835,138	867,115	1,369,261	828,922
Charges for service	2,443,048	2,482,134	1,848,069	2,380,777
Special assessments	17,801	24,600	16,803	26,712
Miscellaneous	212,801	123,715	1,387,613	309,596
Total	$6,669,761	6,406,419	7,322,689	5,828,635
Disbursements:				
Operating:				
Public safety	$1,425,479	1,128,631	1,851,231	1,116,047
Public works	2,262,598	1,888,712	2,921,218	2,696,919
Health and social services	--	--	--	--
Culture and recreation	620,817	670,587	1,030,803	505,988
Community and economic development	--	32,679	67,527	--
General government	736,814	569,067	583,296	663,488
Debt service	923,092	921,882	1,026,731	975,843
Capital projects	234,494	1,628,901	257,913	551,406
Total	$6,203,294	6,840,459	7,738,719	6,509,691

See accompanying independent auditor's report.

City of Washington

FREDRICK J. HENSEL, P.C.
Certified Public Accountant
1052 West Madison Suite B • P.O. Box 842 • Washington, IA 52353 • (319) 653-7617 • FAX (319) 653-5739

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

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, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated October 28, 2005. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Washington's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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 items I-A-05 is a material weaknesses.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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 statues.

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 including federal awarding agencies and pass-through entities. 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 28, 2005

City of Washington

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-05 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, 2005

Part II: Other Findings Related to Statutory Reporting:

II-A-05 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, 2005.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the Public Safety and the Capital Projects budget functions. 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-05 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-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 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	$4,427

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, 2005

II-F-05 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-05 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

II-H-05 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-05 Financial Condition - The following deficit fund balances were noted as of June 30, 2005: Special Revenue: Urban Renewal Tax Increment $16,769, Employee Benefits $35,321; Special Assessments $244,408: Capital Projects $625,728.

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.