

B40657

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

EXAMINATION REPORT
OF
ELECTRIC, WATER, WASTEWATER,
AND STORM WATER UTILITIES
CITY OF WASHINGTON
DAVISS COUNTY, INDIANA
January 1, 2011 to December 31, 2011



FILED
07/31/2012

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Elaine Wellman Karen Brown	01-01-08 to 12-31-11 01-01-12 to 12-31-12
Mayor	Lawrence Haag Joseph Wellman	01-01-08 to 12-31-11 01-01-12 to 12-31-12
President of the Board of Public Works	Lawrence Haag Joseph Wellman	01-01-08 to 12-31-11 01-01-12 to 12-31-12
President of the Common Council	L. Joe Fleck Allen Brown	01-01-11 to 12-31-11 01-01-12 to 12-31-12
Superintendent of Water Utility	Charles Kane	01-01-11 to 12-31-12
Superintendent of Wastewater Utility	Scott Rainey	01-01-11 to 12-31-12
Superintendent of Electric Utility	Randy Emmons	01-01-11 to 12-31-12
Superintendent of Storm Water Utility	Scott Rainey	01-01-11 to 12-31-12
Utility Office Manager	Anita Ash	01-01-11 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the accompanying financial statements of the business-type activities of the Electric, Water, Wastewater, and Storm Water Utilities, departments of the City of Washington, as of and for the year ended December 31, 2011. The Utilities' management is responsible for the financial statements presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial statement presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

As discussed in Note I, the financial statements of the Electric, Water, 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 Utility. They do not purport to, and do not, present fairly the financial position of the City of Washington as of December 31, 2011, 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 Electric, Water, Wastewater, and Storm Water Utilities, as of December 31, 2011, 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.

The Electric, Water, Wastewater, and Storm Water Utilities have 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

June 18, 2012

WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
STATEMENT OF NET ASSETS
December 31, 2011

<u>Assets</u>	<u>Water</u>	<u>Electric</u>	<u>Wastewater</u>	<u>Storm Water</u>
Current assets:				
Cash and cash equivalents	\$ 752,025	\$ 2,010,858	\$ 758,495	\$ 70,968
Accounts receivable (net of allowance)	299,151	1,195,154	345,147	14,557
Accounts receivable - other	-	68,384	-	-
Interfund receivables:				
Interfund services provided and used	-	33,619	-	292
Inventories	103,702	164,113	27,338	-
	<u>1,154,878</u>	<u>3,472,128</u>	<u>1,130,980</u>	<u>85,817</u>
Total current assets				
Noncurrent assets:				
Restricted cash, cash equivalents and investments:				
Depreciation cash and investments	176,977	-	-	-
Bond and interest cash and investments	570,938	-	134,824	-
Construction cash and investments	-	-	1,537,068	-
Federal street light grant cash and investments	-	17,195	-	-
Improvement cash and investments	-	167,291	26,533	-
Debt reserve cash and investments	1,653,482	-	774,271	-
Customer deposits	211,972	389,031	-	-
	<u>2,613,369</u>	<u>573,517</u>	<u>2,472,696</u>	<u>-</u>
Total restricted assets:				
Deferred charges	150,400	-	180,530	-
	<u>150,400</u>	<u>-</u>	<u>180,530</u>	<u>-</u>
Capital assets:				
Land, improvements to land and construction in progress	249,207	290,918	23,737,328	15,107
Other capital assets (net of accumulated depreciation)	21,877,138	7,753,938	16,479,986	306,951
	<u>22,126,345</u>	<u>8,044,856</u>	<u>40,217,314</u>	<u>322,058</u>
Total capital assets				
Total noncurrent assets				
	<u>24,890,114</u>	<u>8,618,373</u>	<u>42,870,540</u>	<u>322,058</u>
Total assets				
	<u>26,044,992</u>	<u>12,090,501</u>	<u>44,001,520</u>	<u>407,875</u>
Liabilities				
Current liabilities:				
Accounts payable	84,126	1,150,922	87,308	3,868
Loans payable	162,500	-	162,500	-
Lease payable	-	-	30,430	21,267
Interfund payables:				
Interfund services provided and used	9,681	-	63	-
Wages payable	16,630	20,597	18,014	1,587
Current liabilities payable from restricted assets:				
Loans payable	-	-	635,895	-
Customer deposits	210,904	387,477	-	-
Revenue bonds payable	1,060,000	-	200,000	-
Accrued interest payable	132,298	-	123,157	-
	<u>1,676,139</u>	<u>1,558,996</u>	<u>1,257,367</u>	<u>26,722</u>
Total current liabilities				
Noncurrent liabilities:				
Revenue bonds payable (net of unamortized discounts, premiums, and deferred amount on refunding)	11,018,651	-	9,800,708	-
State revolving loan payable	-	-	14,865,145	-
Lease payable	-	-	228,437	33,275
	<u>-</u>	<u>-</u>	<u>228,437</u>	<u>33,275</u>
Total liabilities				
	<u>12,694,790</u>	<u>1,558,996</u>	<u>26,151,657</u>	<u>59,997</u>
Net Assets				
Invested in capital assets, net of related debt	9,885,194	8,044,856	14,930,094	267,516
Restricted for debt service	2,224,420	-	909,095	-
Unrestricted	1,240,588	2,486,648	2,010,674	80,362
	<u>1,240,588</u>	<u>2,486,648</u>	<u>2,010,674</u>	<u>80,362</u>
Total net assets				
	<u>\$ 13,350,202</u>	<u>\$ 10,531,504</u>	<u>\$ 17,849,863</u>	<u>\$ 347,878</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, 2011

	Water	Electric	Wastewater	Storm Water
Operating revenues:				
Unmetered water revenue	\$ 62,277	\$ -	\$ -	\$ -
Metered water revenue:				
Residential	1,446,143	-	1,640,215	-
Commercial	1,600,106	-	2,146,491	-
Residential sales	-	6,664,237	-	-
Commercial and industrial sales	-	7,545,171	-	-
Public street and highway lighting	-	131,024	-	-
Fire protection revenue	155,353	-	-	-
Penalties	15,863	52,066	44,865	3,188
Flat rate revenues	-	-	-	158,424
Other	73,495	614,930	154,523	-
Total operating revenues	3,353,237	15,007,428	3,986,094	161,612
Operating expenses:				
Source of supply and expense - operations and maintenance	132,271	-	-	-
Water treatment expense - operations and maintenance	404,934	-	-	-
Transmission and distribution	544,595	986,740	-	-
Collection system - operations and maintenance	-	-	556,046	-
Treatment and disposal - operations and maintenance	-	-	741,779	-
Operations and maintenance	-	-	-	77,280
Customer accounts	175,449	217,686	159,917	-
Administration and general	274,526	353,621	292,430	43,504
Purchased power	-	11,287,551	-	-
Insurance expense	208,937	298,696	212,093	17,155
Taxes	398,558	349,015	269,701	4,855
Depreciation and amortization	880,017	532,755	459,056	20,851
Total operating expenses	3,019,287	14,026,064	2,691,022	163,645
Operating income (loss)	333,950	981,364	1,295,072	(2,033)
Nonoperating revenues (expenses):				
Interest and investment revenue	18,415	9,258	13,147	348
Miscellaneous revenue	39,215	153,250	669	2,018
Interest expense	(551,838)	-	(610,133)	(2,411)
Gain/loss on disposition of property	(61,133)	(20,357)	(27,644)	-
Total nonoperating revenues (expenses)	(555,341)	142,151	(623,961)	(45)
Capital contributions	60,411	-	6,216,459	29,001
Change in net assets	(160,980)	1,123,515	6,887,570	26,923
Total net assets - beginning - restated (Note II. G.)	13,511,182	9,407,989	10,962,293	320,955
Total net assets - ending	\$ 13,350,202	\$ 10,531,504	\$ 17,849,863	\$ 347,878

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, 2011

	Water	Electric	Wastewater	Storm Water
Cash flows from operating activities:				
Receipts from customers and users	\$ 3,394,467	\$ 15,047,633	\$ 3,971,637	\$ 162,835
Payments to suppliers	(1,430,365)	(12,982,366)	(1,197,530)	(73,159)
Payments to employees	(683,220)	(446,685)	(735,952)	(67,894)
Interfund services provided (used)	12,742	(86,211)	317	131
Other receipts	1,895	153,250	669	2,018
Net cash provided by operating activities	<u>1,295,519</u>	<u>1,685,621</u>	<u>2,039,141</u>	<u>23,931</u>
Cash flows from capital and related financing activities:				
Proceeds from loans	162,500	-	5,425,335	-
Capital contributions	60,411	-	6,216,459	29,001
Acquisition and construction of capital assets	(256,078)	(1,641,521)	(12,483,611)	(107,490)
Principal paid on capital debt	(1,010,000)	-	(390,000)	(20,562)
Interest paid on capital debt	(563,242)	-	(734,064)	(2,411)
Net cash provided (used) by capital and related financing activities	<u>(1,606,409)</u>	<u>(1,641,521)</u>	<u>(1,965,881)</u>	<u>(101,462)</u>
Cash flows from investing activities:				
Interest received	18,115	9,258	13,147	348
Net increase (decrease) in cash and cash equivalents	(292,775)	53,358	86,407	(77,183)
Cash and cash equivalents, January 1	<u>3,658,169</u>	<u>2,531,017</u>	<u>3,144,784</u>	<u>148,151</u>
Cash and cash equivalents, December 31	<u>\$ 3,365,394</u>	<u>\$ 2,584,375</u>	<u>\$ 3,231,191</u>	<u>\$ 70,968</u>
Cash and cash equivalents	\$ 752,025	\$ 2,010,858	\$ 758,495	\$ 70,968
Restricted cash and cash equivalents:				
Depreciation cash and investments	176,977	-	-	-
Bond and interest cash and investments	570,938	-	134,824	-
Construction cash and investments	-	-	1,537,068	-
Federal street light grant cash and investments	-	17,195	-	-
Improvement cash and investments	-	167,291	26,533	-
Debt reserve cash and investments	1,653,482	-	774,271	-
Customer deposits	211,972	389,031	-	-
Cash and cash equivalents, December 31	<u>\$ 3,365,394</u>	<u>\$ 2,584,375</u>	<u>\$ 3,231,191</u>	<u>\$ 70,968</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income	<u>\$ 333,950</u>	<u>\$ 981,364</u>	<u>\$ 1,295,072</u>	<u>\$ (2,033)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization expense	880,017	532,755	459,058	20,851
Nonoperating revenue	1,895	153,250	669	2,018
(Increase) decrease in assets:				
Accounts receivable	15,094	(13,556)	(17,287)	1,223
Accounts receivable - other	637	28,654	2,830	-
Interfund services provided or used	4,766	-	317	131
Inventories	753	(11,211)	20,248	-
Prepaid items	-	-	310	66
Increase (decrease) in liabilities:				
Accounts payable	23,789	74,925	17,161	855
Leases payable	-	-	258,867	-
Interfund services provided or used	7,976	(86,211)	-	-
Wages payable	1,144	544	1,896	820
Customer deposits payable	25,498	25,107	-	-
Total adjustments	<u>961,569</u>	<u>704,257</u>	<u>744,069</u>	<u>25,964</u>
Net cash provided by operating activities	<u>\$ 1,295,519</u>	<u>\$ 1,685,621</u>	<u>\$ 2,039,141</u>	<u>\$ 23,931</u>
Noncash investing, capital and financing activities:				
Capital asset from construction in progress	<u>\$ 97,650</u>	<u>\$ 865,259</u>	<u>\$ 10,655,561</u>	<u>\$ 96,961</u>

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, represent 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 Other Changes in Fund Net Assets, and 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Utilities have elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connections with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

When both restricted and unrestricted resources are available for use, the Utilities' policy is to use restricted resources first, then unrestricted resources as they are needed.

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.

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

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.

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

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 because their use is limited by applicable bond covenants.

The financial statements report \$2,224,420 and \$909,095 of restricted net assets for the Water Utility and Wastewater Utility, respectively, as of December 31, 2011, of which none is restricted by enabling legislation.

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 end of 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:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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.

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

5. Compensated Absences

- a. Sick Leave – Utility employees earn sick leave at the rate of 6 days 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 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 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. The Utilities do not have a deposit policy for custodial credit risk. At December 31, 2011, the Utilities had deposit balances in the amount of \$9,251,928.

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.

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

B. Capital Assets:

Capital asset activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Utility:				
Capital assets, not being depreciated:				
Land	\$ 166,402	\$ -	\$ -	\$ 166,402
Construction in progress	<u>62,379</u>	<u>118,076</u>	<u>97,650</u>	<u>82,805</u>
Total capital assets, not being depreciated	<u>228,781</u>	<u>118,076</u>	<u>97,650</u>	<u>249,207</u>
Capital assets, being depreciated:				
Buildings	15,595,696	5,468	-	15,601,164
Improvements other than buildings	12,189,889	6,021	8,860	12,187,050
Machinery and equipment	<u>4,158,283</u>	<u>234,556</u>	<u>153,691</u>	<u>4,239,148</u>
Totals	<u>31,943,868</u>	<u>246,045</u>	<u>162,551</u>	<u>32,027,362</u>
Less accumulated depreciation for:				
Buildings	2,497,281	313,131	-	2,810,412
Improvements other than buildings	4,711,238	264,803	6,379	4,969,662
Machinery and equipment	<u>2,266,225</u>	<u>188,874</u>	<u>84,949</u>	<u>2,370,150</u>
Totals	<u>9,474,744</u>	<u>766,808</u>	<u>91,328</u>	<u>10,150,224</u>
Total capital assets, being depreciated, net	<u>22,469,124</u>	<u>(520,763)</u>	<u>71,223</u>	<u>21,877,138</u>
Total business-type activity capital assets, net	<u>\$ 22,697,905</u>	<u>\$ (402,687)</u>	<u>\$ 168,873</u>	<u>\$ 22,126,345</u>
Electric Utility:				
Capital assets, not being depreciated:				
Land	\$ 56,700	\$ -	\$ -	\$ 56,700
Construction in progress	<u>193,952</u>	<u>905,525</u>	<u>865,259</u>	<u>234,218</u>
Total capital assets, not being depreciated	<u>250,652</u>	<u>905,525</u>	<u>865,259</u>	<u>290,918</u>
Capital assets, being depreciated:				
Buildings	828,860	53,619	54,477	828,002
Improvements other than buildings	10,717,132	390,495	149,139	10,958,488
Machinery and equipment	<u>3,371,769</u>	<u>1,155,760</u>	<u>167,676</u>	<u>4,359,853</u>
Totals	<u>14,917,761</u>	<u>1,599,874</u>	<u>371,292</u>	<u>16,146,343</u>
Less accumulated depreciation for:				
Buildings	364,235	52,959	53,213	363,981
Improvements other than buildings	5,555,129	272,017	144,601	5,682,545
Machinery and equipment	<u>2,292,602</u>	<u>207,779</u>	<u>154,502</u>	<u>2,345,879</u>
Totals	<u>8,211,966</u>	<u>532,755</u>	<u>352,316</u>	<u>8,392,405</u>
Total capital assets, being depreciated, net	<u>6,705,795</u>	<u>1,067,119</u>	<u>18,976</u>	<u>7,753,938</u>
Total business-type activity capital assets, net	<u>\$ 6,956,447</u>	<u>\$ 1,972,644</u>	<u>\$ 884,235</u>	<u>\$ 8,044,856</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Wastewater Utility:				
Capital assets, not being depreciated:				
Land	\$ 355,177	\$ 23,372	\$ -	\$ 378,549
Construction in progress	21,916,523	12,097,817	10,655,561	23,358,779
				-
Total capital assets, not being depreciated	22,271,700	12,121,189	10,655,561	23,737,328
Capital assets, being depreciated:				
Buildings	2,849,992	9,914	-	2,859,906
Improvements other than buildings	6,483,203	10,578,446	-	17,061,649
Machinery and equipment	5,335,355	463,266	118,456	5,680,165
Totals	14,668,550	11,051,626	118,456	25,601,720
Less accumulated depreciation for:				
Buildings	1,460,599	52,378	-	1,512,977
Improvements other than buildings	3,292,449	126,370	-	3,418,819
Machinery and equipment	3,991,859	255,247	57,168	4,189,938
Totals	8,744,907	433,995	57,168	9,121,734
Total capital assets, being depreciated, net	5,923,643	10,617,631	61,288	16,479,986
Total business-type activity capital assets, net	\$ 28,195,343	\$ 22,738,820	\$ 10,716,849	\$ 40,217,314
Storm Water Utility:				
Capital assets, not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	29,463	82,605	96,961	15,107
				-
Total capital assets, not being depreciated	29,463	82,605	96,961	15,107
Capital assets, being depreciated:				
Buildings	28,006	716	-	28,722
Improvements other than buildings	62,358	96,245	-	158,603
Machinery and equipment	146,060	24,885	-	170,945
Totals	236,424	121,846	-	358,270
Less accumulated depreciation for:				
Buildings	4,970	2,797	-	7,767
Improvements other than buildings	3,005	1,247	-	4,252
Machinery and equipment	22,493	16,807	-	39,300
Totals	30,468	20,851	-	51,319
Total capital assets, being depreciated, net	205,956	100,995	-	306,951
Total business-type activity capital assets, net	\$ 235,419	\$ 183,600	\$ 96,961	\$ 322,058

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

Depreciation expense was charged to the utilities as follows for 2011:

Water	\$	766,808
Electric		532,755
Wastewater		433,995
Storm Water		20,851
	\$	1,754,409

C. Construction Commitments

Construction work in progress is composed of the following:

Project	2011	
	Expended to December 31	Committed
Water Utility	\$ 82,805	\$ -
Electric Utility	234,218	-
Wastewater Utility	23,358,779	2,544,347
Storm Water Utility	15,107	-
Totals	\$ 23,690,909	\$ 2,544,347

D. Loan Payables

On April 25, 2011, the City signed an agreement with the Daviess County Economic Development Commission for an interest free loan of \$325,000 to pay expenses of the I-69 exchange. The loan is to be paid back at \$65,000 per year for the next five years, with the first payment due on May 1, 2012. The Water and Wastewater Utilities will each pay \$162,500.

E. Leases

Capital Leases

The Wastewater and Storm Water Utilities have entered into capital leases for a jet vac and a street sweeper, respectively. Future minimum lease payments and present values of the net minimum leases as of December 31, 2011, are as follows:

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

	<u>Jet Vac</u>	<u>Street Sweeper</u>
2012	\$ 39,420	\$ 22,942
2013	39,420	22,942
2014	39,420	11,471
2015	39,420	-
2016	<u>135,198</u>	<u>-</u>
Total minimum lease payments	292,878	57,355
Less amount representing interest	<u>34,011</u>	<u>2,813</u>
Present value of net minimum lease payments	<u>\$ 258,867</u>	<u>\$ 54,542</u>

Assets acquired through capital leases still in effect are as follows:

	<u>Wastewater Utility</u>	<u>Storm Water Utility</u>
Machinery and equipment	<u>\$ 298,287</u>	<u>\$ 104,676</u>

F. Long-Term Liabilities

1. Revenue Bonds

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

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
2005 Water Refunding Bonds	4.10 to 5.00%	\$ 6,980,000
2006 Water Refunding Bonds	3.55 to 4.10%	5,350,000
2007 Wastewater Bonds	3.75 to 4.15%	7,525,000
2009 Wastewater Revenue Bonds	2.00 to 5.10%	<u>2,565,000</u>
Total		<u>\$ 22,420,000</u>

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

Revenue bonds debt service requirements to maturity are as follows:

Year Ended December 31	Water Utility		Wastewater Utility	
	Principal	Interest	Principal	Interest
2012	\$ 1,060,000	\$ 517,620	\$ 200,000	\$ 207,643
2013	1,105,000	470,415	425,000	404,249
2014	1,160,000	423,417	435,000	388,577
2015-2019	6,675,000	1,268,222	2,525,000	1,673,733
2020-2024	2,330,000	95,565	3,215,000	1,106,596
2025-2029	-	-	3,080,000	366,954
2030-2035	-	-	210,000	8,033
Totals	<u>\$ 12,330,000</u>	<u>\$ 2,775,239</u>	<u>\$ 10,090,000</u>	<u>\$ 4,155,785</u>

2. Advance Refunding

In prior years, the Utility defeased certain revenue and other bonds by placing the proceeds of the 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 Utilities' financial statements. The following outstanding bonds, at December 31, 2011, were considered defeased:

1996 Water Utility Bond issue	\$3,110,000
1998 Water Utility Bond issue	4,940,000
2001 Water Utility Bond issue	5,340,000

3. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Water Utility	\$ 13,340,000	\$ -	\$ 1,010,000	\$ 12,330,000	\$ 1,060,000
Plus: Bond Premium	157,941	-	37,320	120,621	
Less: Bond Discounts	(64,886)	-	(9,575)	(55,311)	
Deferred Loss on Refunding	(388,185)	-	(71,526)	(316,659)	
Net Water Utility Bonds Payable	<u>13,044,870</u>	<u>-</u>	<u>966,219</u>	<u>12,078,651</u>	
Wastewater Utility	10,480,000	-	390,000	10,090,000	200,000
Less: Bond Discounts	(94,252)	-	(4,960)	(89,292)	
Net Wastewater Utility Bonds Payable	<u>10,385,748</u>	<u>-</u>	<u>385,040</u>	<u>10,000,708</u>	
Total Revenue Bonds Payable	<u>\$ 23,430,618</u>	<u>\$ -</u>	<u>\$ 1,351,259</u>	<u>\$ 22,079,359</u>	

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

4. State Revolving Loan Fund

Wastewater Revolving Loan Fund

Under the terms of the State Revolving Loan Fund, revenue bonds were purchased by the Bank of New York Mellon Trust Company N.A., the proceeds of which were used to finance the construction of a Combined Sewer Overflow Project. Funds were loaned to the City as construction costs accrued to the maximum allowed. The 2010 loan established a maximum draw of \$15,242,000.00. At the completion of construction, the outstanding principal balance of \$15,242,000.00 is to be amortized over a period of 20 years. As of December 31, 2011, \$15,194,145 had been drawn down with a repayment of \$329,000 in 2011, resulting in an outstanding balance of \$14,865,145 at December 31, 2011.

G. Restricted Assets

The December 31, 2011, balances of restricted asset accounts in the enterprise funds are as follows:

Water Utility

Customer deposits	\$ 211,972
Depreciation cash and investments	176,977
Bond and interest cash and investments	570,938
Debt reserve cash and investments	<u>1,653,482</u>

Total restricted assets	<u>\$ 2,613,369</u>
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Electric Utility

Customer deposits	\$ 389,031
Federal street light grant cash and investments	17,195
Improvement cash and investments	<u>167,291</u>

Total restricted assets	<u>\$ 573,517</u>
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Wastewater Utility

Bond and interest cash and investments	\$ 134,824
Construction cash and investments	1,537,068
Improvement cash and investments	26,533
Debt reserve cash and investments	<u>774,271</u>

Total restricted assets	<u>\$ 2,472,696</u>
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WATER, ELECTRIC, WASTEWATER, AND STORM WATER UTILITIES
CITY OF WASHINGTON
NOTES TO FINANCIAL STATEMENTS
(Continued)

H. Restatements

For the year ended December 31, 2011, due to December 31, 2011 reporting errors certain changes have been made to the financial statements to more appropriately reflect financial activity of the Utilities. The following schedule presents a summary of net asset restated beginning balances:

	Balance as Reported December 31, 2010	Restatements	Balance as Restated January 1, 2011
Net assets:			
Water Utility	\$ 13,526,006	\$ (14,824)	\$ 13,511,182
Electric Utility	9,549,045	(141,056)	9,407,989

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; 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; 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.

Medical Benefits to Employees, Retirees, and Dependents

The City, including 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.

Claim expenditures and liabilities of the fund are reported when it is probable that a loss has occurred. These losses include an estimate of claims that have been incurred but not reported (BNR's). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amounts of pay outs, and other economic and social factors.

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

Job Related Illnesses and Injuries to Employees

During 1993, the City, including 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 illness 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. Rate Structure

1. Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on May 25, 2001. The Utility has 5,475 customers.

On April 10, 2006, the City Council adopted Ordinance 2-2006 to withdraw from the jurisdiction of the Indiana Regulatory Commission. The withdrawal was effective June 16, 2006.

2. Electric Utility

The current rate structure was approved by the City Council on September 28, 2009. The Utility has 7,369 customers.

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

3. Wastewater Utility

The current rate structure was approved by the City Council on December 12, 2011. The Utility has 4,577 customers.

4. Storm Water Utility

The current rate structure was approved by the City Council on September 13, 2004. The Utility has 4,390 customers.

C. 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.

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

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 three percent 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:

Indiana Public Retirement System
One North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

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 and is not presented as an asset/liability of the proprietary funds.

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

The contents of this report were discussed on June 18, 2012, with Joseph Wellman, Mayor and President of the Board of Public Works; Karen Brown, Clerk-Treasurer; Allen Brown, President of the Common Council; and Anita Ash, Utility Office Manager. Our examination disclosed no material items that warrant comment at this time.