



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

David A. Vaudt, CPA  
Auditor of State

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NEWS RELEASE

FOR RELEASE

June 21, 2011

Contact: Andy Nielsen  
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Independence, Iowa.

The City's receipts totaled \$8,475,627 for the year ended June 30, 2010, a 30 percent decrease from the prior year. The receipts included \$2,042,757 in property tax, \$975,591 from tax increment financing, \$2,890,551 from charges for service, \$755,531 from operating grants, contributions and restricted interest, \$831,020 from capital grants, contributions and restricted interest, \$499,632 from local option sales tax, \$158,158 from unrestricted interest on investments and \$322,387 from other general receipts.

Disbursements for the year totaled \$7,819,095, a 31 percent decrease from the prior year, and included \$1,208,401 for public safety, \$1,046,893 for public works and \$920,784 for capital projects. Disbursements for business type activities totaled \$2,054,519.

The significant decrease in receipts and disbursements is due primarily to a decrease in capital grant receipts and related airport reconstruction and runway extension disbursements from the prior year.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1020-0076-B00F.pdf>.

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**CITY OF INDEPENDENCE**

**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**JUNE 30, 2010**

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-29
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		32-33
Notes to Required Supplementary Information – Budgetary Reporting		34
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	36-37
Schedule of Indebtedness	2	38-39
Bond and Note Maturities	3	41
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	42-43
Schedule of Expenditures of Federal Awards	5	44
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		45-46
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		49-50
Schedule of Findings and Questioned Costs		51-62
Staff		63

**City of Independence**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Frank Brimmer	Mayor	Jan 2010
Richard Engen	Council Member	Jan 2010
Mike Hayward	Council Member	Jan 2010
Paul Paisley	Council Member	Jan 2010
Carl Scharff	Council Member	Jan 2010
Cheryl Hand	Council Member	Jan 2012
Robert Hill	Council Member	Jan 2012
Arletta Schweitzer	Council Member	Jan 2012
Alan Johnson	City Manager	Oct 2009
Debra Lynn	Clerk/Treasurer	(Resigned)
Sarah Dooley-Rothman	Attorney	(Resigned)
Carter Stevens	Attorney	Indefinite
<b>(After January 2010)</b>		
Carl E. Scharff	Mayor	Jan 2014
Cheryl Hand	Council Member	Jan 2012
Robert Hill	Council Member	Jan 2012
Arletta Schweitzer	Council Member	Jan 2012
Bonita Davis	Council Member	Jan 2014
Jeanne Hermsen	Council Member	Jan 2014
Jon Holland	Council Member	Jan 2014
Steven T. Diers	City Manager	Indefinite
Barbara K. Rundle	Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

**City of Independence**



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## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Independence's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Independence Light and Power, Telecommunications, a discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the condensed financial information included in Note 11 for the discretely presented component unit, is based on the report of the other auditor.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the report of the other auditor provide a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

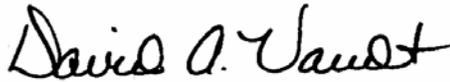
As described in Note 11, the City has chosen to present condensed financial information for the Independence Light and Power, Telecommunications, a discretely presented component unit, since complete financial statements of the component unit have been audited by another auditor and are available from the component unit. The report of the other auditor, dated May 18, 2010, expressed an unqualified opinion on the financial statements.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Independence as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2011 on our consideration of the City of Independence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 32 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Independence's basic financial statements. The financial statements for the five years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 8, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Independence provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 38%, or \$3,824,127, from fiscal year 2009 to fiscal year 2010. Capital grants, contributions and restricted interest decreased \$2,902,931 and proceeds from debt issued decreased \$989,653 due to the funding of airport and street projects in the prior year.
- Disbursements for governmental activities decreased 39%, or \$3,650,694, from fiscal year 2009 to fiscal year 2010. Capital projects disbursements decreased \$3,799,031 due to the completion of airport projects during fiscal year 2010.
- The City's total cash basis net assets increased 10%, or \$656,532, from June 30, 2009 to June 30, 2010. Of this amount, the cash basis net assets of the governmental activities increased \$537,127 and the cash basis net assets of the business type activities increased \$119,405.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits, Tax Increment Financing and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

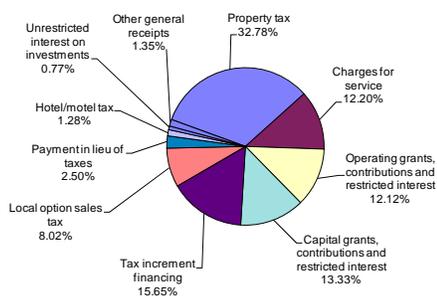
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

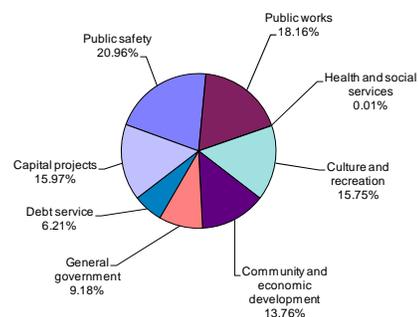
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$2,937,528 to \$3,475,655. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 760,545	544,987
Operating grants, contributions and restricted interest	755,531	811,054
Capital grants, contributions and restricted interest	831,020	3,733,951
General receipts:		
Property tax	2,042,757	1,928,088
Tax increment financing	975,591	1,045,424
Local option sales tax	499,632	507,701
Hotel/motel tax	79,915	95,033
Payment in lieu of taxes	156,000	156,000
Unrestricted interest on investments	47,796	72,977
Proceeds from debt issued	-	989,653
Other general receipts	84,442	172,488
<b>Total receipts</b>	<b>6,233,229</b>	<b>10,057,356</b>
Disbursements:		
Public safety	1,208,401	1,188,864
Public works	1,046,893	1,065,016
Health and social services	350	-
Culture and recreation	908,038	823,228
Community and economic development	793,123	770,263
General government	529,177	461,238
Debt service	357,810	386,846
Capital projects	920,784	4,719,815
<b>Total disbursements</b>	<b>5,764,576</b>	<b>9,415,270</b>
Change in cash basis net assets before transfers	468,653	642,086
Operating transfers, net	68,474	(51,247)
Increase in cash basis net assets	537,127	590,839
Cash basis net assets beginning of year, as restated	2,937,528	2,346,689
<b>Cash basis net assets end of year</b>	<b>\$ 3,474,655</b>	<b>2,937,528</b>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 38%, or \$3,824,127. The total cost of all programs and services decreased \$3,650,694, or 39%, with no new programs added this year. The decrease in receipts was primarily the result of decreases in capital grants and proceeds from issuance of debt. The decrease in disbursements was primarily the result of a decrease in capital projects disbursements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 612,578	627,589
Sewer	1,517,428	1,339,814
General receipts:		
Unrestricted interest on investments	110,362	119,660
Other general receipts	2,030	2,596
Total receipts	<u>2,242,398</u>	<u>2,089,659</u>
Disbursements:		
Water	657,355	661,609
Sewer	1,397,164	1,256,595
Total disbursements	<u>2,054,519</u>	<u>1,918,204</u>
Change in cash basis net assets before transfers	187,879	171,455
Operating transfers, net	(68,474)	51,247
Increase in cash basis net assets	119,405	222,702
Cash basis net assets beginning of year	<u>3,960,579</u>	<u>3,737,877</u>
Cash basis net assets end of year	<u>\$ 4,079,984</u>	<u>3,960,579</u>

Total business type activities receipts increased \$152,739, or 7.3%. Total disbursements for the fiscal year increased 7.1%, or \$136,315. The cash balance increased \$119,405 over the prior year.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$3,474,655, an increase of \$537,127 compared to last year's total of \$2,937,528. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$121,581 over the prior year to \$894,014. The increase is attributable to an overall increase in receipts of \$146,839 offset by an increase in disbursements of \$73,110. Receipts increased primarily due to an increase in property tax and charges for service. Public works and general government disbursements increased from the prior year.
- The Special Revenue, Road Use Tax Fund cash balance increased to \$24,653 during the fiscal year. This increase was primarily due to a decrease in public works disbursements of \$44,866 and an increase in road use tax of \$66,460.
- The Special Revenue, Employee Benefits Fund cash balance increased from \$501,794 to \$523,547 during the fiscal year. The increase is attributable to an increase in receipts.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$95,239 during the fiscal year. Receipts and disbursements decreased while transfers out increased during the fiscal year.

- The Special Revenue, Local Option Sales Tax Fund was established to account for special sales tax collected. At the end of the fiscal year, the cash balance was \$405,923, a decrease of \$15,905 from the prior year end. Receipts and disbursements increased \$56,803 and \$108,634 over the prior year, respectively. Transfers out to other funds decreased \$122,743.
- The Debt Service Fund cash balance increased \$132,899 to \$297,140 at the end of the fiscal year. This increase was due to transfers received from other funds.
- The Capital Projects Fund cash balance increased \$174,244 to \$774,877 at the end of the fiscal year. The City paid the majority of the construction costs for airport improvements in fiscal year 2009. The City spent a total of \$920,784 on construction projects in the current year, compared to \$4,719,815 in the prior year. Intergovernmental receipts decreased \$2,653,675 from the prior year, primarily due to federal grants received for airport improvements in fiscal year 2009.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance decreased from \$1,874,021 to \$1,803,403. Total receipts decreased \$23,302 and disbursements decreased \$4,254.
- The Sewer Fund cash balance increased \$2,086,558 to \$2,276,581. Total receipts increased \$176,041 while disbursements increased \$140,569.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 24, 2010 and resulted in an increase of \$3,312,215 in disbursements, related primarily to capital projects disbursements for airport improvements. The amendment also increased revenues \$302,573, related primarily to federal reimbursements for the airport improvements.

The City’s receipts were \$2,926,488 less than budgeted. This was primarily due to the City receiving less in intergovernmental receipts because of the anticipation of receiving federal reimbursements for the airport projects from the federal government.

Total disbursements were \$8,498,881 less than the amended budget. Actual disbursements for the capital projects function were \$7,972,486 less than the amended budget. This was primarily due to anticipating more disbursements for the airport construction.

Disbursements exceeded the amounts budgeted in the health and social services and culture and recreation functions during the current year.

**DEBT ADMINISTRATION**

At June 30, 2010, the City had \$2,310,000 in general obligation bonds/notes outstanding, compared to \$2,570,000 last year. The City had \$6,665,000 in sewer revenue bonds outstanding, compared to \$7,045,000 last year. Debt decreased as a result of current year redemptions.

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
General obligation bonds/notes	\$ 2,310,000	2,570,000
Sewer revenue bonds	6,665,000	7,045,000
Total	\$ 8,975,000	9,615,000

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all property within the City's corporate limits. The City's outstanding general obligation and TIF developer agreement debt of \$2,358,877 is significantly below its constitutional debt limit of approximately \$15,140,000.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of Independence's elected and appointed officials and citizens considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City averaged 7.4% for fiscal year 2010. This compares with the State's unemployment rate of 6.6%.

These factors were taken into account when adopting the budget for fiscal year 2011. Property tax revenues available for appropriation in the fiscal year 2011 operating budget are \$4,730 higher than the final fiscal year 2010 budget of \$2,026,080. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease \$5,032,048 from the final fiscal year 2010 budget to \$11,262,840. The City has added no major new programs or initiatives.

If these estimates are realized, the City's June 30, 2011 budgeted cash balance is expected to increase approximately \$11,000 by the close of fiscal year 2011.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barbara Rundle, City Clerk, 331 1st Street East, City of Independence, Iowa 50644.

## **Basic Financial Statements**

City of Independence

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 1,208,401	15,658	67,871	-
Public works	1,046,893	423,045	573,004	-
Health and social services	350	-	-	-
Culture and recreation	908,038	196,533	77,681	-
Community and economic development	793,123	59,565	36,975	-
General government	529,177	65,744	-	-
Debt service	357,810	-	-	-
Capital projects	920,784	-	-	831,020
Total governmental activities	5,764,576	760,545	755,531	831,020
Business type activities:				
Water	657,355	612,578	-	-
Sewer	1,397,164	1,517,428	-	-
Total business type activities	2,054,519	2,130,006	-	-
Total	\$ 7,819,095	2,890,551	755,531	831,020
<b>General Receipts and Transfers:</b>				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Hotel/motel tax				
Payment in lieu of tax				
Unrestricted interest on investments				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year, as restated				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Employee benefits				
Local option sales tax				
Urban renewal purposes				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
(1,124,872)	-	(1,124,872)
(50,844)	-	(50,844)
(350)	-	(350)
(633,824)	-	(633,824)
(696,583)	-	(696,583)
(463,433)	-	(463,433)
(357,810)	-	(357,810)
(89,764)	-	(89,764)
(3,417,480)	-	(3,417,480)
-	(44,777)	(44,777)
-	120,264	120,264
-	75,487	75,487
(3,417,480)	75,487	(3,341,993)

1,793,325	-	1,793,325
249,432	-	249,432
975,591	-	975,591
499,632	-	499,632
79,915	-	79,915
156,000	-	156,000
47,796	110,362	158,158
84,442	2,030	86,472
68,474	(68,474)	-
3,954,607	43,918	3,998,525
537,127	119,405	656,532
2,937,528	3,960,579	6,898,107
\$ 3,474,655	4,079,984	7,554,639

\$ 95,000	-	95,000
-	-	-
24,653	-	24,653
523,547	-	523,547
405,923	-	405,923
452,539	-	452,539
297,140	893,180	1,190,320
774,877	769,760	1,544,637
6,962	-	6,962
894,014	2,417,044	3,311,058
\$ 3,474,655	4,079,984	7,554,639

City of Independence

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2010

	Special Revenue				
	General	Road Use Tax	Employee Benefits	Tax Increment Financing	Local Option Sales Tax
<b>Receipts:</b>					
Property tax	\$ 1,484,910	-	303,852	-	-
Tax increment financing	-	-	-	975,591	-
Other city tax	113,535	-	-	-	499,632
Licenses and permits	29,581	-	-	-	-
Use of money and property	62,000	-	-	21,629	2,167
Intergovernmental	253,757	573,004	-	-	-
Charges for service	585,138	-	-	-	59,564
Special assessments	-	-	-	-	-
Miscellaneous	80,940	-	14,116	-	44,515
Total receipts	<u>2,609,861</u>	<u>573,004</u>	<u>317,968</u>	<u>997,220</u>	<u>605,878</u>
<b>Disbursements:</b>					
Operating:					
Public safety	912,204	-	273,109	-	-
Public works	444,307	602,586	-	-	-
Health and social services	-	-	350	-	-
Culture and recreation	719,975	-	132,069	-	-
Community and economic development	42,811	-	-	413,753	326,259
General government	453,504	-	75,673	-	-
Debt service	-	-	-	-	-
Capital projects	-	-	-	-	-
Total disbursements	<u>2,572,801</u>	<u>602,586</u>	<u>481,201</u>	<u>413,753</u>	<u>326,259</u>
Excess (deficiency) of receipts over (under) disbursements	<u>37,060</u>	<u>(29,582)</u>	<u>(163,233)</u>	<u>583,467</u>	<u>279,619</u>
<b>Other financing sources (uses):</b>					
Operating transfers in	360,400	74,200	184,986	-	-
Operating transfers out	(277,171)	-	-	(488,228)	(295,524)
Sale of capital assets	1,292	-	-	-	-
Total other financing sources (uses)	<u>84,521</u>	<u>74,200</u>	<u>184,986</u>	<u>(488,228)</u>	<u>(295,524)</u>
Net change in cash balances	121,581	44,618	21,753	95,239	(15,905)
Cash balances beginning of year, as restated	772,433	(19,965)	501,794	234,402	421,828
Cash balances end of year	<u>\$ 894,014</u>	<u>24,653</u>	<u>523,547</u>	<u>329,641</u>	<u>405,923</u>
<b>Cash Basis Fund Balances</b>					
Reserved for debt service	\$ -	-	-	-	-
Unreserved:					
General fund	894,014	-	-	-	-
Special revenue funds	-	24,653	523,547	329,641	405,923
Capital projects fund	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	<u>\$ 894,014</u>	<u>24,653</u>	<u>523,547</u>	<u>329,641</u>	<u>405,923</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
249,432	-	-	2,038,194
-	-	-	975,591
-	-	-	613,167
-	-	-	29,581
-	8	-	85,804
-	831,020	-	1,657,781
-	-	-	644,702
8,211	-	-	8,211
-	-	39,335	178,906
257,643	831,028	39,335	6,231,937
-	-	23,088	1,208,401
-	-	-	1,046,893
-	-	-	350
-	-	55,994	908,038
-	-	10,300	793,123
-	-	-	529,177
357,810	-	-	357,810
-	920,784	-	920,784
357,810	920,784	89,382	5,764,576
(100,167)	(89,756)	(50,047)	467,361
253,066	264,000	12,745	1,149,397
(20,000)	-	-	(1,080,923)
-	-	-	1,292
233,066	264,000	12,745	69,766
132,899	174,244	(37,302)	537,127
164,241	600,633	262,162	2,937,528
297,140	774,877	224,860	3,474,655
297,140	-	-	297,140
-	-	-	894,014
-	-	129,860	1,413,624
-	774,877	-	774,877
-	-	95,000	95,000
297,140	774,877	224,860	3,474,655

**Exhibit C**

## City of Independence

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 612,578	1,517,428	2,130,006
Operating disbursements:			
Business type activities	443,888	681,882	1,125,770
Excess of operating receipts over operating disbursements	168,690	835,546	1,004,236
Non-operating receipts (disbursements):			
Interest on investments	63,059	47,303	110,362
Farm rent		2,030	2,030
Debt service	-	(689,305)	(689,305)
Capital projects	(213,467)	(25,977)	(239,444)
Total non-operating receipts (disbursements)	(150,408)	(665,949)	(816,357)
Excess of receipts over disbursements	18,282	169,597	187,879
Other financing sources (uses):			
Operating transfers in	-	20,426	20,426
Operating transfers out	(88,900)	-	(88,900)
Total other financing sources (uses)	(88,900)	20,426	(68,474)
Net change in cash balances	(70,618)	190,023	119,405
Cash balances beginning of year	1,874,021	2,086,558	3,960,579
Cash balances end of year	\$ 1,803,403	2,276,581	4,079,984
<b>Cash Basis Fund Balances</b>			
Reserved for:			
Debt service	\$ -	893,180	893,180
Future capital purposes	-	769,760	769,760
Unreserved	1,803,403	613,641	2,417,044
Total cash basis fund balances	\$ 1,803,403	2,276,581	4,079,984

See notes to financial statements.

City of Independence

Notes to Financial Statements

June 30, 2010

**(1) Summary of Significant Accounting Policies**

The City of Independence is a political subdivision of the State of Iowa located in Buchanan County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Independence has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Independence and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Unit

The following component unit is legally separate from the City, but is so intertwined with the City it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund.

The Independence Fire Department has been incorporated under the provisions of the Iowa Nonprofit Corporation Act for the purpose of supporting the Independence (Volunteer) Fire Department. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Independence Fire Department meets the definition of a component unit which should be blended. The financial activity of the component unit has been blended as a Special Revenue Fund of the City.

Discretely Presented Component Units

The Independence Public Library Foundation, Inc. (Foundation) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable, educational and scientific purposes which benefit or support the Independence Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the

Foundation meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Foundation are substantially for the direct benefit of the City of Independence Library. Condensed financial information of the Foundation is presented in Note 10.

The Independence Light and Power, Telecommunications (Utility), established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Utility is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 11 was prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements for the year ended December 31, 2009 can be obtained from the Utility's administrative office, P.O. Box 754, 400 7<sup>th</sup> Avenue NE, Independence, Iowa 50664.

#### Jointly Governed Organizations

The City participates in several jointly governed organizations for which the City is not financially accountable or the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Buchanan County Assessor's Conference Board, Buchanan County Emergency Management Commission and Buchanan County Joint E911 Service Board.

#### B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax

and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax levied to finance the payment of employee benefits.

The Tax Increment Fund is used to account for tax increment financing collections and repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for receipts from the tax authorized by referendum and used for community betterment and property tax relief.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

#### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the health and social services and culture and recreation functions.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation and sewer revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds/Notes		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 245,000	83,212	395,000	293,475	640,000	376,687
2012	245,000	75,468	405,000	277,850	650,000	353,318
2013	255,000	67,540	350,000	261,817	605,000	329,357
2014	255,000	59,050	360,000	247,708	615,000	306,758
2015	265,000	50,212	375,000	232,967	640,000	283,179
2016-2020	1,045,000	105,160	2,140,000	910,332	3,185,000	1,015,492
2021-2025	-	-	2,640,000	388,603	2,640,000	388,603
Total	\$2,310,000	440,642	6,665,000	2,612,752	8,975,000	3,053,394

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$5,035,000 and \$3,325,000 of sewer revenue bonds issued in September 2003 and May 2005, respectively. Proceeds from the bonds provided financing for improvements to the system and refunding outstanding revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2025. Annual principal and interest payments on the bonds are expected to require less than 83% of net receipts. The total principal and interest remaining to be paid on the bonds is \$9,277,752. For the current year, principal and interest paid and total customer net receipts were \$688,505 and \$835,546, respectively.

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

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the fund.
- (b) The City will provide for the establishment of rates to produce gross revenues at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net revenues equal to at least 125% of the annual payments of principal and interest on the bonds.
- (c) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Sewer Fund for the purpose of making the bond principal and interest payments when due.
- (d) A reserve account should be established and maintained in the amount of \$681,935. Additional monthly transfers equal to 25% of the required transfer to the sinking account shall be made until the required balance has been accumulated. This account is restricted for paying the principal and interest on the bonds if the sinking account balance is insufficient.
- (e) Additional monthly transfers of \$5,000 to a future capital outlay account within the Sewer Fund shall be made until \$175,000 is accumulated. The account is restricted for deficiencies in the sinking or reserve accounts or capital improvements, extensions or repairs to the system.

The City's sewer net revenues for the year ended June 30, 2010 were less than the required 125% of principal and interest due on the bonds.

#### **(4) Pension and Retirement Benefits**

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$125,717, \$113,786 and \$107,869, respectively, equal to the required contributions for each year.

**(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 39 active and 12 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-funded plan with Wellmark. The City pays the single premium for certain retirees under age 65. Although the City has discontinued this benefit, there are 4 retirees who were grandfathered in under the prior policy who are receiving this benefit at June 30, 2010. Under another prior City policy, the City pays the Medicare supplement premium for 8 retirees age 65 or older. These retirees are required to contribute \$50 per month to the City towards the premium.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$392 for single coverage and \$955 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$339,204 and plan members eligible for benefits contributed \$31,820 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, compensatory time and other leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and other leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 92,000
Compensatory	11,000
Holiday	40,000
Casual	<u>6,000</u>
Total	<u>\$149,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

**(7) Development Agreements**

Rebate Agreements

The City has entered into various development agreements to assist in certain urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers.

The total to be paid by the City under the agreements is not to exceed \$895,061. The total amount rebated during the year ended June 30, 2010 was \$230,862. The City has rebated a total of \$637,192 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2010 was \$257,869.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Tax Increment Financing	\$ 244,000
	Local Option Sales Tax	27,500
	Enterprise:	
	Water	88,900
		<u>360,400</u>
Special Revenue:	General	12,745
Fly Iowa	Special Revenue:	
Road Use Tax	Tax Increment Financing	74,200
Employee Benefits	Local Option Sales Tax	184,986
		<u>271,931</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	170,028
	Local Option Sales Tax	83,038
		<u>253,066</u>
Capital Projects	General	244,000
	Debt Service	20,000
		<u>264,000</u>
Enterprise:		
Sewer	General	20,426
Total		<u>\$ 1,169,823</u>

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

**(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The City has a group insurance policy through Wellmark which provides comprehensive medical coverage for eligible employees and, if elected, their spouses and dependents. The City provides for a fully insured benefit through Wellmark with a plan deductible of \$24,000 and \$17,333 for in-network and out-of network, respectively. The City partially self funds the deductibles. The responsibilities for covered charges are as follows:

In-Network					
	First \$250	Next \$3,750	Next \$1,250	Next \$18,750	Thereafter
City	0%	90%	10%	20%	0%
Employee	100%	10%	10%	0%	0%
Wellmark	0%	0%	80%	80%	100%

Out-of-Network					
	First \$250	Next \$3,750	Next \$1,250	Next \$18,750	Thereafter
City	0%	70%	100%	30%	0%
Employee	100%	30%	0%	0%	0%
Wellmark	0%	0%	0%	70%	100%

The City contracts with Group Services to administer the portion of health claims self funded by the City. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Group Services from the Special Revenue, Employee Benefits and Enterprise, Water and Sewer Funds. During the year ended June 30, 2010, the City paid \$108,557 to Group Services for claims and administrative fees.

**(10) Independence Public Library Foundation, Inc.**

The Independence Public Library Foundation, Inc. (Foundation) is incorporated under the Iowa Nonprofit Corporation Act and directly benefits the Independence Public Library. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. The following is the condensed financial information for the Foundation for the year ended December 31, 2009.

Receipts:	
Donations	\$ 226,497
Materials	9,539
Riverside cinema	1,300
Bag sales	385
Summer reading program	2,000
Buchanan County Community Foundation	2,953
Interest	2,732
Total receipts	<u>245,406</u>
Disbursements:	
Loan payment	188,683
Equipment and additional furnishings	829
Concrete	2,527
Acoustics	10,975
Interior and exterior signage	993
Construction	3,500
Materials	7,992
Riverside cinema	596
Summer reading program	1,658
Buchanan County Community Foundation	911
Landscaping	219
Miscellaneous	908
Total disbursements	<u>219,791</u>
Excess of receipts over disbursements	25,615
Balance beginning of year	<u>174,144</u>
Balance end of year	<u><u>\$ 199,759</u></u>

**(11) Independence Light and Power, Telecommunications**

Independence Light and Power, Telecommunications (Utility) provides electric and telecommunications services to the City and its residents. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. The following is the condensed financial information for the Utility for the year ended December 31, 2009.

Condensed Statement of Net Assets	
Assets:	
Current assets	\$ 2,445,520
Capital assets, net of accumulated depreciation	11,405,600
Other	4,560,654
Total assets	<u>18,411,774</u>
Liabilities:	
Current liabilities	1,837,560
Other	4,827,588
Total liabilities	<u>6,665,148</u>
Net Assets:	
Invested in capital assets, net of related debt	6,160,083
Unrestricted	5,586,543
Total net assets	<u>\$ 11,746,626</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets	
Revenues:	
Sales to customers	\$ 9,371,690
Other	78,302
Total revenue	<u>9,449,992</u>
Operating expenses:	
Generation	4,732,612
Distribution	364,636
Customer account	111,143
Administration and general	1,088,791
Cable and internet	1,600,829
Depreciation and amortization	903,147
Benefits to community and city	333,982
Total expenses	<u>9,135,140</u>
Operating income	<u>314,852</u>
Non-operating revenue (expenses):	
Interest income	109,484
Income expense	(211,176)
Other non-operating revenues	18,091
Total non-operating revenues (expenses)	<u>(83,601)</u>
Change in net assets	231,251
Net assets beginning of year, as restated	<u>11,515,375</u>
Total net assets	<u>\$ 11,746,626</u>

**(12) Restatement**

Beginning cash basis net assets for governmental activities was restated to retroactively report component unit and separately maintained account balances, as follows:

Balance June 30, 2009, as previously reported	\$ 2,903,564
Independence Fire Department balance not previously reported	6,848
Fly Iowa balance not previously reported	23,743
Friends of the Library balance not previously reported	<u>3,373</u>
Balance July 1, 2009, as restated	<u><u>\$ 2,937,528</u></u>

**(13) Commitments**

Construction commitments for airport projects at June 30, 2010 totaled \$2,985,553, of which \$1,476,840 has been paid. The balance of \$1,508,713 will be paid as work on the projects progresses.

**(14) Subsequent Event**

In January 2011, the City issued general obligation sewer improvement bonds, not to exceed \$650,000, pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the cost of constructing sewer improvements. The interest rate on the bonds is 2.7% per annum.

**City of Independence**

**Required Supplementary Information**

City of Independence  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 2,038,194	-	-
Tax increment financing	975,591	-	-
Other city tax	613,167	-	-
Licenses and permits	29,581	-	-
Use of money and property	85,804	112,392	-
Intergovernmental	1,657,781	-	-
Charges for service	644,702	2,130,006	-
Special assessments	8,211	-	-
Miscellaneous	178,906	-	21,482
Total receipts	6,231,937	2,242,398	21,482
<b>Disbursements:</b>			
Public safety	1,208,401	-	23,088
Public works	1,046,893	-	-
Health and social services	350	-	-
Culture and recreation	908,038	-	-
Community and economic development	793,123	-	-
General government	529,177	-	-
Debt service	357,810	-	-
Capital projects	920,784	-	-
Business type activities	-	2,054,519	-
Total disbursements	5,764,576	2,054,519	23,088
Excess (deficiency) of receipts over (under) disbursements	467,361	187,879	(1,606)
Other financing sources (uses)	69,766	(68,474)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	537,127	119,405	(1,606)
Balances beginning of year, as restated	2,937,528	3,960,579	6,848
Balances end of year	\$ 3,474,655	4,079,984	5,242

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,038,194	2,026,080	2,026,080	12,114
975,591	961,023	1,035,223	(59,632)
613,167	555,983	555,983	57,184
29,581	69,530	69,530	(39,949)
198,196	233,880	233,880	(35,684)
1,657,781	4,309,292	4,537,665	(2,879,884)
2,774,708	2,738,155	2,738,155	36,553
8,211	20,000	20,000	(11,789)
157,424	162,825	162,825	(5,401)
<u>8,452,853</u>	<u>11,076,768</u>	<u>11,379,341</u>	<u>(2,926,488)</u>
1,185,313	1,284,239	1,290,875	105,562
1,046,893	1,088,850	1,190,359	143,466
350	100	100	(250)
908,038	855,481	870,809	(37,229)
793,123	780,283	833,285	40,162
529,177	556,342	589,692	60,515
357,810	501,506	501,506	143,696
920,784	6,036,200	8,893,270	7,972,486
2,054,519	1,879,672	2,124,992	70,473
<u>7,796,007</u>	<u>12,982,673</u>	<u>16,294,888</u>	<u>8,498,881</u>
656,846	(1,905,905)	(4,915,547)	5,572,393
1,292	2,738,300	1,249,155	(1,247,863)
658,138	832,395	(3,666,392)	4,324,530
<u>6,891,259</u>	<u>6,293,258</u>	<u>6,293,258</u>	<u>598,001</u>
<u>7,549,397</u>	<u>7,125,653</u>	<u>2,626,866</u>	<u>4,922,531</u>

City of Independence

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$3,312,215. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the health and social services and culture and recreation functions.

**Other Supplementary Information**

City of Independence

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

	Independence Fire Department	Fly Iowa
Receipts:		
Miscellaneous	\$ 21,482	13,929
Disbursements:		
Operating:		
Public safety	23,088	-
Culture and recreation	-	50,417
Community and economic development	-	-
Total disbursements	23,088	50,417
Deficiency of receipts under disbursements	(1,606)	(36,488)
Other financing sources:		
Operating transfers in	-	12,745
Net change in cash balances	(1,606)	(23,743)
Cash balances beginning of year, as restated	6,848	23,743
Cash balances end of year	\$ 5,242	-
<b>Cash Basis Fund Balances</b>		
Unreserved:		
Special revenue funds	\$ 5,242	-
Permanent fund	-	-
Total cash basis fund balances	\$ 5,242	-

See accompanying independent auditor's report.

Urban Renewal	Friends of the Library	Permanent Cemetery Perpetual Care	Total
-	3,924	-	39,335
-	-	-	23,088
-	5,577	-	55,994
10,300	-	-	10,300
10,300	5,577	-	89,382
(10,300)	(1,653)	-	(50,047)
-	-	-	12,745
(10,300)	(1,653)	-	(37,302)
133,198	3,373	95,000	262,162
122,898	1,720	95,000	224,860
122,898	1,720	-	129,860
-	-	95,000	95,000
122,898	1,720	95,000	224,860

City of Independence  
 Schedule of Indebtedness  
 Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Refunding, series 2005B	May 1, 2005	2.85-4.30%	\$ 2,565,000
Library, series 2007	Dec 10, 2007	3.20-3.70	700,000
Urban renewal street improvement, series 2009	Apr 1, 2009	2.25-4.10	995,000
Total			
Revenue bonds:			
Sewer revenue improvement and refunding, series 2003	Sep 1, 2003	3.70-4.25%	\$ 5,035,000
Sewer revenue improvement, series 2005A	May 1, 2005	4.40-5.00	3,325,000
Total			

See accompanying independent auditor's report.

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Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
925,000	125,000	800,000	36,275
650,000	60,000	590,000	22,637
995,000	75,000	920,000	37,698
<u>\$ 2,570,000</u>	<u>260,000</u>	<u>2,310,000</u>	<u>96,610</u>
3,720,000	260,000	3,460,000	151,337
3,325,000	120,000	3,205,000	157,168
<u>\$ 7,045,000</u>	<u>380,000</u>	<u>6,665,000</u>	<u>308,505</u>

**City of Independence**

City of Independence  
Bond and Note Maturities  
June 30, 2010

General Obligation Bonds/Notes							
Year Ending June 30,	Refunding Bonds Series 2005B		Library Notes Series 2007		Urban Renewal Street Improvement Bonds Series 2009		Total
	Issued May 1, 2005		Issued Dec 10, 2007		Issued Apr 1, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	3.60%	\$ 100,000	3.30%	\$ 65,000	2.50%	\$ 80,000	245,000
2012	3.75	100,000	3.35	65,000	2.50	80,000	245,000
2013	3.90	100,000	3.40	70,000	2.60	85,000	255,000
2014	4.00	100,000	3.45	70,000	2.85	85,000	255,000
2015	4.05	100,000	3.50	75,000	3.00	90,000	265,000
2016	4.10	100,000	3.60	80,000	3.35	90,000	270,000
2017	4.20	100,000	3.65	80,000	3.70	95,000	275,000
2018	4.30	100,000	3.70	85,000	4.00	100,000	285,000
2019		-		-	4.05	105,000	105,000
2020		-		-	4.10	110,000	110,000
Total		<u>\$ 800,000</u>		<u>\$ 590,000</u>		<u>\$ 920,000</u>	<u>2,310,000</u>

Revenue Bonds					
Year Ending June 30,	Sewer Revenue Improvement and Refunding Series 2003		Sewer Revenue Improvement Series 2005A		Total
	Issued Sept 1, 2003		Issued May 1, 2005		
	Interest Rates	Amount	Interest Rates	Amount	
2011	3.75%	\$ 270,000	4.40%	\$ 125,000	395,000
2012	3.75	275,000	4.40	130,000	405,000
2013	3.80	215,000	4.40	135,000	350,000
2014	3.90	220,000	4.40	140,000	360,000
2015	4.00	230,000	4.40	145,000	375,000
2016	4.125	240,000	4.40	150,000	390,000
2017	4.20	250,000	4.50	160,000	410,000
2018	4.25	260,000	4.60	165,000	425,000
2019	4.25	275,000	4.65	175,000	450,000
2020	4.25	285,000	4.75	180,000	465,000
2021	4.25	300,000	4.80	190,000	490,000
2022	4.25	315,000	4.85	200,000	515,000
2023	4.25	325,000	4.90	210,000	535,000
2024		-	5.00	535,000	535,000
2025		-	5.00	565,000	565,000
Total		<u>\$ 3,460,000</u>		<u>\$ 3,205,000</u>	<u>6,665,000</u>

See accompanying independent auditor's report.

City of Independence  
Schedule of Receipts by Source and Disbursements By Function –  
All Governmental Funds

For the Last Six Years

	2010	2009	2008
Receipts:			
Property tax	\$ 2,038,194	1,928,088	1,949,099
Tax increment financing	975,591	1,045,424	850,023
Other city tax	613,167	95,033	101,238
Licenses and permits	29,581	67,059	33,591
Use of money and property	85,804	72,977	89,531
Intergovernmental	1,657,781	4,918,407	5,624,583
Charges for service	644,702	544,987	540,132
Special assessments	8,211	10,687	14,039
Miscellaneous	178,906	359,361	1,152,369
<b>Total</b>	<b>\$ 6,231,937</b>	<b>9,042,023</b>	<b>10,354,605</b>
Disbursements:			
Operating:			
Public safety	\$ 1,208,401	1,188,864	1,604,746
Public works	1,046,893	1,065,016	944,049
Health and social services	350	-	-
Culture and recreation	908,038	823,228	780,356
Community and economic development	793,123	770,263	411,246
General government	529,177	461,238	460,743
Debt service	357,810	386,846	535,053
Capital projects	920,784	4,719,815	6,346,405
<b>Total</b>	<b>\$ 5,764,576</b>	<b>9,415,270</b>	<b>11,082,598</b>

See accompanying independent auditor's report.

2007	2006	2005
1,801,693	1,680,132	1,772,674
924,900	740,900	1,300,775
22,104	51,308	7,149
34,136	63,706	63,091
95,688	63,329	14,860
1,806,638	1,685,868	1,748,426
622,263	627,273	603,223
33,281	40,707	63,632
360,942	212,944	152,247
<u>5,701,645</u>	<u>5,166,167</u>	<u>5,726,077</u>
1,519,395	1,328,680	1,275,999
910,403	899,601	859,456
-	-	-
715,978	751,392	623,785
592,420	345,010	469,086
433,101	392,797	368,922
544,152	549,959	776,233
1,592,051	621,700	516,989
<u>6,307,500</u>	<u>4,889,139</u>	<u>4,890,470</u>

**Schedule 5**

City of Independence  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2010

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0045-04	\$ 379
Airport Improvement Program	20.106	3-19-0045-05	135,577
Airport Improvement Program	20.106	3-19-0045-07	62,185
Airport Improvement Program	20.106	3-19-0045-08	298,167
Total direct			<u>496,308</u>
Indirect:			
U.S. Department of Education:			
Iowa Department of Transportation:			
ARRA-State Fiscal Stabilization Fund (SFSF)- Government Services, Recovery Act	84.397	S397A090016A	7,239
Total			<u>\$ 503,547</u>

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the aggregate discretely presented component units and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 8, 2011. Our report was modified to include a reference to other auditors. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Another auditor audited the financial statements of the Independence Light and Power, Telecommunications, a discretely presented component unit as described in our report on the City of Independence's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters reported separately by the other auditor.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Independence's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Independence's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Independence's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Independence's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-C-10 through II-J-10 to be significant deficiencies.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Independence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

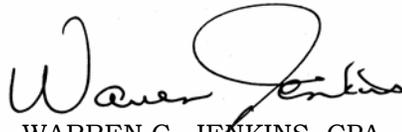
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Independence's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Independence's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Independence and other parties to whom the City of Independence may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Independence during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 8, 2011

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

**City of Independence**



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

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the City of Independence, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Independence's major federal program for the year ended June 30, 2010. The City of Independence's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of the City of Independence's management. Our responsibility is to express an opinion on the City of Independence's compliance based on our audit.

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

In our opinion, the City of Independence complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2010.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Independence and other parties to whom the City of Independence may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 8, 2011

City of Independence  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was:
  - CFDA Number 20.106 – Airport Improvement Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Independence did not qualify as a low-risk auditee.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-10 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Accounting system – performance of all accounting functions and having custody of assets.
- (2) Cash - initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Compensated absences - no review by an independent person.
- (5) Financial reporting – preparation, review and approval.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to provide additional control through review of financial transactions, reconciliations and reports. Such reviews should be performed by independent persons and should be evidenced by initials or signature of the reviewer and the date of the review.

Response – The City Manager and City Clerk have reviewed current operations and have determined further segregation of duties can be implemented. Changes have been made in financial reporting and presenting material to the Council. System reports are generated and presented to the Council once a month. Financial statements and reconciliation reports are generated and presented to the Council once a month. Upon Council approval, the Mayor, City Clerk and Deputy City Clerk sign the reconciliation summary for filing. Monthly bills and receipts are incorporated and made a part of the minutes as this was not past practice. The Mayor signs the minutes and the City Clerk attests her signature. Internal changes are also being implemented. For example, the same individual who prepares receipts is not the same individual who collects and deposits the receipts.

Conclusion – Response accepted.

II-B-10 Financial Reporting – During the audit, material amounts of transfers not properly classified in the financial statements were identified. Adjustments were subsequently made to properly record these amounts in the financial statements.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Recommendation – The City should implement procedures to ensure all transfers are properly classified and recorded in the City’s financial statements.

Response – The City Manager and City Clerk are closely monitoring and reviewing transfers. Past practice allowed for transfers to be made on a monthly basis without prior approval by the Council. Current practice is to record transfers twice a year in December and June with prior approval by the Council.

Conclusion – Response accepted.

II-C-10 Computer Systems – The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- Logging off unattended computers.
- Usage of the internet.
- A disaster recovery plan for the computer system.
- Requiring employees to periodically change passwords.

Recommendation – The City should develop written policies and procedures addressing the above items in order to improve the City’s control over computer-based systems.

Response – The City Manager and City Clerk will research and implement the necessary written policies as recommended.

Conclusion – Response accepted.

II-D-10 Bank Reconciliations – The cash and investment balances on the City’s general ledger balance sheet did not properly reconcile to the bank and investment balances at June 30, 2010. There were outstanding deposits at June 30, 2010 not recorded on the bank reconciliation.

Recommendation – The City should ensure the bank and investment balances reconcile to the general ledger balance sheet and outstanding deposits are recorded correctly on the bank reconciliations.

Response – The City Manager and City Clerk recognize the past reconciliation practice was not sufficient. Reports were not generated from the government software computer system but rather from Excel spreadsheets. The City Clerk and a representative from the City’s financial software provider were able to bring the software up to date and properly reconcile with the bank statements. Computer generated reports are now utilized for balancing and reconciling to bank and investment statements.

Conclusion – Response accepted.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-E-10 Disbursements – Certain payments were made prior to approval by the City Council.

Recommendation – All disbursements should be approved by the City Council prior to payment.

Response – The City Manager and City Clerk are aware all invoices should be approved by the Council. Past practice of submitting invoices monthly has been changed to submitting invoices for Council approval at each meeting on the 2<sup>nd</sup> and 4<sup>th</sup> Monday of each month. Past practice of generating and submitting an Excel spreadsheet for the bill list to Council for approval has been discontinued. A computer generated bill list is printed for a specific date range and submitted to the Council for approval at each meeting.

Conclusion - Response accepted.

II-F-10 Independence Fire Department - All accounting functions are handled by the Treasurer, prenumbered receipts are not issued, paid invoices or other supporting documentation are not properly canceled and accounting records did not facilitate the proper classification of receipts or disbursements.

Recommendation - The Fire Department should segregate accounting duties to the extent possible, require the issuance of prenumbered receipts for all collections, cancel invoices or other supporting documentation and properly classify receipts and disbursements in the accounting records.

Response – The City Manager and City Clerk continue to work with the Fire Chief and Fire Department to improve the accounting practices. Financial records are now provided on a monthly basis for City and Council review.

Conclusion – Response accepted.

II-G-10 Records of Accounts – The Independence Fly Iowa financial activity was maintained in a separate bank account which was not included in the Clerk's records. The account was closed during fiscal year 2010. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response – The City Manager and City Clerk are well aware of Chapter 384.20 of the Code of Iowa and recognize these deficiencies with past practice. We will ensure better accountability, financial and budgetary control of the financial activity and balances of the City.

Conclusion – Response accepted.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

II-H-10 Records of Accounts - The Independence Friends of the Library maintained checking account records separate from the City Clerk's records. The transactions and the resulting balances were not reported to the City Council each month and the transactions were not recorded in the City Clerk's records. Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Additionally, prenumbered receipts were not issued, disbursements were not approved by the Library Board and paid invoices or other supporting documentation were not properly canceled.

Recommendation - Monthly account financial transactions should be included in the City Clerk's monthly financial reports. Internal control could be strengthened and operating efficiency could be increased by integrating the receipts and disbursements with the City's accounting records in the City Clerk's office.

The Library should require the issuance of prenumbered receipts for all collections, disbursements should be approved by the Library Board prior to the actual disbursement and all invoices or other supporting documentation should be canceled to help prevent duplicate payments.

Response - The City Manager and City Clerk continue to work with the Library to improve the accounting practices and to submit the financial records for the Friends of the Library on a monthly basis and incorporate with the City's financial process including review by the City Council.

Conclusion - Response accepted.

II-I-10 Receipts and Timely Deposits - The Library deposits its receipts directly into the City's checking account instead of remitting the receipts to City Hall. Also, deposits by the Library are not made timely.

Recommendation - The Library should remit its receipts to City Hall timely for independent verification and deposit by City staff.

Response - The City Manager and City Clerk have already spoken with the Library about its receipts and deposits. The practice of bringing in receipts timely has already been implemented. City staff in turn issue receipts for the revenues and deposits are prepared and made timely.

Conclusion - Response accepted.

II-J-10 Independence Public Library Foundation - All accounting functions are handled by one or two individuals without adequate compensating controls. In addition, prenumbered receipts are not issued for collections.

Recommendation - The Library Foundation should segregate duties to the extent possible and require the issuance of prenumbered receipts for all collections.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Response – The City Manager and City Clerk will work with the Library to implement segregation of duties to the extent possible as well as encourage the use of prenumbered receipts.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Independence  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2010

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

No material weaknesses in internal control over the major program were noted.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the health and social services and culture and recreation functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The City Manager and City Clerk are well aware of Chapter 384.20 of the Code of Iowa and will review and monitor the City budget and as deemed necessary will prepare and timely file amendments per Iowa Code.

Conclusion – Response accepted.

IV-B-10 Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Okoboji Grill	Meals	\$ 28
Casey's	Refreshments for meetings	24
Visa	Late charge	37
Walmart	Coffee	25
Bill's Pizza & Smokehouse	Lunch for Mayor, Council and City Manager	83

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

In addition, certain disbursements we believe do not follow the City’s credit card and travel policies were noted. The former City Manager’s Employment Contract states, “Employer shall provide City Manager a monthly vehicle allowance of \$250 for use of his personal vehicle. Addition mileage reimbursement may be paid for travel outside of Iowa or extraordinary additional amounts of travel within the state, subject to Council approval.” The City Council subsequently approved an increase in the vehicle allowance from \$250 to \$500 per month.

Eleven instances of the former City Manager using the City’s Visa card for fuel purchases totaling \$700 without evidence of City Council approval were noted.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation. In addition, the City should consult legal counsel about the fuel purchases made by the former City Manager.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Response – These disbursements will be reviewed and documented as to their purpose. More stringent policies have been implemented regarding disbursements and the City does have a written policy regarding reimbursement of meals, lodging, and travel expenses. The City Manager and City Clerk will discuss this finding with the City Attorney to determine further action.

Conclusion – Response accepted.

IV-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-10 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Tim Donnelly, Street Department, brother owns Donnelly Auction	Tractor, per bid	\$ 59,000
Daniel Eschen, Water Department, father owns NAPA Auto Parts	Parts and supplies	10,724
Roger Kremer, Fire Department, owner of Kremer's Vending Co.	Resale items for civic center	896

In accordance with Chapter 362.5(3)(d) of the Code of Iowa, the transaction with Donnelly Auction does not appear to represent a conflict of interest since it was entered into through competitive bidding. In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with Kremer’s Vending Co. does not appear to represent a conflict of interest since the total transactions are less than \$1,500 during the fiscal year. The transactions with NAPA Auto Parts may represent a conflict of interest since the total transactions were greater than \$1,500 during the fiscal year.

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

Response – My initial response is this should not be considered a conflict as Daniel Eschen has no authority regarding where items are purchased. Daniel Eschen is a fairly new employee to the City so we could look back through records to see if the amount of sales has significantly increased since his hire, but I don’t believe this to be the case. Regardless, we will follow up with legal counsel on this issue.

Conclusion – Response accepted.

IV-E-10 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not, except interfund transfers were not always approved by the City Council in the minutes record.

Recommendation – All transfers should be approved by the City Council and documented in the minutes record.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Response – The City Manager and City Clerk recognize this deficiency and have already implemented the process for transfers to be presented and approved by the Council via a resolution.

Conclusion – Response accepted.

- IV-G-10 Deposits and Investments - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – The City Clerk has researched and obtained sample written investment policies. The policy will be reviewed, adapted to the City’s needs and submitted to the Council for approval in the near future.

Conclusion – Response accepted.

- IV-H-10 Revenue Bonds – The provisions of the sewer revenue bonds require sewer user rates be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the bonds falling due in the same year.

During the year ended June 30, 2010, the City was not in compliance with the net revenue requirement for the sewer revenue bonds as required by the bond resolution.

Recommendation – The City should ensure sewer user rates are established at a level which produces net revenues of 125% of the annual principal and interest payments on the bonds.

Response – The City Manager and City Clerk reviewed the financial statements regarding the Sewer Revenue bonds and it appears that the City user charges generate funding to cover approximately 110% of the Sewer Revenue Bond debt requirements. We will meet with City Council to discuss a sewer rate adjustment which would generate sufficient revenue to come into compliance with the 125% requirement.

Conclusion – Response accepted.

- IV-I-10 Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of taxes to generate dollars to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Except for assistance for low and moderate income family housing discussed in Chapter 403.22 of the Code of Iowa, indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

The City's tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed November 24, 2008 certified \$961,933 of TIF debt outstanding for an internal loan to the Special Revenue, Tax Increment Financing Fund. Resolution No. 36-08, dated November 24, 2008, itemized eight urban renewal projects located within the urban renewal area and the immediate costs needed for the projects totaling \$961,933. No contracts or other documentation was available to support the amounts certified for the following projects listed in the resolution. It appears these are estimated amounts the City anticipates needing in the future. The City has approved and certified similar internal loans in previous years.

- Urban renewal/community marketing initiatives \$ 10,000
- Urban renewal project administration and assistance 150,000
- Economic development TIF projects 194,250
- Commercial corridor improvements 100,000

The internal loan included urban renewal street projects of \$252,143. During the year ended June 30, 2010, the city transferred \$155,000 and \$74,200 to the General Fund and the Special Revenue, Road Use Tax Fund, respectively, from the Special Revenue, Tax Increment Financing Fund to reimburse for street projects. The amount certified exceeded the transfers from the Special Revenue, Tax Increment Financing Fund by \$22,943.

During the year ended June 30, 2010, the City transferred \$170,028 from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund, \$57,331 in excess of the \$112,697 needed to make the principal and interest payments during the year on the Series 2009 general obligation urban renewal street improvement bonds.

The City's prior TIF certifications included amounts certified for rebate agreements which included provisions requiring the City to annually appropriate the amounts to be paid each year on the agreements. This annual appropriation language limits the City's obligation to the amount appropriated each year. However, the City certified the entire obligation under each agreement in the initial year of certification. In addition, the following excess amounts were certified above the amounts required under the rebate agreements.

<u>Date Approved</u>	<u>Developer</u>	<u>Excess Amount</u>
4/26/2004	Hildebrant & Associates	\$67,464
12/27/2005	Fleming Concrete Pumping of Iowa	2,965

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City's TIF certifications, including the amount of TIF debt to be decertified, if any, the propriety of the use of tax increment financing receipts to pay project costs rather than debt incurred and reimbursements needed to the Special Revenue, Tax Increment Financing Fund for excess amounts transferred to other funds.

In addition, the City should ensure TIF debt certifications for rebate agreements are made annually since the agreements include an annual appropriate clause.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Response – The City Manager and City Clerk have reviewed all of FY10 uses of TIF and have compared the certified amounts to the actual amount paid. There does appear to be a substantial amount of funds certified for TIF use by the previous administration which the current administration was not aware exactly how to utilize those funds. It appears a substantial amount of these funds were to be used in association with the Monsanto Seed Corn production facility which was subsequently put on hold. There are other instances of smaller projects where funding appeared to be certified in anticipation of use and the use was less than the amount certified. The City Manager and City Clerk have been reviewing all of the TIF operations from the last several years to get a grasp on how it was being used. Unfortunately the previous administration did not appear to use a TIF bonding attorney which likely could have avoided many of these problems. Since the new administration has come on board we have worked with TIF legal counsel in regards to all of our bonding and TIF bonding needs. We plan to follow up with them to ensure the proper steps are taken to get this straightened out. I anticipate the City will be certifying less TIF dollars this fall in order to utilize existing TIF fund balances which were generated by over certification in the past.

Conclusion – Response acknowledged. The City should also decertify any amounts for debt previously certified which are no longer City debt.

- IV-J-10 Vehicle Allowance – A \$500 per month vehicle allowance paid to the former City Manager was not paid through payroll and, therefore, was not subject to withholdings or reported as wages.

Recommendation – The City should consult the Internal Revenue Service regarding the disposition of this matter.

Response – The City Manager and City Clerk will follow up with City Attorney and the IRS to discuss further action.

Conclusion – Response accepted.

- IV-K-10 City Manager Compensation – The Council approved a salary of \$74,000 for fiscal year 2005 and a \$2,400 cost of living adjustment during fiscal year 2006 to bring the approved annual salary of the former City Manager to \$76,400 for fiscal year 2006. Salary increases of 9.626%, 7.746% and 7.609% were provided to the former City Manager in fiscal years 2007, 2008 and 2009, respectively. There was no increase in his salary for fiscal year 2010. Approval of the salary increases for fiscal years 2007 through 2009 was not included in the City Council minutes. In addition, the former City Manager received an additional payroll check for \$3,076.80, dated February 15, 2008, for which we were unable to determine the propriety since approval was not included in the City Council minutes. As such, we are unable to determine the propriety of the compensation paid to the former City Manager for fiscal years 2007 through 2010.

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

Response – The City Manager and City Clerk will review this matter with the City Attorney to develop a course of action.

Conclusion – Response accepted.

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City of Independence

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Billie Jo Heth, Senior Auditor II  
Kelly L. Hilton, Staff Auditor  
Casey L. Johnson, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State