

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

JUNE 30, 2006

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City of Washington

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Ed Brown	Mayor	January 2006
Don Allender	Mayor Pro-tem	January 2006
Bob Shepard	Councilperson 1st Ward	January 2008
Sherri Dusenbery	Councilperson 2nd Ward	January 2006
Mike Roth	Councilperson 3rd Ward	January 2008
Fred Stark	Councilperson 4th Ward	January 2006
Don Allender	Councilperson at Large	January 2006
Sandra Johnson	Councilperson at Large	January 2008
(After January 2006)		
Richard J. Cicalo	Mayor	January 2010
Don Allender	Mayor Pro-tem	January 2006
Bob Shepard	Councilperson 1st Ward	January 2008
Russ Zieglowsky	Councilperson 2nd Ward	January 2010
Mike Roth	Councilperson 3rd Ward	January 2008
Fred Stark	Councilperson 4th Ward	January 2010
Merle Hagie	Councilperson at Large	January 2010
Sandra Johnson	Councilperson at Large	January 2008
David Plyman	City Administrator	January 2007
Jeff Rosien	City Clerk	January 2007
Illa Earnest	Deputy City Clerk	January 2007
Craig Arbuckle	City Attorney	January 2007

City of Washington



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Certified Public Accountant

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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, 2006, 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, 2006, 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 November 17, 2006 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 inquiries 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, 2005 (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.

A handwritten signature in black ink, appearing to read "Fredrick J. Hensel", with a large, stylized flourish at the end.

Fredrick J. Hensel, P.C.
November 17, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 2%, or approximately \$80,000 from fiscal 2005 to fiscal 2006. Property tax decreased approximately \$15,484.
- Disbursements increased 14%, or approximately \$621,917, in fiscal 2006 from fiscal 2005. Public safety, public works and general government disbursements increased approximately \$136,166, \$131,980 and \$109,501 respectively, while debt service decreased \$5,007.
- The City's total cash basis net assets decreased 6%, or approximately \$186,435, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities increased approximately \$415,545 and the assets of the business type activities decreased by approximately \$601,980.

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 increased slightly from a year ago, increasing from \$1.8 million to \$2.2 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,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	\$218	207
Operating grants, contributions and restricted interest	276	198
Capital grants, contributions and restricted interest	--	--
General receipts:		
Property tax	2,447	2,462
Local option sales tax	445	545
Grants and contributions not restricted to specific purposes	--	--
Unrestricted investment earnings	90	99
Bond proceeds	--	--
Other general receipts	859	1,112
Transfers, net	1,191	(47)
Total receipts and transfers	5,526	4,378
Disbursements:		
Public safety	1,562	1,426
Public works	692	560
Health and social services	--	--
Culture and recreation	688	621
Community and economic development	125	--
General government	846	736
Debt service	918	923
Capital projects	291	234
Total disbursements	5,122	4,500
Increase (decrease) in cash basis net assets	404	(122)
Cash basis net assets beginning of year	1,769	1,891
Cash basis net assets end of year	\$2,173	1,769

The City's total receipts for governmental activities increased by 26%, or \$1,148,000. The total cost of all programs and services increased by approximately \$1,770,000 or 39%, with no new programs added this year. The significant increase in receipts was offset with the increase in expenditures.

The cost of all governmental activities this year was \$5.122 million compared to \$4.500 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 \$4.628 million because some of the cost was paid by those directly benefited from the programs \$464,132. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$2,447,000 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,	
	2006	2005
Receipts:		
Program receipts:		
Charges for service:		
Water	\$1,003	987
Sewer	1,026	1,036
Sanitation	228	220
General receipts:		
Unrestricted interest on investments	--	--
Bond proceeds	--	--
Other general receipts	38	--
Total receipts	<u>2,295</u>	<u>2,243</u>
Disbursements and transfers:		
Water	776	805
Sewer	702	661
Sanitation	227	237
Transfers	1,191	(48)
Total disbursements and transfers	<u>2,896</u>	<u>1,655</u>
Increase (decrease) in cash balance	(601)	588
Cash basis net assets beginning of year	<u>1,467</u>	<u>755</u>
Cash basis net assets end of year	<u>\$ 866</u>	<u>\$1,343</u>

Total business type activities receipts for the fiscal year were \$2.205 million compared to \$2.243 million last year. The cash balance decreased by \$601 approximately from the prior year. Total disbursements and transfers for the fiscal year increased by 168% to a total of \$2.897 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Washington completed the year, its governmental funds reported a combined fund balance of \$2,473,428 an increase of \$415,545 above last year's total of \$1,757,883. 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 \$472,120 from the prior year to \$465,675.
- The Road Use Tax Fund cash balance increased by \$23,193 to \$890,584 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 \$60 an increase of \$16,829 from the previous year.
- The Debt Service Fund cash balance decreased by \$16,027 to \$99,969 during the fiscal year. Bond principal and interest payments decreased by \$5,007 in fiscal 2006.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$506,840 to \$566,391, 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 decreased by \$95,998 to \$267,343, 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, 2006, 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, 2006, the City had approximately \$2,095,000 in bonds and other long-term debt, compared to approximately \$2,920,000 last year, as shown below.

	Outstanding Debt at Year-end (Expressed in Thousands)	
	June 30,	
	2006	2005
General obligation bonds	\$1,915	2,730
Revenue notes	180	190
Total	\$2,095	2,920

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 \$1,915,000 is significantly below its constitutional debt limit of \$8.6 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, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental Activities:				
Public safety	\$1,561,645	--	--	--
Public works	691,540	--	558	--
Health and social services	--	--	--	--
Culture and recreation	687,928	--	84,683	--
Community and economic development	125,114	--	49,714	--
General government	846,315	218,106	132,497	--
Debt service	918,085	--	--	--
Capital projects	291,636	--	8,664	--
Total governmental activities	5,122,263	218,106	276,116	--
Business type activities:				
Water	776,096	1,002,615	345	--
Sewer	702,148	1,026,100	--	--
Sanitation	227,170	228,028	--	--
Total business type activities	1,705,414	2,256,743	345	--
Total	6,827,677	2,474,849	276,461	--

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
(1,561,645)	--	(1,561,645)
(690,982)	--	(690,982)
--	--	--
(603,245)	--	(603,245)
(75,400)	--	(75,400)
(495,712)	--	(495,712)
(918,085)	--	(918,085)
(282,972)	--	(282,972)
(4,628,041)	--	(4,628,041)
--	226,864	226,864
--	323,952	323,952
--	858	858
--	551,674	551,674
(4,628,041)	551,674	(4,076,367)
1,443,934	--	1,443,934
101,008	--	101,008
902,058	--	902,058
455,215	--	455,215
--	--	--
89,578	--	89,578
--	--	--
860,389	37,750	898,139
--	--	--
1,191,404	(1,191,404)	--
5,043,586	(1,153,654)	3,889,932
415,545	(601,980)	(186,435)
1,757,883	1,467,845	3,225,728
2,173,428	865,865	3,039,293
\$890,584	--	890,584
60	--	60
99,969	--	99,969
--	--	--
1,182,815	865,865	2,048,680
\$2,173,428	865,865	3,039,293

City of Washington
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$1,350,330	--	--
Tax increment financing collections	--	--	101,008
Other city tax	455,213	--	--
Licenses and permits	69,611	--	--
Use of money and property	136,084	--	558
Intergovernmental	215,644	590,013	--
Charges for service	217,922	184	--
Special assessments	--	--	--
Miscellaneous	14,282	4,658	--
Total receipts	2,459,086	594,855	101,566
Disbursements:			
Operating:			
Public safety	1,561,645	--	--
Public works	84,152	571,662	35,726
Health and social services	--	--	--
Culture and recreation	673,788	--	--
Community and economic development	39,643	--	--
General government	833,689	--	--
Debt service	--	--	--
Capital projects	--	--	--
Total disbursements	3,192,917	571,662	35,726
Excess of receipts over disbursements	(733,831)	23,193	65,840
Other financing sources (uses):			
Bond proceeds	--	--	--
Sale of capital assets	--	--	--
Operating transfers in	261,711	--	--
Operating transfers out	--	--	(49,011)
Total other financing sources (uses)	261,711	--	(49,011)
Net change in cash balances	(472,120)	23,193	16,829
Cash balances beginning of year	937,795	867,391	(16,769)
Cash balances end of year	465,675	890,584	60
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ --	--	--
Unreserved:			
General fund	465,675	--	--
Special revenue funds	--	890,584	60
Capital projects fund	--	--	--
Permanent fund	--	--	--
Total cash basis fund balances	\$465,675	890,584	60

See notes to financial statements.

Debt Service	Other Nonmajor Governmental Funds	Total
902,058	93,604	2,345,992
--	--	101,008
--	--	455,213
--	--	69,611
--	18,128	154,770
--	49,714	855,371
--	--	218,106
--	32,849	32,849
--	94,544	113,484
902,058	288,839	4,346,404
--	--	1,561,645
--	--	691,540
--	--	--
--	14,140	687,928
--	85,471	125,114
--	12,626	846,315
918,085	--	918,085
--	291,636	291,636
918,085	403,873	5,122,263
(16,027)	(115,034)	(775,859)
--	--	--
--	--	--
--	1,121,646	1,383,357
--	(142,942)	(191,953)
--	978,704	1,191,404
(16,027)	863,670	415,545
115,996	(146,530)	1,757,883
99,969	717,140	2,173,428
--	--	--
--	--	465,675
99,969	306,965	1,297,578
--	927	927
--	409,248	409,248
99,969	717,140	2,173,428

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, 2006

Total governmental funds cash balances (page 17)	\$2,184,573
<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 15)	None
	\$2,184,573
Net changes in cash balances (page 17)	\$415,545
<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 15)	None
	\$415,545

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, 2006

	Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating receipts:				
Use of money and property	\$ 345	--	--	345
Charges for service	1,002,615	1,026,100	228,028	2,256,743
Miscellaneous	10,173	27,577	--	37,750
Total operating receipts	1,013,133	1,053,677	228,028	2,294,838
Operating disbursements:				
Governmental activities:				
Public safety	--	--	--	--
Public works	--	--	--	--
Culture and recreation	--	--	--	--
General government	--	--	--	--
Business type activities:	776,096	702,148	227,170	1,705,414
Total operating disbursements	776,096	702,148	227,170	1,705,414
Excess (deficiency) of operating receipts over (under) operating disbursements	237,037	351,529	858	589,424
Operating transfers in	(743,877)	(447,527)	--	(1,191,404)
Net change in cash balance	(506,840)	(95,998)	858	(601,980)
Cash balances beginning of year	1,073,231	363,341	31,273	1,467,845
Cash balances end of year	\$566,391	267,343	32,131	865,865
Cash Basis Fund Balances				
Reserved for debt service	\$ --	--	--	--
Unreserved	566,391	267,343	32,131	865,865
Total cash basis fund balances	\$566,391	267,343	32,131	865,865

See notes to financial statements.

Internal Service Fund	
Health Insurance	Gas Revolving
\$ --	--
--	26,340
15	--
15	26,340

--	--
--	--
--	--
365	--
--	60,832
365	60,832

(350)	(34,492)
--	--
(350)	(34,492)
--	(2,176)
(350)	(36,668)

--	--
1,096	(36,668)
(350)	(36,668)

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, 2006

Total enterprise funds cash balances (page 20)	\$741,667
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are difference because:</i>	None
Cash basis net assets of business type activities (page 15)	\$741,667
Net changes in cash balances (page 20)	\$(601,980)
<i>Amounts reported for business type activities in the Statement of Activities and Net Assets are difference because:</i>	None
Change in cash balance of business type activities (page 15)	\$(601,980)

See notes to financial statements.

June 30, 2006

(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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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, 2006, 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, 2006 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, 2006, the City had the following investments:

Type	Carrying Amount	Fair Value
U.S. Government Securities	\$34,995	34,678
Stocks	6,009	11,156
Mutual Fund	70,199	104,294
Total	\$111,203	150,128

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,465,946 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 Public 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
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
	\$1,915,000	125,886	180,000	28,860	2,095,000	154,746

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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$132,719, \$125,923 and \$117,446, 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, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$114,363

This liability has been computed based on rates of pay as of June 30, 2006.

(6) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount	
General	Special Revenue	-Employees insurance	\$142,942
		-Urban renewal	49,011
	Enterprise	-Water	681,778
		-Sewer	235,508
		<u>1,109,239</u>	
Special Assessment	Enterprise	-Sewer	212,019
Capital Projects	Enterprise	-Water	62,099
	General	-Cost	847,528
			<u>909,627</u>
			<u>\$2,230,885</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 \$1,968 during the year ended June 30, 2006.

(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, 2006 were \$174,400.

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 \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 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. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage 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, 2006, 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 airport liabilities 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, 2006: in the Special Revenue Funds, the Housing Rehabilitation Account had a deficient balance of \$3,711 and the Employee Benefit Account had a deficit balance of \$28,851; in the Internal Service Funds, the Health Insurance Account had a deficit balance of \$350 and the Gas Revolving Account has a deficit balance of \$36,668.

(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, 2006 disbursements in the Public Safety, Culture and Recreation, Economic and Community Development, General and Capital Projects functions exceeded the amounts budgeted.

(11) Subsequent Events

The City entered into construction contracts for \$349,239 for street and alley projects and for a water main project.

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$2,345,992	--	--
Tax increment financing collections	101,008	--	--
Other city tax	455,213	--	--
Licenses and permits	69,611	--	--
Use of money and property	154,770	345	9,464
Intergovernmental	855,371	--	--
Charges for service	218,106	2,256,743	--
Special assessments	32,849	--	--
Miscellaneous	113,484	37,750	80,245
Total receipts	<u>4,346,404</u>	<u>2,294,838</u>	<u>89,709</u>
Disbursements:			
Public safety	1,561,645	--	--
Public works	691,540	--	--
Health and social services	--	--	--
Culture and recreation	687,928	--	13,872
Community and economic development	125,114	--	--
General government	846,315	--	--
Debt service	918,085	--	--
Capital projects	291,636	--	68
Business type activities	--	1,705,414	--
Total disbursements	<u>5,122,263</u>	<u>1,705,414</u>	<u>13,940</u>
Excess of receipts over disbursements	(775,859)	589,424	75,769
Other financing sources, net	1,191,404	(1,191,404)	--
Excess of receipts and other financing sources over disbursements and other financing uses	415,545	(601,980)	75,769
Balances beginning of year	1,757,883	1,467,845	--
Balances end of year	<u>\$2,173,428</u>	<u>865,865</u>	<u>75,769</u>

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$2,345,992	2,300,369	2,300,369	45,623
101,008	73,717	73,717	27,291
455,213	526,794	526,794	(71,581)
69,611	42,175	42,175	27,436
145,651	91,500	91,500	54,151
855,371	645,302	645,302	210,069
2,474,849	2,387,312	2,387,312	87,537
32,849	--	--	32,849
70,989	142,289	474,289	(403,300)
6,551,533	6,209,458	6,541,458	10,075
1,561,645	1,292,682	1,357,682	(203,963)
691,540	607,696	737,696	46,156
--	--	--	--
674,056	652,287	652,287	(21,769)
125,114	32,245	42,245	(82,869)
846,315	676,217	801,217	(45,098)
918,085	917,286	919,286	1,201
291,568	143,000	143,000	(148,568)
1,705,414	1,888,045	1,888,045	182,631
6,813,737	6,209,458	6,541,458	(272,279)
(262,204)	--	--	(262,204)
--	--	--	--
(262,204)	--	--	(262,204)
3,225,728	2,991,265	2,991,265	234,463
\$2,963,524	2,991,265	2,991,265	(27,741)

City of Washington

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Funds.

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, 2006, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government and 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, 2006

	Housing Rehabilitation	Employee Benefits	Special Liability Insurance
Receipts:			
Property tax	\$ --	6,470	87,134
Other city tax	--	--	--
Use of money and property	--	--	--
Intergovernmental	49,714	--	--
Special assessments	--	--	--
Miscellaneous	--	--	--
Total receipts	49,714	6,470	87,134
Disbursements:			
Operating:			
Public safety	--	--	--
Public works	--	--	--
Culture and recreation	--	--	--
Community and economic development	85,471	--	--
General government	--	--	--
Debt service	--	--	--
Capital projects	--	--	--
Total disbursements	85,471	--	--
Excess (deficiency) of receipts over (under) disbursements	(35,757)	6,470	87,134
Other financing uses:			
Operating transfers in	--	--	--
Operating transfers (out)	--	--	(142,942)
Net change in cash balances	(35,757)	6,470	(55,808)
Cash balances beginning of year	32,046	(35,321)	55,808
Cash balances end of year	\$(3,711)	(28,851)	--
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$(3,711)	(28,851)	--
Capital project fund	--	--	--
Permanent fund	--	--	--
Total cash basis fund balances	\$(3,711)	(28,851)	--

See accompanying independent auditor's report.

Revenue	Capital Reserves	Capital Projects	Trusts	Total
Special Assessment Bonds / Notes				
\$ --	--	--	--	93,604
--	--	--	--	--
--	--	8,664	9,464	18,128
--	--	--	--	49,714
32,849	--	--	--	32,849
--	14,299	--	80,245	94,544
32,849	14,299	8,664	89,709	288,839
--	--	--	--	--
--	--	--	--	--
--	200	--	13,940	14,140
--	--	--	--	85,471
--	12,626	--	--	12,626
--	--	--	--	--
--	--	291,636	--	291,636
--	12,826	291,636	13,940	403,873
32,849	1,473	(282,972)	75,769	(115,034)
212,019	--	909,627	--	1,121,646
--	--	--	--	(142,942)
244,868	1,473	626,655	75,769	863,670
(244,408)	337,594	(625,728)	333,479	(146,530)
460	339,067	927	409,248	717,140
460	--	--	--	(32,102)
--	339,067	927	--	339,994
--	--	--	409,248	409,248
460	339,067	927	409,248	717,140

City Of Washington
Statement of Indebtedness
Year Ended June 30, 2006

Obligation	Date of Issue	Interest Rates
General Obligation Bonds:		
Essential corporate purpose	June 1, 1999	3.80-4.25%
Essential corporate purpose	June 1, 2002	2.60-3.80%
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
\$1,900,000	850,000	--	200,000	650,000	35,508	--
2,535,000	1,880,000	--	615,000	1,265,000	66,777	--
	<u>2,730,000</u>	--	<u>815,000</u>	<u>1,915,000</u>	<u>102,285</u>	--
\$190,000	<u>190,000</u>	--	<u>10,000</u>	<u>180,000</u>	<u>6,799</u>	--

Schedule 3

City Of Washington
 Bond and Notes Maturities
 June 30, 2006

Year Ending June 30	General Obligation Bonds				
	Essential Corporate Purpose Issued June 1, 2002		Essential Corporate Purpose Issued June 1, 1999		Total
	Interest Rates	Amount	Interest Rates	Amount	
	2007	3.55%	\$635,000	4.15%	
2008	3.60%	630,000	4.20%	215,000	845,000
2009		--	4.25%	225,000	225,000
		<u>\$1,265,000</u>		<u>\$650,000</u>	<u>\$1,915,000</u>

Revenue Notes Series 2004 Issued Jun 12, 2004		
Year Ending June 30	Interest Rates	Amount
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>\$180,000</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

	2006	2005	2004	2003
Receipts:				
Property tax	\$2,345,992	2,367,998	\$2,338,456	2,305,132
Tax increment financing collections	101,008	94,486	74,052	52,171
Other city tax	455,213	545,406	388,387	223,692
Licenses and permits	69,611	53,880	45,700	37,740
Use of money and property	155,115	99,203	62,260	82,208
Intergovernmental	855,371	835,138	867,115	1,369,261
Charges for service	2,474,849	2,443,048	2,482,134	1,848,069
Special assessments	32,849	17,801	24,600	16,803
Miscellaneous	151,234	212,801	123,715	1,387,613
Total	\$6,641,242	6,669,761	\$6,406,419	7,322,689
Disbursements:				
Operating:				
Public safety	\$1,561,645	1,425,479	\$1,128,631	1,851,231
Public works	2,396,954	2,262,598	1,888,712	2,921,218
Health and social services	--	--	--	--
Culture and recreation	687,928	620,817	670,587	1,030,803
Community and economic development	125,114	--	32,679	67,527
General government	846,315	736,814	569,067	583,296
Debt service	918,085	923,092	921,882	1,026,731
Capital projects	291,636	234,494	1,628,901	257,913
Total	\$6,827,677	6,203,294	\$6,840,459	7,738,719

See accompanying independent auditor's report.



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

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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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated November 17, 2006. 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 item I-A-05 is a material weakness.



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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 item I-A-05 is a material weakness.

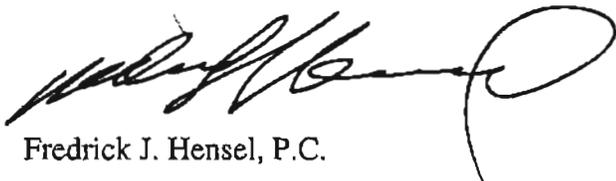
Compliance and Other Matters

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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

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.

November 17, 2006

City of Washington
Schedule of Findings
Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 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.

I-B-06 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – These procedures have been implemented as recommended.

Conclusion - Response accepted.

City of Washington
 Schedule of Findings
 Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 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, 2006.
- II-B-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the Public Safety, Culture and Recreation, Community and Economic Development, General Government 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-06 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-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mike Finnarty, Construction Spouse City Engineer	Repairs	\$1,968

City of Washington

Schedule of Findings

Year ended June 30, 2006

- II-F-06 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-06 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- II-H-06 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-06 Financial Condition - The following deficit fund balances were noted as of June 30, 2006: Special Revenue: Housing rehabilitation \$3,711, Employee Benefits \$28,851; Internal Service: Health Insurance \$350, Gas Revolving \$36,668.

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.