

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, 2012

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City of Washington

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sandra Johnson	Mayor	December 2013
Bob Shepherd	Mayor Protem	December 2013
Bob Shepherd	Council Member 1st Ward	December 2015
Russ Zieglowsky	Council Member 2nd Ward	December 2013
Robert Shellmyer	Council Member 3rd Ward	December 2013
Fred Stark	Council Member 4th Ward	December 2013
Mark Kendall	Council Member at Large	December 2015
Merlin Hagie	Council Member at Large	December 2013
Brent Hinson	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, 2012, 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, 2012, 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, 2012, 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 16, 2013 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.

Our audit was conducted 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 five years ended June 30, 2011 (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. The supplementary information included in Schedules 1 through 5, including the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 25 through 26 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

CPA Associates PC

January 16, 2013

**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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 24%, or \$1,602,639, from fiscal year 2011 to fiscal year 2012. This was mainly due to a increase in capital grants, contributions, and restricted interest in fiscal year 2012.
- Disbursements of the City's governmental activities increased 1%, or \$110,681, in fiscal year 2012 from fiscal year 2011. Capital projects increased \$105,393.
- The City's total cash basis net assets increased 74%, or \$2,536,767, from June 30, 2011 to June 30, 2012.

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.
- Other Information further explains and supports the financial statements with a comparison to the City's budget for the year.
- 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. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago from \$3,336,706 to \$4,135,438. 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>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for services	\$ 956,190	\$ 859,930
Operating grants, contributions and restricted interest	942,418	764,077
Capital grants, contributions and restricted interest	1,766,853	852,905
General receipts:		
Property tax	2,099,639	1,910,009
TIF	412,169	311,511
Debt service	756,334	719,914
Local option sales tax	703,239	659,437
Unrestricted interest on investments	3,094	2,963
Other general receipts	<u>657,981</u>	<u>614,532</u>
Total receipts	<u>8,297,917</u>	<u>6,695,278</u>
Disbursements:		
Public safety	1,635,509	1,644,493
Public works	1,418,092	1,191,871
Culture and recreation	833,069	932,355
Community and economic development	66,250	66,082
General government	978,299	946,185
Debt service	1,021,522	1,166,467
Capital projects	<u>1,651,932</u>	<u>1,546,539</u>
Total disbursements	<u>7,604,673</u>	<u>7,493,992</u>
Change in cash basis net assets before transfers	693,244	(798,714)
Transfers net	<u>105,488</u>	<u>190,000</u>
Change in cash basis net assets	798,732	(608,714)
Cash basis net assets beginning of year	<u>3,336,706</u>	<u>3,945,420</u>
Cash basis net assets end of year	<u>\$ 4,135,438</u>	<u>\$ 3,336,706</u>

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

The City's total receipts for governmental activities increased by 24%, or \$1,602,639. This was mainly due to capital grants, contributions and restricted interest received in fiscal year 2012. The total cost of all programs and services increased by \$110,681, or 1%, with no new programs added this year. The most significant increase in expenditures was in capital projects for the fiscal year 2012.

The cost of all governmental activities this year was \$7,604,673 compared to \$7,493,992 last year. However, as shown in the Statement of Activities and Net Assets on page 11, the amount taxpayers ultimately financed for these activities was \$3,939,212 because some of the cost was paid by those directly benefiting from the programs (\$956,190) or by other governments and organizations that subsidized certain programs with grants and contributions (\$2,709,271). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2012 from \$2,476,912 to \$3,665,461, principally due to a increase in operating grants, contributions and restricted interest.

Changes in Cash Basis Net Assets of Business Type Activities	Year Ended June 30,	
	<u>2012</u>	<u>2011</u>
Receipts:		
Program receipts:		
Charges for service:		
Water charges	\$ 1,156,386	\$ 931,646
Sewer charges	2,163,882	1,006,900
Sanitation charges	314,522	262,227
Capital grants, contributions and restricted interest	1,836,642	431,914
General receipts:		
Bond proceeds	14,415,963	780,000
Other miscellaneous receipts	<u>102,718</u>	<u>14,131</u>
Total receipts	<u>19,990,113</u>	<u>3,426,818</u>
Disbursements:		
Water	998,534	1,027,224
Sewer	16,861,334	2,843,382
Sanitation	<u>286,722</u>	<u>320,687</u>
Total disbursements	<u>18,146,590</u>	<u>4,191,293</u>
Change in cash basis net assets before transfer	1,843,523	(764,475)
Transfers, net	<u>(105,488)</u>	<u>(190,000)</u>
Change in cash basis net assets	1,738,035	(954,475)
Cash basis net assets beginning of year	<u>75,294</u>	<u>1,029,769</u>
Cash basis net assets end of year	<u>\$ 1,813,329</u>	<u>\$ 75,294</u>

Total business type activities receipts for the fiscal year were \$19,990,113 compared to \$3,426,818 last year. The cash balance increased by \$1,738,035. Total disbursements for the fiscal year increased by 333% due to the waste water treatment plant project and the west side sanitary sewer 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 \$4,135,438, an increase of \$798,732 from last year's total of \$3,336,706. 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 \$271,487, an increase of \$557,178 from the prior year.
- The Special Revenue, Road Use Tax Fund cash balance decreased by \$204,153 to \$617,233 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 Urban Renewal TIF Fund cash balance decreased by \$96,558.
- The Debt Service Fund cash balance remained at zero for the fiscal year.
- The Capital Projects Fund cash balance increased by \$419,442 to \$2,627,576 due to the establishment of the industrial development fund, the reconciliation of the capital projects fund, and unspent Riverside Casino revenue.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$617,573 to \$294,974.
- The Sewer Fund cash balance increased by \$955,408 to \$1,481,585, due primarily to grant and bond proceeds for the waste water treatment plant project and west side sanitary sewer project.
- The Sanitation Fund cash balance increased by \$162,800 to \$34,516.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its operating budget. The amendment was approved on June 20, 2012 and resulted in an increase in budgeted revenues of \$17,391,731 and an increase in budgeted operating disbursements of \$18,050,612. Increases in revenues included tax increment financing, use of money and property, intergovernmental, and charges for services. Increases in expenditures included public safety, public works, culture and recreation, general government, debt service, capital projects and business type activities.

The City exceeded the amounts budgeted in the capital project function for the year ended June 30, 2012, due to unexpected expenditures that had to be paid in the last weeks of June 2012.

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

DEBT ADMINISTRATION

At June 30, 2012, the City had \$20,250,963 in bonds and other long-term debt, compared to \$7,560,438 last year, as shown below.

Outstanding Debt at Year End	June 30,	
	<u>2012</u>	<u>2011</u>
General obligation bonds	\$ 5,650,000	\$ 6,170,000
Revenue notes	14,415,963	780,000
Capital loan notes	-	377,438
Urban renewal tax increment financing	<u>185,000</u>	<u>233,000</u>
Total	<u>\$20,250,963</u>	<u>\$ 7,560,438</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 \$5,835,000 is below the City's \$17.06 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 2013 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.

For fiscal year 2013, the City of Washington has projected and budgeted the following major projects; South Iowa Mill & Overlay approximately \$359,000, Completion of Waste Water Treatment Facility approximately \$3,000,000, West Side Sewer Interceptor approximately \$2,000,000, Water Tower Construction or ground storage reservoir approximately \$1,875,000, 2012 Street/Sealcoat project approximately \$500,000. Other projects include studies on the Municipal Building/Old Library, Street Condition Index, and Water Facilities Plan.

The City Council passed an ordinance to increase water, sewer and sanitation rates by 3.50% effective the first day of July each year beginning in 2013.

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.

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

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, 2012

	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	\$ 1,635,509	\$ 4,302	\$ 56,814	\$ 30,782	\$ (1,543,611)	\$ -	\$ (1,543,611)
Public works	1,418,092	564,210	827,044	-	(26,838)	-	(26,838)
Culture and recreation	833,069	238,569	58,557	-	(535,943)	-	(535,943)
Community and economic development	66,250	45,065	-	-	(21,185)	-	(21,185)
General government	978,299	104,044	-	291,013	(583,242)	-	(583,242)
Debt service	1,021,522	-	-	-	(1,021,522)	-	(1,021,522)
Capital projects	1,651,932	-	3	1,445,058	(206,871)	-	(206,871)
Total governmental activities	<u>7,604,673</u>	<u>956,190</u>	<u>942,418</u>	<u>1,766,853</u>	<u>(3,939,212)</u>	<u>-</u>	<u>(3,939,212)</u>
Business type activities:							
Water	998,534	1,156,386	-	-	-	157,852	157,852
Sewer	16,861,334	2,163,882	-	1,836,642	-	(12,860,810)	(12,860,810)
Sanitation	286,722	314,522	-	-	-	27,800	27,800
Total business type activities	<u>18,146,590</u>	<u>3,634,790</u>	<u>-</u>	<u>1,836,642</u>	<u>-</u>	<u>(12,675,158)</u>	<u>(12,675,158)</u>
Total	<u>\$ 25,751,263</u>	<u>\$ 4,590,980</u>	<u>\$ 942,418</u>	<u>\$ 3,603,495</u>	<u>(3,939,212)</u>	<u>(12,675,158)</u>	<u>(16,614,370)</u>
General Receipts:							
Property tax levied for:							
General purposes					2,099,639	-	2,099,639
Tax increment financing					412,169	-	412,169
Debt service					756,334	-	756,334
Local option sales tax					703,239	-	703,239
Unrestricted investment earnings					3,094	-	3,094
Bond proceeds					-	14,415,963	14,415,963
Transfers					105,488	(105,488)	-
Miscellaneous					657,981	102,718	760,699
Total general receipts					<u>4,737,944</u>	<u>14,413,193</u>	<u>19,151,137</u>
Change in cash basis net assets					798,732	1,738,035	2,536,767
Cash basis net assets beginning of year					<u>3,336,706</u>	<u>75,294</u>	<u>3,412,000</u>
Cash basis net assets end of year					<u>\$ 4,135,438</u>	<u>\$ 1,813,329</u>	<u>\$ 5,948,767</u>
Cash Basis Net Assets							
Restricted:							
Expendable					\$ 3,520,178	\$ -	\$ 3,520,178
Unrestricted					<u>615,260</u>	<u>1,813,329</u>	<u>2,428,589</u>
Total cash basis net assets					<u>\$ 4,135,438</u>	<u>\$ 1,813,329</u>	<u>\$ 5,948,767</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, 2012

	<u>Special Revenue</u>					Other Nonmajor Governmental	Total
	General	Road Use	Urban Renewal TIF	Debt Service	Capital Projects		
Receipts:							
Property tax	\$ 1,561,639	\$ -	\$ -	\$ 756,334	\$ -	\$ 538,000	\$ 2,855,973
Tax increment financing	-	-	412,169	-	-	-	412,169
Other taxes	-	-	-	-	488,125	703,239	1,191,364
Use of money and property	132,619	-	-	3	149	751	133,522
License and permits	102,917	-	-	-	-	-	102,917
Intergovernmental	239,499	689,188	-	-	1,424,747	-	2,353,434
Charges for services	196,078	5	-	-	-	-	196,083
Special assessments	-	-	-	-	14,926	-	14,926
Miscellaneous	<u>657,947</u>	<u>2,373</u>	<u>-</u>	<u>-</u>	<u>287,277</u>	<u>63,772</u>	<u>1,011,369</u>
Total receipts	<u>2,890,699</u>	<u>691,566</u>	<u>412,169</u>	<u>756,337</u>	<u>2,215,224</u>	<u>1,305,762</u>	<u>8,271,757</u>
Disbursements:							
Operating:							
Public safety	1,635,509	-	-	-	-	-	1,635,509
Public works	671,303	746,789	-	-	-	-	1,418,092
Culture and recreation	808,230	-	-	-	-	24,839	833,069
Community and economic development	50,699	-	-	-	-	15,551	66,250
General government	927,562	-	-	-	110	50,627	978,299
Debt service	-	-	59,520	962,002	-	-	1,021,522
Capital projects	-	-	-	-	1,643,496	8,436	1,651,932
Total disbursements	<u>4,093,303</u>	<u>746,789</u>	<u>59,520</u>	<u>962,002</u>	<u>1,643,606</u>	<u>99,453</u>	<u>7,604,673</u>
Excess (deficiency) of receipts over disbursements	<u>(1,202,604)</u>	<u>(55,223)</u>	<u>352,649</u>	<u>(205,665)</u>	<u>571,618</u>	<u>1,206,309</u>	<u>667,084</u>
Other financing sources (uses):							
Sale of capital assets	-	-	-	-	9,693	-	9,693
Operating transfers in (out)	<u>1,759,782</u>	<u>(148,930)</u>	<u>(449,207)</u>	<u>205,665</u>	<u>(161,869)</u>	<u>(1,099,953)</u>	<u>105,488</u>
Total other financing sources (uses)	<u>1,759,782</u>	<u>(148,930)</u>	<u>(449,207)</u>	<u>205,665</u>	<u>(152,176)</u>	<u>(1,099,953)</u>	<u>115,181</u>
Net change in cash balances	557,178	(204,153)	(96,558)	-	419,442	106,356	782,265
Cash balances (deficit) beginning 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 balances end of year	<u>\$ 271,487</u>	<u>\$ 617,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,627,576</u>	<u>\$ 602,675</u>	<u>\$ 4,118,971</u>
Cash Basis Fund Balances							
Restricted for:							
Road use purposes	\$ -	\$ 617,233	\$ -	\$ -	\$ -	\$ -	\$ 617,233
Capital projects	-	-	-	-	2,395,875	-	2,395,875
Dog park	-	-	-	-	-	6,996	6,996
Tree	-	-	-	-	-	5,000	5,000
Park purposes	-	-	-	-	-	208,537	208,537
Library purposes	-	-	-	-	-	263,569	263,569
Other purposes	-	-	-	-	-	22,968	22,968
Assigned to:							
Capital equipment	-	-	-	-	231,701	-	231,701
Airport	-	-	-	-	-	95,605	95,605
Unassigned	<u>271,487</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>271,487</u>
Total cash basis fund balances	<u>\$ 271,487</u>	<u>\$ 617,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,627,576</u>	<u>\$ 602,675</u>	<u>\$ 4,118,971</u>

See notes to financial statements.

City of Washington
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the Year Ended June 30, 2012

Total governmental funds cash balances (page 12) \$ 4,118,971

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statements of Activities and Net Assets.

16,467

Cash basis net assets of governmental activities (page 11) \$ 4,135,438

Net change in cash balances (page 12) \$ 782,265

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

16,467

Change in cash balances of governmental activities (page 11) \$ 798,732

See notes to financial statements.

City of Washington
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the Year Ended June 30, 2012

	Enterprise Funds				Internal Service
	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>	<u>Health Insurance</u>
Operating receipts:					
Charges for services	\$ <u>1,156,386</u>	\$ <u>2,163,882</u>	\$ <u>314,522</u>	\$ <u>3,634,790</u>	\$ <u>22,000</u>
Total operating receipts	<u>1,156,386</u>	<u>2,163,882</u>	<u>314,522</u>	<u>3,634,790</u>	<u>22,000</u>
Operating disbursements:					
Public safety	-	-	-	-	610
Public works	-	-	-	-	343
Culture and recreation	-	-	-	-	1,792
General government	-	-	-	-	343
Business type activities	<u>998,534</u>	<u>694,211</u>	<u>286,722</u>	<u>1,979,467</u>	<u>191</u>
Total operating disbursements	<u>998,534</u>	<u>694,211</u>	<u>286,722</u>	<u>1,979,467</u>	<u>3,279</u>
Excess of receipts over disbursements	<u>157,852</u>	<u>1,469,671</u>	<u>27,800</u>	<u>1,655,323</u>	<u>18,721</u>
Non-operating receipts (disbursements):					
Intergovernmental	-	1,836,642	-	1,836,642	-
Miscellaneous	98,387	2,077	-	100,464	-
Bond proceeds	-	14,415,963	-	14,415,963	-
Capital projects	-	<u>(16,167,123)</u>	-	<u>(16,167,123)</u>	-
Net non-operating receipts	<u>98,387</u>	<u>87,559</u>	<u>-</u>	<u>185,946</u>	<u>-</u>
Operating transfers in (out)	<u>361,334</u>	<u>(601,822)</u>	<u>135,000</u>	<u>(105,488)</u>	<u>-</u>
Net change in cash balances	617,573	955,408	162,800	1,735,781	18,721
Cash balances (deficit) beginning of year	<u>(322,599)</u>	<u>526,177</u>	<u>(128,284)</u>	<u>75,294</u>	<u>-</u>
Cash balances end of year	\$ <u>294,974</u>	\$ <u>1,481,585</u>	\$ <u>34,516</u>	\$ <u>1,811,075</u>	\$ <u>18,721</u>
Cash Basis Fund Balances					
Unrestricted	\$ <u>294,974</u>	\$ <u>1,481,585</u>	\$ <u>34,516</u>	\$ <u>1,811,075</u>	\$ <u>18,721</u>
Total cash basis fund balances	<u>\$ 294,974</u>	<u>\$ 1,481,585</u>	<u>\$ 34,516</u>	<u>\$ 1,811,075</u>	<u>\$ 18,721</u>

See notes to financial statements.

City of Washington
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the Year Ended June 30, 2012

Total enterprise funds cash balances (page 14) \$ 1,811,075

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the assets of the Internal Service Fund are included in business type activities in the Statements of Activities and Net Assets.

2,254

Cash basis net assets of business type activities (page 11) \$ 1,813,329

Net change in cash balances (page 14) \$ 1,735,781

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with business type activities.

2,254

Change in cash balances of business type activities (page 11) \$ 1,738,035

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.

The City also reports the following additional proprietary fund:

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

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.

City of Washington
Notes to Financial Statements

Note 1. Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Investments

The City's deposits in banks at June 30, 2012 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 \$5,083,385 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.

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
2013	\$ 535,000	\$ 188,105	\$ 49,000	\$ 20,030	\$ 390,000	\$ 528,954	\$ 974,000	\$ 737,089
2014	555,000	174,588	20,000	5,848	402,000	567,780	977,000	748,216
2015	570,000	158,810	21,500	4,988	416,000	555,720	1,007,500	719,518
2016	590,000	140,870	22,000	4,064	430,000	543,240	1,042,000	688,174
2017	610,000	120,440	23,500	3,118	443,000	530,340	1,076,500	653,898
2018-2022	1,295,000	434,420	49,000	3,182	2,440,000	2,443,560	3,784,000	2,881,162
2023-2027	1,030,000	253,575	-	-	2,863,000	2,053,020	3,893,000	2,306,595
2028-2032	465,000	32,635	-	-	3,361,000	1,594,620	3,826,000	1,627,255
2033-2037	-	-	-	-	3,670,963	1,056,630	3,670,963	1,056,630
	<u>\$ 5,650,000</u>	<u>\$ 1,503,443</u>	<u>\$ 185,000</u>	<u>\$ 41,230</u>	<u>\$ 14,415,963</u>	<u>\$ 9,873,864</u>	<u>\$ 20,250,963</u>	<u>\$ 11,418,537</u>

City of Washington
Notes to Financial Statements

Note 3. Bond and Notes Payable (continued)

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 various construction and refurbishing projects within the urban renewal district. The notes are payable solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment 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 \$226,230, payable through 2015. For the current year, principal and interest paid and total TIF receipts were \$59,520 and \$412,169, respectively.

Revenue Bonds/Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay two revenue bond issues. The bonds were issued between September 2011 and April 2012. Proceeds from the notes provided financing for the construction of sewer system projects and construction of a new waste water treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2037. The total principal and interest remaining to be paid on the notes is \$24,289,827. For the current year, principal and interest paid and total customer net receipts were \$162,744 and \$1,469,671, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sewer user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements due in the same year.

Note 4. 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 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, 2012, primarily relating to the General Fund, is \$147,358, based on rates of pay in effect at June 30, 2012.

City of Washington
Notes to Financial Statements

Note 6. 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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011, and 2010 were \$208,054, \$182,755, and \$178,162, respectively, equal to the required contribution for each year.

Note 7. 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 45 active and no 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 \$398 for single coverage, \$1,208 for family coverage, \$747 for employee and child, and \$808 for employee and spouse. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$341,906 and plan members eligible for benefits contributed \$52,930 to the plan.

Note 8. Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 663 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.

City of Washington
Notes to Financial Statements

Note 8. Risk Management (continued)

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 150% 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, 2012 was \$106,512.

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. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

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, 2012, 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 casualty 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 casualty 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 casualty 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.

City of Washington
Notes to Financial Statements

Note 9. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to:	
General	\$ 1,759,782
Debt service	205,665
Water	361,334
Sanitation	<u>135,000</u>
	<u>\$ 2,461,781</u>
Transfer from:	
Road use	\$ 148,930
Urban renewal TIF	449,207
Capital projects	161,869
Nonmajor governmental	1,099,953
Sewer	<u>601,822</u>
	<u>\$ 2,461,781</u>

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

Note 10. Related Party Transactions

The City had business transactions between the City and City officials totaling \$471 during the year ended June 30, 2012.

Note 11. 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	\$ 3,000,000
West side sanitary sewer	2,000,000
Water tower construction	1,875,000
Street sealcoating program	500,000
South Iowa mill and overlay	360,000
Tractor	44,700

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, 2012 totaled \$51,894.

The City leases hangar space to individuals on a month-to-month basis. Rental income for the year ended June 30, 2012 totaled \$42,465.

Note 13. Capital Lease

The City leases a sewer camera. The lease has a term of three years expiring December 2014, with the option to purchase for \$1 at the end of the term. Future minimum lease payments are as follows:

Fiscal Year	
<u>Ending</u>	<u>Amount</u>
2013	\$ 35,577
2014	35,577
2015	35,577

Note 14. Subsequent Events

The City performed an evaluation of subsequent events through January 16, 2013, which is the date the financial statements were issued. The City received a GO Bond for \$250,000 for a street sealcoat project.

OTHER 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
Other Information
Year Ended June 30, 2012

	Governmental Funds Actual	Proprietary Fund Type Actual	Less Funds not Required to be Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 2,855,973	\$ -	\$ -	\$ 2,855,973	\$ 2,796,288	\$ 2,796,288	\$ 59,685
Tax increment financing collections	412,169	-	-	412,169	331,700	371,700	40,469
Other city taxes	1,191,364	-	-	1,191,364	736,057	736,057	455,307
Use of money and property	133,522	-	-	133,522	8,000	20,928	112,594
Licenses and permits	102,917	-	-	102,917	105,150	105,150	(2,233)
Intergovernmental	2,353,434	1,836,642	-	4,190,076	677,176	17,765,979	(13,575,903)
Charges for service	196,083	3,656,790	22,000	3,830,873	3,525,337	3,775,337	55,536
Special assessments	14,926	-	-	14,926	-	-	14,926
Miscellaneous	1,011,369	100,464	-	1,111,833	-	-	1,111,833
Total receipts	<u>8,271,757</u>	<u>5,593,896</u>	<u>22,000</u>	<u>13,843,653</u>	<u>8,179,708</u>	<u>25,571,439</u>	<u>(11,727,786)</u>
Disbursements:							
Public safety	1,635,509	610	610	1,635,509	1,507,821	1,637,521	2,012
Public works	1,418,092	343	343	1,418,092	1,431,990	1,837,300	419,208
Culture and recreation	833,069	1,792	1,792	833,069	838,040	854,640	21,571
Community and economic development	66,250	-	-	66,250	99,013	99,013	32,763
General government	978,299	343	343	978,299	1,024,439	1,100,396	122,097
Debt service	1,021,522	-	-	1,021,522	749,968	1,183,213	161,691
Capital projects	1,651,932	16,167,123	-	17,819,055	-	16,734,800	(1,084,255)
Business type activities	-	1,979,658	191	1,979,467	2,454,062	2,709,062	729,595
Total disbursements	<u>7,604,673</u>	<u>18,149,869</u>	<u>3,279</u>	<u>25,751,263</u>	<u>8,105,333</u>	<u>26,155,945</u>	<u>404,682</u>
Excess (deficiency) of receipts over disbursements	667,084	(12,555,973)	18,721	(11,907,610)	74,375	(584,506)	(11,323,104)
Other financing sources (uses)	<u>115,181</u>	<u>14,310,475</u>	<u>-</u>	<u>14,425,656</u>	<u>-</u>	<u>-</u>	<u>14,425,656</u>
Net change in cash balances	782,265	1,754,502	18,721	2,518,046	74,375	(584,506)	3,102,552
Cash balances beginning of year	<u>3,336,706</u>	<u>75,294</u>	<u>-</u>	<u>3,412,000</u>	<u>3,412,000</u>	<u>3,412,000</u>	<u>-</u>
Cash balances end of year	<u>\$ 4,118,971</u>	<u>\$ 1,829,796</u>	<u>\$ 18,721</u>	<u>\$ 5,930,046</u>	<u>\$ 3,486,375</u>	<u>\$ 2,827,494</u>	<u>\$ 3,102,552</u>

See accompanying independent auditor's report.

City of Washington
Notes to Other Information - Budgetary Reporting

The budgetary comparison is presented 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. 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 \$18,050,612. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the capital project function.

SUPPLEMENTARY INFORMATION

City of Washington
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
Year Ended June 30, 2012

	Special Revenue									
	Housing Rehabilitation	Employee Benefits	Liability Insurance	Sales Tax	Dog Park	Tree	Park	Library Trust	Airport	Total
Receipts:										
Property tax	\$ -	\$ 492,594	\$ 45,406	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 538,000
Other taxes	-	-	-	703,239	-	-	-	-	-	703,239
Use of money and property	-	-	-	-	-	-	5	746	-	751
Miscellaneous	27,648	-	-	-	660	13,797	11,904	9,763	-	63,772
Total receipts	<u>27,648</u>	<u>492,594</u>	<u>45,406</u>	<u>703,239</u>	<u>660</u>	<u>13,797</u>	<u>11,909</u>	<u>10,509</u>	<u>-</u>	<u>1,305,762</u>
Disbursements:										
Culture and recreation	-	-	-	-	-	-	1,695	23,144	-	24,839
Community and economic development	-	-	-	-	-	15,551	-	-	-	15,551
General government	28,361	22,000	-	-	266	-	-	-	-	50,627
Capital projects	-	-	-	-	-	-	8,436	-	-	8,436
Total disbursements	<u>28,361</u>	<u>22,000</u>	<u>-</u>	<u>-</u>	<u>266</u>	<u>15,551</u>	<u>10,131</u>	<u>23,144</u>	<u>-</u>	<u>99,453</u>
Excess (deficiency) of receipts over disbursements	(713)	470,594	45,406	703,239	394	(1,754)	1,778	(12,635)	-	1,206,309
Other financing sources (uses):										
Operating transfers (out)	<u>23,681</u>	<u>(470,594)</u>	<u>(45,406)</u>	<u>(703,239)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,605</u>	<u>(1,099,953)</u>
Net change in cash balances	22,968	-	-	-	394	(1,754)	1,778	(12,635)	95,605	106,356
Cash balances beginning 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>-</u>	<u>496,319</u>
Cash balances (deficit) end of year	<u>\$ 22,968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,996</u>	<u>\$ 5,000</u>	<u>\$ 208,537</u>	<u>\$ 263,569</u>	<u>\$ 95,605</u>	<u>\$ 602,675</u>
Cash Basis Fund Balances										
Restricted for:										
Dog park	\$ -	\$ -	\$ -	\$ -	\$ 6,996	\$ -	\$ -	\$ -	\$ -	\$ 6,996
Tree	-	-	-	-	-	5,000	-	-	-	5,000
Park purposes	-	-	-	-	-	-	208,537	-	-	208,537
Library purposes	-	-	-	-	-	-	-	263,569	-	263,569
Other purposes	22,968	-	-	-	-	-	-	-	-	22,968
Assigned to airport	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,605</u>	<u>95,605</u>
Total cash basis fund balances	<u>\$ 22,968</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,996</u>	<u>\$ 5,000</u>	<u>\$ 208,537</u>	<u>\$ 263,569</u>	<u>\$ 95,605</u>	<u>\$ 602,675</u>

See accompanying independent auditor's report.

**City of Washington
Statement of Indebtedness
Year Ended June 30, 2012**

<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	\$ 3,065,000	\$ -	\$ 130,000	\$ 2,935,000	\$ 117,645	\$ -
Capital loan note	6/18/08	2.50-4.00%	4,355,000	<u>3,105,000</u>	<u>-</u>	<u>390,000</u>	<u>2,715,000</u>	<u>112,323</u>	<u>-</u>
Total				<u>\$ 6,170,000</u>	<u>\$ -</u>	<u>\$ 520,000</u>	<u>\$ 5,650,000</u>	<u>\$ 229,968</u>	<u>\$ -</u>
Revenue Note:									
Sewer revenue	8/26/09	0.00%	780,000	\$ 780,000	\$ -	\$ 780,000	\$ -	\$ -	\$ -
Sewer revenue	9/21/11	3.00%	6,316,000	-	12,176,797	-	12,176,797	156,412	-
Sewer revenue	4/4/12	3.00%	3,000,000	-	<u>2,239,166</u>	<u>-</u>	<u>2,239,166</u>	<u>6,332</u>	<u>-</u>
Total				<u>\$ 780,000</u>	<u>\$14,415,963</u>	<u>\$ 780,000</u>	<u>\$14,415,963</u>	<u>\$ 162,744</u>	<u>\$ -</u>
Capital Loan Note:									
Capital loan note - house	3/9/11	4.00%	42,000	\$ 42,000	\$ -	\$ 42,000	\$ -	\$ 552	\$ -
Capital loan note - farm land	7/8/10	5.00%	670,876	<u>335,438</u>	<u>-</u>	<u>335,438</u>	<u>-</u>	<u>16,772</u>	<u>-</u>
Total				<u>\$ 377,438</u>	<u>\$ -</u>	<u>\$ 377,438</u>	<u>\$ -</u>	<u>\$ 17,324</u>	<u>\$ -</u>
Urban Renewal TIF Revenue Notes:									
Urban Renewal Series 2004	1/12/04	3.70%	\$ 190,000	\$ 60,000	\$ -	\$ 30,000	\$ 30,000	\$ 2,221	\$ -
Urban Renewal Series 2006	9/15/06	4.30-5.38%	280,000	<u>173,000</u>	<u>-</u>	<u>18,000</u>	<u>155,000</u>	<u>9,299</u>	<u>-</u>
Total				<u>\$ 233,000</u>	<u>\$ -</u>	<u>\$ 48,000</u>	<u>\$ 185,000</u>	<u>\$ 11,520</u>	<u>\$ -</u>

See accompanying independent auditor's report.

City of Washington
Bond and Note Maturities
June 30, 2012

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	
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>\$ 2,715,000</u>		<u>\$ 2,935,000</u>	<u>\$ 5,650,000</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	
2013	3.70%	\$ 30,000	4.30%	\$ 19,000	\$ 49,000
2014	-	-	4.30%	20,000	20,000
2015	-	-	4.30%	21,500	21,500
2016	-	-	4.30%	22,000	22,000
2017	-	-	4.30%	23,500	23,500
2018	-	-	4.30%	24,000	24,000
2019	-	-	4.30%	25,000	25,000
		<u>\$ 30,000</u>		<u>\$ 155,000</u>	<u>\$ 185,000</u>

See accompanying independent auditor's report.

City of Washington
Bond and Note Maturities
June 30, 2012

Revenue Notes:

Year Ending June 30	Series 2011 September 21, 2011		Series 2012 April 4, 2012		Total
	Interest Rate	Amount	Interest Rate	Amount	
2013	3.00%	\$ 329,000	3.00%	\$ 61,000	\$ 390,000
2014	3.00%	340,000	3.00%	62,000	402,000
2015	3.00%	351,000	3.00%	65,000	416,000
2016	3.00%	363,000	3.00%	67,000	430,000
2017	3.00%	374,000	3.00%	69,000	443,000
2018	3.00%	386,000	3.00%	71,000	457,000
2019	3.00%	399,000	3.00%	73,000	472,000
2020	3.00%	412,000	3.00%	76,000	488,000
2021	3.00%	425,000	3.00%	78,000	503,000
2022	3.00%	439,000	3.00%	81,000	520,000
2023	3.00%	453,000	3.00%	83,000	536,000
2024	3.00%	468,000	3.00%	86,000	554,000
2025	3.00%	483,000	3.00%	89,000	572,000
2026	3.00%	499,000	3.00%	92,000	591,000
2027	3.00%	515,000	3.00%	95,000	610,000
2028	3.00%	532,000	3.00%	98,000	630,000
2029	3.00%	549,000	3.00%	101,000	650,000
2030	3.00%	567,000	3.00%	104,000	671,000
2031	3.00%	586,000	3.00%	108,000	694,000
2032	3.00%	605,000	3.00%	111,000	716,000
2033	3.00%	624,000	3.00%	115,000	739,000
2034	3.00%	645,000	3.00%	118,000	763,000
2035	3.00%	666,000	3.00%	122,000	788,000
2036	3.00%	687,000	3.00%	126,000	813,000
2037	3.00%	<u>479,797</u>	3.00%	<u>88,166</u>	<u>567,963</u>
		<u>\$ 12,176,797</u>		<u>\$ 2,239,166</u>	<u>\$ 14,415,963</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>2012</u>	<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	\$ 2,855,973	\$ 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	412,169	311,511	336,447	209,724	104,729	113,794	101,008	94,486	74,052	52,171
Other city taxes	1,191,364	1,096,587	670,139	612,723	709,116	671,072	455,213	545,406	388,387	223,692
Use of money and property	133,522	120,811	89,186	140,156	134,280	195,990	69,611	53,880	45,700	37,740
Licenses and permits	102,917	107,011	82,522	130,196	109,264	119,148	154,770	99,077	62,260	82,189
Intergovernmental	2,353,434	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	196,083	201,540	153,610	616,050	518,170	399,797	218,106	207,144	210,226	114,092
Special assessments	14,926	13,580	12,221	7,009	12,559	14,963	32,849	17,801	24,600	16,803
Miscellaneous	<u>1,011,369</u>	<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>\$ 8,271,757</u>	<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	\$ 1,635,509	\$ 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	1,418,092	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	833,069	932,355	824,578	936,866	913,776	819,720	687,928	620,817	670,587	1,030,803
Community and economic development	66,250	66,082	55,364	63,371	98,868	342,321	125,114	-	32,679	67,527
General government	978,299	946,185	977,718	1,001,763	878,786	919,301	846,315	736,814	569,067	536,329
Debt service	1,021,522	1,166,467	1,040,256	949,377	909,786	941,246	918,085	923,092	921,882	1,026,731
Capital projects	<u>1,651,932</u>	<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>\$ 7,604,673</u>	<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, 2012

<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 program:			
Federal Aviation Administration			
Extend Runway 13-31 - Design Only	20.106	3-19-0093-05-2011	\$ 86,777
Pass-through program from:			
Iowa Department of Transportation:			
Federal Highway Administration			
Highway Planning and Construction	20.205	STP-U-8140(609)--70-92	<u>291,272</u>
Total U.S. Department of Transportation			<u>378,049</u>
U.S. Department of Homeland Security direct program:			
Assistance to Firefighters Grant			
	97.044	EMW-2010-FO-07224	<u>18,361</u>
U.S. Department of Housing and Urban Development:			
Pass-through programs from:			
Iowa Department of Economic Development			
Community Block Grant - Housing Rehab	14.228	10-HSG-040	35,809
Community Block Grant - Planning Disaster Recovery Fund	14.228	08-DRPG-247	27,033
Community Block Grant - Westside Sanitary Sewer	14.228	10-WS-072-08	<u>466,346</u>
Total U.S. Department of Housing and Urban Development			<u>529,188</u>
U.S. Environmental Protection Agency pass-through program from:			
Iowa Department of Economic Development			
Capitalization Grants for Clean Water State Revolving Loan Funds	66.458	CO412R	<u>1,071,871</u>
			<u>\$ 1,997,469</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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 16, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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

The management of the City is responsible for establishing and maintaining effective 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 opinions on the financial statements, but not for the purpose of expressing our opinions 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 and other deficiencies we consider to be significant deficiencies.

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 as items II-A-12 through II-C-12 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-D-12 and II-E-12 to be significant deficiencies.

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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 IV 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, 2012 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, and 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 16, 2013



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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 City of Washington, Iowa's (City) compliance 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, 2012. 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 noncompliance 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 direct and material effect on each of its its major federal programs for the year ended June 30, 2012.

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 and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance we considered to be a significant deficiency.

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.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-12 to be a significant deficiency.

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 16, 2013

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

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) Significant deficiencies and material weaknesses in internal control over financial reporting were 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 significant deficiency 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 14.228 - U.S. Department of Housing and Urban Development - Community Block Grant Program
 - CFDA Number 66.458 - U.S. Environmental Protection Agency - Capitalization Grants for Clean Water State Revolving Funds
- (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.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

MATERIAL WEAKNESSES

- II-A-12 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.
- II-B-12 Reconciliation and Review of Utility Billings, Collections, Delinquencies and Manual Adjustments - Utility billings, collections and delinquent accounts were not reconciled throughout the year. Manual adjustments made to the quantities of usage due to meter errors were not reviewed.
- 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. Management should review all manual adjustments to customer bills.
- 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. The City will also establish and implement procedures for an independent review all manual adjustments to customer bills.
- Conclusion - Response accepted.
- II-C-12 Credit Cards - The City has credit cards for use by various employees while on City business. The City has adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges. However, supporting documentation was not always available to support credit card charges.
- Recommendation - The City should enforce the formal written credit card policy and receive detailed receipts for each purchase.
- Response - The City will review procedures and work to enforce the remittance of detailed receipts.
- Conclusion - Response accepted.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

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

SIGNIFICANT DEFICIENCIES

II-D-12 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-E-12 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 Schedule of Federal Awards prepared by the City did not include all federal expenditures incurred during the fiscal year.

Recommendation - We recommend that the City continue to improve their process 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, 2012

Part III: Findings - For Federal Awards

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL SIGNIFICANT DEFICIENCY

III-A-12 Preparation of Schedule of Federal Awards - See item II-E-12.

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-12 Certified Budget - Disbursements during the year ended June 30, 2012 exceeded the amounts budgeted in the capital project function. 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-12 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-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-12 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>
Tom Wide, Fire Chief Owner, Sign Design	Supplies	\$ 102
Mike Roe, Airport Commission Member Owner, Roe Heating and Hardware	Repairs	\$ 369

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Fire Chief 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.

IV-E-12 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.

City of Washington
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

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

IV-F-12 Council Minutes - 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 publish minutes as required.

Response - We will publish minutes as required.

Conclusion - Response accepted.

IV-G-12 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-12 Delinquent Utility Accounts - At June 30, 2012, three employees or council members had delinquent utility accounts.

Recommendation - We recommend that the City emphasizes to employees and council members that they are setting an example to the community by their actions.

Response - We will encourage employees and council members to pay their utility bills by their due date.

Conclusion - Response accepted.

IV-I-12 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, 2012

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

IV-J-12 Certified Budget Amendment - The City did not publish notice for public hearing on the final amended budget "not less than ten nor more than twenty days before the hearing" as stated in Chapter 384.16(3) that was to be approved by Council on May 30, 2012. Upon discovery that the public notice was not properly published, the City published the notice and reapproved the final certified budget with no changes made from the May 30, 2012.

IV-K-12 Issuance of 1099s - The City did not issue required 1099 forms to nine individuals who received payment for easements related to the wastewater treatment plant and sanitary sewer improvement project.

Recommendation - We recommend that the City issue this 1099s to the nine individuals.

Response - Staff will discuss with legal counsel for appropriate action.

Conclusion - Response accepted.

City of Washington
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Prior Audit Findings and Questioned Costs for Federal Awards

MATERIAL WEAKNESS:

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

Recommendation - It was recommended that the City create a process and designate an individual to track and accurately report all information to be included on the SEFA.

Current Status - 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 was provided but required significant adjustments. See item III-A-12 in the current year findings.