

City of Washington

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

June 30, 2011

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City of Washington

Officials

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



401 South Roosevelt Avenue - Suite 2A, PO Box 547, Burlington, IA 52601 / 319 752 6348 / 800 757 6348 / fax: 319 752 8644 / info@cpaapc.com

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, 2011, 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, 2011, 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, 2011, 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 January 18, 2012 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 22 and 23 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 four years ended June 30, 2010 (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, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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

January 18, 2012

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 7%, or \$468,392, from fiscal year 2010 to fiscal year 2011. This was mainly due to a decrease in operating grants, contributions, and restricted interest in fiscal year 2011.
- Disbursements of the City's governmental activities decreased 17%, or \$1,500,300, in fiscal year 2011 from fiscal year 2010. Capital projects decreased \$1,187,743.
- The City's total cash basis net assets decreased 31%, or \$1,563,189, from June 30, 2010 to June 30, 2011.

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 \$3,945,420 to \$3,336,706. The analysis that follows focuses on the changes in the cash balance for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for services	\$ 859,930	\$ 646,815
Operating grants, contributions and restricted interest	764,077	1,960,558
Capital grants, contributions and restricted interest	852,905	206,170
General receipts:		
Property tax	1,910,009	1,611,201
TIF	311,511	336,447
Debt service	719,914	922,057
Local option sales tax	659,437	670,139
Unrestricted interest on investments	2,963	3,282
Other general receipts	<u>614,532</u>	<u>807,001</u>
Total receipts	<u>6,695,278</u>	<u>7,163,670</u>
Disbursements:		
Public safety	1,644,493	1,604,339
Public works	1,191,871	1,076,942
Culture and recreation	932,355	824,578
Community and economic development	66,082	55,364
General government	946,185	977,718
Debt service	1,166,467	1,040,256
Capital projects	<u>1,546,539</u>	<u>3,415,095</u>
Total disbursements	<u>7,493,992</u>	<u>8,994,292</u>
Change in cash basis net assets before transfers	(798,714)	(1,830,622)
Transfers net	<u>190,000</u>	<u>-</u>
Change in cash basis net assets	(608,714)	(1,830,622)
Cash basis net assets beginning of year	<u>3,945,420</u>	<u>5,776,042</u>
Cash basis net assets end of year	<u>\$ 3,336,706</u>	<u>\$ 3,945,420</u>

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

The City's total receipts for governmental activities decreased by 7%, or \$468,392. This was mainly due to operating grants, contributions and restricted interest received in fiscal year 2010. The total cost of all programs and services decreased by \$1,500,300, or 17%, with no new programs added this year. The most significant decrease in expenditures was a reduction in capital projects for the fiscal year 2011.

The cost of all governmental activities this year was \$7,493,992 compared to \$8,994,292 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 \$5,017,080 because some of the cost was paid by those directly benefiting from the programs (\$859,930) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,616,982). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2011 from \$2,813,543 to \$2,476,912, principally due to a decrease in operating grants, contributions and restricted interest.

Changes in Cash Basis Net Assets of Business Type Activities	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for service		
Water charges	\$ 931,646	\$ 959,236
Sewer charges	1,006,900	1,023,258
Sanitation charges	262,227	243,760
Capital grants, contributions and restricted interest	431,914	-
General receipts:		
Bond proceeds	780,000	-
Other miscellaneous receipts	14,131	9,370
Total receipts	<u>3,426,818</u>	<u>2,235,624</u>
Disbursements:		
Water	1,027,224	1,019,878
Sewer	2,843,382	688,215
Sanitation	320,687	330,806
Total disbursements	<u>4,191,293</u>	<u>2,038,899</u>
Change in cash basis net assets before transfer	(764,475)	196,725
Transfers, net	<u>(190,000)</u>	<u>-</u>
Change in cash basis net assets	(954,475)	196,725
Cash basis net assets beginning of year	<u>1,029,769</u>	<u>833,044</u>
Cash basis net assets end of year	<u>\$ 75,294</u>	<u>\$ 1,029,769</u>

Total business type activities receipts for the fiscal year were \$3,426,818 compared to \$2,235,624 last year. The cash balance decreased by \$954,475. Total disbursements for the fiscal year increased by 106% due to the waste water treatment plant project.

**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 \$3,336,706, a decrease of \$608,714 from last year's total of \$3,945,420. 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 \$(285,691), an increase of \$139,863 from the prior year.
- The Special Revenue, Road Use Tax Fund cash balance increased by \$20,537 to \$821,386 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 increased by \$110,649.
- The Capital Projects Fund cash balance decreased by \$1,187,743 to \$2,208,134 due to increased capital project spending.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash deficit balance decreased by \$275,515 to \$(322,599).
- The Sewer Fund cash balance decreased by \$620,500 to \$526,177, due primarily to the start of the waste water treatment plant project.
- The Sanitation Fund cash deficit balance decreased by \$58,460 to \$(128,284).

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its operating budget. The amendment was approved on May 18, 2011 and resulted in an increase in budgeted revenues of \$348,100 and an increase in budgeted operating disbursements of \$2,798,700. Increases in revenues included other city taxes, intergovernmental, and charges for service. Increases in expenditures included public safety, culture and recreation, general government, debt service, capital projects and business type activities.

The City exceeded the amounts budgeted in the culture and recreation, debt service, and capital project functions for the year ended June 30, 2011, due to unexpected expenditures that had to be paid in the last weeks of June 2011.

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

DEBT ADMINISTRATION

At June 30, 2011, the City had \$7,560,438 in bonds and other long-term debt, compared to \$6,976,000 last year, as shown below.

Outstanding Debt at Year End	June 30,	
	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 6,170,000	\$ 6,675,000
Revenue notes	780,000	-
Capital loan notes	377,438	-
Urban renewal tax increment financing	<u>233,000</u>	<u>301,000</u>
Total	<u>\$ 7,560,438</u>	<u>\$ 6,976,000</u>

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 general obligation debt and urban renewal tax increment financing of \$6,780,438 is below the City's \$10.47 million legal debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2012 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 Brent Hinson, 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, 2011

	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	\$ 1,644,493	\$ 4,608	\$ 79,046	\$ 22,867	\$ (1,537,972)	\$ -	\$ (1,537,972)
Public works	1,191,871	440,945	684,606	-	(66,320)	-	(66,320)
Culture and recreation	932,355	233,377	-	361,660	(337,318)	-	(337,318)
Community and economic development	66,082	47,642	-	-	(18,440)	-	(18,440)
General government	946,185	119,778	-	468,378	(358,029)	-	(358,029)
Debt service	1,166,467	-	-	-	(1,166,467)	-	(1,166,467)
Capital projects	<u>1,546,539</u>	<u>13,580</u>	<u>425</u>	<u>-</u>	<u>(1,532,534)</u>	<u>-</u>	<u>(1,532,534)</u>
Total governmental activities	<u>7,493,992</u>	<u>859,930</u>	<u>764,077</u>	<u>852,905</u>	<u>(5,017,080)</u>	<u>-</u>	<u>(5,017,080)</u>
Business type activities:							
Water	1,027,224	931,646	-	-	-	(95,578)	(95,578)
Sewer	2,843,382	1,006,900	-	431,914	-	(1,404,568)	(1,404,568)
Sanitation	<u>320,687</u>	<u>262,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(58,460)</u>	<u>(58,460)</u>
Total business type activities	<u>4,191,293</u>	<u>2,200,773</u>	<u>-</u>	<u>431,914</u>	<u>-</u>	<u>(1,558,606)</u>	<u>(1,558,606)</u>
Total	<u>\$ 11,685,285</u>	<u>\$ 3,060,703</u>	<u>\$ 764,077</u>	<u>\$ 1,284,819</u>	<u>(5,017,080)</u>	<u>(1,558,606)</u>	<u>(6,575,686)</u>
General Receipts:							
Property tax levied for:							
General purposes					1,910,009	-	1,910,009
Tax increment financing					311,511	-	311,511
Debt service					719,914	-	719,914
Local option sales tax					659,437	-	659,437
Unrestricted investment earnings					2,963	-	2,963
Bond proceeds					-	780,000	780,000
Transfers					190,000	(190,000)	-
Miscellaneous					<u>614,532</u>	<u>14,131</u>	<u>628,663</u>
Total general receipts					<u>4,408,366</u>	<u>604,131</u>	<u>5,012,497</u>
Change in cash basis net assets					(608,714)	(954,475)	(1,563,189)
Cash basis net assets beginning of year					<u>3,945,420</u>	<u>1,029,769</u>	<u>4,975,189</u>
Cash basis net assets end of year					<u>\$ 3,336,706</u>	<u>\$ 75,294</u>	<u>\$ 3,412,000</u>
Cash Basis Net Assets							
Restricted:							
Expendable					\$ 3,390,898	\$ -	\$ 3,390,898
Unrestricted					<u>(54,192)</u>	<u>75,294</u>	<u>21,102</u>
Total cash basis net assets					<u>\$ 3,336,706</u>	<u>\$ 75,294</u>	<u>\$ 3,412,000</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, 2011

	<u>Special Revenue</u>					Other Nonmajor Governmental	Total
	General	Road Use	Urban Renewal TIF	Debt Service	Capital Projects		
Receipts:							
Property tax	\$ 1,490,771	\$ -	\$ -	\$ 719,914	\$ -	\$ 419,238	\$ 2,629,923
Tax increment financing	-	-	311,511	-	-	-	311,511
Other taxes	-	-	-	-	437,150	659,437	1,096,587
Use of money and property	120,042	-	-	12	425	332	120,811
License and permits	107,011	-	-	-	-	-	107,011
Intergovernmental	128,978	684,606	-	-	473,707	-	1,287,291
Charges for services	201,540	-	-	-	-	-	201,540
Special assessments	-	-	-	-	13,580	-	13,580
Miscellaneous	594,260	4,825	-	-	226,220	101,719	927,024
Total receipts	<u>2,642,602</u>	<u>689,431</u>	<u>311,511</u>	<u>719,926</u>	<u>1,151,082</u>	<u>1,180,726</u>	<u>6,695,278</u>
Disbursements:							
Operating:							
Public safety	1,642,968	-	-	-	1,525	-	1,644,493
Public works	522,977	668,894	-	-	-	-	1,191,871
Culture and recreation	841,711	-	-	-	115	90,529	932,355
Community and economic development	53,480	-	-	-	-	12,602	66,082
General government	945,725	-	-	-	393	67	946,185
Debt service	-	-	82,661	1,083,806	-	-	1,166,467
Capital projects	-	-	-	-	1,531,244	15,295	1,546,539
Total disbursements	<u>4,006,861</u>	<u>668,894</u>	<u>82,661</u>	<u>1,083,806</u>	<u>1,533,277</u>	<u>118,493</u>	<u>7,493,992</u>
Excess (deficiency) of receipts over disbursements	<u>(1,364,259)</u>	<u>20,537</u>	<u>228,850</u>	<u>(363,880)</u>	<u>(382,195)</u>	<u>1,062,233</u>	<u>(798,714)</u>
Other financing sources (uses):							
Operating transfers in (out)	1,504,122	-	(132,292)	474,529	(805,548)	(850,811)	190,000
Total other financing sources (uses)	<u>1,504,122</u>	<u>-</u>	<u>(132,292)</u>	<u>474,529</u>	<u>(805,548)</u>	<u>(850,811)</u>	<u>190,000</u>
Net change in cash balances	139,863	20,537	96,558	110,649	(1,187,743)	211,422	(608,714)
Cash balances (deficit) beginning of year	<u>(425,554)</u>	<u>800,849</u>	<u>-</u>	<u>(110,649)</u>	<u>3,395,877</u>	<u>284,897</u>	<u>3,945,420</u>
Cash balances (deficit) end of year	<u>\$ (285,691)</u>	<u>\$ 821,386</u>	<u>\$ 96,558</u>	<u>\$ -</u>	<u>\$ 2,208,134</u>	<u>\$ 496,319</u>	<u>\$ 3,336,706</u>
Cash Basis Fund Balances							
Restricted for:							
Road use purposes	\$ -	\$ 821,386	\$ -	\$ -	\$ -	\$ -	\$ 821,386
Tax referendum purposes	-	-	96,558	-	-	-	96,558
Capital projects	-	-	-	-	1,976,635	-	1,976,635
Dog park	-	-	-	-	-	6,602	6,602
Tree	-	-	-	-	-	6,754	6,754
Park purposes	-	-	-	-	-	206,759	206,759
Library purposes	-	-	-	-	-	276,204	276,204
Assigned to capital equipment	-	-	-	-	231,499	-	231,499
Unassigned	<u>(285,691)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(285,691)</u>
Total cash basis fund balances	<u>\$ (285,691)</u>	<u>\$ 821,386</u>	<u>\$ 96,558</u>	<u>\$ -</u>	<u>\$ 2,208,134</u>	<u>\$ 496,319</u>	<u>\$ 3,336,706</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, 2011

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Operating receipts:				
Charges for services	\$ 931,646	\$ 1,006,900	\$ 262,227	\$ 2,200,773
Total operating receipts	<u>931,646</u>	<u>1,006,900</u>	<u>262,227</u>	<u>2,200,773</u>
Operating disbursements:				
Business type activities	1,027,224	733,620	320,687	2,081,531
Total operating disbursements	<u>1,027,224</u>	<u>733,620</u>	<u>320,687</u>	<u>2,081,531</u>
Excess (deficiency) of receipts over disbursements	<u>(95,578)</u>	<u>273,280</u>	<u>(58,460)</u>	<u>119,242</u>
Non-operating receipts (disbursements):				
Intergovernmental	-	431,914	-	431,914
Miscellaneous	10,063	4,068	-	14,131
Bond proceeds	-	780,000	-	780,000
Capital projects	-	(2,109,762)	-	(2,109,762)
Net non-operating receipts (disbursements)	<u>10,063</u>	<u>(893,780)</u>	<u>-</u>	<u>(883,717)</u>
Operating transfers in (out)	<u>(190,000)</u>	<u>-</u>	<u>-</u>	<u>(190,000)</u>
Net change in cash balances	(275,515)	(620,500)	(58,460)	(954,475)
Cash balances beginning of year	<u>(47,084)</u>	<u>1,146,677</u>	<u>(69,824)</u>	<u>1,029,769</u>
Cash balances (deficit) end of year	<u>\$ (322,599)</u>	<u>\$ 526,177</u>	<u>\$ (128,284)</u>	<u>\$ 75,294</u>
Cash Basis Fund Balances				
Unrestricted	<u>\$ (322,599)</u>	<u>\$ 526,177</u>	<u>\$ (128,284)</u>	<u>\$ 75,294</u>
Total cash basis fund balances	<u>\$ (322,599)</u>	<u>\$ 526,177</u>	<u>\$ (128,284)</u>	<u>\$ 75,294</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.

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned.

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.

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purpose.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

City of Washington
Notes to Financial Statements

Note 1. Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which provides clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The City adopted this statement on July 1, 2010.

Note 2. Cash and Investments

The City's deposits in banks at June 30, 2011 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.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,517,097 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.

City of Washington
Notes to Financial Statements

Note 3. Bonds and Notes Payable

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

Year Ending June 30.	General Obligation Bonds		Urban Renewal TIF Revenue Capital Loan Note		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 863,171	\$ 218,026	\$ 70,000	\$ 21,584	\$ 780,000	\$ -	\$ 1,713,171	\$ 239,610
2013	543,071	189,476	73,000	20,514	-	-	616,071	209,990
2014	563,394	175,635	45,000	4,838	-	-	608,394	180,473
2015	578,729	159,522	45,000	2,419	-	-	623,729	161,941
2016	599,073	141,238	-	-	-	-	599,073	141,238
2017-2021	1,730,000	480,180	-	-	-	-	1,730,000	480,180
2022-2026	975,000	295,600	-	-	-	-	975,000	295,600
2027-2029	695,000	65,290	-	-	-	-	695,000	65,290
	<u>\$ 6,547,438</u>	<u>\$ 1,724,967</u>	<u>\$ 233,000</u>	<u>\$ 49,355</u>	<u>\$ 780,000</u>	<u>\$ -</u>	<u>\$ 7,560,438</u>	<u>\$ 1,774,322</u>

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

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 \$282,355, payable through 2015. For the current year, principal and interest paid and total TIF receipts were \$82,661 and \$311,511, respectively.

Note 4. Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010, and 2009 were \$182,755, \$178,162, and \$153,841, respectively, equal to the required contribution for each year.

City of Washington
Notes to Financial Statements

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, 2011, primarily relating to the General Fund, is \$157,875, based on rates of pay in effect at June 30, 2011.

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.

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, 2011 was \$109,418.

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.

City of Washington
Notes to Financial Statements

Note 6. Risk Management (continued)

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, 2011, 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 \$2,050 during the year ended June 30, 2011.

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:

Waste water treatment plant	\$ 14,240,112
Sanitary sewer project	4,145,000

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.

City of Washington
Notes to Financial Statements

Note 10. Deficit Fund Balance

The following funds had deficit balances at June 30, 2011:

General Fund	\$ (285,691)
Water Fund	(322,599)
Sanitation Fund	(128,284)

Note 11. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to:	
General fund	\$ 1,504,122
Debt service	474,529
Park	<u>276,152</u>
	<u>\$ 2,254,803</u>
Transfer from:	
Urban renewal TIF	\$ 132,292
Housing rehabilitation	48,288
Employee benefits	334,286
Liability insurance	84,952
Capital projects	805,548
Sales tax	659,437
Water	<u>190,000</u>
	<u>\$ 2,254,803</u>

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

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, 2011 totaled \$37,802.

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2011 totaled \$21,110.

City of Washington
Notes to Financial Statements

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 47 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 \$507 for single coverage and \$1,268 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$410,048 and plan members eligible for benefits contributed \$68,301 to the plan.

Note 14. Subsequent Events

The City performed an evaluation of subsequent events through January 18, 2012, which is the date the financial statements were issued. The City received an IJOBS Grant for \$315,474 for the waste water treatment plant 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, 2011

	Governmental	Proprietary	Net	Budgeted Amounts		Final to Net Variance
	Funds Actual	Fund Type Actual		Original	Final	
Receipts:						
Property tax	\$ 2,629,923	\$ -	\$ 2,629,923	\$ 2,534,829	\$ 2,534,829	\$ 95,094
Tax increment financing collections	311,511	-	311,511	-	-	311,511
Other city taxes	1,096,587	-	1,096,587	741,926	855,926	240,661
Use of money and property	120,811	-	120,811	-	-	120,811
Licenses and permits	107,011	-	107,011	35,150	35,150	71,861
Intergovernmental	1,287,291	431,914	1,719,205	672,423	762,423	956,782
Charges for service	201,540	2,200,773	2,402,313	2,779,335	2,923,435	(521,122)
Special assessments	13,580	-	13,580	-	-	13,580
Miscellaneous	927,024	14,131	941,155	1,719,576	1,719,576	(778,421)
Total receipts	<u>6,695,278</u>	<u>2,646,818</u>	<u>9,342,096</u>	<u>8,483,239</u>	<u>8,831,339</u>	<u>510,757</u>
Disbursements:						
Public safety	1,644,493	-	1,644,493	1,457,984	1,675,084	30,591
Public works	1,191,871	-	1,191,871	1,486,574	1,486,574	294,703
Culture and recreation	932,355	-	932,355	801,937	905,237	(27,118)
Community and economic development	66,082	-	66,082	369,332	369,332	303,250
General government	946,185	-	946,185	1,032,283	1,052,283	106,098
Debt service	1,166,467	-	1,166,467	748,368	756,668	(409,799)
Capital projects	1,546,539	2,109,762	3,656,301	229,476	2,279,476	(1,376,825)
Business type activities	-	2,081,531	2,081,531	2,357,285	2,757,285	675,754
Total disbursements	<u>7,493,992</u>	<u>4,191,293</u>	<u>11,685,285</u>	<u>8,483,239</u>	<u>11,281,939</u>	<u>(403,346)</u>
Excess (deficiency) of receipts over disbursements	(798,714)	(1,544,475)	(2,343,189)	-	(2,450,600)	107,411
Other financing sources (uses)	<u>190,000</u>	<u>590,000</u>	<u>780,000</u>	<u>-</u>	<u>2,450,600</u>	<u>(1,670,600)</u>
Net change in cash balances	(608,714)	(954,475)	(1,563,189)	-	-	(1,563,189)
Cash balances beginning of year	<u>3,945,420</u>	<u>1,029,769</u>	<u>4,975,189</u>	<u>6,378,485</u>	<u>6,378,485</u>	<u>(1,403,296)</u>
Cash balances end of year	<u>\$ 3,336,706</u>	<u>\$ 75,294</u>	<u>\$ 3,412,000</u>	<u>\$ 6,378,485</u>	<u>\$ 6,378,485</u>	<u>\$ (2,966,485)</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. During the year, a budget amendment increased budgeted disbursements by \$2,798,700. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in culture and recreation, debt service, and capital project functions.

City of Washington
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011

	Special Revenue								Total
	Housing Rehabilitation	Employee Benefits	Liability Insurance	Sales Tax	Dog Park	Tree	Park	Library Trust	
Receipts:									
Property tax	\$ -	\$ 334,286	\$ 84,952	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 419,238
Other taxes	-	-	-	659,437	-	-	-	-	659,437
Use of money and property	-	-	-	-	-	-	16	316	332
Miscellaneous	-	-	-	-	823	13,971	12,514	74,411	101,719
Total receipts	<u>-</u>	<u>334,286</u>	<u>84,952</u>	<u>659,437</u>	<u>823</u>	<u>13,971</u>	<u>12,530</u>	<u>74,727</u>	<u>1,180,726</u>
Disbursements:									
Culture and recreation	-	-	-	-	1,133	-	420	88,976	90,529
Community and economic development	-	-	-	-	-	12,602	-	-	12,602
General government	-	-	-	-	67	-	-	-	67
Capital projects	-	-	-	-	-	-	15,295	-	15,295
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,200</u>	<u>12,602</u>	<u>15,715</u>	<u>88,976</u>	<u>118,493</u>
Excess (deficiency) of receipts over disbursements	-	334,286	84,952	659,437	(377)	1,369	(3,185)	(14,249)	1,062,233
Other financing sources (uses):									
Operating transfers (out)	<u>(48,288)</u>	<u>(334,286)</u>	<u>(84,952)</u>	<u>(659,437)</u>	<u>-</u>	<u>-</u>	<u>276,152</u>	<u>-</u>	<u>(850,811)</u>
Net change in cash balances	(48,288)	-	-	-	(377)	1,369	272,967	(14,249)	211,422
Cash balances beginning 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>284,897</u>
Cash balances (deficit) end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,602</u>	<u>\$ 6,754</u>	<u>\$ 206,759</u>	<u>\$ 276,204</u>	<u>\$ 496,319</u>
Cash Basis Fund Balances									
Restricted for:									
Dog park	\$ -	\$ -	\$ -	\$ -	\$ 6,602	\$ -	\$ -	\$ -	\$ 6,602
Tree	-	-	-	-	-	6,754	-	-	6,754
Park purposes	-	-	-	-	-	-	206,759	-	206,759
Library purposes	-	-	-	-	-	-	-	276,204	276,204
Total cash basis fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,602</u>	<u>\$ 6,754</u>	<u>\$ 206,759</u>	<u>\$ 276,204</u>	<u>\$ 496,319</u>

See accompanying independent auditor's report.

**City of Washington
Statement of Indebtedness
Year Ended June 30, 2011**

<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	6/17/09	1.25-4.80%	\$ 3,500,000	\$ 3,190,000	\$ -	\$ 125,000	\$ 3,065,000	\$ 119,645	\$ -
Capital loan note	6/18/08	2.50-4.00%	4,355,000	<u>3,485,000</u>	<u>-</u>	<u>380,000</u>	<u>3,105,000</u>	<u>123,723</u>	<u>-</u>
Total				<u>\$ 6,675,000</u>	<u>\$ -</u>	<u>\$ 505,000</u>	<u>\$ 6,170,000</u>	<u>\$ 243,368</u>	<u>\$ -</u>
Revenue Note:									
Sewer revenue	8/26/09	0.00%	780,000	<u>\$ -</u>	<u>\$ 780,000</u>	<u>\$ -</u>	<u>\$ 780,000</u>	<u>\$ -</u>	<u>\$ -</u>
Capital Loan Note:									
Capital loan note - house	3/9/11	4.00%	42,000	\$ -	\$ 42,000	\$ -	\$ 42,000	\$ -	\$ -
Capital loan note - farm land	7/8/10	5.00%	670,876	<u>-</u>	<u>670,876</u>	<u>335,438</u>	<u>335,438</u>	<u>-</u>	<u>-</u>
Total				<u>\$ -</u>	<u>\$ 712,876</u>	<u>\$ 335,438</u>	<u>\$ 377,438</u>	<u>\$ -</u>	<u>\$ -</u>
Urban Renewal TIF Revenue Notes:									
Urban Renewal Series 2004	1/12/04	3.70%	\$ 190,000	\$ 90,000	\$ -	\$ 30,000	\$ 60,000	\$ 3,320	\$ -
Urban Renewal Series 2006	9/15/06	5.38%	280,000	<u>211,000</u>	<u>-</u>	<u>38,000</u>	<u>173,000</u>	<u>11,341</u>	<u>-</u>
Total				<u>\$ 301,000</u>	<u>\$ -</u>	<u>\$ 68,000</u>	<u>\$ 233,000</u>	<u>\$ 14,661</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**City of Washington
Bond and Note Maturities
June 30, 2011**

General Obligation Bonds:

Year Ending June 30,	Capital Loan Note June 18, 2008		Capital Loan Note June 17, 2009		Total
	Interest Rate	Amount	Interest Rate	Amount	
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>\$ 3,105,000</u>		<u>\$ 3,065,000</u>	<u>\$ 6,170,000</u>

Urban Renewal Tax Increment Financing (TIF) Revenue Notes:

Year Ending June 30,	Series 2004 January 12, 2004		Series 2006 September 15, 2006		Total
	Interest Rate	Amount	Interest Rate	Amount	
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>\$ 60,000</u>		<u>\$ 173,000</u>	<u>\$ 233,000</u>

See accompanying independent auditor's report.

**City of Washington
Bond and Note Maturities
June 30, 2011**

Capital Loan Note:

Year Ending June 30,	Interest Rate	House	Interest Rate	Farm Land	Total
2012	4.00%	\$ 7,733	5.00%	\$ 335,438	\$ 343,171
2013	4.00%	8,071		-	8,071
2014	4.00%	8,394		-	8,394
2015	4.00%	8,729		-	8,729
2016	4.00%	<u>9,073</u>		<u>-</u>	<u>9,073</u>
		<u>\$ 42,000</u>		<u>\$ 335,438</u>	<u>\$ 377,438</u>

Waste Water Revenue Note:

Year Ending June 30	Interest Rate	Amount
2012	0.00%	\$ 780,000

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>2011</u>	<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	\$ 2,629,923	\$ 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	311,511	336,447	209,724	104,729	113,794	101,008	94,486	74,052	52,171
Other city taxes	1,096,587	670,139	612,723	709,116	671,072	455,213	545,406	388,387	223,692
Use of money and property	120,811	89,186	140,156	134,280	195,990	69,611	53,880	45,700	37,740
Licenses and permits	107,011	82,522	130,196	109,264	119,148	154,770	99,077	62,260	82,189
Intergovernmental	1,287,291	1,460,773	1,181,813	1,220,791	1,165,904	855,371	835,138	867,115	1,369,261
Charges for services	201,540	153,610	616,050	518,170	399,797	218,106	207,144	210,226	114,092
Special assessments	13,580	12,221	7,009	12,559	14,963	32,849	17,801	24,600	16,803
Miscellaneous	<u>927,024</u>	<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>\$ 6,695,278</u>	<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	\$ 1,644,493	\$ 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	1,191,871	1,076,942	1,009,014	1,544,143	1,405,445	691,540	559,650	377,117	725,351
Culture and recreation	932,355	824,578	936,866	913,776	819,720	687,928	620,817	670,587	1,030,803
Community and economic development	66,082	55,364	63,371	98,868	342,321	125,114	-	32,679	67,527
General government	946,185	977,718	1,001,763	878,786	919,301	846,315	736,814	569,067	536,329
Debt service	1,166,467	1,040,256	949,377	909,786	941,246	918,085	923,092	921,882	1,026,731
Capital projects	<u>1,546,539</u>	<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>\$ 7,493,992</u>	<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.

City of Washington
Schedule of Expenditures of Federal Awards
June 30, 2011

<u>Federal Agency/Pass-Through Agency Program - Grant Title</u>	<u>CFDA Number</u>	<u>Grantor Program Number</u>	<u>Program Disbursements</u>
U.S. Department of Transportation direct programs:			
Federal Aviation Administration			
Land Acquisition by Condemnation	20.106	3-19-0093-06-2011	\$ 1,096,704
Extend Runway 13-31 - Design Only	20.106	3-19-0093-05-2011	<u>129,016</u>
Subtotal U.S. Department of Transportation direct programs			1,225,720
Pass-through program from:			
Iowa Department of Transportation:			
Federal Highway Administration			
Highway Planning and Construction	20.205	STP-U-8140(609)--70-92	500,747
Iowa Governor's Traffic Safety Bureau:			
National Highway Traffic Safety Administration -			
Alcohol Incentive Grant	20.601	PAP 11-410, Task 81	<u>1,750</u>
Total U.S. Department of Transportation			1,728,217
U.S. Department of Homeland Security:			
Assistance to Firefighters Grant			
	97.044	EMW-2010-FO-07224	53,521
U.S. Department of Housing and Urban Development:			
Pass-through program from:			
Iowa Department of Economic Development			
Community Block Grant Program	14.228	10-HSG-040	1,702
U.S. Department of Education pass-through program from:			
Iowa Department of Transportation			
ARRA - State Fiscal Stabilization Fund (SFSF)			
Government Services, Recovery Act	84.397		<u>8,415</u>
			<u>\$ 1,791,855</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Washington and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 18, 2012. 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 II 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 III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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

January 18, 2012



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Independent Auditor's Report on Compliance with Requirements Applicable That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Washington, Iowa (City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance 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, and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a major and material effect on each of its its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses over compliance and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we considered to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-11 to be a material weakness.

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. 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.

CPA Associates PC

January 18, 2012

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the primary government financial statements which 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.
- (b) Material weaknesses in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs are as follows:
 - CFDA Number 20.106 - U.S. Department of Transportation - Federal Aviation Administration
 - CFDA Number 20.205 - U.S. Department of Transportation - Federal Highway Administration
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Washington did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements

MATERIAL WEAKNESSES

II-A-11 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.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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

II-B-11 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.

II-C-11 Utility Billing Errors - Changes to customer utility billings are not reviewed. During our utility testing, three errors were found in our sample of thirteen monthly customer billings.

Recommendation - Procedures should be established to review any changes that are made to customer utility accounts. The Council or a Council-designated independent person should review the changes.

Response - The City will establish and implement procedures to review utility billings changes.

Conclusion - Response accepted.

II-D-11 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, 2011

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

II-E-11 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.

II-F-11 Preparation of Schedule of Federal Awards - Through review of the City's grant activity and the process of gathering information for required reporting, we determined that there is a need for improvement in the procedures related to the preparation of the Schedule of Expenditures of Federal Awards (SEFA), including the accuracy and completeness of expenditure amounts reported on the SEFA. The City does not have a centralized process to gather the information required to be reported under OMB Circular A-133. As a result, there is a risk that the schedule could contain errors and omissions.

Recommendation - We recommend that the City create a process and designate an individual to track and accurately report all information required to be included on the SEFA.

Response - The City has assigned the City Accountant to track all grants (Federal and State) that the City has obtained and his ongoing assignment will be to regularly communicate with all departments. This information can then be easily passed on to the auditors each year.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Part III: Findings - Major Federal Award Programs Audit

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL MATERIAL WEAKNESS

- III-A-11 Preparation of Schedule of Federal Awards - The City does not have a centralized process to gather the information required to be reported under OMB Circular A-133. See item II-F-11.

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in culture and recreation, debt service, and capital project functions. Chapter 384.20 of the Code of Iowa states, in part, "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.

- IV-B-11 Questionable Disbursements - We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-C-11 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, 2011

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

IV-D-11 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 Roe, Airport Commission Member Owner, Roe Heating and Hardware	Repairs	\$ 2,050

The transaction with the Airport Commission member may represent a conflict of interest since it was not entered into through a competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - The City will proceed with a competitive bidding process in the future.

Conclusion - Response accepted.

IV-E-11 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.

IV-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

IV-G-11 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.

IV-H-11 Financial Condition - The following funds had deficit balances at June 30, 2011:

General Fund	\$ (285,691)
Water Fund	(322,599)
Sanitation Fund	(128,284)

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.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

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

IV-I-11 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.