

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT
2005

WATER, ELECTRIC, WASTEWATER,
AND STORMWATER UTILITIES
CITY OF WASHINGTON

DAVISS COUNTY, INDIANA



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Elaine Wellman	01-01-04 to 12-31-07
Mayor	David W. Abel	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	David W. Abel	01-01-04 to 12-31-07
President of the Common Council	Ralph Brummett James A. Jones	01-01-05 to 12-31-05 01-01-06 to 12-31-06
Superintendent of Water Utility	Jerry Rider	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	Scott Rainey	01-01-05 to 12-31-06
Superintendent of Electric Utility	Jerry Boger	01-01-05 to 12-31-06
Superintendent of Storm Water Utility	Louis Dant	01-01-05 to 12-31-06
Utility Office Manager	Sharon A. Healy	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES, CITY OF WASHINGTON, DAVIESS COUNTY, INDIANA

We have audited the accompanying financial statements of the business-type activities of the Water, Electric, Wastewater, and Stormwater Utilities, departments of the City of Washington, as of and for the year ended December 31, 2005. These financial statements are the responsibility of the Utilities' management. Our responsibility is to express an opinion 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. 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Water, Electric, Wastewater, and Stormwater Utilities, City of Washington, are intended to present the financial position, and the changes in financial position and cash flows of only that portion of the business-type activities of the City that is attributable to the transactions of the Utilities. They do not purport to, and do not, present fairly the financial position of the City of Washington as of December 31, 2005, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the Water, Electric, Wastewater, and Stormwater Utilities, as of December 31, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Utilities' management has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

STATE BOARD OF ACCOUNTS

July 27, 2006

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
STATEMENT OF NET ASSETS
December 31, 2005

<u>Assets</u>	2005			
	<u>Water Utility</u>	<u>Wastewater Utility</u>	<u>Electric Utility</u>	<u>Stormwater Utility</u>
Current assets:				
Cash and cash equivalents	\$ 1,479,128	\$ 421,354	\$ 1,710,871	\$ 21,387
Accounts receivable (other)	4,327	2,052	64,401	-
Accounts receivable (net of allowance)	262,591	127,958	833,286	10,394
Interfund receivables:				
Interfund services provided and used	3,013	1	6,110	634
Inventories	88,355	40,677	202,893	-
Total current assets	1,837,414	592,042	2,817,561	32,415
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	171,596	-	-	-
Bond and interest cash and investments	572,112	-	-	-
Improvement cash and investments	-	101,533	-	-
Debt reserve cash and investments	1,665,500	-	-	-
Customer deposits	113,053	-	291,134	-
Total restricted assets	2,522,261	101,533	291,134	-
Deferred charges	281,664	-	-	37,589
Capital assets:				
Land, improvements to land and construction in progress	194,734	330,643	231,180	-
Other capital assets (net of accumulated depreciation)	25,032,536	6,892,021	6,433,734	2,488
Total capital assets	25,227,270	7,222,664	6,664,914	2,488
Total noncurrent assets	28,031,195	7,324,197	6,956,048	40,077
Total assets	29,868,609	7,916,239	9,773,609	72,492
<u>Liabilities</u>				
Current liabilities:				
Accounts payable	20,664	19,158	691,139	1,544
Interfund payables:				
Interfund services provided and used	49,757	24,126	12,637	-
Taxes payable	10,584	-	36,338	-
Energy assistance payable	-	-	12,859	-
Wages payable	32,222	31,405	41,506	2,304
Current liabilities payable from restricted assets:				
Customer deposits	113,053	-	291,134	-
Revenue bonds payable	780,000	-	-	-
Accrued interest payable	203,472	-	-	-
Total current liabilities	1,209,752	74,689	1,085,613	3,848
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts, premium and deferred amount on refunding)	16,450,103	-	-	-
Total liabilities	17,659,855	74,689	1,085,613	3,848
<u>Net Assets</u>				
Invested in capital assets, net of related debt	7,997,167	7,222,664	6,664,914	2,488
Restricted for debt service	2,237,612	-	-	-
Unrestricted	1,973,975	618,886	2,023,082	66,156
Total net assets	\$ 12,208,754	\$ 7,841,550	\$ 8,687,996	\$ 68,644

The notes to the financial statements are an integral part of this statement.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2005

	2005			
	Water Utility	Wastewater Utility	Electric Utility	Stormwater Utility
Operating revenues:				
Unmetered water revenue	\$ 49,887	\$ -	\$ -	\$ -
Metered water revenue:				
Residential	1,550,542	-	-	-
Commercial	1,475,740	-	-	-
Residential sales	-	-	4,779,796	-
Commercial and industrial sales	-	-	5,004,893	-
Public street and highway lighting	-	2,860	117,628	-
Fire protection revenue	406,939	-	-	-
Penalties	16,692	18,039	45,681	3,350
Flat rate revenues	-	-	-	161,673
Measured revenue:				
Residential	-	601,343	-	-
Commercial	-	884,433	-	-
Other	18,649	74,408	40,587	-
Total operating revenues	<u>3,518,449</u>	<u>1,581,083</u>	<u>9,988,585</u>	<u>165,023</u>
Operating expenses:				
Source of supply and expense - operations and maintenance	151,541	-	-	17,538
Water treatment expense - operations and maintenance	352,106	-	-	-
Transmission and distribution	287,642	-	869,601	-
Collection system - operations and maintenance	-	342,137	-	-
Treatment and disposal - operations and maintenance	-	519,119	-	-
Operations and maintenance	-	-	-	1,933
Customer accounts	110,353	101,155	187,799	34
Administration and general	162,145	209,731	272,862	80,184
Other	102,700	93,941	193,758	9,879
Purchased power	-	-	7,902,192	-
Insurance expense	137,509	142,951	225,949	9,935
Bad debt expense	17,466	5,849	61,096	938
Depreciation and amortization	771,481	392,263	386,308	-
Total operating expenses	<u>2,092,943</u>	<u>1,807,146</u>	<u>10,099,565</u>	<u>120,441</u>
Operating income (loss)	<u>1,425,506</u>	<u>(226,063)</u>	<u>(110,980)</u>	<u>44,582</u>
Nonoperating revenues (expenses):				
Interest and investment revenue	73,508	11,996	51,478	125
Miscellaneous revenue	807	25	3,195	-
Gain on disposition of property	60	14,815	3,206	-
Interest expense	(829,057)	-	-	-
Miscellaneous expense	(31,482)	-	-	-
Total nonoperating revenues (expenses)	<u>(786,164)</u>	<u>26,836</u>	<u>57,879</u>	<u>125</u>
Income (loss) before contributions and transfers	639,342	(199,227)	(53,101)	44,707
Capital contributions	24,372	-	9,283	-
Transfers out	(221,433)	(43,166)	(56,065)	-
Change in net assets	442,281	(242,393)	(99,883)	44,707
Total net assets - beginning	<u>11,766,473</u>	<u>8,083,943</u>	<u>8,787,879</u>	<u>23,937</u>
Total net assets - ending	<u>\$ 12,208,754</u>	<u>\$ 7,841,550</u>	<u>\$ 8,687,996</u>	<u>\$ 68,644</u>

The notes to the financial statements are an integral part of this statement.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2005

	2005			
	Water Utility	Wastewater Utility	Electric Utility	Stormwater Utility
Cash flows from operating activities:				
Receipts from customers and users	\$ 3,538,901	\$ 1,584,625	\$ 9,811,166	\$ 163,054
Payments to suppliers and contractors	(1,224,345)	(1,312,057)	(9,438,831)	(98,171)
Payments to employees	(89,295)	(95,993)	(103,533)	(55,092)
Interfund services provided (used)	(22,704)	14,460	(5,361)	7
Other receipts	807	25	3,195	-
Net cash provided by operating activities	2,203,364	191,060	266,636	9,798
Cash flows from noncapital financing activities:				
Transfer to other funds	(221,433)	(43,166)	(56,065)	-
Interfund loan	-	-	500,000	-
Interfund loan repayment	-	-	(500,000)	-
Net cash used by noncapital financing activities	(221,433)	(43,166)	(56,065)	-
Cash flows from capital and related financing activities:				
Capital contributions	24,372	-	9,283	-
Acquisition and construction of capital assets	(127,539)	(178,809)	(487,131)	(2,488)
Principal paid on capital debt	(705,000)	-	-	-
Interest paid on capital debt	(827,066)	-	-	-
Defeasance of Bonds	(41,918)	-	-	-
Proceeds from sales of capital assets	100	14,815	8,000	-
Net cash used by capital and related financing activities	(1,677,051)	(163,994)	(469,848)	(2,488)
Cash flows from investing activities:				
Interest received	73,508	11,996	51,478	125
Net increase (decrease) in cash and cash equivalents	378,388	(4,104)	(207,799)	7,435
Cash and cash equivalents, January 1	3,623,001	526,991	2,209,804	13,952
Cash and cash equivalents, December 31	<u>\$ 4,001,389</u>	<u>\$ 522,887</u>	<u>\$ 2,002,005</u>	<u>\$ 21,387</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 1,425,506	\$ (226,063)	\$ (110,980)	\$ 44,582
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	771,481	392,263	386,308	-
Nonoperating revenue	807	25	3,195	-
Bad debt expense	17,466	5,849	61,096	938
Amortization expense	-	750	17,718	-
(Increase) decrease in assets:				
Accounts receivable	20,616	(498)	(162,999)	(1,969)
Accounts receivable - other	(2,806)	4,040	(16,252)	-
Interfund services provided or used	(22,704)	14,460	(5,361)	7
Allowance for uncollectible accounts	-	-	-	-
Inventories	(613)	236	(13,319)	-
Deferred debit	-	-	-	(37,589)
Increase (decrease) in liabilities:				
Accounts payable	(11,410)	(2,819)	93,896	1,544
Interfund payables	-	-	-	(19)
Energy assistance payable	-	-	(6,133)	-
Taxes payable	259	-	7,428	-
Wages payable	2,120	2,817	4,074	2,304
Customer deposits	2,642	-	7,965	-
Total adjustments	777,858	417,123	377,616	(34,784)
Net cash provided by operating activities	\$ 2,203,364	\$ 191,060	\$ 266,636	\$ 9,798
Noncash investing, capital and financing activities:				
Deferral of loss on refunding	\$ 562,755	\$ -	\$ -	\$ -
Refunded bonds	9,645,000	-	-	-
New bonds issued	9,800,000	-	-	-
Issue costs on new issue	162,325	-	-	-

The notes to the financial statements are an integral part of this statement.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements reflect only the activity of the Utilities and are not intended to present fairly the position of the City of Washington (City), and the results of its operations and cash flows of its enterprise funds. The Utilities, whose operations are controlled by the City, represent the City's enterprise funds.

B. Fund Financial Statements

Business-type activity financial statements consist of the Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Business-type activities rely to a significant extent on fees and charges for support.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the business-type activity are maintained and the financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Proprietary funds distinguish operating revenues from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Utilities' cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statute (IC 5-13-9) authorizes the Utilities to invest in securities, including but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Investment income, including changes in the fair value of investments, is reported as revenue in the operating statement.

2. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets balance sheet because their use is limited by applicable bond covenants.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods and estimated useful lives of capital assets are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 500	Straight-line	25 to 50 years
Improvements other than buildings	500	Straight-line	10 to 50 years
Machinery and equipment	500	Straight-line	6 to 10 years

For depreciated assets, the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 6 to 18 days per year. Prior year unused sick leave may be accumulated to a maximum of 62 days. Accumulated sick leave is paid to employees in the amount of \$15 per day through cash payments upon retirement and with 10 years of service to the City.
- b. Vacation Leave – Utility employees earn vacation leave at rates from 5 days to 22 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.
- c. Personal Leave – Utility employees earn personal leave at the rate of 3 days per year. Personal leave does not accumulate from year to year.

No liability is reported for vacation, sick and personal leave.

6. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the declining balance method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
 CITY OF WASHINGTON
 NOTES TO FINANCIAL STATEMENTS
 (Continued)

II. Detailed Notes on All Funds

A. Deposits and Investments

1. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2005, the City had the following investments:

Investment Type	Primary Government Market Value
Government Sponsored Enterprise	\$ 1,627,368

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

Investment Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The City does not have a formal investment policy for custodial credit risk for investments. At December 31, 2005, the City held investments in government sponsored enterprise in the amount of \$1,627,368. Of these investments \$1,627,368 were held by the counterparty's trust department or agent but not in the City's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City must follow state statute and limit the stated final maturities of the investments to no more than two years.

Investment Type	Investment Maturities (in Years)		
	Less Than 1	1-2	More Than 2
Government Sponsored Enterprise	\$ 1,627,368	\$ -	\$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The distribution of securities with credit ratings is summarized below.

Standard and Poor's Rating	Moody's Rating	Government Sponsored Enterprise
AAA	Aaa	\$ 1,627,368

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a policy in regards to concentration of credit risk. United States of America government and United States of America governmental agency securities are exempt from this policy requirement.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

<u>Water Utility</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 166,402	\$ -	\$ -	\$ 166,402
Construction in progress	-	28,332	-	28,332
Capital assets, being depreciated:				
Buildings	15,497,086	1,405	-	15,498,491
Improvements other than buildings	11,694,362	36,623	-	11,730,985
Machinery and equipment	4,374,689	61,179	10,569	4,425,299
Less accumulated depreciation for:				
Buildings	(631,039)	(310,201)	-	(941,240)
Improvements other than buildings	(3,219,075)	(254,356)	-	(3,473,431)
Machinery and equipment	(2,011,173)	(206,924)	(10,529)	(2,207,568)
Total Water Utility capital assets, net	<u>\$ 25,871,252</u>	<u>\$ (643,942)</u>	<u>\$ 40</u>	<u>\$ 25,227,270</u>

Wastewater Utility

Capital assets, not being depreciated:				
Land	\$ 180,177	\$ -	\$ -	\$ 180,177
Construction in progress	73,309	77,157	-	150,466
Capital assets, being depreciated:				
Buildings	2,828,982	1,405	-	2,830,387
Improvements other than buildings	6,178,541	-	-	6,178,541
Machinery and equipment	4,896,347	100,247	35,151	4,961,443
Less accumulated depreciation for:				
Buildings	(1,129,683)	(55,410)	-	(1,185,093)
Improvements other than buildings	(2,626,075)	(115,558)	-	(2,741,633)
Machinery and equipment	(2,965,480)	(221,295)	(35,151)	(3,151,624)
Total Wastewater Utility capital assets, net	<u>\$ 7,436,118</u>	<u>\$ (213,454)</u>	<u>\$ -</u>	<u>\$ 7,222,664</u>

Electric Utility

Capital assets, not being depreciated:				
Land	\$ 57,000	\$ -	\$ -	\$ 57,000
Construction in progress	28,044	146,136	-	174,180
Capital assets, being depreciated:				
Buildings	784,222	1,874	-	786,096
Improvements other than buildings	9,574,686	221,279	63,380	9,732,585
Machinery and equipment	3,194,466	117,843	70,574	3,241,735

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Electric Utility (continued)</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Buildings	(232,760)	(18,005)	-	(250,765)
Improvements other than buildings	(4,744,244)	(240,071)	(58,639)	(4,925,676)
Machinery and equipment	(2,092,529)	(128,232)	(70,520)	(2,150,241)
 Total Electric Utility capital assets, net	 <u>\$ 6,568,885</u>	 <u>\$ 100,824</u>	 <u>\$ 4,795</u>	 <u>\$ 6,664,914</u>
 <u>Stormwater Utility</u>				
Capital assets, being depreciated: **				
Machinery and equipment	<u>\$ -</u>	<u>\$ 2,488</u>	<u>\$ -</u>	<u>\$ 2,488</u>

**Assets were purchased during 2005; depreciation did not start until 2006.

Depreciation expense was charged to functions/programs of the Utilities as follows:

Water	\$ 771,481
Wastewater	392,263
Electric	<u>386,308</u>
Total depreciation expense	<u>\$ 1,550,052</u>

C. Construction Commitments

Construction work in progress is composed of the following:

<u>Project</u>	<u>Total Project Authorized</u>	<u>Expended to December 31, 2005</u>	<u>Committed</u>	<u>Required Future Funding</u>
Water Utility	\$ 28,332	\$ 28,332	\$ -	\$ -
Wastewater Utility	150,466	150,466	-	-
Electric Utility	<u>174,180</u>	<u>174,180</u>	<u>-</u>	<u>-</u>
 Totals	 <u>\$ 352,978</u>	 <u>\$ 352,978</u>	 <u>\$ -</u>	 <u>\$ -</u>

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2005, is as follows:

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Due To	Due From			
	Water Utility	Wastewater Utility	Electric Utility	Total
General Fund	\$ 49,741	\$ 14,389	\$ 12,632	\$ 76,762
Water Utility	-	3,009	4	3,013
Wastewater Utility	-	-	1	1
Electric Utility	16	6,094	-	6,110
Stormwater Utility	-	634	-	634
Totals	<u>\$ 49,757</u>	<u>\$ 24,126</u>	<u>\$ 12,637</u>	<u>\$ 86,520</u>

Interfund balances resulted from the time lag between the dates that (1) interfund loans are repaid, (2) interfund goods and services are provided or reimbursable expenditures occur, (3) transactions are recorded in the accounting system and (4) payments between funds are made.

2. Interfund Transfers

Interfund transfers at December 31, 2005, were as follows:

Transfer From	Transfer To General Fund
Water Utility	\$ 221,433
Wastewater Utility	43,166
Electric Utility	56,065
Total	<u>\$ 320,664</u>

The Utilities typically uses transfers to fund ongoing operating subsidies.

E. Long-Term Liabilities

1. Revenue Bonds

The Utilities issue bonds to be paid by income derived from the acquired or constructed assets. Revenue bonds outstanding at year end are as follows:

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Purpose	Interest Rates	Amount
1998 Water bonds (treatment plant, wells, maintenance building)	4.55% to 5.0%	\$ 2,135,000
2001 Water bonds (treatment plant)	3.85% to 5.0%	5,650,000
2005 Water refunding bonds	4.1% to 4.5%	<u>9,645,000</u>
Total		<u>\$ 17,430,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility	
	Principal	Interest
2006	\$ 780,000	\$ 805,214
2007	820,000	769,525
2008	860,000	731,696
2009	900,000	691,715
2010	935,000	649,891
2011-2015	5,395,000	2,560,450
2016-2020	6,925,000	1,162,276
2021	<u>815,000</u>	<u>20,375</u>
Totals	<u>\$ 17,430,000</u>	<u>\$ 7,391,142</u>

2. Advance Refunding

On May 5, 2005, the Washington Water Utility issued \$9,800,000 in refunding revenue bonds with an average interest rate of 5%. The net proceeds of \$10,010,407 (after payment of \$204,243 in issuance costs) and local contributions of \$41,918 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1996 and 1998 series bonds. As a result, these bonds are considered to be defeased and the liability for those bonds has been removed from the Balance Sheet. The refunding resulted in the accounting loss of \$562,755, which has been recognized on the Balance Sheet as Deferral of Loss on Refunding. This amount will be amortized using the declining balance method and charged to interest expense over the next 13 years. The Washington Water Utility, in effect, decreased its aggregate debt service payment by \$333,162 over the next 13 years and realized an economic gain (difference between the present values of the old and the new debt service payments) of \$250,799.

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Water Utility	\$ 17,980,000	\$ 9,800,000	\$ 10,350,000	\$ 17,430,000	\$ 780,000
Less unamortized discount	159,351	-	94,348	65,003	-
Plus unamortized premium	-	414,650	36,984	377,666	-
Less deferred amount on refunding	-	562,755	50,195	512,560	-
Total revenue bonds payable	<u>\$ 17,820,649</u>	<u>\$ 9,651,895</u>	<u>\$ 10,242,441</u>	<u>\$ 17,230,103</u>	<u>\$ 780,000</u>

F. Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	Water Utility	Wastewater Utility	Electric Utility
Customer deposits	\$ 113,053	\$ -	\$ 291,134
Debt reserve	11,665,500	-	-
Depreciation	171,596	-	-
Bond and interest Improvement	572,112	-	-
	-	101,533	-
Total restricted assets	<u>\$ 12,522,261</u>	<u>\$ 101,533</u>	<u>\$ 291,134</u>

III. Other Information

A. Risk Management

The Utilities are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees, Retirees, and Dependents

The City, including the Utilities, have chosen to establish a risk financing fund for risks associated with risks associated with medical benefits to employees, retirees, and dependents. The risk financing fund is where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$40,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Interfund premiums are paid into the fund by all funds with payroll expenses and are available to pay claims, claim reserves, and administrative costs of the program. Interfund premiums are based upon an overall premium percentage which is applied to each fund's gross wages and are reported as quasi-external interfund transactions. Provisions are also made for unexpected and unusual claims.

Job Related Illnesses and Injuries to Employees

During 1993, the City, including the Utilities, joined together with other governmental entities in the Indiana Public Employer's Plan, Inc., a public entity risk pool currently operating as a common risk management and insurance program for approximately 350 member governmental entities. This risk pool was formed in 1989. The purpose of the risk pool is to provide a medium for the funding and administration of worker's compensation claims. The Utilities pay an annual premium to the risk pool for its job related illnesses and injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Postemployment Benefits

In addition to the pension benefits described below, the City, including the Utilities, provides post-employment health insurance benefits, as authorized by Indiana Code 5-10-8, to all employees who retire on or after attaining age 55 with at least 20 years of service. Currently, 16 retirees meet these eligibility requirements. The City provides 90% of these postemployment benefits for retirees plus 50% of the cost of coverage for employees' dependents, if the employee is under age 65. If the employee is over age 65, the city provides 50% of the postemployment benefits for retirees. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended December 31, 2005, disbursements of \$64,077 were recognized for postemployment benefits.

C. Rate Structure

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on May 25, 2001.

On April 10, 2006, the City Council adopted Ordinance No. 2-2006 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The withdrawal was effective June 16, 2006.

Wastewater Utility

The current rate structure was approved by the City Council on February 25, 2002.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Electric Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 28, 1998.

On April 10, 2006, the City Council adopted Ordinance No. 3-2006 to withdraw from the jurisdiction of the Indiana Utility Regulatory Commission. The withdrawal was effective June 16, 2006.

Stormwater Utility

The current rate structure was approved by the City Council on September 13, 2004.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contribute to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the Utilities authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The Utilities' annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available. Therefore, the liability for Net Pension Obligation (NPO) is considered an obligation of the City as a whole.

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 169,571
Interest on net pension obligation	(4,299)
Adjustment to annual required contribution	4,899
Annual pension cost	170,171
Contributions made	194,737
Decrease in net pension obligation	(24,566)
Net pension obligation, beginning of year	(59,292)
Net pension obligation, end of year	\$ (83,858)
Contribution rates:	
City and Utilities	6%
Plan members	3%
Actuarial valuation date	07-01-04
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	4 year smoothed market

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 193,101	83%	\$ (34,412)
	06-30-04	159,632	116%	(59,292)
	06-30-05	170,171	122%	(83,858)

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
 CITY OF WASHINGTON
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 3,324,022	\$ 3,494,542	\$ (170,520)	95%	\$ 3,236,740	(5%)
07-01-04	3,384,302	3,638,346	(254,044)	93%	3,265,351	(8%)
07-01-05	3,538,313	3,947,415	(409,102)	90%	3,252,580	(13%)

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
AUDIT RESULT AND COMMENT

APPROVAL OF FORMS

The Washington Water and Electric Utilities were using the following forms which had not been approved for use in lieu of prescribed forms:

Guarantee Deposit Register
Guarantee Deposit Warrant

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

WATER, ELECTRIC, WASTEWATER, AND STORMWATER UTILITIES
CITY OF WASHINGTON
EXIT CONFERENCE

The contents of this report were discussed on August 10, 2006, with Elaine Wellman, Clerk-Treasurer; James A. Jones, President of the Common Council; David W. Abel, Mayor; and Sharon A. Healy, Utility Office Manager. The officials concurred with our audit findings.