

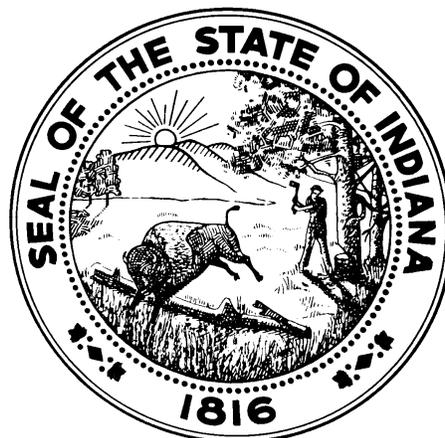
STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

REPORT

2007

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

DAVISS COUNTY, INDIANA



FILED
08/22/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Elaine Wellman	01-01-04 to 12-31-11
Mayor	David W. Abel Lawrence Haag	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works and Safety	David W. Abel Lawrence Haag	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Gordon L. Wade Steve Dyer	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Water Utility	Jerry Rider	01-01-07 to 12-31-08
Superintendent of Wastewater Utility	Scott Rainey	01-01-07 to 12-31-08
Superintendent of Electric Utility	Jerry Boger Randy Emmons	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Superintendent of Storm Water Utility	Louis Dant Scott Rainey	01-01-07 to 12-31-07 01-01-08 to 12-31-08
Utility Office Manager	Sharon A. Healy Lorraine Williams Anita Ash	01-01-07 to 04-01-07 04-02-07 to 12-31-07 01-01-08 to 12-31-08



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE WATER, ELECTRIC, WASTEWATER, AND STORM
WATER 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 Storm Water Utilities (Utilities), departments of the City of Washington, as of and for the year ended December 31, 2007. 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 Storm Water 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, 2007, 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 Storm Water Utilities, as of December 31, 2007, 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 22, 2008

WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
STATEMENT OF NET ASSETS
December 31, 2007

<u>Assets</u>	<u>Water</u>	<u>Electric</u>	<u>Wastewater</u>	<u>Storm Water</u>
Current assets:				
Cash and cash equivalents	\$ 1,798,502	\$ 1,466,559	\$ 617,063	\$ 40,202
Accounts receivable (net of allowance)	245,453	693,190	130,474	11,608
Accounts receivable - other	9,106	69,921	14,327	-
Interfund receivables:	-	-	-	-
Interfund services provided and used	5,445	17,657	6,199	475
Inventories	97,713	217,856	45,823	-
Prepaid items	22,565	17,617	22,022	188
	<u>2,178,784</u>	<u>2,482,800</u>	<u>835,908</u>	<u>52,473</u>
Total current assets				
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	171,596	-	-	-
Bond and interest cash and investments	568,839	-	-	-
Construction cash and investments	-	-	2,108,802	-
Improvement cash and investments	-	-	26,533	-
Debt Reserve cash and investments	1,653,482	-	-	-
Customer deposits	120,088	308,858	-	-
	<u>2,514,005</u>	<u>308,858</u>	<u>2,135,335</u>	<u>-</u>
Total restricted assets:				
Deferred charges	288,016	1,665	265,345	29,953
	<u>288,016</u>	<u>1,665</u>	<u>265,345</u>	<u>29,953</u>
Capital assets:				
Land, improvements to land and construction in progress	166,402	127,915	7,233,735	18,959
Other capital assets (net of accumulated depreciation)	23,971,932	6,792,547	6,359,023	71,253
	<u>24,138,334</u>	<u>6,920,462</u>	<u>13,592,758</u>	<u>90,212</u>
Total capital assets				
Total noncurrent assets				
	<u>26,940,355</u>	<u>7,230,985</u>	<u>15,993,438</u>	<u>120,165</u>
Total assets	<u>29,119,139</u>	<u>9,713,785</u>	<u>16,829,346</u>	<u>172,638</u>
Liabilities				
Current liabilities:				
Accounts payable	40,575	793,285	64,572	5,072
Interfund payables:	-	-	-	-
Interfund services provided and used	70,404	27,782	42,701	5,874
Energy assistance payable	-	21,643	-	-
Taxes payable	10,057	36,706	-	-
Wages payable	31,823	44,202	31,056	1,682
Current liabilities payable from restricted assets:	-	-	-	-
Customer deposits	120,088	308,858	-	-
Revenue bonds payable	885,000	-	135,000	-
Accrued interest payable	175,199	-	-	-
	<u>1,333,146</u>	<u>1,232,476</u>	<u>273,329</u>	<u>12,628</u>
Total current liabilities				
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts, premiums, and deferred amount on refunding)	14,798,871	-	8,415,000	-
	<u>14,798,871</u>	<u>-</u>	<u>8,415,000</u>	<u>-</u>
Total liabilities				
	<u>16,132,017</u>	<u>1,232,476</u>	<u>8,688,329</u>	<u>12,628</u>
Net Assets				
Invested in capital assets, net of related debt	8,454,463	6,920,462	5,042,758	90,212
Restricted for debt service	2,222,321	-	-	-
Unrestricted	2,310,338	1,560,847	3,098,259	69,798
	<u>8,454,463</u>	<u>6,920,462</u>	<u>5,042,758</u>	<u>90,212</u>
Total net assets				
	<u>\$ 12,987,122</u>	<u>\$ 8,481,309</u>	<u>\$ 8,141,017</u>	<u>\$ 160,010</u>

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

WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
STATEMENT OF REVENUES, EXPENSES, AND OTHER CHANGES IN FUND NET ASSETS
As Of And For The Year Ended December 31, 2007

	Water	Electric	Wastewater	Storm Water
Operating revenues:				
Unmetered water revenue	\$ 65,337	\$ -	\$ -	\$ -
Metered water revenue:				
Residential	1,528,799	-	-	-
Commercial	1,654,627	-	-	-
Residential sales	-	5,342,181	-	-
Commercial and industrial sales	-	5,818,091	-	-
Public street and highway lighting	-	116,847	-	-
Fire protection revenue	410,432	-	-	-
Penalties	16,858	54,954	28,271	3,371
Flat rate revenues	-	-	-	160,719
Measured revenue:				
Residential	-	-	765,349	-
Commercial	-	-	1,164,066	-
Other	49,182	22,842	104,932	1,383
Total operating revenues	3,725,235	11,354,915	2,062,618	165,473
Operating expenses:				
Source of supply and expense - operations and maintenance	110,169	-	-	-
Water treatment expense - operations and maintenance	451,534	-	-	-
Transmission and distribution	315,407	899,985	-	-
Collection system - operations and maintenance	-	-	348,962	-
Treatment and disposal - operations and maintenance	-	-	660,779	-
Operations and maintenance	-	-	-	23,630
Customer accounts	136,388	223,335	109,864	233
Administration and general	184,014	256,386	183,644	88,850
Purchased power	-	9,219,356	-	-
Insurance expense	158,611	267,545	146,796	-
Taxes	97,903	223,714	51,081	-
Bad debt expense	20,656	54,845	6,899	585
Depreciation and amortization	750,362	383,866	383,624	16,974
Miscellaneous expenses	32,781	107	27,499	9,230
Total operating expenses	2,257,825	11,529,139	1,919,148	139,502
Operating income (loss)	1,467,410	(174,224)	143,470	25,971
Nonoperating revenues (expenses):				
Interest and investment revenue	168,709	91,706	24,175	177
Miscellaneous revenue	3,740	30,608	60	115
Interest expense	(765,357)	-	-	-
Gain/loss on disposition of property	3,489	(48,840)	(12,645)	-
Miscellaneous expense	(37,908)	-	(22,155)	-
Total nonoperating revenues (expenses)	(627,327)	73,474	(10,565)	292
Income (loss) before contributions and transfers	840,083	(100,750)	132,905	26,263
Capital contributions	-	-	417,600	-
Transfers out	(276,003)	(72,121)	(79,055)	-
Change in net assets	564,080	(172,871)	471,450	26,263
Total net assets - beginning	12,423,042	8,654,180	7,669,567	133,747
Total net assets - ending	\$ 12,987,122	\$ 8,481,309	\$ 8,141,017	\$ 160,010

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

WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
As Of And For The Year Ended December 31, 2007

	Water	Electric	Wastewater	Storm Water
Cash flows from operating activities:				
Receipts from customers and users	\$ 3,723,974	\$ 11,422,108	\$ 2,075,666	\$ 164,506
Payments to suppliers and contractors	(517,367)	(10,021,273)	(902,962)	(81,628)
Payments to employees	(1,000,253)	(1,080,327)	(611,229)	(60,795)
Interfund services provided (used)	2,072	(4,595)	6,928	5,864
Other receipts	3,740	30,608	60	115
Net cash provided by operating activities	<u>2,212,166</u>	<u>346,521</u>	<u>568,463</u>	<u>28,062</u>
Cash flows from noncapital financing activities:				
Transfer to other funds	<u>(276,003)</u>	<u>(72,121)</u>	<u>(79,055)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Proceeds from capital debt	-	-	8,550,000	-
Capital contributions	-	-	417,600	-
Acquisition and construction of capital assets	(346,600)	(601,424)	(6,721,506)	(50,487)
Principal paid on capital debt	(850,000)	-	(2,050,000)	-
Interest paid on capital debt	(722,798)	-	-	-
Bond issue costs paid	-	-	(287,475)	-
Proceeds from sales of capital assets	15,215	5,373	12,500	-
Net cash provided (used) by capital and related financing activities	<u>(1,904,183)</u>	<u>(596,051)</u>	<u>(78,881)</u>	<u>(50,487)</u>
Cash flows from investing activities:				
Interest received	<u>168,709</u>	<u>91,706</u>	<u>24,175</u>	<u>177</u>
Net increase (decrease) in cash and cash equivalents	200,689	(229,945)	434,702	(22,248)
Cash and cash equivalents, January 1	<u>4,111,818</u>	<u>2,005,362</u>	<u>2,317,696</u>	<u>62,450</u>
Cash and cash equivalents, December 31	<u>\$ 4,312,507</u>	<u>\$ 1,775,417</u>	<u>\$ 2,752,398</u>	<u>\$ 40,202</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	<u>\$ 1,467,410</u>	<u>\$ (174,224)</u>	<u>\$ 143,470</u>	<u>\$ 25,971</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization expense	750,362	383,866	383,624	16,974
Bad Debt expense	20,656	54,845	6,899	585
Nonoperating revenue	3,740	30,608	60	115
(Increase) decrease in assets:				
Accounts receivable	546	71,722	8,072	(967)
Account Receivable - other	(6,428)	(14,322)	4,976	-
Interfund services provided or used	(2,317)	(10,391)	(6,173)	(7)
Deferred debits	-	(185)	(25)	-
Inventories	(3,144)	(25,185)	(1,695)	-
Prepaid items	(22,565)	(17,617)	(22,022)	(188)
Increase (decrease) in liabilities:				
Accounts payable	(2,347)	27,834	41,087	(21,974)
Energy assistance payable	-	(1,875)	-	-
Interfund services provided or used	4,389	5,796	13,101	5,871
Taxes Payable	(170)	(1,418)	-	-
Wages Payable	(2,587)	5,399	(2,911)	1,682
Customer deposits	4,621	11,668	-	-
Total adjustments	<u>744,756</u>	<u>520,745</u>	<u>424,993</u>	<u>2,091</u>
Net cash provided by operating activities	<u>\$ 2,212,166</u>	<u>\$ 346,521</u>	<u>\$ 568,463</u>	<u>\$ 28,062</u>
Noncash investing, capital and financing activities:				
Capital asset from construction in progress	\$ 63,520	\$ 255,841	\$ 135,415	\$ 32,761

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

WATER, ELECTRIC, WASTEWATER, AND STORM WATER 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, represents a substantial portion of 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 and Prepaid Items

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 STORM WATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in fund financial statements.

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 and improvements	\$ 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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the Wastewater Utility during the current year was \$328,269. Of the amount, \$79,051 was included as part of the cost of capital assets under construction in connection with the wastewater treatment plant improvement project and the combined sewer overflow relocation project.

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 6 to 18 days per year. Unused sick leave may be accumulated to a maximum of 62 days. Accumulated sick leave is paid to employees through cash payments of \$20 per day upon retirement and with 10 years 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.

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

- 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 straight-line 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.

II. Detailed Notes on All Funds

A. Deposits and Investments

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. At December 31, 2007, 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.

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2007, the City, including the Utilities, had no investments.

B. Capital Assets

Capital asset activity for the year ended December 31, 2007, was as follows:

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 166,402	\$ -	\$ -	\$ 166,402
Construction in progress	63,520	120,381	183,901	-
				-
Total capital assets, not being depreciated	<u>229,922</u>	<u>120,381</u>	<u>183,901</u>	<u>166,402</u>
Capital assets, being depreciated:				
Improvements other than buildings	11,744,004	220,800	48,857	11,915,947
Buildings	15,498,491	15,100	-	15,513,591
Machinery and equipment	<u>4,472,091</u>	<u>173,954</u>	<u>131,410</u>	<u>4,514,635</u>
Totals	<u>31,714,586</u>	<u>409,854</u>	<u>180,267</u>	<u>31,944,173</u>

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

<u>Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated: (continued)				
Less accumulated depreciation for:				
Improvements other than buildings	3,728,948	256,037	47,816	3,937,169
Buildings	1,251,582	310,342	-	1,561,924
Machinery and equipment	<u>2,410,156</u>	<u>183,983</u>	<u>120,991</u>	<u>2,473,148</u>
Totals	<u>7,390,686</u>	<u>750,362</u>	<u>168,807</u>	<u>7,972,241</u>
Total capital assets, being depreciated, net	<u>24,323,900</u>	<u>(340,508)</u>	<u>11,460</u>	<u>23,971,932</u>
Total capital assets, net	<u>\$ 24,553,822</u>	<u>\$ (220,127)</u>	<u>\$ 195,361</u>	<u>\$ 24,138,334</u>
 <u>Electric Utility</u>				
Capital assets, not being depreciated:				
Land	\$ 57,000	\$ -	\$ -	\$ 57,000
Construction in progress	<u>326,756</u>	<u>96,975</u>	<u>352,816</u>	<u>70,915</u>
Total capital assets, not being depreciated	<u>383,756</u>	<u>96,975</u>	<u>352,816</u>	<u>127,915</u>
Capital assets, being depreciated:				
Improvements other than buildings	10,019,033	639,237	283,396	10,374,874
Buildings	786,096	1,393	9,225	778,264
Machinery and equipment	<u>3,270,752</u>	<u>216,808</u>	<u>199,030</u>	<u>3,288,530</u>
Totals	<u>14,075,881</u>	<u>857,438</u>	<u>491,651</u>	<u>14,441,668</u>
Less accumulated depreciation for:				
Improvements other than buildings	5,168,638	247,948	251,702	5,164,884
Buildings	268,957	18,192	4,382	282,767
Machinery and equipment	<u>2,264,925</u>	<u>117,726</u>	<u>181,181</u>	<u>2,201,470</u>
Totals	<u>7,702,520</u>	<u>383,866</u>	<u>437,265</u>	<u>7,649,121</u>
Total capital assets, being depreciated, net	<u>6,373,361</u>	<u>473,572</u>	<u>54,386</u>	<u>6,792,547</u>
Total capital assets, net	<u>\$ 6,757,117</u>	<u>\$ 570,547</u>	<u>\$ 407,202</u>	<u>\$ 6,920,462</u>

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

<u>Wastewater Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 255,177	\$ -	\$ -	\$ 255,177
Construction in progress	<u>488,998</u>	<u>6,624,973</u>	<u>135,413</u>	<u>6,978,558</u>
 Total capital assets, not being depreciated	 <u>744,175</u>	 <u>6,624,973</u>	 <u>135,413</u>	 <u>7,233,735</u>
Capital assets, being depreciated:				
Improvements other than buildings	6,178,541	71,418	26,425	6,223,534
Buildings	2,830,387	1,394	-	2,831,781
Machinery and equipment	<u>5,007,969</u>	<u>159,134</u>	<u>200,397</u>	<u>4,966,706</u>
 Totals	 <u>14,016,897</u>	 <u>231,946</u>	 <u>226,822</u>	 <u>14,022,021</u>
Less accumulated depreciation for:				
Improvements other than buildings	2,857,190	115,557	13,946	2,958,801
Buildings	1,240,644	55,551	-	1,296,195
Machinery and equipment	<u>3,383,217</u>	<u>212,516</u>	<u>187,731</u>	<u>3,408,002</u>
 Totals	 <u>7,481,051</u>	 <u>383,624</u>	 <u>201,677</u>	 <u>7,662,998</u>
 Total capital assets, being depreciated, net	 <u>6,535,846</u>	 <u>(151,678)</u>	 <u>25,145</u>	 <u>6,359,023</u>
 Total capital assets, net	 <u>\$ 7,280,021</u>	 <u>\$ 6,473,295</u>	 <u>\$ 160,558</u>	 <u>\$ 13,592,758</u>
 <u>Storm Water Utility</u>				
Capital assets, not being depreciated:				
Construction in progress	\$ 10,138	\$ 41,582	\$ 32,761	\$ 18,959
Capital assets, being depreciated:				
Improvements other than buildings	880	32,761	-	33,641
Buildings	24,168	926	-	25,094
Machinery and equipment	<u>7,034</u>	<u>7,978</u>	<u>-</u>	<u>15,012</u>
 Totals	 <u>32,082</u>	 <u>41,665</u>	 <u>-</u>	 <u>73,747</u>

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

<u>Storm Water Utility</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated: (continued)				
Less accumulated depreciation for:				
Improvements other than buildings	-	18	-	18
Buildings	-	590	-	590
Machinery and equipment	498	1,388	-	1,886
Totals	498	1,996	-	2,494
Total capital assets, being depreciated, net	31,584	39,669	-	71,253
Total capital assets, net	<u>\$ 41,722</u>	<u>\$ 81,251</u>	<u>\$ 32,761</u>	<u>\$ 90,212</u>

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

Water	\$ 750,362
Electric	383,866
Wastewater	383,624
Storm Water	<u>1,996</u>
Total depreciation expense	<u>\$ 1,519,848</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, 2007</u>	<u>Committed</u>	<u>Required Future Funding</u>
Electric Utility	\$ 70,915	\$ 70,915	\$ -	\$ -
Wastewater Utility	8,129,661	6,978,558	1,151,103	-
Storm Water Utility	18,959	18,959	-	-
Totals	<u>\$ 8,219,535</u>	<u>\$ 7,068,432</u>	<u>\$ 1,151,103</u>	<u>\$ -</u>

D. Interfund Balances and Activity

1. Interfund Receivables and Payables

The composition of interfund balances as of December 31, 2007, is as follows:

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

Due To	Water Utility	Electric Utility	Wastewater Utility	Storm Water Utility	Totals
General Fund	\$ 70,026	\$ 26,633	\$ 20,326	\$ -	\$ 116,985
Water Utility	-	749	4,696	-	5,445
Wastewater Utility	-	337	-	5,862	6,199
Electric Utility	378	-	17,267	12	17,657
Storm Water Utility	-	63	412	-	475
Totals	<u>\$ 70,404</u>	<u>\$ 27,782</u>	<u>\$ 42,701</u>	<u>\$ 5,874</u>	<u>\$ 146,761</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, 2007, were as follows:

Transfer From	Transfer To General Fund
Water Utility	\$ 276,003
Wastewater Utility	79,055
Electric Utility	72,121
Total	<u>\$ 427,179</u>

The Utilities typically use transfers to fund ongoing operating subsidies.

E. Short-Term Liabilities

The Utilities may use short-term notes and loans to finance a variety of public projects, including the wastewater improvement project.

Short-term debt activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Issued/ Draws	Redeemed Repayments	Ending Balance
Wastewater bond anticipation note	<u>\$ 2,050,000</u>	<u>\$ -</u>	<u>\$ 2,050,000</u>	<u>\$ -</u>

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

F. 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:

Purpose	Interest Rates	Amount
1998 Water Bonds (treatment plant, wells, maintenance building)	4.80% to 5.00%	\$ 1,425,000
2005 Water refunding bonds	4.10% to 5.00%	8,900,000
2006 Water refunding bonds	3.55% to 4.10%	5,795,000
2007 Wastewater Bonds (treatment plant, improvements combined sewer overflow relocation)	3.75% to 4.15%	<u>8,550,000</u>
Total		<u>\$ 24,670,000</u>

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2008	\$ 885,000	\$ 690,992	\$ 135,000	\$ 338,307
2009	930,000	650,474	285,000	330,620
2010	965,000	608,083	295,000	319,839
2011	1,010,000	563,241	310,000	308,589
2012	1,060,000	517,620	325,000	296,870
2013-2017	6,065,000	1,825,105	1,855,000	1,287,415
2018-2022	5,205,000	430,515	2,345,000	883,525
2023-2027	-	-	3,000,000	353,139
Totals	<u>\$ 16,120,000</u>	<u>\$ 5,286,030</u>	<u>\$ 8,550,000</u>	<u>\$ 4,118,304</u>

2. Advance Refunding

In prior years, the Water Utility defeased certain revenue and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. The following outstanding bonds, at December 31, 2007, were considered defeased:

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

	Amount
1996 Water Utility Bond Issue	\$ 3,860,000
1998 Water Utility Bond Issue	4,940,000
2001 Water Utility Bond Issue	5,505,000

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable:					
Wastewater Utility	\$ -	\$ 8,550,000	\$ -	\$ 8,550,000	\$ 135,000
Water Utility	16,970,000	-	850,000	16,120,000	885,000
Less unamortized discount	111,198	-	13,345	97,853	-
Plus unamortized premium	329,793	-	45,995	283,798	-
Less deferred loss on refunding	707,069	-	84,995	622,074	-
	<u>16,481,526</u>	<u>8,550,000</u>	<u>797,655</u>	<u>24,233,871</u>	<u>1,020,000</u>
Total revenue bonds payable	<u>\$ 16,481,526</u>	<u>\$ 8,550,000</u>	<u>\$ 797,655</u>	<u>\$ 24,233,871</u>	<u>\$ 1,020,000</u>

G. Restricted Assets

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

	Water Utility	Electric Utility	Wastewater Utility
Customer deposits	\$ 120,088	\$ 308,858	\$ -
Debt reserve	1,653,482	-	-
Depreciation	171,596	-	-
Bond and interest	568,839	-	-
Construction	-	-	2,108,802
Improvement	-	-	26,533
	<u>2,514,005</u>	<u>308,858</u>	<u>2,135,335</u>
Total restricted assets	<u>\$ 2,514,005</u>	<u>\$ 308,858</u>	<u>\$ 2,135,335</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.

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

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; 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.

Medical Benefits to Employees, Retirees, and Dependents

The City, including the Utilities, has chosen to establish a risk financing fund for 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. A premium is charged to each fund that accounts for employee payroll. The total charge allocated to each of the funds is calculated using trends in actual claims experience. 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 from the City on or after attaining age 55 with at least 20 years of service. Currently, 16 retirees meet these eligibility requirements. The Utilities provide 90% of these postemployment benefits 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, 2007, expenditures of \$73,316 were recognized for postemployment benefits.

C. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on May 25, 2001. The Utility has 5,338 customers.

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.

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

2. Wastewater Utility

The current rate structure was approved by the City Council on August 28, 2006. The Utility has 4,536 customers.

3. Electric Utility

The current rate structure was approved by the Utility Regulatory Commission on January 28, 1998. The Utility has 7,401 customers.

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.

4. Storm Water Utility

The current rate structure was approved by the City Council on September 13, 2004. The Utility has 4,445 customers.

D. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City, including the Utilities, contributes 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 Utility 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.

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

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.

Actuarial Information for the Above Plan

	PERF
Annual required contribution	\$ 190,142
Interest on net pension obligation	(6,080)
Adjustment to annual required contribution	6,928
Annual pension cost	190,990
Contributions made	197,765
Decrease in net pension obligation	(6,775)
Net pension obligation, beginning of year	(83,858)
Net pension obligation, end of year	\$ (90,633)
Contribution rates:	
City and Utilities	6%
Plan members	3%
Actuarial valuation date	07-01-06
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%

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

Three Year Trend Information

	<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
PERF	06-30-04	\$ 159,632	116%	\$ (59,292)
	06-30-05	170,171	114%	(83,858)
	06-30-06	190,990	104%	(90,633)

WATER, ELECTRIC, WASTEWATER, AND STORM WATER 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)
07-01-04	\$ 3,384,302	\$ 3,638,346	\$ (254,044)	93%	\$ 3,265,351	(8%)
07-01-05	3,538,313	3,947,412	(409,099)	90%	3,252,580	(13%)
07-01-06	3,832,588	4,009,216	(176,628)	96%	3,515,064	(5%)

WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
AUDIT RESULTS AND COMMENTS

CONDITION OF RECORDS

The following deficiencies, relating to the recordkeeping of the Utilities were present during our period of audit:

1. Adjusting/correcting entries were made to ledger accounts up to 18 months after the date of original entry. Some audit adjustments from the 2006 audit were not posted until May 2008.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

2. There were a considerable number of posting errors. These errors included: entries made to the wrong fund; entries posted multiple times; and entries made to correct original entries, but which were also made incorrectly.

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)

3. Supporting documentation for all manual entries entered into the computer system by the utility bookkeeper to the general ledger was not available for audit. Documentation that was available was not filed in any kind of order which would facilitate its location during the audit.

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

4. The Utility bookkeeper posted numerous transactions to accounts such as accounts payable other, accounts receivable other, interfund receivables and payables, miscellaneous deferred debits and deferred credits that were not typical entries for these accounts. It appeared that the entries made to these accounts would be cleared out by year end or shortly thereafter. Due to the number of posting errors made throughout the year, the balances in these accounts did not clear out as of year-end and the bookkeeper did not investigate what made up the year-end balances. The bookkeeper provided spreadsheets that were to identify what made up the balance of the accounts as of year-end. However, the totals on the spreadsheets did not agree with the total of the ledger accounts. After further questioning, the bookkeeper admitted that many of the miscellaneous receivables and payable accounts had not been reconciled since December 2006.

WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
AUDIT RESULTS AND COMMENTS
(Continued)

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

INTERNAL CONTROLS

During the audit period, the following deficiencies were noted concerning controls over the receipting, disbursing, recording, and accounting for the financial activities:

1. Controls were insufficient in detecting that the repayment of a \$2,050,000 bond anticipation note in March 2007 was still recorded as a bond anticipation note payable on the financial statements as of December 31, 2007.
2. Adjusting/correcting entries were not reviewed by utility officials to ensure validity or completeness. As a result, numerous entries posted incorrectly or multiple times were not detected.
3. Controls were insufficient to ensure that accurate and timely monthly financial statements were being prepared by the utility bookkeeper.
4. Controls did not exist to ensure that the bookkeeper was performing monthly reconciliations of various account balances to supporting detail. The bookkeeper stated that she had not reconciled several accounts for at least 12 months.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

At all times, the manual and computerized records, subsidiary ledgers, control ledgers and reconciled bank balances should agree. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Controls over receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CUSTOMER DEPOSIT FUND

Depository reconciliations of the Electric and Water customer deposit funds to the bank account were incorrect. This account should be reconciled on a monthly basis. The detail of the customer deposit register did not balance to the customer deposit bank account.

WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
AUDIT RESULTS AND COMMENTS
(Continued)

The customer deposit petty cash balance did not reconcile to the general ledger amount. The new utility manager was unaware that she was to balance the bank account to the customer deposit fund and the customer deposit detail.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Since 2002, delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

Indiana Code 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

(1) a list of the delinquent fees and penalties that are enforceable under this section, which must include the following:

(A) the name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent;

(B) a description of the premises, as shown by the records of the county auditor; and

(C) the amount of the delinquent fees, together with the penalty; or

(2) an individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May . . ."

A similar comment appeared in a prior report.

WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
AUDIT RESULTS AND COMMENTS
(Continued)

TIMELY RECORDKEEPING

We noted instances of months passing from the time of the original date of the transactions until entry on the records. On many accounts the control was not reconciled to the detail for 18 months.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with Indiana Code 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

A similar comment appeared in a prior report.

CONSTRUCTION IN PROGRESS

Records were not presented for audit to support \$6,885,370 of construction in progress reported for the Wastewater Construction Fund as of December 31, 2007. Wastewater bond proceeds were being used to fund improvements to the wastewater treatment plant and the combined sewer overflow project; however, information was not presented to determine how much of the total should be allotted to each project or that all costs paid on the projects had been included.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CAPITAL ASSET RECORDS

The Wastewater Utility capital asset records did not reflect 2006 audit adjustments for capital asset additions.

The Electric Utility bookkeeper recorded the sale of a capital asset twice and this transaction was not detected by Utility officials.

The Utilities maintain detailed records for capital assets; however, there was no reconciliation of the detail to the control ledger as of December 31, 2007. There were several instances of disposals and additions that were recorded in either the detail or the control ledgers, but not both.

Every governmental unit should have a complete inventory of all capital assets owned which reflects their acquisition value. Such inventory should be recorded in the Capital Assets Ledger. A complete inventory should be taken every year for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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

The contents of this report were discussed on July 22, 2008, with Lawrence Haag, Mayor; Steve Dyer, President of the Common Council; Arthur Biddinger, Common Council member; Elaine Wellman, Clerk-Treasurer; and Anita Ash, Utility Office Manager. The official response has been made a part of this report and may be found on pages 26 through 29.



City of Washington

www.washingtonin.us

**"This is in response to the 2007 audit report on the City of Washington's Utilities records."
July 30, 2008**

(1) Adjusting/correcting entries were made to ledger accounts up to 18 months after the date of original entry. Some audit adjustments from the 2006 audit were not posted until May 2008.

The City of Washington's utilities are under the direct supervision of the Mayor. As you are aware on January 1, 2008 I Larry Haag began my tenure as Mayor of Washington, Indiana. Within a short period of time I began to discover many managerial and financial operational task were not being performed in a timely and expeditious manner. In January, I appointed a new Utilities Manager to oversee the day to day operation of the utilities financial operation. The city contracted with an outside financial consultant to assist in training our in-house financial accounting staff on efficient accounting practices, in completing all task required by the State and Federal Standards.

On June 6, 2008 I discharged the lead utility bookkeeper from her duties due to the fact, time lines continued to be missed. A replacement bookkeeper was hired on July 14, 2008 and is currently being trained by internal and external professional's on the requirements of municipal utilities to meet State and Federal Financial Standards.

(2) There were a considerable number of posting errors. Those errors include entries made to the wrong fund, entries posted multiple times, and entries made to correct original entries but were also made incorrectly.

The city contracted with an outside financial consultant to assist in training our in-house financial accounting staff on efficient accounting practices, in completing all task required by the State and Federal Standards.

On June 6, 2008 I discharged the lead bookkeeper from her duties due to the fact, time lines continued to be missed. A replacement book-keeper was hired on July 14, 2008 and is currently being trained by internal and external professional's on the requirements of municipal utilities to meet State and Federal Financial Standards.

(3) Supporting documents for all manual entries entered into the computer system by the utility bookkeeper to the general ledger was not available for audit. Documentation that was available was not filed in any kind of order to locate during the audit.

On June 6, 2008, I discharged the lead bookkeeper from her duties. A replacement book-keeper was hired on July 14, 2008 and is currently being trained by internal and external professional's on the timeline requirements of municipal utilities to meet State and Federal Financial Standards.

The city is in the process of establishing internal checks and balance review protocols to identify and prevent such violations in the future.

(4) The utility bookkeeper posted numerous transactions to accounts such as accounts payable other, accounts receivable other, interfund receivables and payables, miscellaneous deferred debits and deferred credits that were not typical entries for these accounts. It appeared that the entries made to these accounts would be cleared out by year end or shortly thereafter. Due to the number of posting errors made throughout the year, the balances in these accounts did not clear out as of year end and the bookkeeper did not investigate what made up the yearend balances. The bookkeeper provided spreadsheets that were to identify what made up the balance of the accounts as of year end. However, the totals on the spreadsheets did not agree with the total of the ledger accounts. After further questioning, the bookkeeper admitted that many of the miscellaneous receivables and payable accounts had not been reconciled since December 2006.

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Internal Controls - Utilities

We noted instances of months from the time line original date of the transactions until entry on the records. Many accounts had not had reconciliation's for 18 months for control to detail. A similar comment appeared in the prior audit report.

The city is in the process of establishing internal managerial and financial checks and balance review protocols (Checks & Balances) within the utilities financial and operational department, to identify and prevent such violations in the future.

Customer Deposit Fund - Utilities

Depository reconciliations of the Electric and Water customer deposit funds to the bank account were incorrect. This account should be reconciled on a monthly basis. The detail of the customer deposit register did not balance to the customer deposit bank account. The customer deposit petty cash balance does not reconcile to the general ledger by an immaterial amount. The new utility manager was unaware that she was to balance the bank account to the customer deposit fund and the customer deposit detail.

The new utility manager completed adjusting entries on July 24, 2008 and the accounts will be balanced by the end of business on July 31, 2008.

Construction In Progress - Utilities

Records were not presented for audit to support the \$6,885,370.00 of construction in progress reported for the wastewater construction fund as of December 31, 2007.

Wastewater bond proceeds were being used to fund improvements to the wastewater treatment plant and the combined sewer overflow project; however, information was not presented to determine how much of the total should be allotted to each project or that all cost paid on the projects had been included.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

I and the new utility manager are in the process of identifying and scheduling internal and external training opportunities to improve the professional enrichment of all utility department heads and financial staff. An in-house SOP will be established and integrated into the day to day operation of the Utilities financial system.

Capital Asset Records - Utilities

The Wastewater Utility capital asset records did not reflect 2006 audit adjustments for capital asset additions.

The Electric Utility bookkeeper recorded the sale of a capital asset twice and this transaction was not detected by Utility officials.

The Utilities maintain detailed records for Utility Plant in Service; however, there were no reconciliation of the detail to the control ledger as of 12/31/07. There were several instances of disposals and additions that were recorded in either the detail or control ledgers but not in both.

I and the new utility manager are in the process of identifying and scheduling internal and external training opportunities to improve the professional enrichment of all utility department heads and financial staff to maintain proper tracking and compliance records.

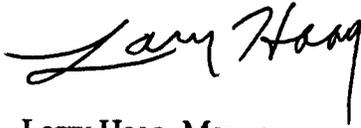
Delinquent Wastewater Accounts

Delinquent wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property since 2007.

The Utility Manager is in the process of establishing a (SOP) Standard Operational Procedure to address Delinquent Wastewater Accounts. Upon adoption of SOP staff will be trained and program will be integrated into monthly activity.

I would like to thank you for the opportunity to respond to the audit findings and look forward to working with the State Board of Accounts and our staff within the City of Washington to resolve these accounting and operational deficiencies as soon as possible.

Sincerely,

A handwritten signature in cursive script that reads "Larry Haag".

Larry Haag, Mayor