

City of Washington

**Independent Auditor's Report
Management's Discussion and Analysis
Financial Statements and Supplementary Information
Independent Auditor's Report on Internal Control and Compliance
Schedule of Findings and Questioned Costs**

June 30, 2010

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City of Washington

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sandra Johnson	Mayor	January 2012
Bob Shepard	Mayor Pro-tem	January 2011
Bob Shepard	Council Member 1st Ward	January 2011
Russ Zieglowsky	Council Member 2nd Ward	January 2013
Mike Roth	Council Member 3rd Ward	January 2011
Fred Stark	Council Member 4th Ward	January 2013
Karen Wilson-Johnson	Council Member at Large	January 2011
Merle Hagie	Council Member at Large	January 2013
David Plyman	City Administrator	Indefinite
Illa Earnest	City Clerk	Indefinite
Joe Myers	City Accountant	Indefinite
Craig Arbuckle	City Attorney	Indefinite



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Independent Auditor's Report

Honorable Mayor and Members of the City Council
City of Washington, Iowa

We 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 (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 accounting principles generally accepted in the United States of America.

The financial statements referred to above include only the primary government of the City, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City, as of June 30, 2010, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our 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 for the primary government of the City as of June 30, 2010, 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*, we have also issued our report dated December 10, 2010 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison information on pages 21 and 22 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's primary financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the four years ended June 30, 2006 (none of which are presented herein) were audited by another auditor who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

Other supplementary information, as listed in the table of contents, 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 our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CPA Associates PC

December 10, 2010

City of Washington
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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 38.2%, or approximately \$4,429,000, from fiscal year 2009 to fiscal year 2010. This was mainly due to bond proceeds received in fiscal year 2009.
- Disbursements of the City's governmental activities decreased 25.5%, or approximately \$3,074,000, in fiscal year 2010 from fiscal year 2009. Capital projects decreased \$2,861,000.
- The City's total cash basis net assets decreased 31.7%, or approximately \$1,831,000, from June 30, 2009 to June 30, 2010.

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 Statements consist 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 statements 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 to the City's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

City of Washington Management's Discussion and Analysis

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 accounting principles generally accepted in the United States of America. 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 Statements

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 water, sewer and sanitation systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- A) 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 Financing (TIF), 3) the Debt Service Fund, 4) the Capital Projects Fund, and 5) the Other Nonmajor Governmental Funds. 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 statement for governmental funds includes a statement of cash receipts, disbursements and changes in cash balances.

**City of Washington
Management's Discussion and Analysis**

B) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains the Enterprise Funds to provide information for the water, sewer, and sanitation funds, considered to be major funds of the City.

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

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 from a year ago from \$5.8 million to \$3.9 million. The analysis that follows focuses on the changes in cash balance for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	Year Ended June 30,	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for services	\$ 647	\$ 792
Operating grants, contributions and restricted interest	1,961	3,554
Capital grants, contributions and restricted interest	206	-
General receipts:		
Property tax	1,611	1,557
TIF	336	210
Debt service	922	848
Local option sales tax	670	613
Unrestricted interest on investments	3	17
Other general receipts	807	534
Bond proceeds	<u>-</u>	<u>3,467</u>
Total receipts	<u>7,163</u>	<u>11,592</u>
Disbursements:		
Public safety	1,604	1,823
Public works	1,077	1,009
Culture and recreation	825	937
Community and economic development	55	63
General government	978	1,011
Debt service	1,040	949
Capital projects	<u>3,415</u>	<u>6,276</u>
Total disbursements	<u>8,994</u>	<u>12,068</u>
Change in cash basis net assets before transfers	(1,831)	(476)
Transfers net	<u>-</u>	<u>57</u>
Change in cash basis net assets	(1,831)	(419)
Cash basis net assets beginning of year	<u>5,776</u>	<u>6,195</u>
Cash basis net assets end of year	<u>\$ 3,945</u>	<u>\$ 5,776</u>

**City of Washington
Management's Discussion and Analysis**

The City's total receipts for governmental activities decreased by 38.2%, or \$4,429,000. This was mainly due to bond proceeds received in fiscal year 2009. The total cost of all programs and services decreased by approximately \$3,074,000, or 25.5%, with no new programs added this year. The most significant decrease in expenditures was a reduction in capital projects for the fiscal year 2010.

The cost of all governmental activities this year was \$9.0 million compared to \$12.1 million last year. However, as shown in the Statement of Activities and Net Assets on page 10, the amount taxpayers ultimately financed for these activities was \$6.2 million because some of the cost was paid by those directly benefited from the programs (\$646,815) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,166,728). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2010 from approximately \$4,346,000 to approximately \$2,814,000, principally due to a decrease in operating grants and contributions. The City paid for the remaining "public benefit" portion of governmental activities with \$6,180,749 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,	
	<u>2010</u>	<u>2009</u>
Receipts:		
Program receipts:		
Charges for service		
Water charges	\$ 959	\$ 954
Sewer charges	1,024	994
Sanitation charges	244	254
General receipts:		
Other miscellaneous receipts	<u>9</u>	<u>37</u>
Total receipts	<u>2,236</u>	<u>2,239</u>
Disbursements:		
Water	1,020	1,131
Sewer	688	805
Sanitation	<u>331</u>	<u>283</u>
Total disbursements	<u>2,039</u>	<u>2,219</u>
Change in cash basis net assets before transfer	197	20
Transfers, net	<u>-</u>	<u>(57)</u>
Change in cash basis net assets	197	(37)
Cash basis net assets beginning of year	<u>833</u>	<u>870</u>
Cash basis net assets end of year	<u>\$ 1,030</u>	<u>\$ 833</u>

Total business type activities receipts for the fiscal year were \$2.2 million compared to \$2.2 million last year. The cash balance increased by approximately \$197,000. Total disbursements for the fiscal year decreased by approximately 8%, to a total of \$2.0 million.

**City of Washington
Management's Discussion and Analysis**

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$3,945,000, a decrease of \$1,831,000 from last year's total of \$5,776,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash deficit balance of the General Fund was (\$425,000), an increase of \$35,000 from the prior year.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$46,000 to \$801,000 during the fiscal year. State road tax funds are distributed based upon population. The City does receive additional funds for a transfer of jurisdiction agreement.
- The Debt Service Fund cash balance decreased by \$111,000.
- The Capital Projects Fund cash balance decreased by \$1,436,000 to \$3,023,000.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash deficit balance decreased by \$54,000 to \$(47,000).
- The Sewer Fund cash balance increased by \$337,000 to \$1,147,000.
- The Sanitation Fund cash deficit balance decreased by \$87,000 to \$(70,000).

BUDGETARY HIGHLIGHTS

The budget was not amended in the current year. The City exceeded the amounts budgeted in the public safety, general government, debt service and capital projects functions for the year ended June 30, 2010.

DEBT ADMINISTRATION

At June 30, 2010, the City had approximately \$6,976,000 in bonds and other long-term debt, compared to approximately \$7,745,000 last year, as shown below.

Outstanding Debt at Year End (Expressed in Thousands)	June 30,	
	2010	2009
General obligation bonds	\$ 6,675	\$ 7,350
Urban renewal tax increment financing	301	395
Total	\$ 6.976	\$ 7.745

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding combined general obligation debt of \$6.675 million and urban renewal tax increment financing of \$.301 million brings the City's debt limit to \$6.976 million, which is below its constitutional debt limit of \$15.83 million.

**City of Washington
Management's Discussion and Analysis**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2011 fiscal year budget, tax rates, and fees that will be charged for various City activities. Those factors may include the economy, employment rates, operating expenses, capital projects, and increases in service and state mandates.

EXCLUDED COMPONENT UNIT

The Washington Free Public Library Foundation (Foundation) is a component unit of the City of Washington. The Foundation is a non-profit organization created for the purpose of solicitation and collection of funds for the enhancement and financial support of the Washington Free Public Library of Washington, Iowa. The Foundation is governed by a twelve member board. The Foundation meets the definition of a component unit since it raises funds on behalf of the Library. The financial statements of the Foundation have not been audited, and, accordingly, this component unit has not been presented in the accompanying primary government audited financial statements. Complete financial statements (June 30 year end) for the individual component unit can be obtained directly from the Foundation.

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. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to David Plyman, City Administrator, City of Washington, 215 E. Washington Street, Washington, Iowa 52353.

FINANCIAL STATEMENTS

City of Washington
Statement of Activities and Net Assets - Cash Basis
As of and for the Year Ended June 30, 2010

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 1,604,339	\$ 4,181	\$ 35,287	\$ 188,000	\$ (1,376,871)	\$ -	\$ (1,376,871)
Public works	1,076,942	369,033	653,692	18,170	(36,047)	-	(36,047)
Culture and recreation	824,578	186,709	1,267,437	-	629,568	-	629,568
Community and economic development	55,364	22,832	-	-	(32,532)	-	(32,532)
General government	977,718	64,060	-	-	(913,658)	-	(913,658)
Debt service	1,040,256	-	-	-	(1,040,256)	-	(1,040,256)
Capital projects	3,415,095	-	4,142	-	(3,410,953)	-	(3,410,953)
Total governmental activities	<u>8,994,292</u>	<u>646,815</u>	<u>1,960,558</u>	<u>206,170</u>	<u>(6,180,749)</u>	<u>-</u>	<u>(6,180,749)</u>
Business type activities:							
Water	1,019,878	959,236	-	-	-	(60,642)	(60,642)
Sewer	688,215	1,023,258	-	-	-	335,043	335,043
Sanitation	330,806	243,760	-	-	-	(87,046)	(87,046)
Total business type activities	<u>2,038,899</u>	<u>2,226,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>187,355</u>	<u>187,355</u>
Total	<u>\$ 11,033,191</u>	<u>\$ 2,873,069</u>	<u>\$ 1,960,558</u>	<u>\$ 206,170</u>	<u>(6,180,749)</u>	<u>187,355</u>	<u>(5,993,394)</u>
General Receipts:							
Property tax levied for:							
General purposes					1,611,201	-	1,611,201
Tax increment financing					336,447	-	336,447
Debt service					922,057	-	922,057
Local option sales tax					670,139	-	670,139
Unrestricted investment earnings					3,282	-	3,282
Miscellaneous					807,001	9,370	816,371
Total general receipts					<u>4,350,127</u>	<u>9,370</u>	<u>4,359,497</u>
Change in cash basis net assets					(1,830,622)	196,725	(1,633,897)
Cash basis net assets beginning of year					<u>5,776,042</u>	<u>833,044</u>	<u>6,609,086</u>
Cash basis net assets end of year					<u>\$ 3,945,420</u>	<u>\$ 1,029,769</u>	<u>\$ 4,975,189</u>
Cash Basis Net Assets							
Restricted:							
Expendable:							
Road use					\$ 800,849	\$ -	\$ 800,849
Capital projects					3,395,877	-	3,395,877
Other purposes					174,248	-	174,248
Unrestricted					<u>(425,554)</u>	<u>1,029,769</u>	<u>604,215</u>
Total cash basis net assets					<u>\$ 3,945,420</u>	<u>\$ 1,029,769</u>	<u>\$ 4,975,189</u>

See notes to financial statements.

City of Washington
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the Year Ended June 30, 2010

	<u>Special Revenue</u>						Total
	General	Road Use	Urban Renewal TIF	Debt Service	Capital Projects	Other Nonmajor Governmental	
Receipts:							
Property tax	\$ 1,361,031	\$ -	\$ -	\$ 922,057	\$ -	\$ 250,170	\$ 2,533,258
Tax increment financing	-	-	336,447	-	-	-	336,447
Other taxes	670,139	-	-	-	-	-	670,139
Use of money and property	76,058	-	-	25	4,142	8,961	89,186
License and permits	82,522	-	-	-	-	-	82,522
Intergovernmental	101,228	653,692	-	-	705,853	-	1,460,773
Charges for services	153,205	405	-	-	-	-	153,610
Special assessments	-	-	-	-	12,221	-	12,221
Miscellaneous	836,786	4,634	-	-	959,689	24,405	1,825,514
Total receipts	<u>3,280,969</u>	<u>658,731</u>	<u>336,447</u>	<u>922,082</u>	<u>1,681,905</u>	<u>283,536</u>	<u>7,163,670</u>
Disbursements:							
Operating:							
Public safety	1,598,072	-	-	-	-	6,267	1,604,339
Public works	464,246	612,696	-	-	-	-	1,076,942
Culture and recreation	776,479	-	-	-	-	48,099	824,578
Community and economic development	44,354	-	-	-	-	11,010	55,364
General government	977,142	-	-	-	-	576	977,718
Debt service	-	-	7,525	1,032,731	-	-	1,040,256
Capital projects	-	-	-	-	3,118,301	296,794	3,415,095
Total disbursements	<u>3,860,293</u>	<u>612,696</u>	<u>7,525</u>	<u>1,032,731</u>	<u>3,118,301</u>	<u>362,746</u>	<u>8,994,292</u>
Excess (deficiency) of receipts over disbursements	<u>(579,324)</u>	<u>46,035</u>	<u>328,922</u>	<u>(110,649)</u>	<u>(1,436,396)</u>	<u>(79,210)</u>	<u>(1,830,622)</u>
Other financing sources (uses):							
Bond proceeds	-	-	-	-	-	-	-
Operating transfers in (out)	614,083	-	(328,922)	-	-	(285,161)	-
Total other financing sources (uses)	<u>614,083</u>	<u>-</u>	<u>(328,922)</u>	<u>-</u>	<u>-</u>	<u>(285,161)</u>	<u>-</u>
Net change in cash balances	34,759	46,035	-	(110,649)	(1,436,396)	(364,371)	(1,830,622)
Cash balances (deficit) beginning of year	<u>(460,313)</u>	<u>754,814</u>	<u>-</u>	<u>-</u>	<u>4,458,982</u>	<u>1,022,559</u>	<u>5,776,042</u>
Cash balances (deficit) end of year	<u>\$ (425,554)</u>	<u>\$ 800,849</u>	<u>\$ -</u>	<u>\$ (110,649)</u>	<u>\$ 3,022,586</u>	<u>\$ 658,188</u>	<u>\$ 3,945,420</u>
Cash Basis Fund Balances							
Reserved:							
Debt service	\$ -	\$ -	\$ -	\$ (110,649)	\$ -	\$ -	\$ (110,649)
Unreserved:							
General fund	(425,554)	-	-	-	-	-	(425,554)
Special revenue fund	-	800,849	-	-	-	284,897	1,085,746
Capital projects fund	-	-	-	-	3,022,586	373,291	3,395,877
Total cash basis fund balances	<u>\$ (425,554)</u>	<u>\$ 800,849</u>	<u>\$ -</u>	<u>\$ (110,649)</u>	<u>\$ 3,022,586</u>	<u>\$ 658,188</u>	<u>\$ 3,945,420</u>

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, 2010

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Operating receipts:				
Charges for services	\$ <u>959,236</u>	\$ <u>1,023,258</u>	\$ <u>243,760</u>	\$ <u>2,226,254</u>
Total operating receipts	<u>959,236</u>	<u>1,023,258</u>	<u>243,760</u>	<u>2,226,254</u>
Operating disbursements:				
Business type activities	<u>1,019,878</u>	<u>688,215</u>	<u>330,806</u>	<u>2,038,899</u>
Total operating disbursements	<u>1,019,878</u>	<u>688,215</u>	<u>330,806</u>	<u>2,038,899</u>
Excess (deficiency) of receipts over disbursements	<u>(60,642)</u>	<u>335,043</u>	<u>(87,046)</u>	<u>187,355</u>
Non-operating receipts (disbursements):				
Miscellaneous	<u>6,986</u>	<u>2,384</u>	<u>-</u>	<u>9,370</u>
Net non-operating receipts (disbursements)	<u>6,986</u>	<u>2,384</u>	<u>-</u>	<u>9,370</u>
Net change in cash balances	(53,656)	337,427	(87,046)	196,725
Cash balances beginning of year	<u>6,572</u>	<u>809,250</u>	<u>17,222</u>	<u>833,044</u>
Cash balances (deficit) end of year	<u>\$ (47,084)</u>	<u>\$ 1,146,677</u>	<u>\$ (69,824)</u>	<u>\$ 1,029,769</u>
Cash Basis Fund Balances				
Unreserved	<u>\$ (47,084)</u>	<u>\$ 1,146,677</u>	<u>\$ (69,824)</u>	<u>\$ 1,029,769</u>
Total cash basis fund balances	<u>\$ (47,084)</u>	<u>\$ 1,146,677</u>	<u>\$ (69,824)</u>	<u>\$ 1,029,769</u>

See notes to financial statements.

City of Washington
Notes to Financial Statements

Note 1. Significant Accounting Policies

The City of Washington (City) 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, culture, recreation, community and economic development, and general government services. The City also provides water and sewer utilities and sanitation services for its citizens.

Reporting Entity

For financial reporting purposes, the City 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 (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body 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.

These financial statements present the City of Washington (the primary government) and exclude all component units. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Washington Free Public Library Foundation (Foundation) is a component unit of the City of Washington. The Foundation is a non-profit organization created for the purpose of solicitation and collection of funds for the enhancement and financial support of the Washington Free Public Library of Washington, Iowa. The Foundation is governed by a twelve member board. The Foundation meets the definition of a component unit since it raises funds on behalf of the Library. The financial statements of the Foundation have not been audited and, accordingly, this component unit has not been presented in the accompanying primary government audited financial statements. Complete financial statements (June 30 year end) for the individual component unit can be obtained directly from the Foundation.

Jointly Governed Organizations

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.

City of Washington
Notes to Financial Statements

Note 1. Significant Accounting Policies (continued)

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 the following categories/components:

Expendable 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 TIF 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

City of Washington
Notes to Financial Statements

Note 1. Significant Accounting Policies (continued)

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.

Measurement Focus and 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 accounting principles generally accepted in the United States of America.

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.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, general government, debt service and capital projects functions.

Note 2. Cash and Investments

The City's deposits in banks at June 30, 2010 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.

City of Washington
Notes to Financial Statements

Note 3. 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 4.30% of their annual covered salary and the City is required to contribute 6.65% 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 contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$178,162, \$153,841, and \$139,717, respectively, equal to the required contribution for each year.

Note 4. Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue capital loan note are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal TIF Revenue Capital Loan Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	505,000	209,045	68,000	22,741	573,000	231,786
2012	520,000	199,545	70,000	21,584	590,000	221,129
2013	535,000	188,105	73,000	20,514	608,000	208,619
2014	555,000	174,588	45,000	4,838	600,000	179,426
2015	570,000	158,810	45,000	2,419	615,000	161,229
2016-2020	2,150,000	539,570	-	-	2,150,000	539,570
2021-2025	930,000	334,750	-	-	930,000	334,750
2026-2029	910,000	107,620	-	-	910,000	107,620
	<u>\$ 6,675,000</u>	<u>\$ 1,912,033</u>	<u>\$ 301,000</u>	<u>\$ 72,096</u>	<u>\$ 6,976,000</u>	<u>\$ 1,984,129</u>

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

City of Washington
Notes to Financial Statements

Note 4. Bond and Notes Payable (continued)

Urban Renewal Tax Increment Financing Revenue Capital Loan Notes

The City issued urban renewal tax increment financing (TIF) revenue notes for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The notes are payable solely from the income and proceeds of the 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 shall be expended only for purposes that are consistent with the plans of the City's urban renewal area. The notes are not general obligations of the City; however, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the notes is \$373,096, payable through 2015. For the current year, principal and interest paid and total TIF receipts were \$112,666 and \$336,447, respectively.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation 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 payments payable to employees at June 30, 2010, primarily relating to the General Fund, is \$173,691, based on rates of pay in effect at June 30, 2010.

Note 6. Risk Management

The City of Washington 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 whose 577 members include 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 administration 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 200 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 sufficient, by the subsequent year's member contributions.

City of Washington
Notes to Financial Statements

Note 6. Risk Management (continued)

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 contribution to the Pool for the year ended June 30, 2010 was \$107,303.

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 for 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 \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each accident, each location, with excess coverage reinsured on an individual-member basis. All property risks are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance company 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 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. 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 workmen's compensation and various types of liability insurance. 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.

Note 7. Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,901 during the year ended June 30, 2010.

City of Washington
Notes to Financial Statements

Note 8. Commitments and Contingencies

In the normal course of business, the City has various outstanding commitments that are not reflected in the accompanying financial statements. The principal commitments of the City are as follows:

Downtown enhancement project	\$ 92,182
Pump Station - engineering and design	212,000

The City of Washington and the Federal Aviation Administration are participating in the City's airport expansion project which includes a proceeding to condemn a portion of an individual's property. The land acquisition is currently in litigation for the purchase price. The final amount to be paid to the individual is disclosed in Note 14. The City is also in negotiation for land acquisition for the City's sanitary sewer project. The final amount to be paid the individual is disclosed in Note 14.

Note 9. Industrial Development Revenue Bond

The City has issued a \$2,400,000 elderly housing revenue bond under the provisions of Chapter 419 of the Code of Iowa. The bonds and related interest are payable solely from the tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

Note 10. Deficit Fund Balance

The following funds had deficit balances at June 30, 2010:

General Fund	\$ (425,554)
Debt Service Fund	(110,649)
Water Fund	(47,084)
Sanitation Fund	(69,824)
Special Revenue, Park Fund	(66,208)

Note 11. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to:	
General fund	\$ <u>614,083</u>
Transfer from:	
Liability insurance	\$ 85,183
Employee benefits	164,987
Special assessment	34,991
Tax increment financing	<u>328,922</u>
	\$ <u>614,083</u>

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

City of Washington
Notes to Financial Statements

Note 12. Operating Leases - Lessor

The City leases farm land around the airport to two individuals. The lease terms are on a year-to-year basis. Rental income for the year ended June 30, 2010 totaled \$38,313.

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2010 totaled \$30,668.

Note 13. Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical, prescription drug, dental, and vision benefits for retirees and their spouses. There are 46 active and 2 retired members in the plan. Participants must be age 55 or older at retirement

The medical, prescription drug, dental, and vision coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$517 for single coverage and \$1,292 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$326,697 and plan members eligible for benefits contributed \$78,689 to the plan.

Note 14. Subsequent Events

The City performed an evaluation of subsequent events through December 10, 2010, which is the date the financial statements were issued. The City of Washington and the Federal Aviation Administration are participating in the City's airport expansion project which includes a proceeding to condemn a portion of an individual's property. On August 31, 2010, the Compensation Commission awarded a total of \$996,274 to the property owners. The settlement agreement on September 13, 2010 for the land acquisition for the City's sanitary sewer project is \$1,500,000 for the 126.67 acre farm with buildings. The City acquired land for the Wellness Park for \$335,438 in July 2010.

Note 15. Prospective Accounting Change

The GASB has issued a Statement not yet implemented by the City. Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, issued February 2009, will be effective for the City for the fiscal year ending June 30, 2011. This Statement establishes accounting and financial reporting standards for all governments that report governmental funds. The fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. In the year Statement No. 54 is implemented, the beginning fund balance classifications will be retroactively restated for prior periods presented. The City's management has not yet determined the effect this Statement will have on the its financial statements.

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, 2010

	Governmental	Proprietary	Net	Budgeted Amounts		Final to Net Variance
	Funds Actual	Fund Type Actual		Original	Final	
Receipts:						
Property tax	\$ 2,533,258	\$ -	\$ 2,533,258	\$ 2,475,452	\$ 2,475,452	\$ 57,806
Tax increment financing collections	336,447	-	336,447	320,043	320,043	16,404
Other city taxes	670,139	-	670,139	672,559	672,559	(2,420)
Use of money and property	89,186	-	89,186	159,664	159,664	(70,478)
Licenses and permits	82,522	-	82,522	92,150	92,150	(9,628)
Intergovernmental	1,460,773	-	1,460,773	703,206	703,206	757,567
Charges for service	153,610	2,226,254	2,379,864	3,309,712	3,309,712	(929,848)
Special assessments	12,221	-	12,221	-	-	12,221
Miscellaneous	1,825,514	9,370	1,834,884	406,800	406,800	1,428,084
Total receipts	<u>7,163,670</u>	<u>2,235,624</u>	<u>9,399,294</u>	<u>8,139,586</u>	<u>8,139,586</u>	<u>1,259,708</u>
Disbursements:						
Public safety	1,604,339	-	1,604,339	1,502,181	1,502,181	(102,158)
Public works	1,076,942	-	1,076,942	1,536,882	1,536,882	459,940
Culture and recreation	824,578	-	824,578	845,181	845,181	20,603
Community and economic development	55,364	-	55,364	320,043	320,043	264,679
General government	977,718	-	977,718	741,099	741,099	(236,619)
Debt service	1,040,256	-	1,040,256	926,342	926,342	(113,914)
Capital projects	3,415,095	-	3,415,095	-	-	(3,415,095)
Business type activities	-	2,038,899	2,038,899	2,098,459	2,098,459	59,560
Total disbursements	<u>8,994,292</u>	<u>2,038,899</u>	<u>11,033,191</u>	<u>7,970,187</u>	<u>7,970,187</u>	<u>(3,063,004)</u>
Net change in cash balances	(1,830,622)	196,725	(1,633,897)	169,399	169,399	(1,803,296)
Cash balances beginning of year	<u>5,776,042</u>	<u>833,044</u>	<u>6,609,086</u>	<u>6,771,756</u>	<u>6,771,756</u>	<u>(162,670)</u>
Cash balances end of year	<u>\$ 3,945,420</u>	<u>\$ 1,029,769</u>	<u>\$ 4,975,189</u>	<u>\$ 6,941,155</u>	<u>\$ 6,941,155</u>	<u>\$ (1,965,966)</u>

See accompanying independent auditor's report.

City of Washington
Notes to Required Supplementary Information - Budgetary Reporting

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 Fund.

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 Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund 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. The budget was not amended during the year.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in public safety, general government, debt service and capital projects functions.

See accompanying independent auditor's report.

City of Washington
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
Year Ended June 30, 2010

	Special Revenue									
	<u>Housing Rehabilitation</u>	<u>Employee Benefits</u>	<u>Liability Insurance</u>	<u>Special Assessment</u>	<u>Dog Park</u>	<u>Tree</u>	<u>Park</u>	<u>Library Trust</u>	<u>Capital Reserves</u>	<u>Total</u>
Receipts:										
Property tax	\$ -	\$ 164,987	\$ 85,183	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 250,170
Use of money and property	-	-	-	-	-	34	-	8,927	-	8,961
Miscellaneous	-	-	-	-	1,157	10,332	4,791	3,990	4,135	24,405
Total receipts	<u>-</u>	<u>164,987</u>	<u>85,183</u>	<u>-</u>	<u>1,157</u>	<u>10,332</u>	<u>4,825</u>	<u>12,917</u>	<u>4,135</u>	<u>283,536</u>
Disbursements:										
Public safety	-	-	-	-	-	-	-	-	6,267	6,267
Culture and recreation	-	-	-	-	552	-	17,040	30,507	-	48,099
Community and economic development	-	-	-	-	-	11,010	-	-	-	11,010
General government	-	-	-	-	-	-	-	-	576	576
Capital projects	-	-	-	-	-	-	296,794	-	-	296,794
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>552</u>	<u>11,010</u>	<u>313,834</u>	<u>30,507</u>	<u>6,843</u>	<u>362,746</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>164,987</u>	<u>85,183</u>	<u>-</u>	<u>605</u>	<u>(678)</u>	<u>(309,009)</u>	<u>(17,590)</u>	<u>(2,708)</u>	<u>(79,210)</u>
Other financing sources (uses):										
Operating transfers (out)	<u>-</u>	<u>(164,987)</u>	<u>(85,183)</u>	<u>(34,991)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(285,161)</u>
Net change in cash balances	-	-	-	(34,991)	605	(678)	(309,009)	(17,590)	(2,708)	(364,371)
Cash balances beginning of year	<u>48,288</u>	<u>-</u>	<u>-</u>	<u>34,991</u>	<u>6,374</u>	<u>6,063</u>	<u>242,801</u>	<u>308,043</u>	<u>375,999</u>	<u>1,022,559</u>
Cash balances (deficit) end of year	<u>\$ 48,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,979</u>	<u>\$ 5,385</u>	<u>\$ (66,208)</u>	<u>\$ 290,453</u>	<u>\$ 373,291</u>	<u>\$ 658,188</u>
Cash Basis Fund Balances										
Unreserved:										
Special revenue funds	\$ 48,288	\$ -	\$ -	\$ -	\$ 6,979	\$ 5,385	\$ (66,208)	\$ 290,453	\$ -	\$ 284,897
Capital projects funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>373,291</u>	<u>373,291</u>
Total cash basis fund balances	<u>\$ 48,288</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,979</u>	<u>\$ 5,385</u>	<u>\$ (66,208)</u>	<u>\$ 290,453</u>	<u>\$ 373,291</u>	<u>\$ 658,188</u>

See accompanying independent auditor's report.

**City of Washington
Statement of Indebtedness
Year Ended June 30, 2010**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General Obligation Bonds:									
Capital loan note	06/17/09	1.25-4.80%	\$ 3,500,000	\$ 3,500,000	\$ -	\$ 310,000	\$ 3,190,000	\$ 118,030	\$ -
Capital loan note	06/18/08	2.50-4.00%	4,355,000	<u>3,850,000</u>	<u>-</u>	<u>365,000</u>	<u>3,485,000</u>	<u>133,760</u>	<u>-</u>
Total				<u>\$ 7,350,000</u>	<u>\$ -</u>	<u>\$ 675,000</u>	<u>\$ 6,675,000</u>	<u>\$ 251,790</u>	<u>\$ -</u>
Urban Renewal TIF Revenue Notes:									
Urban Renewal Series 2004	01/12/04	3.70%	\$ 190,000	\$ 115,000	\$ -	\$ 25,000	\$ 90,000	\$ 4,255	\$ -
Urban Renewal Series 2006	09/15/06	5.38%	280,000	<u>280,000</u>	<u>-</u>	<u>69,000</u>	<u>211,000</u>	<u>14,411</u>	<u>-</u>
Total				<u>\$ 395,000</u>	<u>\$ -</u>	<u>\$ 94,000</u>	<u>\$ 301,000</u>	<u>\$ 18,666</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**City of Washington
Bond and Note Maturities
June 30, 2010**

General Obligation Bonds:

Year Ending <u>June 30,</u>	Interest <u>Rate</u>	Capital Loan Note June 18, 2008 <u>Amount</u>	Interest <u>Rate</u>	Capital Loan Note June 17, 2009 <u>Amount</u>	<u>Total</u>
2011	3.00%	\$ 380,000	1.60%	\$ 125,000	\$ 505,000
2012	3.15%	390,000	1.90%	130,000	520,000
2013	3.30%	405,000	2.20%	130,000	535,000
2014	3.45%	425,000	2.45%	130,000	555,000
2015	3.60%	440,000	2.70%	130,000	570,000
2016	3.75%	460,000	3.00%	130,000	590,000
2017	3.90%	480,000	3.20%	130,000	610,000
2018	4.00%	505,000	3.40%	130,000	635,000
2019		-	3.60%	155,000	155,000
2020		-	3.80%	160,000	160,000
2021		-	4.00%	170,000	170,000
2022		-	4.10%	175,000	175,000
2023		-	4.20%	185,000	185,000
2024		-	4.30%	195,000	195,000
2025		-	4.40%	205,000	205,000
2026		-	4.50%	215,000	215,000
2027		-	4.60%	230,000	230,000
2028		-	4.70%	245,000	245,000
2029		-	4.80%	220,000	220,000
		<u>\$ 3,485,000</u>		<u>\$ 3,190,000</u>	<u>\$ 6,675,000</u>

Urban Renewal Tax Increment Financing (TIF) Revenue Notes:

Year Ending <u>June 30,</u>	Interest <u>Rate</u>	Series 2004 January 12, 2004 <u>Amount</u>	Interest <u>Rate</u>	Series 2006 September 15, 2006 <u>Amount</u>	<u>Total</u>
2011	3.70%	\$ 30,000	5.38%	\$ 38,000	\$ 68,000
2012	3.70%	30,000	5.38%	40,000	70,000
2013	3.70%	30,000	5.38%	43,000	73,000
2014		-	5.38%	45,000	45,000
2015		-	5.38%	45,000	45,000
		<u>\$ 90,000</u>		<u>\$ 211,000</u>	<u>\$ 301,000</u>

See accompanying independent auditor's report.

City of Washington
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

	Year Ending June 30,							
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:								
Property tax	\$ 2,533,258	\$ 2,405,145	\$ 2,350,999	\$ 2,365,634	\$ 2,345,992	\$ 2,367,998	\$ 2,338,456	\$ 2,305,132
Tax increment financing	336,447	209,724	104,729	113,794	101,008	94,486	74,052	52,171
Other city taxes	670,139	612,723	709,116	671,072	455,213	545,406	388,387	223,692
Use of money and property	89,186	140,156	134,280	195,990	69,611	53,880	45,700	37,740
Licenses and permits	82,522	130,196	109,264	119,148	154,770	99,077	62,260	82,189
Intergovernmental	1,460,773	1,181,813	1,220,791	1,165,904	855,371	835,138	867,115	1,369,261
Charges for services	153,610	616,050	518,170	399,797	218,106	207,144	210,226	114,092
Special assessments	12,221	7,009	12,559	14,963	32,849	17,801	24,600	16,803
Miscellaneous	<u>1,825,514</u>	<u>2,822,372</u>	<u>704,243</u>	<u>705,606</u>	<u>113,484</u>	<u>205,480</u>	<u>118,839</u>	<u>792,021</u>
Total	<u>\$ 7,163,670</u>	<u>\$ 8,125,188</u>	<u>\$ 5,864,151</u>	<u>\$ 5,751,908</u>	<u>\$ 4,346,404</u>	<u>\$ 4,426,410</u>	<u>\$ 4,129,635</u>	<u>\$ 4,993,101</u>
Disbursements:								
Operating:								
Public safety	\$ 1,604,339	\$ 1,822,455	\$ 1,503,628	\$ 1,355,269	\$ 1,561,645	\$ 1,425,479	\$ 1,128,631	\$ 1,851,231
Public works	1,076,942	1,009,014	1,544,143	1,405,445	691,540	559,650	377,117	725,351
Culture and recreation	824,578	936,866	913,776	819,720	687,928	620,817	670,587	1,030,803
Community and economic development	55,364	63,371	98,868	342,321	125,114	-	32,679	67,527
General government	977,718	1,001,763	878,786	919,301	846,315	736,814	569,067	536,329
Debt service	1,040,256	949,377	909,786	941,246	918,085	923,092	921,882	1,026,731
Capital projects	<u>3,415,095</u>	<u>6,275,982</u>	<u>644,339</u>	<u>248,737</u>	<u>291,636</u>	<u>234,494</u>	<u>1,628,901</u>	<u>257,913</u>
Total	<u>\$ 8,994,292</u>	<u>\$ 12,058,828</u>	<u>\$ 6,493,326</u>	<u>\$ 6,032,039</u>	<u>\$ 5,122,263</u>	<u>\$ 4,500,346</u>	<u>\$ 5,328,864</u>	<u>\$ 5,495,885</u>

See accompanying independent auditor's report.



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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***

Honorable Mayor and Members of the City Council
City of Washington, Iowa

We have audited the accompanying primary 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 (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we 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.

We noted certain other matters we reported to management of the City in a separate letter dated December 10, 2010.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our 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.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City and other parties to whom the City 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.

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

CPA Associates PC

December 10, 2010

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements

MATERIAL WEAKNESSES

I-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks to the safeguarding of cash and accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

I-B-10 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - 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 reconciliation and monitor delinquencies.

Response - The City will establish and implement procedures to reconcile utility billings, collections and delinquencies for each billing period and resolve any variances in a timely manner.

Conclusion - Response accepted.

I-C-10 Reconciliation of Cemetery Billings, Collections and Delinquencies - Cemetery billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile cemetery 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 reconciliation and monitor delinquencies.

Response - The City will establish and implement procedures to reconcile cemetery billings, collections and delinquencies for each billing period and resolve any variances in a timely manner.

Conclusion - Response accepted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements (continued)

MATERIAL WEAKNESSES

I-D-10 Credit Cards - The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards and who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response - The City will review procedures and guidelines and establish a written policy.

Conclusion - Response accepted.

I-E-10 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting

II-A-10 Certified Budget - Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in public safety, general government, debt service and capital projects 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 accepted.

II-B-10 Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Pizza Hut	Pizza for City employees	\$ 81

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

II-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting (continued)

II-D-10 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Mike Roth, Council Member Employee, Sitler's Supplies, Inc.	Supplies	\$ 777
Russ Zieglowsky, Council Member Employee, Hy-Vee	Supplies	\$ 1,383
Mike Roe, Airport Commission Member Owner, Roe Heating and Hardware	Repairs	\$ 741

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Members and Airport Commissioner do not appear to represent conflicts of interest since the total transactions with each individual were less than \$1,500 during the fiscal year.

II-E-10 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-F-10 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not always published within fifteen days of the meeting as required by Chapter 372.16(6) of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish minutes as required.

Response - We will publish minutes as required.

Conclusion - Response accepted.

II-G-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting (continued)

II-H-10 Financial Condition - The following funds had deficit balances at June 30, 2010:

General Fund	\$ (425,554)
Debt Service Fund	(110,649)
Water Fund	(47,084)
Sanitation Fund	(69,824)
Special Revenue, Park Fund	(66,208)

Recommendation -The City should monitor the progress of the collections and expenses in these funds and review the control procedures throughout the period so the collections cover the expenses in these funds.

Response - We will consider this.

Conclusion - Response accepted.

II-I-10 Local Option Sales Tax - Local option sales tax collections were posted directly to the General Fund rather than in a Special Revenue Fund.

Recommendation - The City should establish a Special Revenue Fund for local option sales tax receipts, disbursements and balances and to demonstrate compliance with the City's referendum for the use of the tax.

Response - We will do this.

Conclusion - Response accepted.

II-J-10 Separately Maintained Records - The City of Washington Volunteer Fire Department and Municipal Band maintain separate checking accounts for donations, grants and fund raising activities. These accounts are separate from the City's accounts, allowing transactions to go unrecorded. Accordingly, certain donations and expenditures from these accounts are not being appropriately included on the City's financial statements. The expenditures may not meet the requirements of public purpose and may not be appropriately included within the budget as required by the Code of Iowa.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose". For better accountability, and financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response - The City, the Volunteer Fire Department and Municipal Band should ensure that procedures are in place to document all receipts and expenditures in accordance with the Code of Iowa.

Conclusion - Response accepted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting (continued)

II-K-10 State of Iowa 2009 Annual Report - The City did not publish the annual report by December 1 and the report did not contain a summary for all collections and receipts, and all expenditures, the current public debt of the City and the legal debt limit of the City for the current fiscal year as required by Chapter 384.22 of the Code of Iowa.

Recommendation - The City should contact the state auditor.

Response - We will do this.

Conclusion - Response accepted.



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December 10, 2010

Honorable Mayor and Members of the City Council
City of Washington, IA

We have audited the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Washington, Iowa (City) for the year ended June 30, 2010 and have issued our report thereon dated December 10, 2010. Professional standards require that we provide you with the information about responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 9, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during June 30, 2010. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. We noted no significant transactions that have not been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The financial statements do not include financial data for the separately maintained records of the Municipal Band cash balances of \$7,217 and the Volunteer Fire department cash balance of \$2,247. The City's airport fuel revenues are recorded one month in arrears and the June 2010 and 2009 receipts not recorded until July were \$18,731 and \$30,128, respectively.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 10, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Delinquent Water Bills - Through review of the past due/delinquent register at June 30, 2010, we noted delinquent payments not only from the general public but from City employees. Consideration should be given to establishing policies that encourage employees to provide positive examples of financial responsibility.

Credit Card Transactions - During the audit, we examined two Visa credit card bills and several police department transactions were missing receipts. The City does not have a written credit card policy. The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, and the types of supporting documentation required to substantiate charges.

Utility Test of Transactions - During the audit, it was discovered one business/residential customer was being charged incorrectly for sewer tax. The City should ensure utility customers are being charged correctly for services provided.

Financial Reporting - The City is not utilizing separate account numbers for different capital projects in the capital projects fund. We recommend the City use separate account numbers for different capital projects.

Non-attest Services

We provide the City with non-attest services pertaining to drafting the City's financial statements and related notes. In connection with these services, management has made all management-level decisions and performed all management functions, designated a management-level individual with suitable skill, knowledge or experience to oversee the services, evaluated the adequacy and results of the services performed, accepted responsibility for the results of the services, and established and maintained controls, including monitoring ongoing activities.

This information is intended solely for the use of the Mayor, City Council, and management of the City of Washington and should not be used by anyone other than these specified parties.

CPA Associates PC