



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

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Mary Mosiman, CPA  
Auditor of State

NEWS RELEASE

FOR RELEASE \_\_\_\_\_

July 8, 2014

Contact: Andy Nielsen  
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Independence, Iowa.

The City's receipts totaled \$9,909,132 for the year ended June 30, 2013, a 17% increase over the prior year. The receipts included \$2,525,874 in property tax, \$106,940 from tax increment financing, \$3,023,107 from charges for service, \$856,910 from operating grants, contributions and restricted interest, \$204,461 from capital grants, contributions and restricted interest, \$535,639 from local option sales tax, \$77,164 from unrestricted interest on investments, \$2,258,650 of bond proceeds and \$320,387 from other general receipts.

Disbursements for the year ended June 30, 2013 totaled \$11,178,767, a 31% increase over the prior year, and included \$1,670,893 for public safety, \$1,499,710 for public works and \$1,132,898 for culture and recreation. Also, disbursements for business type activities totaled \$4,710,214.

The significant increase in receipts and disbursements is due primarily to receiving general obligation bond proceeds which were used to refund general obligation and sewer revenue bonds.

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/1320-0076-B00F.pdf>.





**CITY OF INDEPENDENCE**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2013**



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## City of Independence

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Carl E. Scharff	Mayor	Jan 2014
Bonita Davis	Council Member	Jan 2014
Richard Engen	Council Member	Jan 2014
Jeanne Hermsen	Council Member	Jan 2014
Jon Holland	Council Member	Jan 2014
Robert Hill	Council Member	Jan 2016
Arletta Schweitzer	Council Member	Jan 2016
Dennis Vaughn	Council Member	Jan 2016
Steven T. Diers	City Manager	Indefinite
Barbara K. Rundle	City Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

### *Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units*

The financial statements do not include financial data for Independence Light and Power, Telecommunications, a legally separate entity which should be reported as a discretely presented component unit, because Independence Light and Power, Telecommunications reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. The amount by which this departure affects the receipts, disbursements and balances of the aggregate discretely presented component units is \$12,318,747, \$11,579,590 and \$4,266,337, respectively.

### *Adverse Opinion*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements do not present fairly the cash basis financial position of the aggregate discretely presented component units as of June 30, 2013, 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.

### *Unmodified Opinions*

In our opinion, 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 and the aggregate remaining fund information of the City of Independence as of June 30, 2013, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

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 third paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. 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 on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 9 through 14 and 34 through 36, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 20, 2014 on our consideration of the City of Independence's internal control over financial reporting and on 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 in considering the City of Independence's internal control over financial reporting and compliance.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 20, 2014

**City of Independence**

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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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2013 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities increased 25%, or approximately \$1,526,000, from fiscal year 2012 to fiscal year 2013. Tax increment financing decreased approximately \$843,000 while bond proceeds increased approximately \$2,180,000. The proceeds were used to retire general obligation bonds and sewer revenue bonds.
- Disbursements for governmental activities increased 5%, or approximately \$286,000, from fiscal year 2012 to fiscal year 2013. Community and economic development disbursements decreased approximately \$627,000 due to the completion of the commercial corridor project during fiscal year 2012. Debt service disbursements increased approximately \$504,000 due to the refunding of general obligation bonds.
- The City's total cash basis net position decreased 14%, or \$1,269,635, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities decreased \$768,419 and the cash basis net position of the business type activities decreased \$501,216.

### **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 Cash Basis Statement of Activities and Net Position. 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.

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

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position 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.

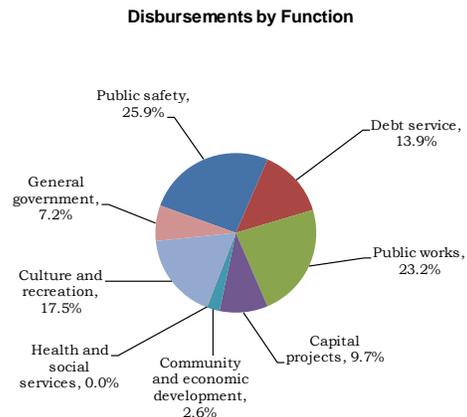
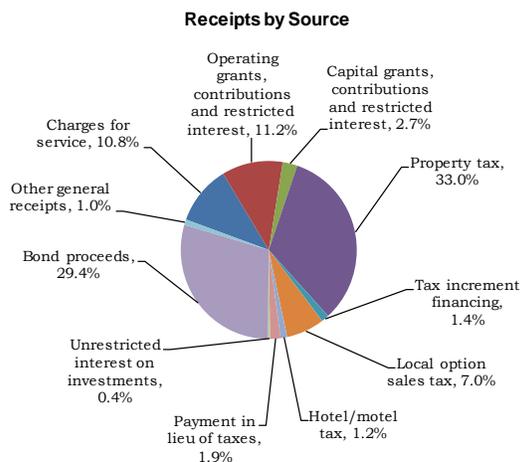
2) Proprietary funds account for the City's Enterprise Funds and its Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3,983,326 to \$3,214,907. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 825,212	\$ 857,812
Operating grants, contributions and restricted interest	856,910	764,737
Capital grants, contributions and restricted interest	204,461	410,214
General receipts:		
Property tax	2,525,874	2,185,621
Tax increment financing	106,940	950,088
Local option sales tax	535,639	526,236
Hotel/motel tax	94,222	79,181
Payment in lieu of taxes	143,000	182,000
Unrestricted interest on investments	27,302	33,610
Bond/loan proceeds	2,258,650	78,213
Other general receipts	79,102	63,947
<b>Total receipts</b>	<b>7,657,312</b>	<b>6,131,659</b>
Disbursements:		
Public safety	1,670,893	1,541,741
Public works	1,499,710	1,362,701
Health and social services	1,000	1,000
Culture and recreation	1,132,898	1,075,096
Community and economic development	171,297	798,111
General government	467,402	501,051
Debt service	900,081	395,928
Capital projects	625,272	507,019
<b>Total disbursements</b>	<b>6,468,553</b>	<b>6,182,647</b>
Change in cash basis net position before transfers	1,188,759	(50,988)
Operating transfers, net	(1,957,178)	40,400
Change in cash basis net position	(768,419)	(10,588)
Cash basis net position beginning of year	3,983,326	3,993,914
Cash basis net position end of year	\$ 3,214,907	3,983,326



The City's total receipts for governmental activities increased 25%, or approximately \$1,526,000, over the prior year. The total cost of all programs and services increased approximately \$286,000, or 5%, with no new programs added this year. The increase in receipts was primarily the result of the issuance of general obligation refunding bonds. The increase in disbursements was primarily the result of calling and retiring the series 2005B general obligation bonds.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 646,124	622,256
Sewer	1,551,771	1,619,341
General receipts:		
Unrestricted interest on investments	49,862	76,731
Other general receipts	4,063	4,063
Total receipts	<u>2,251,820</u>	<u>2,322,391</u>
Disbursements:		
Water	576,233	537,172
Sewer	4,133,981	1,794,314
Total disbursements	<u>4,710,214</u>	<u>2,331,486</u>
Change in cash basis net position before transfers	(2,458,394)	(9,095)
Operating transfers, net	1,957,178	(40,400)
Change in cash basis net position	(501,216)	(49,495)
Cash basis net position beginning of year	4,796,556	4,846,051
Cash basis net position end of year	<u>\$ 4,295,340</u>	<u>4,796,556</u>

Total business type activities receipts decreased approximately \$71,000, or 3%. Total disbursements for the fiscal year increased 102%, or approximately \$2,379,000, primarily due to the call and redemption of sewer revenue bonds with general obligation refunding bond proceeds. The cash balance decreased \$501,216 from the prior year.

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

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$3,214,907, a decrease of \$768,419 compared to last year's total of \$3,983,326. 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 \$56,401 from the prior year to \$691,772. The decrease is attributable to an overall increase in receipts of \$426,198 offset by an increase in disbursements of \$365,069.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$103,592 to \$9,283 during the fiscal year. This decrease was primarily due to an increase in public works disbursements of \$65,441 and a decrease in receipts of \$76,063.
- The Special Revenue, Employee Benefits Fund cash balance increased \$16,651 from \$395,474 to \$412,125. Receipts increased \$46,401 and disbursements decreased \$21,864.

- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$931,854 from \$961,873 to \$30,019. Receipts decreased \$861,801 and the City used existing cash balances for tax increment financing projects. Disbursements decreased \$674,850 due to completion of the commercial corridor project in the prior year. Additionally, amounts were transferred to the Debt Service and Capital Projects Funds to pay for allowable TIF debt and capital projects.
- 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 \$43,103. Receipts and transfers out to other funds were similar to the prior year.
- The Debt Service Fund cash balance increased \$243,748 to \$637,638 at the end of the fiscal year. Disbursements increased \$504,153 from \$395,928 to \$900,081 as general obligation bonds were called and redeemed during the year. Additionally, transfers in from the Special Revenue, Tax Increment Financing Fund totaled \$612,125 while transfers out included \$1,957,178 to the Enterprise, Sewer Fund to call and retire sewer revenue bonds.
- The Capital Projects Fund cash balance increased \$25,960 to \$1,147,747 at the end of the fiscal year. The City spent a total of \$545,853 on construction projects in the current year, compared to \$507,019 in the prior year. Intergovernmental receipts decreased \$205,753 from the prior year, primarily due to federal grants received for airport projects in the prior year. Additionally, transfers in from the Special Revenue, Tax Increment Financing Fund totaled \$343,092.

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

- The Enterprise, Water Fund cash balance increased from \$1,965,986 to \$2,069,275. Total receipts increased \$7,026 and disbursements increased \$39,061.
- The Enterprise, Sewer Fund cash balance decreased \$604,505 to \$2,226,065. Total receipts decreased \$77,597 from the prior year. Disbursements increased \$2,339,667 as sewer revenue bonds were called and retired during the year. Transfers in included \$1,957,178 from the Debt Service Fund.

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once. The amendment was approved on April 22, 2013 and resulted in an increase of \$989,160 in budgeted disbursements, primarily for emergency response equipment, a street sweeper and retiring general obligation and sewer revenue bonds. The amendment also decreased receipts \$633,897.

The City's receipts were \$388,366 less than budgeted. Even with the budget amendment, total disbursements were \$1,604,439, or 17%, more than the amended budget. The sewer revenue bonds were refunded in June 2013 but the budget amendment did not increase the business type activities function.

Disbursements exceeded the amount budgeted in the business type activities function for the year ended June 30, 2013.

**DEBT ADMINISTRATION**

At June 30, 2013, the City had \$6,779,397 of bonds/notes and other long-term debt outstanding, compared to \$8,392,135 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2013	2012
General obligation bonds/notes	\$ 3,870,000	2,415,000
Sewer revenue bonds	2,815,000	5,865,000
Capital lease purchase agreement	31,175	41,092
Revenue loan agreement	63,222	71,043
Total	\$ 6,779,397	8,392,135

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 debt of \$3,950,545, including annually appropriated TIF developer agreements of \$49,370, is significantly below its constitutional debt limit of approximately \$15,852,000.

**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 2014 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City averaged 4.4% for fiscal year 2013. This compares with the State’s unemployment rate of 4.6%.

These factors were taken into account when adopting the budget for fiscal year 2014. Property tax receipts available for appropriation in the fiscal year 2014 operating budget are \$33,146 higher than the fiscal year 2013 actual of \$2,519,123. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease \$616,655 from the final fiscal year 2013 budget to \$8,940,894. The City has added no major new programs or initiatives.

If these estimates are realized, the City’s June 30, 2014 budgeted cash balance is expected to decrease approximately \$302,000 by the close of fiscal year 2014.

**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

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2013

	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	\$ 1,670,893	15,726	234,838	-
Public works	1,499,710	507,134	575,524	-
Health and social services	1,000	-	-	-
Culture and recreation	1,132,898	236,204	44,905	-
Community and economic development	171,297	-	-	-
General government	467,402	66,148	1,643	-
Debt service	900,081	-	-	-
Capital projects	625,272	-	-	204,461
Total governmental activities	6,468,553	825,212	856,910	204,461
Business type activities:				
Water	576,233	646,124	-	-
Sewer	4,133,981	1,551,771	-	-
Total business type activities	4,710,214	2,197,895	-	-
Total	\$ 11,178,767	3,023,107	856,910	204,461

**General Receipts and Transfers:**

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 position

Cash basis net position beginning of year

Cash basis net position end of year

**Cash Basis Net Position**

Restricted:

    Nonexpendable:

- Cemetery perpetual care

    Expendable:

- Streets
- Employee benefits
- Debt service
- Capital projects
- Other purposes

Unrestricted

**Total cash basis net position**

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(1,420,329)	-	(1,420,329)
(417,052)	-	(417,052)
(1,000)	-	(1,000)
(851,789)	-	(851,789)
(171,297)	-	(171,297)
(399,611)	-	(399,611)
(900,081)	-	(900,081)
(420,811)	-	(420,811)
(4,581,970)	-	(4,581,970)
-	69,891	69,891
-	(2,582,210)	(2,582,210)
-	(2,512,319)	(2,512,319)
(4,581,970)	(2,512,319)	(7,094,289)
2,325,923	-	2,325,923
199,951	-	199,951
106,940	-	106,940
535,639	-	535,639
94,222	-	94,222
143,000	-	143,000
27,302	49,862	77,164
2,258,650	-	2,258,650
79,102	4,063	83,165
(1,957,178)	1,957,178	-
3,813,551	2,011,103	5,824,654
(768,419)	(501,216)	(1,269,635)
3,983,326	4,796,556	8,779,882
\$ 3,214,907	4,295,340	7,510,247
\$ 95,000	-	95,000
9,283	-	9,283
412,125	-	412,125
667,657	279,829	947,486
1,147,747	175,000	1,322,747
230,198	-	230,198
652,897	3,840,511	4,493,408
\$ 3,214,907	4,295,340	7,510,247

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

As of and for the year ended June 30, 2013

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Tax Increment Financing
Receipts:				
Property tax	\$ 1,714,245	-	604,927	-
Tax increment financing	-	-	-	106,940
Other city tax	100,973	-	-	-
Licenses and permits	60,148	-	-	-
Use of money and property	72,964	-	-	-
Intergovernmental	406,698	574,825	-	-
Charges for service	701,425	-	-	-
Special assessments	-	-	-	-
Miscellaneous	54,898	2,085	13,028	-
Total receipts	<u>3,111,351</u>	<u>576,910</u>	<u>617,955</u>	<u>106,940</u>
Disbursements:				
Operating:				
Public safety	1,271,947	-	382,167	-
Public works	526,115	837,148	136,447	-
Health and social services	1,000	-	-	-
Culture and recreation	965,238	-	166,544	-
Community and economic development	114,290	-	-	40,004
General government	366,555	-	100,847	-
Debt service	-	-	-	-
Capital projects	79,419	-	-	-
Total disbursements	<u>3,324,564</u>	<u>837,148</u>	<u>786,005</u>	<u>40,004</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(213,213)</u>	<u>(260,238)</u>	<u>(168,050)</u>	<u>66,936</u>
Other financing sources (uses):				
Bond proceeds, net of \$11,350 discount	-	-	-	-
Sale of capital assets	486	-	-	-
Operating transfers in	243,732	156,646	184,701	56,930
Operating transfers out	(87,406)	-	-	(1,055,720)
Total other financing sources (uses)	<u>156,812</u>	<u>156,646</u>	<u>184,701</u>	<u>(998,790)</u>
Change in cash balances	(56,401)	(103,592)	16,651	(931,854)
Cash balances beginning of year	748,173	112,875	395,474	961,873
Cash balances end of year	<u>\$ 691,772</u>	<u>9,283</u>	<u>412,125</u>	<u>30,019</u>
<b>Cash Basis Fund Balances</b>				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Streets	-	9,283	-	-
Employee benefits	-	-	412,125	-
Debt service	-	-	-	30,019
Capital projects	-	-	-	-
Other purposes	38,875	-	-	-
Committed for library purposes	19,530	-	-	-
Unassigned	633,367	-	-	-
Total cash basis fund balances	<u>\$ 691,772</u>	<u>9,283</u>	<u>412,125</u>	<u>30,019</u>

See notes to financial statements.

Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
-	199,951	-	-	2,519,123
-	-	-	-	106,940
535,639	-	-	-	636,612
-	-	-	-	60,148
-	-	-	-	72,964
-	-	204,461	-	1,185,984
-	-	-	-	701,425
-	23,108	-	-	23,108
-	-	-	21,861	91,872
535,639	223,059	204,461	21,861	5,398,176
-	-	-	16,779	1,670,893
-	-	-	-	1,499,710
-	-	-	-	1,000
-	-	-	1,116	1,132,898
-	-	-	17,003	171,297
-	-	-	-	467,402
-	900,081	-	-	900,081
-	-	545,853	-	625,272
-	900,081	545,853	34,898	6,468,553
535,639	(677,022)	(341,392)	(13,037)	(1,070,377)
-	2,258,650	-	-	2,258,650
-	-	-	-	486
-	694,428	367,352	17,003	1,720,792
(492,536)	(2,032,308)	-	(10,000)	(3,677,970)
(492,536)	920,770	367,352	7,003	301,958
43,103	243,748	25,960	(6,034)	(768,419)
-	393,890	1,121,787	249,254	3,983,326
43,103	637,638	1,147,747	243,220	3,214,907
-	-	-	95,000	95,000
-	-	-	-	9,283
-	-	-	-	412,125
-	637,638	-	-	667,657
-	-	1,147,747	-	1,147,747
43,103	-	-	148,220	230,198
-	-	-	-	19,530
-	-	-	-	633,367
43,103	637,638	1,147,747	243,220	3,214,907

**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, 2013

	Enterprise			Internal Service
	Water	Sewer	Total	Health Insurance
Operating receipts:				
Charges for service	\$ 644,976	1,551,771	2,196,747	85,009
Miscellaneous	1,148	-	1,148	-
Total operating receipts	646,124	1,551,771	2,197,895	85,009
Operating disbursements:				
Public safety	-	-	-	27,743
Public works	-	-	-	12,143
Culture and recreation	-	-	-	20,458
General government	-	-	-	2,371
Business type activities	407,709	774,125	1,181,834	22,294
Total operating disbursements	407,709	774,125	1,181,834	85,009
Excess of operating receipts over operating disbursements	238,415	777,646	1,016,061	-
Non-operating receipts (disbursements):				
Interest on investments	33,398	16,464	49,862	-
Farm rent	-	4,063	4,063	-
Debt service	-	(3,321,291)	(3,321,291)	-
Equipment	(36,250)	-	(36,250)	-
Capital projects	(132,274)	(38,565)	(170,839)	-
Total non-operating receipts (disbursements)	(135,126)	(3,339,329)	(3,474,455)	-
Excess (deficiency) of receipts over (under) disbursements	103,289	(2,561,683)	(2,458,394)	-
Operating transfers in	-	1,957,178	1,957,178	-
Change in cash balances	103,289	(604,505)	(501,216)	-
Cash balances beginning of year	1,965,986	2,830,570	4,796,556	-
Cash balances end of year	\$ 2,069,275	2,226,065	4,295,340	-
<b>Cash Basis Fund Balances</b>				
Restricted for:				
Debt service	\$ -	279,829	279,829	-
Future capital outlay	-	175,000	175,000	-
Unrestricted	2,069,275	1,771,236	3,840,511	-
Total cash basis fund balances	\$ 2,069,275	2,226,065	4,295,340	-

See notes to financial statements.

City of Independence

Notes to Financial Statements

June 30, 2013

**(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.

Except as noted, these financial statements present the City of Independence and its component units. The financial statements do not include financial data for Independence Light and Power, Telecommunications (Utility), a legally separate entity which should be reported as a discretely presented component unit, because Independence Light and Power, Telecommunications reports in accordance with U.S. generally accepted accounting principles, a different financial reporting framework than the City's cash basis of accounting. 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 Unit

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.

### 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 Landfill Commission, Buchanan County Emergency Management Commission and Buchanan County Joint E911 Service Board.

#### B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require it to be maintained permanently by the City, including the City's Permanent Fund.

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

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 to be used for payment of employee benefits.

The Tax Increment Financing 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.

The City also reports the following proprietary fund:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

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 position 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 are imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts the City Council has committed 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 Other Information. During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the business type activities function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 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 investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$901,120 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The investment in the Iowa Public Agency Investment Trust is unrated.

Concentration of credit risk – The City places no limit on the amount that may be invested in any one issuer.

**(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
2014	\$ 490,000	80,915	140,000	134,728	630,000	215,643
2015	500,000	76,068	145,000	128,567	645,000	204,635
2016	440,000	68,102	150,000	122,188	590,000	190,290
2017	445,000	59,105	160,000	115,587	605,000	174,692
2018	460,000	49,157	165,000	108,388	625,000	157,545
2019-2023	1,535,000	99,680	955,000	417,447	2,490,000	517,127
2024-2025	-	-	1,100,000	83,250	1,100,000	83,250
Total	\$ 3,870,000	433,027	2,815,000	1,110,155	6,685,000	1,543,182

General Obligation Refunding Bonds

On June 10, 2013, the City issued \$2,270,000 of general obligation refunding bonds for a current refunding. The proceeds and existing funds on hand were used to retire outstanding balances of \$500,000 of the general obligation bonds dated May 1, 2005 and \$2,700,000 of sewer revenue bonds dated September 1, 2003. The refunding was undertaken to reduce total debt service payments approximately \$478,669 and resulted in an economic gain (difference between the present value of debt service payments on the old and new debt) of approximately \$346,930.

### Sewer 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. During the year ended June 30, 2013, \$2,700,000 of the sewer revenue bonds issued in September 2003 were refunded with general obligation refunding bonds. For the year ended June 30, 2013, principal and interest payments on the bonds required approximately 80% of net receipts. Total principal and interest remaining to be paid on the bonds is \$3,925,155. For the current year, principal and interest paid excluding the refunded bonds and total customer net receipts were \$620,291 and \$777,646, 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 of \$256,935 should be established and maintained. 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.

### 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 5.5% per annum. The first and last monthly payments totaling \$1,982 were due at the signing of the lease and were paid by the City in July 2011. The remaining 58 monthly payments began on August 5, 2011. During the year ended June 30, 2013, the City made 12 monthly payments totaling \$11,890 under the agreement, leaving an outstanding principal balance of \$31,175 at June 30, 2013.

### Revenue Loan Agreement

On July 13, 2011, the City entered into a loan agreement for an LED Street Light project for \$78,213. The agreement requires 120 monthly payments of \$652 starting in August 2011. The City is not required to pay interest unless a payment is delinquent or in the event of default. The City has pledged its annual road use tax receipts from the State of Iowa to repay the loan. The loan is payable solely from road use tax receipts and is payable through 2021. For the current year, principal paid and total road use tax receipts were \$7,821 and \$571,339, respectively. The outstanding loan balance at June 30, 2013 was \$63,222.

#### **(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 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012 and 2011 were \$177,356, \$168,329 and \$150,825, 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, retirees and their spouses. There are 39 active and 7 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, 2 retirees who were grandfathered in under the prior policy are receiving this benefit at June 30, 2013. Under another prior City policy, the City pays the Medicare supplement premium for 5 retirees age 65 or older. These retirees are required to contribute \$100 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 \$409 for single coverage and \$1,012 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$433,028 and plan members eligible for benefits contributed \$38,850 to the plan.

**(6) Development 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 \$995,061. The total amount rebated during the year ended June 30, 2013 was \$40,004. The City has rebated a total of \$777,294 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2013 was \$217,767.

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 \$49,370 which has been appropriated at June 30, 2013 is subject to the debt limitation calculation.

**(7) 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, 2013, primarily relating to the General Fund and the Enterprise, Water and Sewer Funds, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 78,000
Compensatory time	14,000
Holiday	72,000
Casual	<u>9,000</u>
Total	<u>\$173,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

**(8) 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 Internal Service, Health Insurance Fund. During the year ended June 30, 2013, the City paid \$85,009 to Group Services for claims and administrative fees.

**(9) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 225,532
	Debt Service	18,200
		<u>243,732</u>
Special Revenue:	General	73,146
Road Use Tax	Special Revenue:	
	Tax Increment Financing	83,500
		<u>156,646</u>
Employee Benefits	Special Revenue:	
	Local Option Sales Tax	184,701
Tax Increment Financing	Debt Service	56,930
Economic Development	Special Revenue:	
	Tax Increment Financing	17,003
Debt Service	Special Revenue:	
	Tax Increment Financing	612,125
	Local Option Sales Tax	82,303
		<u>694,428</u>
Capital Projects	General	14,260
	Special Revenue:	
	Tax Increment Financing	343,092
	LMI Urban Renewal	10,000
		<u>367,352</u>
Enterprise:		
Sewer	Debt Service	1,957,178
Total		<u>\$ 3,677,970</u>

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

**(10) 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 679 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 300% 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, 2013 were \$81,446.

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 \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington 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, 2013, 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.

**(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, 2012.

Receipts:	
Capital donations	\$ 1,545
Material donations	11,359
Summer reading program	2,900
Buchanan County Community Foundation	5,485
Programming	5,089
Interest	244
Miscellaneous	4,965
Total receipts	<u>31,587</u>
Disbursements:	
Equipment and additional furnishings	160
Landscaping	277
Supplies	512
Materials	18,165
Summer reading program	3,250
Buchanan County Community Foundation	2,908
Programming	12,175
Publicity and marketing	701
Miscellaneous	231
Total disbursements	<u>38,379</u>
Deficiency of receipts under disbursements	(6,792)
Balance beginning of year	<u>339,705</u>
Balance end of year	<u>\$ 332,913</u>

**(12) Contingent Liability**

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 \$282,000 will be required to be repaid to the State. Monsanto has agreed to reimburse the City for any required repayment.

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**Other 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

Other Information

Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
<b>Receipts:</b>				
Property tax	\$ 2,519,123	-	-	2,519,123
Tax increment financing	106,940	-	-	106,940
Other city tax	636,612	-	-	636,612
Licenses and permits	60,148	-	-	60,148
Use of money and property	72,964	53,925	-	126,889
Intergovernmental	1,185,984	-	-	1,185,984
Charges for service	701,425	2,196,747	-	2,898,172
Special assessments	23,108	-	-	23,108
Miscellaneous	91,872	1,148	21,861	71,159
<b>Total receipts</b>	<b>5,398,176</b>	<b>2,251,820</b>	<b>21,861</b>	<b>7,628,135</b>
<b>Disbursements:</b>				
Public safety	1,670,893	-	16,779	1,654,114
Public works	1,499,710	-	-	1,499,710
Health and social services	1,000	-	-	1,000
Culture and recreation	1,132,898	-	-	1,132,898
Community and economic development	171,297	-	-	171,297
General government	467,402	-	-	467,402
Debt service	900,081	-	-	900,081
Capital projects	625,272	-	-	625,272
Business type activities	-	4,710,214	-	4,710,214
<b>Total disbursements</b>	<b>6,468,553</b>	<b>4,710,214</b>	<b>16,779</b>	<b>11,161,988</b>
Excess (deficiency) of receipts over (under) disbursements	(1,070,377)	(2,458,394)	5,082	(3,533,853)
Other financing sources (uses), net	301,958	1,957,178	-	2,259,136
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(768,419)	(501,216)	5,082	(1,274,717)
Balances beginning of year	3,983,326	4,796,556	12,073	8,767,809
Balances end of year	<b>\$ 3,214,907</b>	<b>4,295,340</b>	<b>17,155</b>	<b>7,493,092</b>

See accompanying independent auditor's report.

Budgeted Amounts		Final to Total Variance
Original	Final	
2,521,085	2,523,963	(4,840)
252,469	105,913	1,027
609,704	615,006	21,606
67,447	36,900	23,248
202,226	217,579	(90,690)
2,020,667	1,615,050	(429,066)
2,903,800	2,791,120	107,052
18,200	18,200	4,908
54,800	92,770	(21,611)
8,650,398	8,016,501	(388,366)
2,018,792	2,129,413	475,299
1,378,117	1,502,133	2,423
1,000	1,000	-
1,150,458	1,158,535	25,637
180,586	180,586	9,289
484,263	484,263	16,861
398,533	1,987,161	1,087,080
825,084	726,421	101,149
2,131,556	1,388,037	(3,322,177)
8,568,389	9,557,549	(1,604,439)
82,009	(1,541,048)	(1,992,805)
-	-	2,259,136
82,009	(1,541,048)	266,331
8,837,122	8,837,122	(69,313)
8,919,131	7,296,074	197,018

City of Independence

Notes to Other Information – Budgetary Reporting

June 30, 2013

The budgetary comparison is presented 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 Internal Service Fund and 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 increased budgeted disbursements by \$989,160. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the business type activities function.

## **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, 2013

	Special	
	LMI	
	Urban Renewal	Economic Development
Receipts:		
Miscellaneous	\$ -	-
Disbursements:		
Operating:		
Public safety	-	-
Culture and recreation	-	-
Community and economic development	-	17,003
Total disbursements	-	17,003
Excess (deficiency) of receipts over (under) disbursements	-	(17,003)
Other financing sources (uses):		
Operating transfers in	-	17,003
Operating transfers out	(10,000)	-
Total other financing sources (uses)	(10,000)	17,003
Change in cash balances	(10,000)	-
Cash balances beginning of year	141,065	-
Cash balances end of year	\$ 131,065	-
<b>Cash Basis Fund Balances</b>		
Nonspendable - Cemetery perpetual care	\$ -	-
Restricted for other purposes	131,065	-
Total cash basis fund balances	\$ 131,065	-

See accompanying independent auditor's report.

Revenue		Permanent	
Independence	Friends	Cemetery	
Fire	of the	Perpetual	
Department	Library	Care	Total
21,861	-	-	21,861
16,779	-	-	16,779
-	1,116	-	1,116
-	-	-	17,003
16,779	1,116	-	34,898
5,082	(1,116)	-	(13,037)
-	-	-	17,003
-	-	-	(10,000)
-	-	-	7,003
5,082	(1,116)	-	(6,034)
12,073	1,116	95,000	249,254
17,155	-	95,000	243,220
-	-	95,000	95,000
17,155	-	-	148,220
17,155	-	95,000	243,220

City of Independence  
Schedule of Indebtedness  
Year ended June 30, 2013

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
Refunding, series 2013A	Jun 25, 2013	.40-2.50	2,270,000
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	5.50%	\$ 52,418
Revenue loan agreement:			
LED Street Light Project	Jul 13, 2011	0.00%	\$ 78,213

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
600,000	-	600,000	-	26,099
460,000	-	70,000	390,000	16,365
760,000	-	85,000	675,000	26,625
595,000	-	60,000	535,000	13,992
-	2,270,000	-	2,270,000	-
<b>\$ 2,415,000</b>	<b>2,270,000</b>	<b>815,000</b>	<b>3,870,000</b>	<b>83,081</b>
2,915,000	-	2,915,000	-	129,624
2,950,000	-	135,000	2,815,000	140,667
<b>\$ 5,865,000</b>	<b>-</b>	<b>3,050,000</b>	<b>2,815,000</b>	<b>270,291</b>
41,092	-	9,917	31,175	1,973
71,043	-	7,821	63,222	-

City of Independence  
Bond and Note Maturities  
June 30, 2013

Year Ending June 30,	General Obligation Bonds/Notes					
	Library Notes, Series 2007		Urban Renewal Street Improvement Bonds, Series 2009		Sewer Improvement Bonds, Series 2011	
	Issued Dec 10, 2007		Issued Apr 1, 2009		Issued Feb 24, 2011	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2014	3.45%	\$ 70,000	2.85%	\$ 85,000	1.65%	\$ 60,000
2015	3.50	75,000	3.00	90,000	1.65	60,000
2016	3.60	80,000	3.35	90,000	2.25	65,000
2017	3.65	80,000	3.70	95,000	2.25	65,000
2018	3.70	85,000	4.00	100,000	2.80	70,000
2019		-	4.05	105,000	2.80	70,000
2020		-	4.10	110,000	3.15	70,000
2021		-		-	3.15	75,000
2022		-		-		-
2023		-		-		-
Total		<u>\$ 390,000</u>		<u>\$ 675,000</u>		<u>\$ 535,000</u>

Year Ending June 30,	Revenue Bonds	
	Sewer Revenue Improvement, Series 2005A	
	Issued May 1, 2005	
	Interest	
	Rates	Amount
2014	4.40%	\$ 140,000
2015	4.40	145,000
2016	4.40	150,000
2017	4.50	160,000
2018	4.60	165,000
2019	4.65	175,000
2020	4.75	180,000
2021	4.80	190,000
2022	4.85	200,000
2023	4.90	210,000
2024	5.00	535,000
2025	5.00	565,000
Total		<u>\$ 2,815,000</u>

See accompanying independent auditor's report.

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Refunding Bonds, Series 2013A		
Issued Jun 25, 2013		
Interest		
Rates	Amount	Total
0.40%	\$ 275,000	490,000
.60	275,000	500,000
.80	205,000	440,000
1.00	205,000	445,000
1.25	205,000	460,000
1.50	215,000	390,000
1.75	215,000	395,000
2.00	220,000	295,000
2.25	225,000	225,000
2.50	230,000	230,000
	<u>\$ 2,270,000</u>	<u>3,870,000</u>

City of Independence

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

For the Last Nine Years

	2013	2012	2011
<b>Receipts:</b>			
Property tax	\$ 2,519,123	2,178,481	2,029,915
Tax increment financing	106,940	950,088	1,137,199
Other city tax	636,612	612,557	603,525
Licenses and permits	60,148	102,148	59,786
Use of money and property	72,964	68,800	93,636
Intergovernmental	1,185,984	1,338,587	2,366,866
Charges for service	701,425	695,363	650,042
Special assessments	23,108	2,181	6,734
Miscellaneous	91,872	105,241	133,377
Total	<u>\$ 5,398,176</u>	<u>6,053,446</u>	<u>7,081,080</u>
<b>Disbursements:</b>			
<b>Operating:</b>			
Public safety	\$ 1,670,893	1,541,741	1,533,732
Public works	1,499,710	1,362,701	1,321,296
Health and social services	1,000	1,000	1,000
Culture and recreation	1,132,898	1,075,096	1,033,014
Community and economic development	171,297	798,111	199,882
General government	467,402	501,051	441,649
Debt service	900,081	395,928	329,762
Capital projects	625,272	507,019	1,763,135
Total	<u>\$ 6,468,553</u>	<u>6,182,647</u>	<u>6,623,470</u>

See accompanying independent auditor's report.

2010	2009	2008	2007	2006	2005
2,038,194	1,928,088	1,949,099	1,801,693	1,680,132	1,772,674
975,591	1,045,424	850,023	924,900	740,900	1,300,775
613,167	95,033	101,238	22,104	51,308	7,149
29,581	67,059	33,591	34,136	63,706	63,091
85,804	72,977	89,531	95,688	63,329	14,860
1,657,781	4,918,407	5,624,583	1,806,638	1,685,868	1,748,426
644,702	544,987	540,132	622,263	627,273	603,223
8,211	10,687	14,039	33,281	40,707	63,632
178,906	359,361	1,152,369	360,942	212,944	152,247
<b>6,231,937</b>	<b>9,042,023</b>	<b>10,354,605</b>	<b>5,701,645</b>	<b>5,166,167</b>	<b>5,726,077</b>
1,208,401	1,188,864	1,604,746	1,519,395	1,328,680	1,275,999
1,046,893	1,065,016	944,049	910,403	899,601	859,456
350	-	-	-	-	-
908,038	823,228	780,356	715,978	751,392	623,785
793,123	770,263	411,246	592,420	345,010	469,086
529,177	461,238	460,743	433,101	392,797	368,922
357,810	386,846	535,053	544,152	549,959	776,233
920,784	4,719,815	6,346,405	1,592,051	621,700	516,989
<b>5,764,576</b>	<b>9,415,270</b>	<b>11,082,598</b>	<b>6,307,500</b>	<b>4,889,139</b>	<b>4,890,470</b>

**City of Independence**



**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 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, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2013, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 20, 2014. Our report expressed unmodified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of Independence Light and Power, Telecommunications.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Independence's internal control over financial reporting to determine the audit procedures appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City of Independence's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and 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 in internal control described in the accompanying Schedule of Findings as items (A) and (B) to be material weaknesses.

### 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 the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 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

The City of Independence's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City of Independence's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

June 20, 2014

City of Independence

Schedule of Findings

Year ended June 30, 2013

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from performing duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally one or two individuals may have control over the following areas for which no compensating controls exist:
- (1) Accounting system – performance of all accounting functions and having custody of assets.
  - (2) Cash - initiating cash receipt and disbursement functions, handling and recording cash and reconciling.
  - (3) Receipts – collecting, depositing, journalizing and posting.
  - (4) Compensated absences - no review by an independent person.

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 documented by the signature or initials of the reviewer and the date of the review.

Response – We are limited in the number of staff available for adequate segregation. However, we have involved the Mayor in reviewing and signing off on reconciliation reports.

Conclusion – Response accepted.

- (B) Financial Reporting – Various adjustments to the financial statements were required, including:
- Certain transfers between funds were made in error, resulting in material errors for several fund balances at June 30, 2013. Adjustments were subsequently made to properly record these amounts in the financial statements.
  - The City utilized accounts receivable and accounts payable in its general ledger for the year ended June 30, 2012. Since the City reports on a cash basis, the balance in these accounts should be zero. While these accounts had a zero balance at June 30, 2013, adjustments to receipts and disbursements were necessary to reverse prior year accruals to properly report cash basis activity.

Recommendation – The City should implement procedures to ensure all transfers are properly recorded in the City's financial statements. The City should approve and record corrective transfers to adjust the City's general ledger to agree with the audit.

City of Independence  
Schedule of Findings  
Year ended June 30, 2013

Response – The City inadvertently transferred \$350,000 twice from the Debt Service Fund to the Enterprise, Sewer Fund. The City Council approved a corrective transfer on January 13, 2014.

Conclusion – Response accepted.

- (C) Computer System – The City does not have a written disaster recovery plan for its computer system.

Recommendation – The City should develop a written disaster recovery plan.

Response – This is something we've discussed and have taken some initial steps to mitigate dangers. However, a written plan is still needed.

Conclusion - Response accepted.

- (D) Independence Fire Department - All accounting functions are handled by the Treasurer, including approval of disbursements and signing of checks. Also, pre-numbered receipts are not issued for all collections.

Recommendation - The Fire Department should segregate accounting duties to the extent possible, including approval of disbursements and signing of checks and require the issuance of pre-numbered receipts for all collections.

Response – In addition to the Treasurer, we will have someone sign off on the reconciliation between receipts and bank. We encourage them to follow recommendations.

Conclusion - Response accepted.

- (E) Independence Public Library Foundation – All accounting functions are handled by one or two individuals without adequate compensating controls. In addition, pre-numbered receipts are not issued for collections.

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

Response – We have suggested and requested the Library perform the issuance of pre-numbered receipts, namely for the sale of books.

Conclusion - Response accepted.

City of Independence

Schedule of Findings

Year ended June 30, 2013

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

- (1) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amount budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – Final disbursements for the bond refinancing and other unanticipated expenses came up without the ability to timely amend. We didn’t realize the amount would be as much as it was.

Conclusion – Response accepted.

- (2) 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.

- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Daniel Eschen, Water Department, Father owns Napa Auto Parts	Miscellaneous parts	\$ 12,910
Carmon McGraw, Secretary/Receptionist, Husband owns Indy Crop Care, Inc.	Chemicals	1,141

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

The transactions with NAPA Auto Parts may represent a conflict of interest in accordance with Chapter 362.5(3)(j) of the Code of Iowa since the total transactions exceeded \$1,500 during the year and were not competitively bid.

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

Response – Daniel does not have the authority to determine purchase policies so this conflict is limited. We believe these transactions do not present a conflict of interest.

Conclusion – Response acknowledged. The City should consult legal counsel to resolve this matter.

City of Independence

Schedule of Findings

Year ended June 30, 2013

- (5) 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.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.
- (7) 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.
- (8) Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.
- (9) 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.

In past years, the City certified large internal loans to the County Auditor which included estimated or projected costs to be paid from the Special Revenue, Tax Increment Financing (TIF) Fund. The City does not have a system for tracking actual costs for comparison to certified costs for subsequent certification of costs in excess of the amount certified or for decertification of amounts for which the certified amount exceeded the actual costs incurred. As a result of the amounts certified and the subsequent tax increment financing receipts, the balance of \$961,873 in the Special Revenue, TIF Fund at June 30, 2012 appeared excessive.

During the fiscal year ended June 30, 2013, the balance in the Special Revenue, TIF Fund decreased to \$30,019 at June 30, 2013. As discussed in finding (10) below, the City transferred \$500,000 to the Debt Service Fund. In addition, the City used a portion of the Special Revenue, TIF Fund balance to reimburse other funds for urban renewal project costs. The City transferred \$83,500 and \$343,092, from the Special Revenue, Tax Increment Financing Fund to the Special Revenue, Road Use Tax and the Capital Projects Funds, respectively, for urban renewal projects. However, the City did not properly reflect this activity on the TIF certifications to the County. The City did not decertify the excess balance in the Special Revenue, Tax Increment Financing Fund or certify the new debt as additional TIF debt.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City's TIF certifications, including the need to decertify the excess balance created from prior years' certifications and certify the additional debt incurred for urban renewal projects.

Response – We will review the recommendation with TIF legal counsel.

Conclusion – Response accepted.

City of Independence

Schedule of Findings

Year ended June 30, 2013

- (10) Debt Service Fund – At June 30, 2013, the City’s Debt Service Fund had a balance of \$637,638 which may be excessive when compared to the annual debt service requirements and the property tax levied annually to cover these requirements.

During the year ended June 30, 2013, the City transferred \$612,125 from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund. The transfers exceeded the requirements for the Series 2009 general obligation urban renewal street improvement bonds by \$500,000. The City originally planned to use the \$500,000 to refund the 2005B general obligation refunding bonds but, after consulting with bond counsel, the City did not use the \$500,000 which remained in the Debt Service Fund.

Recommendation – The City should transfer \$500,000 from the Debt Service Fund to the Special Revenue, Tax Increment Financing Fund. In addition, the City should review the Debt Service Fund activity and balance and determine whether a reduction in the debt service property tax levy is appropriate to further reduce the fund balance.

Response – A corrective transfer will be made. We will continue to review the Debt Service Fund balance and adjust the levy if needed.

Conclusion – Response accepted.

- (11) Annual Urban Renewal Report – The Annual Urban Renewal Report was approved and certified to the Iowa Department of Management on or before December 1. However, the City overstated the amount reported as TIF debt outstanding by \$30,313. In addition, the amounts reported on the Levy Authority Summary for beginning balance, receipts and ending cash balance did not reconcile to the City’s Special Revenue, Tax Increment Financing Fund.

Recommendation – The City should ensure the debt outstanding and TIF Fund amounts reported on the Levy Authority Summary agree with the City’s records.

Response – We will ensure correct amounts are reported and balances agree to City records.

Conclusion – Response accepted.

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City of Independence

Staff

This audit was performed by:

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