



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

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Des Moines, Iowa 50319-0004

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David A. Vaudt, CPA  
Auditor of State

NEWS RELEASE

FOR RELEASE

May 3, 2012

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 \$9,956,937 for the year ended June 30, 2011, a 17% increase over the prior year. The receipts included \$2,036,251 in property tax, \$1,137,199 from tax increment financing, \$2,922,861 from charges for service, \$754,488 from operating grants, contributions and restricted interest, \$1,532,765 from capital grants, contributions and restricted interest, \$522,740 from local option sales tax, \$114,316 from unrestricted interest on investments, \$645,138 from bond proceeds and \$291,179 from other general receipts.

Disbursements for the year totaled \$8,671,611, an 11% increase over the prior year, and included \$1,763,135 for capital projects, \$1,533,732 for public safety and \$1,321,296 for public works. Also, disbursements for business type activities totaled \$2,048,141.

The significant increase in receipts and disbursements is due primarily to airport grant receipts and related airport capital project disbursements.

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/1120-0076-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, 2011**

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## City of Independence

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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
Richard Engen	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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David A. Vaudt, CPA

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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 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, 2011, 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 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 12 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 12, the City has chosen to present condensed financial information for 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 September 28, 2011, 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 discretely presented component units and the aggregate remaining fund information of the City of Independence as of June 30, 2011, 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 April 23, 2012 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Additionally, 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

April 23, 2012

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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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 14%, or \$859,500, from fiscal year 2010 to fiscal year 2011. Capital grants, contributions and restricted interest increased \$701,745 due to funding for airport and street projects in the current year and tax increment financing increased \$161,608.
- Disbursements for governmental activities increased 15%, or \$858,894, from fiscal year 2010 to fiscal year 2011. Capital projects disbursements increased \$842,351 due to the completion of airport parallel taxiway construction and hangar extension projects during fiscal year 2011.
- The City's total cash basis net assets increased 17%, or \$1,285,326, from June 30, 2010 to June 30, 2011. Of this amount, the cash basis net assets of the governmental activities increased \$519,259 and the cash basis net assets of the business type activities increased \$766,067.

### 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 financial 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, health and social services, 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.

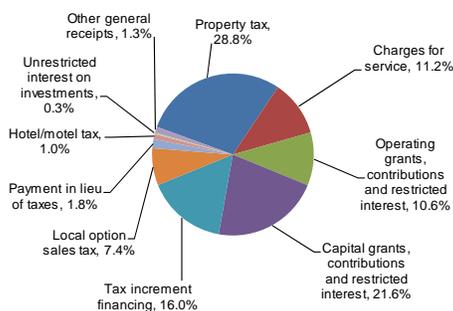
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

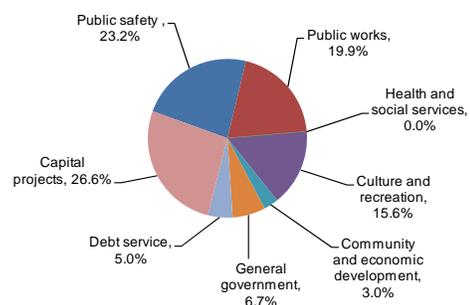
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$3,474,655 to \$3,993,914. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

	Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30,	
	2011	2010
<b>Receipts:</b>		
Program receipts:		
Charges for service	\$ 796,394	760,545
Operating grants, contributions and restricted interest	754,488	755,531
Capital grants, contributions and restricted interest	1,532,765	831,020
General receipts:		
Property tax	2,036,251	2,042,757
Tax increment financing	1,137,199	975,591
Local option sales tax	522,740	499,632
Hotel/motel tax	74,449	79,915
Payment in lieu of taxes	130,000	156,000
Unrestricted interest on investments	24,760	47,796
Other general receipts	83,683	84,442
<b>Total receipts</b>	<b>7,092,729</b>	<b>6,233,229</b>
<b>Disbursements:</b>		
Public safety	1,533,732	1,208,401
Public works	1,321,296	1,046,893
Health and social services	1,000	350
Culture and recreation	1,033,014	908,038
Community and economic development	199,882	793,123
General government	441,649	529,177
Debt service	329,762	357,810
Capital projects	1,763,135	920,784
<b>Total disbursements</b>	<b>6,623,470</b>	<b>5,764,576</b>
Change in cash basis net assets before transfers	469,259	468,653
Operating transfers, net	50,000	68,474
<b>Increase in cash basis net assets</b>	<b>519,259</b>	<b>537,127</b>
Cash basis net assets beginning of year	3,474,655	2,937,528
<b>Cash basis net assets end of year</b>	<b>\$ 3,993,914</b>	<b>3,474,655</b>

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 14%, or \$859,500. The total cost of all programs and services increased \$858,894, or 15%, with no new programs added this year. The increase in receipts was primarily the result of increases in capital grants. The increase in disbursements was primarily the result of an increase in capital projects disbursements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 617,183	612,578
Sewer	1,509,284	1,517,428
General receipts:		
Unrestricted interest on investments	89,556	110,362
Bond proceeds	645,138	-
Other general receipts	3,047	2,030
Total receipts	<u>2,864,208</u>	<u>2,242,398</u>
Disbursements:		
Water	529,149	657,355
Sewer	1,518,992	1,397,164
Total disbursements	<u>2,048,141</u>	<u>2,054,519</u>
Change in cash basis net assets before transfers	816,067	187,879
Operating transfers, net	<u>(50,000)</u>	<u>(68,474)</u>
Increase in cash basis net assets	766,067	119,405
Cash basis net assets beginning of year	<u>4,079,984</u>	<u>3,960,579</u>
Cash basis net assets end of year	<u>\$ 4,846,051</u>	<u>4,079,984</u>

Total business type activities receipts increased \$621,810, or 27.7%, primarily due to receiving bond proceeds of \$645,138. Total disbursements for the fiscal year decreased less than 1%, or \$6,378. The cash balance increased \$766,067 over the prior year, primarily due to \$552,759 of unspent bond proceeds held at June 30, 2011.

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

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$3,993,914, an increase of \$519,259 compared to last year's total of \$3,474,655. 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 decreased \$80,017 from the prior year to \$813,997. The decrease is attributable to an overall increase in receipts of \$52,074 offset by an increase in disbursements of \$293,568. Receipts increased primarily due to an increase in charges for service. Public safety and culture and recreation disbursements increased from the prior year. The increase in disbursements is primarily due to the reporting of community betterment disbursements in the General Fund rather than the Special Revenue, Local Option Sales Tax Fund where they were reported in prior years. Beginning in fiscal year 2011, the City makes a transfer from the Special Revenue, Local Option Sales Tax Fund to the appropriate fund from which community betterment disbursements are paid.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$44,188 to \$(19,535) during the fiscal year. This decrease was primarily due to an increase in public works disbursements of \$233,037 and an increase in road use tax of \$12,067. The City plans on eliminating the deficit balance during fiscal year 2012.

- The Special Revenue, Employee Benefits Fund cash balance decreased \$146,274 from \$523,547 to \$377,273 during the fiscal year. The decrease is primarily attributable to an increase in disbursements of \$211,111, from \$481,201 to \$692,312.
- The Special Revenue, Tax Increment Financing Fund cash balance increased \$668,640 during the fiscal year. Receipts increased while disbursements and transfers out decreased during the fiscal year. Receipts included tax increment financing collections of \$600,000 for commercial corridor improvements.
- 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 zero, a decrease of \$405,923 from the prior year. Receipts and disbursements decreased \$83,138 and \$326,259 from the prior year, respectively. Transfers out to other funds increased \$633,139. The decrease in disbursements is due to the reporting of community betterment disbursements in other funds. Beginning in fiscal year 2011, the City makes a transfer from the Local Option Sales Tax Fund to the appropriate fund from which community betterment disbursements are paid.
- The Debt Service Fund cash balance increased \$98,780 to \$395,920 at the end of the fiscal year. This increase was due to transfers received from other funds.
- The Capital Projects Fund cash balance increased \$425,315 to \$1,200,192 at the end of the fiscal year. The City spent a total of \$1,763,135 on construction projects in the current year, compared to \$920,784 in the prior year. Intergovernmental receipts increased \$701,746 over the prior year, primarily due to federal grants received for the airport project in fiscal year 2011.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance increased from \$1,803,403 to \$1,902,662. Total receipts increased \$2,771 and disbursements decreased \$128,206.
- The Enterprise, Sewer Fund cash balance increased \$666,808 to \$2,943,389. Total receipts increased \$619,039, due primarily to receiving bond proceeds of \$645,138, while disbursements increased \$121,828.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on May 23, 2011 and resulted in a decrease of \$978,883 in disbursements, related primarily to capital project disbursements for airport improvements and business type activities disbursements. The amendment also decreased revenues \$963,353, related primarily to a reduction of tax increment financing collections due to an error in the original budget.

The City's receipts were \$430,130 less than budgeted. This was primarily due to the City receiving less in intergovernmental receipts for the airport project than budgeted.

Total disbursements were \$1,629,689 less than the amended budget. Actual disbursements for the capital projects function were \$1,391,791 less than the amended budget. This was primarily due to anticipating more disbursements for airport construction and commercial corridor improvements.

Disbursements exceeded the amounts budgeted in the debt service and business type activities functions during the current year. Additionally, disbursements exceeded the amounts budgeted in the public works and health and social services functions prior to the budget amendment on May 23, 2011.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$2,715,000 in general obligation bonds/notes outstanding, compared to \$2,310,000 last year. The City also had \$6,270,000 in sewer revenue bonds outstanding, compared to \$6,665,000 last year. Debt increased \$62,418 as a result of the issuance of \$650,000 of general obligation bonds and entering into a capital lease purchase agreement during the year, offset by current year redemptions.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation bonds/notes	\$ 2,715,000	2,310,000
Sewer revenue bonds	6,270,000	6,665,000
Capital lease purchase agreement	52,418	-
Total	\$ 9,037,418	8,975,000

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 \$2,816,295 is significantly below its constitutional debt limit of approximately \$15,338,000.

## 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 2012 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City averaged 6.7% for fiscal year 2011. This compares with the State's unemployment rate of 6.3%.

These factors were taken into account when adopting the budget for fiscal year 2012. Property tax receipts available for appropriation in the fiscal year 2012 operating budget are \$116,355 higher than the final fiscal year 2011 budget of \$2,061,735. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease \$2,112,089 from the final fiscal year 2011 budget to \$8,171,148. The City has added no major new programs or initiatives.

If these estimates are realized, the City's June 30, 2012 budgeted cash balance is expected to increase approximately \$249,000 by the close of fiscal year 2012.

## 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, 2011

	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	\$ 1,533,732	19,787	71,160	-
Public works	1,321,296	495,759	585,951	-
Health and social services	1,000	-	-	-
Culture and recreation	1,033,014	207,906	59,113	-
Community and economic development	199,882	-	-	-
General government	441,649	66,208	20,039	-
Debt service	329,762	6,734	18,225	-
Capital projects	1,763,135	-	-	1,532,765
Total governmental activities	6,623,470	796,394	754,488	1,532,765
Business type activities:				
Water	529,149	617,183	-	-
Sewer	1,518,992	1,509,284	-	-
Total business type activities	2,048,141	2,126,467	-	-
Total	\$ 8,671,611	2,922,861	754,488	1,532,765
<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				
Bond proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Employee benefits				
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
(1,442,785)	-	(1,442,785)
(239,586)	-	(239,586)
(1,000)	-	(1,000)
(765,995)	-	(765,995)
(199,882)	-	(199,882)
(355,402)	-	(355,402)
(304,803)	-	(304,803)
(230,370)	-	(230,370)
(3,539,823)	-	(3,539,823)
-	88,034	88,034
-	(9,708)	(9,708)
-	78,326	78,326
(3,539,823)	78,326	(3,461,497)
1,795,468	-	1,795,468
240,783	-	240,783
1,137,199	-	1,137,199
522,740	-	522,740
74,449	-	74,449
130,000	-	130,000
24,760	89,556	114,316
-	645,138	645,138
83,683	3,047	86,730
50,000	(50,000)	-
4,059,082	687,741	4,746,823
519,259	766,067	1,285,326
3,474,655	4,079,984	7,554,639
\$ 3,993,914	4,846,051	8,839,965
\$ 95,000	-	95,000
377,273	-	377,273
998,281	-	998,281
395,920	736,368	1,132,288
1,200,192	727,759	1,927,951
132,786	-	132,786
794,462	3,381,924	4,176,386
\$ 3,993,914	4,846,051	8,839,965

City of Independence

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

As of and for the year ended June 30, 2011

	Special Revenue			
	General	Road Use Tax	Employee Benefits	
<b>Receipts:</b>				
Property tax	\$1,451,080	-	338,052	-
Tax increment financing	-	-	-	1,137,199
Other city tax	80,785	-	-	-
Licenses and permits	59,786	-	-	-
Use of money and property	75,411	-	-	18,225
Intergovernmental	249,029	585,071	-	-
Charges for service	650,042	-	-	-
Special assessments	-	-	-	-
Miscellaneous	95,802	2,180	11,959	-
Total receipts	<u>2,661,935</u>	<u>587,251</u>	<u>350,011</u>	<u>1,155,424</u>
<b>Disbursements:</b>				
Operating:				
Public safety	1,106,533	-	409,856	-
Public works	485,673	835,623	-	-
Health and social services	1,000	-	-	-
Culture and recreation	876,552	-	153,295	-
Community and economic development	84,123	-	-	115,759
General government	312,488	-	129,161	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	<u>2,866,369</u>	<u>835,623</u>	<u>692,312</u>	<u>115,759</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(204,434)</u>	<u>(248,372)</u>	<u>(342,301)</u>	<u>1,039,665</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	782,636	204,184	196,027	15,000
Operating transfers out	(669,868)	-	-	(386,025)
Sale of capital assets	11,649	-	-	-
Total other financing sources (uses)	<u>124,417</u>	<u>204,184</u>	<u>196,027</u>	<u>(371,025)</u>
Net change in cash balances	(80,017)	(44,188)	(146,274)	668,640
Cash balances beginning of year	894,014	24,653	523,547	329,641
Cash balances end of year	<u>\$ 813,997</u>	<u>(19,535)</u>	<u>377,273</u>	<u>998,281</u>
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Employee benefits	-	-	377,273	-
Urban renewal purposes	-	-	-	998,281
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Assigned for the library	6,103	-	-	-
Unassigned	807,894	(19,535)	-	-
Total cash basis fund balances	<u>\$ 813,997</u>	<u>(19,535)</u>	<u>377,273</u>	<u>998,281</u>

See notes to financial statements.

Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
-	240,783	-	-	2,029,915
-	-	-	-	1,137,199
522,740	-	-	-	603,525
-	-	-	-	59,786
-	-	-	-	93,636
-	-	1,532,766	-	2,366,866
-	-	-	-	650,042
-	6,734	-	-	6,734
-	-	-	23,436	133,377
522,740	247,517	1,532,766	23,436	7,081,080
-	-	-	17,343	1,533,732
-	-	-	-	1,321,296
-	-	-	-	1,000
-	-	-	3,167	1,033,014
-	-	-	-	199,882
-	-	-	-	441,649
-	329,762	-	-	329,762
-	-	1,763,135	-	1,763,135
-	329,762	1,763,135	20,510	6,623,470
522,740	(82,245)	(230,369)	2,926	457,610
-	196,025	655,684	-	2,049,556
(928,663)	(15,000)	-	-	(1,999,556)
-	-	-	-	11,649
(928,663)	181,025	655,684	-	61,649
(405,923)	98,780	425,315	2,926	519,259
405,923	297,140	774,877	224,860	3,474,655
-	395,920	1,200,192	227,786	3,993,914
-	-	-	95,000	95,000
-	-	-	-	377,273
-	-	-	-	998,281
-	395,920	-	-	395,920
-	-	1,200,192	-	1,200,192
-	-	-	132,786	132,786
-	-	-	-	6,103
-	-	-	-	788,359
-	395,920	1,200,192	227,786	3,993,914

**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, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 616,452	1,509,284	2,125,736
Miscellaneous	731	-	731
	<u>617,183</u>	<u>1,509,284</u>	<u>2,126,467</u>
Operating disbursements:			
Business type activities	<u>393,937</u>	<u>689,166</u>	<u>1,083,103</u>
Excess of operating receipts over operating disbursements	<u>223,246</u>	<u>820,118</u>	<u>1,043,364</u>
Non-operating receipts (disbursements):			
Interest on investments	61,225	28,331	89,556
Farm rent	-	3,047	3,047
General obligation bond proceeds, net of \$4,862 discount	-	645,138	645,138
Debt service	-	(689,375)	(689,375)
Capital projects	(135,212)	(140,451)	(275,663)
Total non-operating receipts (disbursements)	<u>(73,987)</u>	<u>(153,310)</u>	<u>(227,297)</u>
Excess of receipts over disbursements	149,259	666,808	816,067
Operating transfers out	<u>(50,000)</u>	<u>-</u>	<u>(50,000)</u>
Net change in cash balances	99,259	666,808	766,067
Cash balances beginning of year	1,803,403	2,276,581	4,079,984
Cash balances end of year	<u>\$ 1,902,662</u>	<u>2,943,389</u>	<u>4,846,051</u>
<b>Cash Basis Fund Balances</b>			
Restricted for:			
Debt service	\$ -	736,368	736,368
Future capital purposes	-	727,759	727,759
Unrestricted	<u>1,902,662</u>	<u>1,479,262</u>	<u>3,381,924</u>
Total cash basis fund balances	<u>\$ 1,902,662</u>	<u>2,943,389</u>	<u>4,846,051</u>

See notes to financial statements.

City of Independence

Notes to Financial Statements

June 30, 2011

**(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 11.

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 12 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, 2010 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefits Fund is used to account for property tax receipts used for 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 property tax and other receipts to be used 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 Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debt service and business type activities functions. In addition, disbursements exceeded the amounts budgeted in the public works and health and social services functions prior to the May 23, 2011 budget amendment.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 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) Long-Term Debt**

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
2012	\$ 300,000	93,928	405,000	277,850	705,000	371,778
2013	315,000	81,533	350,000	261,817	665,000	343,350
2014	315,000	72,442	360,000	247,708	675,000	320,150
2015	325,000	62,615	375,000	232,967	700,000	295,582
2016	335,000	52,250	390,000	217,387	725,000	269,637
2017-2021	1,125,000	96,218	2,240,000	817,005	3,365,000	913,223
2022-2025	-	-	2,150,000	264,543	2,150,000	264,543
Total	\$2,715,000	458,986	6,270,000	2,319,277	8,985,000	2,778,263

Revenue Bonds

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 84% of net receipts. The total principal and interest remaining to be paid on the bonds is \$8,589,277. For the current year, principal and interest paid and total customer net receipts were \$688,475 and \$820,118, 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 receipts at least sufficient to pay the expenses of operation and maintenance of the utility and to have a balance of net receipts 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 receipts for the year ended June 30, 2011 were less than the required 125% of principal and interest due on the bonds.

#### Capital Lease Purchase Agreement

On June 28, 2011, the City entered into a capital lease purchase agreement for computer software for \$52,418. The agreement requires 60 monthly payments of \$991, including interest at 5% per annum. The first and last monthly payments totaling \$1,982 were due at the signing of the lease but were not paid by the City until July 2011. The remaining 58 monthly payments begin on August 5, 2011. During the year ended June 30, 2011, the City made no payments under the agreement, leaving an outstanding balance of \$52,418.

#### **(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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010 and 2009 were \$150,825, \$125,717 and \$113,786, 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 38 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, 2011. Under another prior City policy, the City pays the Medicare supplement premium for 8 retirees age 65 or older. These retirees were required to contribute \$50 per month towards the premium through December 31, 2010. After January 1, 2011, the retirees are required to contribute \$80 per month 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, 2011, the City contributed \$415,419 and plan members eligible for benefits contributed \$35,940 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, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$107,000
Compensatory	11,000
Holiday	41,000
Casual	7,000
Sick leave	<u>3,000</u>
Total	<u>\$169,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

**(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, 2011 was \$56,714. The City has rebated a total of \$693,906 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2011 was \$201,155.

These agreements are not a general obligation of the City. However, the agreements are subject to the constitutional debt limitation of the City. Since the development agreements are subject to annual appropriation by the City Council, only the \$48,877 which has been appropriated at June 30, 2011 is used in the debt limitation calculation.

**(8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 732,636
	Enterprise:	
	Water	50,000
Special Revenue:	General	143,375
	Road Use Tax	
Employee Benefits	Special Revenue:	
	Tax Increment Financing	60,809
	Local Option Sales Tax	196,027
Tax Increment Financing	Debt Service	15,000
	General	85,000
Debt Service	Special Revenue:	
	Tax Increment Financing	111,025
	General	441,493
Capital Projects	Special Revenue:	
	Tax Increment Financing	<u>214,191</u>
Total		<u>\$ 2,049,556</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 a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$74,889.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth

year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers compensation in the amount of \$1,000,000. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Employee Health Insurance Plan**

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

Out-of-Network					
	First	Next	Next	Next	Thereafter
	\$250	\$1,667	\$2,083	\$13,333	
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, 2011, the City paid \$123,430 to Group Services for claims and administrative fees.

**(11) 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, 2010.

Receipts:	
Capital donations	\$ 58,273
Material donations	11,641
Riverside cinema	1,396
Bag sales	149
Summer reading program	2,609
Buchanan County Community Foundation	5,498
Programming	894
Spellbound II Fundraiser	13,317
Eagle Scout Project	200
Interest	1,846
Miscellaneous	2,819
Total receipts	<u>98,642</u>
Disbursements:	
Equipment and additional furnishings	1,183
Outdoor furniture	5,999
Sculpture	2,800
Interior and exterior signage	755
Electrical	410
Bank fees	56
Landscaping	2,356
Capital contribution to City	15,000
Materials	6,207
Riverside cinema	1,321
Summer reading program	2,568
Buchanan County Community Foundation	8,539
Medical materials	973
Programming	2,910
Spellbound II Fundraiser	1,044
Eagle Scout Project	473
Miscellaneous	3,913
Total disbursements	<u>56,507</u>
Excess of receipts over disbursements	42,135
Balance beginning of year	<u>199,759</u>
Balance end of year	<u>\$ 241,894</u>

**(12) 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, 2010.

<u>Condensed Statement of Net Assets</u>	
Assets:	
Current assets	\$ 2,560,976
Capital assets, net of accumulated depreciation	10,991,629
Other	5,027,910
Total assets	<u>18,580,515</u>
Liabilities:	
Current liabilities	1,916,521
Other	4,701,319
Total liabilities	<u>6,617,840</u>
Net assets:	
Unrestricted, board designated funds	6,429,253
Unrestricted	5,533,422
Total net assets	<u>\$ 11,962,675</u>

<u>Condensed Statement of Revenues, Expenses and Changes in Net Assets</u>	
Revenues:	
Sales to customers	\$ 10,294,551
Other	96,935
Total revenue	<u>10,391,486</u>
Operating expenses:	
Generation	5,532,523
Distribution	398,701
Customer account	127,890
Administration and general	1,127,077
Cable and internet	1,643,184
Depreciation and amortization	919,754
Benefits to community and city	337,751
Total expenses	<u>10,086,880</u>
Operating income	<u>304,606</u>
Non-operating revenue (expenses):	
Interest income	69,174
Income expense	(193,921)
Other non-operating revenues	36,190
Total non-operating revenues (expenses)	<u>(88,557)</u>
Change in net assets	216,049
Net assets beginning of year	<u>11,746,626</u>
Total net assets	<u>\$ 11,962,675</u>

**(13) Deficit Balance**

At June 30, 2011, the Special Revenue, Road Use Tax Fund had a deficit balance of \$19,535. The City Plans to eliminate the deficit balance during fiscal year 2012.

**(14) Commitments**

Construction commitments for a trunk sewer line replacement project at June 30, 2011 totaled \$451,773, of which \$63,737 has been paid. The balance of \$388,036 will be paid as work on the project progresses.

**(15) Subsequent Events**

Road Use Tax Revenue Loan Agreement

On July 13, 2011, the City entered into a Road Use Tax Revenue Loan agreement with WPPI Energy for \$78,213. The agreement was entered into for the purpose of paying the costs associated with the installation of high efficiency street lighting and is payable from future road use tax revenues. The agreement requires the City to repay \$652 each month beginning on August 1, 2011 with a final payment due on July 28, 2021.

RISE Grant

During the year ended June 30, 2010, the City received \$282,000 pursuant to an agreement with the Iowa Department of Transportation for a Revitalize Iowa's Sound Economy (RISE) Project. The project consisted of the paving of a street near the proposed Monsanto production facility. The agreement required the creation of 47 new FTE jobs at the Monsanto plant within two years of construction of the street project. The construction of the Monsanto production facility has been delayed. In March 2012, the City certified 10 new FTE jobs had been created by Monsanto. Pursuant to the agreement, failure to create the required jobs is considered a default under the agreement. As a result, the City anticipates the \$282,000 will be required to be repaid to the State. Monsanto has agreed to reimburse the City for any required repayment.

**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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
<b>Receipts:</b>			
Property tax	\$ 2,029,915	-	-
Tax increment financing	1,137,199	-	-
Other city tax	603,525	-	-
Licenses and permits	59,786	-	-
Use of money and property	93,636	92,603	-
Intergovernmental	2,366,866	-	-
Charges for service	650,042	2,125,736	-
Special assessments	6,734	-	-
Miscellaneous	133,377	731	19,527
Total receipts	<u>7,081,080</u>	<u>2,219,070</u>	<u>19,527</u>
<b>Disbursements:</b>			
Public safety	1,533,732	-	17,343
Public works	1,321,296	-	-
Health and social services	1,000	-	-
Culture and recreation	1,033,014	-	-
Community and economic development	199,882	-	-
General government	441,649	-	-
Debt service	329,762	-	-
Capital projects	1,763,135	-	-
Business type activities	-	2,048,141	-
Total disbursements	<u>6,623,470</u>	<u>2,048,141</u>	<u>17,343</u>
Excess (deficiency) of receipts over (under) disbursements	457,610	170,929	2,184
Other financing sources, net	<u>61,649</u>	<u>595,138</u>	-
Excess of receipts and other financing sources over disbursements and other financing uses	519,259	766,067	2,184
Balances beginning of year	<u>3,474,655</u>	<u>4,079,984</u>	<u>5,242</u>
Balances end of year	<u>\$ 3,993,914</u>	<u>4,846,051</u>	<u>7,426</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,029,915	2,021,350	2,061,735	(31,820)
1,137,199	2,068,261	1,213,473	(76,274)
603,525	569,196	489,399	114,126
59,786	71,145	68,238	(8,452)
186,239	236,007	194,337	(8,098)
2,366,866	2,546,202	2,833,649	(466,783)
2,775,778	2,754,720	2,753,010	22,768
6,734	15,000	9,200	(2,466)
114,581	392,225	87,712	26,869
<u>9,280,623</u>	<u>10,674,106</u>	<u>9,710,753</u>	<u>(430,130)</u>
1,516,389	1,377,685	1,823,990	307,601
1,321,296	1,217,394	1,338,081	16,785
1,000	375	1,000	-
1,033,014	939,225	1,036,492	3,478
199,882	1,200,525	828,375	628,493
441,649	581,704	456,948	15,299
329,762	325,540	329,613	(149)
1,763,135	3,591,870	3,154,926	1,391,791
2,048,141	2,028,522	1,314,532	(733,609)
<u>8,654,268</u>	<u>11,262,840</u>	<u>10,283,957</u>	<u>1,629,689</u>
626,355	(588,734)	(573,204)	1,199,559
<u>656,787</u>	<u>600,000</u>	<u>661,649</u>	<u>(4,862)</u>
1,283,142	11,266	88,445	1,194,697
<u>7,549,397</u>	<u>7,707,191</u>	<u>7,707,191</u>	<u>(157,794)</u>
<u>8,832,539</u>	<u>7,718,457</u>	<u>7,795,636</u>	<u>1,036,903</u>

City of Independence

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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 component units. 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 decreased budgeted disbursements by \$978,883. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the debt service and business type activities functions. In addition, disbursements exceeded the amounts budgeted in the public works and health and social services functions prior to the May 23, 2011 budget amendment.

**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, 2011

	Special Revenue	
	Independence Fire Department	LMI Urban Renewal
Receipts:		
Miscellaneous	\$ 19,527	-
Disbursements:		
Operating:		
Public safety	17,343	-
Culture and recreation	-	-
Total disbursements	17,343	-
Excess of receipts over disbursements	2,184	-
Cash balances beginning of year	5,242	122,898
Cash balances end of year	\$ 7,426	122,898
<b>Cash Basis Fund Balances</b>		
Nonspendable - Cemetery perpetual care	\$ -	-
Restricted for other purposes	7,426	122,898
Total cash basis fund balances	\$ 7,426	122,898

See accompanying independent auditor's report.

Friends of the Library	Permanent Cemetery Perpetual Care	Total
3,909	-	23,436
-	-	17,343
3,167	-	3,167
3,167	-	20,510
742	-	2,926
1,720	95,000	224,860
2,462	95,000	227,786
-	95,000	95,000
2,462	-	132,786
2,462	95,000	227,786

City of Independence  
Schedule of Indebtedness  
Year ended June 30, 2011

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
Sewer improvement, series 2011	Feb 24, 2011	1.00-3.15	650,000
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			
Capital lease purchase agreement:			
Computer software	Jun 28, 2011	5.5%	\$ 52,418

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
800,000	-	100,000	700,000	31,900
590,000	-	65,000	525,000	20,687
920,000	-	80,000	840,000	30,625
-	650,000	-	650,000	-
<b>\$ 2,310,000</b>	<b>650,000</b>	<b>245,000</b>	<b>2,715,000</b>	<b>83,212</b>
3,460,000	-	270,000	3,190,000	141,587
3,205,000	-	125,000	3,080,000	151,888
<b>\$ 6,665,000</b>	<b>-</b>	<b>395,000</b>	<b>6,270,000</b>	<b>293,475</b>
<b>\$ -</b>	<b>52,418</b>	<b>-</b>	<b>52,418</b>	<b>-</b>

City of Independence  
Bond and Note Maturities  
June 30, 2011

Year Ending June 30,	General Obligation Bonds/Notes					
	Refunding Bonds Series 2005B		Library Notes Series 2007		Urban Renewal Street Improvement Bonds Series 2009	
	Issued May 1, 2005		Issued Dec 10, 2007		Issued Apr 1, 2009	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2012	3.75%	\$ 100,000	3.35%	\$ 65,000	2.50%	\$ 80,000
2013	3.90	100,000	3.40	70,000	2.60	85,000
2014	4.00	100,000	3.45	70,000	2.85	85,000
2015	4.05	100,000	3.50	75,000	3.00	90,000
2016	4.10	100,000	3.60	80,000	3.35	90,000
2017	4.20	100,000	3.65	80,000	3.70	95,000
2018	4.30	100,000	3.70	85,000	4.00	100,000
2019		-		-	4.05	105,000
2020		-		-	4.10	110,000
2021		-		-		-
Total		<u>\$ 700,000</u>		<u>\$ 525,000</u>		<u>\$ 840,000</u>

Year Ending June 30,	Revenue Bonds				
	Sewer Revenue Improvement and Refunding Series 2003		Sewer Revenue Improvement Series 2005A		Total
	Issued Sept 1, 2003		Issued May 1, 2005		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2012	3.750%	\$ 275,000	4.40%	\$ 130,000	405,000
2013	3.800	215,000	4.40	135,000	350,000
2014	3.900	220,000	4.40	140,000	360,000
2015	4.000	230,000	4.40	145,000	375,000
2016	4.125	240,000	4.40	150,000	390,000
2017	4.200	250,000	4.50	160,000	410,000
2018	4.250	260,000	4.60	165,000	425,000
2019	4.250	275,000	4.65	175,000	450,000
2020	4.250	285,000	4.75	180,000	465,000
2021	4.250	300,000	4.80	190,000	490,000
2022	4.250	315,000	4.85	200,000	515,000
2023	4.250	325,000	4.90	210,000	535,000
2024		-	5.00	535,000	535,000
2025		-	5.00	565,000	565,000
Total		<u>\$3,190,000</u>		<u>\$ 3,080,000</u>	<u>6,270,000</u>

See accompanying independent auditor's report.

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Sewer Improvement Bonds		
Series 2011		
Issued Feb 24, 2011		
Interest		
Rates	Amount	Total
1.00%	\$ 55,000	300,000
1.00	60,000	315,000
1.65	60,000	315,000
1.65	60,000	325,000
2.25	65,000	335,000
2.25	65,000	340,000
2.80	70,000	355,000
2.80	70,000	175,000
3.15	70,000	180,000
3.15	75,000	75,000
	<u>\$ 650,000</u>	<u>2,715,000</u>

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

For the Last Seven Years

	2011	2010	2009
Receipts:			
Property tax	\$ 2,029,915	\$ 2,038,194	1,928,088
Tax increment financing	1,137,199	975,591	1,045,424
Other city tax	603,525	613,167	95,033
Licenses and permits	59,786	29,581	67,059
Use of money and property	93,636	85,804	72,977
Intergovernmental	2,366,866	1,657,781	4,918,407
Charges for service	650,042	644,702	544,987
Special assessments	6,734	8,211	10,687
Miscellaneous	133,377	178,906	359,361
<b>Total</b>	<b>\$ 7,081,080</b>	<b>6,231,937</b>	<b>9,042,023</b>
Disbursements:			
Operating:			
Public safety	\$ 1,533,732	\$ 1,208,401	1,188,864
Public works	1,321,296	1,046,893	1,065,016
Health and social services	1,000	350	-
Culture and recreation	1,033,014	908,038	823,228
Community and economic development	199,882	793,123	770,263
General government	441,649	529,177	461,238
Debt service	329,762	357,810	386,846
Capital projects	1,763,135	920,784	4,719,815
<b>Total</b>	<b>\$ 6,623,470</b>	<b>5,764,576</b>	<b>9,415,270</b>

See accompanying independent auditor's report.

2008	2007	2006	2005
1,949,099	1,801,693	1,680,132	1,772,674
850,023	924,900	740,900	1,300,775
101,238	22,104	51,308	7,149
33,591	34,136	63,706	63,091
89,531	95,688	63,329	14,860
5,624,583	1,806,638	1,685,868	1,748,426
540,132	622,263	627,273	603,223
14,039	33,281	40,707	63,632
1,152,369	360,942	212,944	152,247
10,354,605	5,701,645	5,166,167	5,726,077
1,604,746	1,519,395	1,328,680	1,275,999
944,049	910,403	899,601	859,456
-	-	-	-
780,356	715,978	751,392	623,785
411,246	592,420	345,010	469,086
460,743	433,101	392,797	368,922
535,053	544,152	549,959	776,233
6,346,405	1,592,051	621,700	516,989
11,082,598	6,307,500	4,889,139	4,890,470

**Schedule 5**

City of Independence  
 Schedule of Expenditures of Federal Awards  
 Year ended June 30, 2011

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct:			
U.S. Department of Transportation:			
Airport Improvement Program	20.106	3-19-0045-05	\$ 18,988
Airport Improvement Program	20.106	3-19-0045-08	1,168,484
Airport Improvement Program	20.106	3-19-0045-09	122,450
Airport Improvement Program	20.106	3-19-0045-10	11,520
Total direct			<u>1,321,442</u>
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 10-406, Task 81	2,500
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1930-DRIA	13,879
Hazard Mitigation Grant	97.039	HMGP-1688-0036-01	1,200
Total indirect			<u>17,579</u>
Total			<u>\$ 1,339,021</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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Auditor of State

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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 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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated April 23, 2012. 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 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

Management of the City of Independence is responsible for establishing and maintaining effective 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-11 and II-B-11 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-11 through II-F-11 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 which 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, 2011 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 the 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

April 23, 2012

**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, 2011. 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, 2011.

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

April 23, 2012

City of Independence  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2011

**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, 2011

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

**INTERNAL CONTROL DEFICIENCIES:**

II-A-11 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 – performing 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.

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 segregates duties to the extent fiscally viable. Changes have been made in the way of financial reporting and presenting materials to the City Council in 2010. System reports are generated and presented to the City Council once a month. A financial statement and reconciliation reports are generated and presented to the City Council once a month. Upon City 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 the signature. Internal changes were also implemented. For example, the same individual who prepares receipts is not the same individual who collects and deposits the receipts.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible utilizing existing personnel and officials to provide additional control through review of financial transitions and reports.

II-B-11 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.

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

City of Independence

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Year ended June 30, 2011

Response – This finding is a result of the fund conversions completed by the City. Old project accounts such as the old “City Hall Project” and “Skateboard Park Project” were being closed and consolidated. While these were discussed by the City Council, the actual transfers themselves were not approved by the City Council. In the future, any transfers will be officially approved by the City Council.

Conclusion – Response accepted.

II-C-11 Computer Systems – The following weaknesses in the City’s computer 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 systems.

Response – The City recently updated our personnel policy which addresses use of City computers. However, it does not completely address the bullet points mentioned above. We currently have City Hall computers set up to log off after inactivity and passwords are set to change on a monthly basis. However, we do not have this laid out in a written policy. We will update the personnel policy to further define use of computer requirements to include the bullet points above.

Conclusion – Response accepted.

II-D-11 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, 2011. Certain items, including transfers between bank accounts, outstanding checks and cash on hand, were not properly recorded on the bank reconciliation at June 30, 2011.

Recommendation – The City should ensure the bank and investment balances reconcile to the general ledger balance sheet and transfers between bank accounts, outstanding checks and cash on hand are recorded correctly on the bank reconciliations.

Response – The City Manager and City Clerk have reviewed the reconciliation process as suggested by the auditor. We will work with our financial software company to produce reports for us that will allow us to properly reconcile our monthly statements.

Conclusion – Response accepted.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

II-E-11 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 will meet with the Fire Department to review the potential for additional segregation of duties. We will also review the recommendations listed above to incorporate into their daily practice.

Conclusion - Response accepted.

II-F-11 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.

Response - The City Manager and City Clerk will also review the segregation of duties for the Independence Public Library Foundation and a process for issuing pre-numbered 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, 2011

**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, 2011

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

IV-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the debt service and business type activities 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.”

Although the City Council acted to increase certain budgets by amendment on May 23, 2011, the disbursements for the public works and the health and social services functions exceeded the amounts budgeted prior to the amendment.

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 – This was an oversight by City administration. With the City Manager and City Clerk both being new to their positions, May 2010 and January 2010, respectively, it was challenging to figure out and decipher prior administration’s goals and intent with little or no documentation on file. Transactions relating to transfers were not being approved by the City Council and quite often the actual transfers weren’t being made. Present administration is familiar with Chapter 384.18 of the Code of Iowa and will be more conscientious moving forward to ensure sufficient and timely budget amendments are completed.

Conclusion – Response accepted.

IV-B-11 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

IV-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-11 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 Wood Flooring	Gym floor refinish	\$1,100
Carmon McGraw, Secretary/Receptionist, Husband owns Indy Crop Care, Inc.	Chemicals	418
Roger Kremer, Fire Department, owns Kremer’s Vending	Concessions	365
Amy McGraw, Library, brother in-law owns McGraw's Carpet	Carpet	629

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, these transactions do not appear to represent a conflict of interest since the total transactions with each individual were less than \$1,500 during the fiscal year.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

IV-E-11 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-11 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.

Response – I believe this was noted previously and all transfers will be officially approved by the City Council and documented accordingly.

Conclusion – Response accepted.

IV-G-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

IV-H-11 Revenue Bonds – The provisions of the sewer revenue bonds require sewer user rates be established at a level which produces and maintains net receipts 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, 2011, the City was not in compliance with the net receipt requirement for the sewer revenue bonds as required by the bond resolutions.

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

Response – We will review the receipts and disbursements and recommend an increase in sewer rates to meet the 125% requirement, if necessary.

Conclusion – Response accepted.

IV-I-11 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 property tax 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.

The City's tax increment financing (TIF) certification required by Chapter 403 of the Code of Iowa and filed November 23, 2009 certified \$962,500 of TIF debt outstanding for an internal loan to the Special Revenue, Tax Increment Financing Fund. Resolution No. 23-09, dated November 23, 2009, itemized six urban

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

renewal projects located within the urban renewal area and the immediate costs needed for the projects totaling \$962,500. No contracts or other documentation were available to support the amounts certified for the following projects listed below which were included 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 and for the November 29, 2010 TIF certification.

	<u>Unsupported Amounts</u>
• Urban renewal/community marketing initiatives	\$ 10,000
• Urban renewal project administration and assistance	10,000
• Economic development TIF projects	50,000
• Commercial corridor improvements	600,000

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 which have not been decertified by the City.

<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, and the propriety of the use of tax increment financing receipts to pay project costs rather than debt incurred.

Response – The City Manager and City Clerk are well aware of past practices for obtaining and utilizing tax increment financing (TIF). In fiscal year 2012, we made some initial improvements in the way the City was using TIF. In November 2011, we met with Speer Financial to review our use of TIF and the associated fund balances. In our subsequent fiscal year 2013 budget, we are making additional changes to how TIF is certified and used. We will continue to review and work on the existing TIF fund balances and utilize the funds properly and/or decertify if needed.

Conclusion – Response accepted.

IV-J-11 Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance of \$19,535 at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Response – In reviewing the City’s financial statement, it became clear the reason for the deficit was due to the harsh winter and the subsequent expenses realized by the City. Given the present state of funding for streets purposes, it is next to impossible to budget sufficient resources into the street department to cover this type of contingency. That being said, we have been working to diversify the street department receipt sources by incorporating more of the operations into the General Fund rather than just the Road Use Tax Fund. As we split this more and more, we should be better suited to avoid deficits in the future. In the fiscal year 2012 budget, we adjusted receipts and disbursements to bring this fund balance back into a positive.

Conclusion – Response accepted.

IV-K-11 Debt Service Fund – The Debt Service Fund had a balance of \$395,920 at June 30, 2011, which may be excessive when compared to the annual debt service requirements and the amounts levied annually to cover these requirements. The balance is partially attributable to budget errors made during the years ended June 30, 2010 and June 30, 2011 related to the Series 2009 general obligation urban renewal street improvement bonds. The City levied debt service for the bonds but also certified and received tax increment financing (TIF) receipts for the bonds which were transferred from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund. Funding the bonds from two sources created an excess balance in the Debt Service Fund as shown below:

General Obligation Urban Renewal Street Improvement Bonds, Series 2009				
Year ended June 30,	Receipts		Disbursements	Balance
	Debt Service Levy	TIF Transfers to Debt Service	Principal, Interest and Fees	Excess
2010	\$ 86,765	170,028	(113,098)	143,695
2011	110,025	111,025	(111,025)	110,025
	<u>\$ 196,790</u>	<u>281,053</u>	<u>(224,123)</u>	<u>253,720</u>

For the year ended June 30, 2010, the portion funded from TIF transfers of \$170,028 exceeded the debt service requirement of \$113,098 by \$56,930.

Recommendation – The City should review the Debt Service Fund activity and balance and determine whether a reduction in the debt service levy is appropriate to reduce the fund balance.

In addition, the City should consider whether the funds transferred from the Special Revenue, Tax Increment Financing Fund should be returned to the Tax Increment Financing Fund and decertify the amounts previously certified by the City as TIF debt. At a minimum, the City should reimburse the Special Revenue, Tax Increment Financing Fund for the \$56,930 excess transferred to the Debt Service Fund during fiscal year 2010.

Response – The City Manager and City Clerk are aware of the concerns with the Debt Service and TIF Funds. The 10/11 budget was an inherited budget and it was challenging to try and comprehend and decipher a budget prepared and certified by a past administration. Present administration has met with the

City of Independence

Schedule of Findings and Questioned Costs

Year ended June 30, 2011

City's financial advisor and bond counsel to obtain a better understanding and handle of the Debt Service and TIF. We've become more conscientious of these two funds and moving forward we will continue to work with the financial advisor and bond counsel in an effort to resolve some issues and implement recommendations and ensure compliance.

Conclusion – Response accepted.

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City of Independence

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager  
Darryl J. Brumm, CPA, Senior Auditor II  
Kelly L. Hilton, Staff Auditor  
Emily K. Creighton, Assistant Auditor  
Victor L. Kennedy, Assistant 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