

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE _____

July 9, 2015

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 \$9,468,652 for the year ended June 30, 2014, a 4% decrease from the prior year. The receipts included \$2,576,641 in property tax, \$161,435 from tax increment financing, \$3,307,017 from charges for service, \$775,343 from operating grants, contributions and restricted interest, \$519,408 from capital grants, contributions and restricted interest, \$551,026 from local option sales tax, \$55,169 from unrestricted interest on investments, \$1,146,550 of bond proceeds and \$376,063 from other general receipts.

Disbursements for the year ended June 30, 2014 totaled \$9,506,982, a 15% decrease from the prior year, and included \$2,101,026 for capital projects, \$1,637,420 for public safety and \$1,359,284 for public works. Also, disbursements for business type activities totaled \$1,849,498.

The significant decrease in receipts is due to a reduction of general obligation bond proceeds in fiscal year 2014. The significant decrease in disbursements is due to the payment of the remaining balance of the sewer revenue improvement and refunding bonds in fiscal year 2013.

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/1420-0076-B00F.pdf>.

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

JUNE 30, 2014

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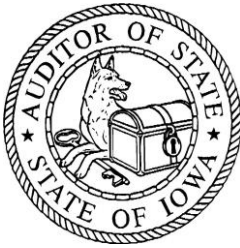
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City of Independence

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2014)		
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
(After January 2014)		
Bonita Davis	Mayor	Jan 2018
Robert Hill	Council Member	Jan 2016
Arletta Schweitzer	Council Member	(Resigned Aug 2013)
Dustin Dallenbach (Elected Nov 2013)	Council Member	Jan 2016
Dennis Vaughn	Council Member	Jan 2016
Donald Brown	Council Member	Jan 2018
Austin Grover	Council Member	Jan 2018
Jon Holland	Council Member	Jan 2018
Michael Lenius	Council Member	Jan 2018
Steven T. Diers	City Manager	(Resigned Feb 2014)
Albert W. Roder (Started Aug 2014)	City Manager	Indefinite
Barbara K. Rundle	City Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

City of Independence



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

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, 2014, 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 cash balances of the aggregate discretely presented component units is \$12,004,506, \$11,330,578 and \$7,740,265, 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, 2014, 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, 2014, 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 are 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 four years ended June 30, 2013 (which are not presented herein) and expressed unmodified 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 unmodified 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 36 through 38, 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 9, 2015 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 9, 2015

City of Independence

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 9.7%, or approximately \$741,000, from fiscal year 2013 to fiscal year 2014. Tax increment financing increased approximately \$54,000 while bond proceeds decreased approximately \$1,112,000. The prior year bond proceeds were used to retire general obligation bonds and sewer revenue bonds.
- Disbursements for governmental activities increased 18.4%, or approximately \$1,189,000, from fiscal year 2013 to fiscal year 2014. Capital projects disbursements increased approximately \$1,476,000 due to disbursements related to the HVAC upgrade and Avenue 20 pavement widening and lighting projects during fiscal year 2014. Debt service disbursements decreased approximately \$297,000 due to the refunding of general obligation bonds in the prior year.
- The City's total cash basis net position decreased less than 1%, or \$38,330, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities decreased \$225,452 and the cash basis net position of the business type activities increased \$187,122.

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.

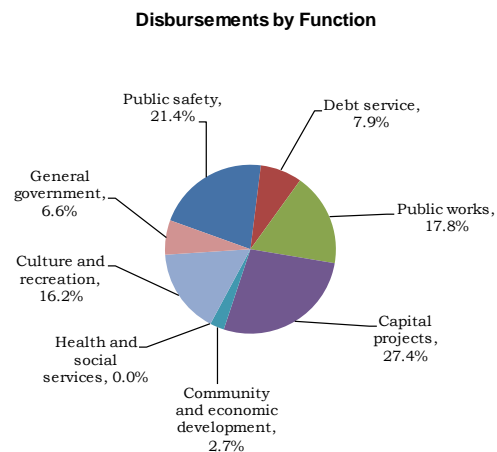
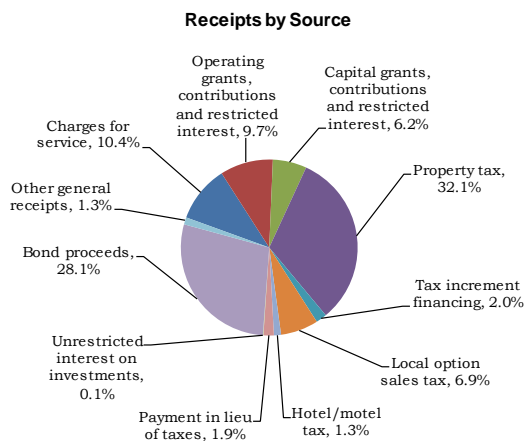
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

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 \$3,214,907 to \$2,989,455. 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,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 834,903	825,212
Operating grants, contributions and restricted interest	775,343	856,910
Capital grants, contributions and restricted interest	495,803	204,461
General receipts:		
Property tax	2,576,641	2,525,874
Tax increment financing	161,435	106,940
Local option sales tax	551,026	535,639
Hotel/motel tax	103,206	94,222
Payment in lieu of taxes	156,000	143,000
Unrestricted interest on investments	7,815	27,302
Bond proceeds	1,146,550	2,258,650
Other general receipts	107,559	79,102
Total receipts	6,916,281	7,657,312
Disbursements:		
Public safety	1,637,420	1,670,893
Public works	1,359,284	1,499,710
Health and social services	1,000	1,000
Culture and recreation	1,239,917	1,132,898
Community and economic development	209,003	171,297
General government	507,195	467,402
Debt service	602,639	900,081
Capital projects	2,101,026	625,272
Total disbursements	7,657,484	6,468,553
Change in cash basis net position before transfers	(741,203)	1,188,759
Transfers, net	515,751	(1,957,178)
Change in cash basis net position	(225,452)	(768,419)
Cash basis net position beginning of year	3,214,907	3,983,326
Cash basis net position end of year	\$ 2,989,455	3,214,907



The City's total receipts for governmental activities decreased 9.7%, or approximately \$741,000, from the prior year. The total cost of all programs and services increased approximately \$1,189,000, or 18.4%, with no new programs added this year. The decrease in receipts was primarily the result of the issuance of general obligation refunding bonds in fiscal year 2013. The increase in disbursements was primarily the result of the HVAC upgrade and Avenue 20 pavement widening and lighting projects.

Changes in Cash Basis Net Position of Business Type Activities		
	Year ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 662,313	646,124
Sewer	1,809,801	1,551,771
General receipts:		
Unrestricted interest on investments	47,354	49,862
Intergovernmental	23,605	-
Other general receipts	9,298	4,063
Total receipts	<u>2,552,371</u>	<u>2,251,820</u>
Disbursements:		
Water	531,593	576,233
Sewer	1,317,905	4,133,981
Total disbursements	<u>1,849,498</u>	<u>4,710,214</u>
Change in cash basis net position before transfers	702,873	(2,458,394)
Transfers, net	(515,751)	1,957,178
Change in cash basis net position	187,122	(501,216)
Cash basis net position beginning of year	4,295,340	4,796,556
Cash basis net position end of year	<u>\$ 4,482,462</u>	<u>4,295,340</u>

Total business type activities receipts increased approximately \$301,000, or 13.3%. Total disbursements for the fiscal year decreased 60.7%, or approximately \$2,861,000, primarily due to the call and redemption of sewer revenue bonds with general obligation refunding bond proceeds in fiscal year 2013. The cash balance increased \$187,122 over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$2,989,349, a decrease of \$225,558 compared to last year's total of \$3,214,907. 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 \$101,667 from the prior year to \$590,105. The decrease is attributable to an overall increase in disbursements of \$404,374, primarily related to capital projects partially paid for with bond proceeds.
- The Special Revenue, Road Use Tax Fund cash balance increased \$123,269 to \$132,552 during the fiscal year. This increase was primarily due to a decrease in public works disbursements of \$144,454 and an increase in receipts of \$43,213.
- The Special Revenue, Employee Benefits Fund cash balance increased \$136,037 from \$412,125 to \$548,162. Receipts increased \$128,712 and disbursements increased \$18,243.

- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$128,257 from \$30,019 to a deficit of \$98,238. Receipts increased \$54,495. However, the City transferred \$262,765 to the Special Revenue, Road Use Tax, 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 \$96,310. Receipts and transfers out to other funds were \$15,387 and \$5,283, respectively, higher than the prior year.
- The Debt Service Fund cash balance decreased \$79,482 to \$558,156 at the end of the fiscal year. Disbursements decreased \$297,442 from \$900,081 to \$602,639 as general obligation bonds were called and redeemed during fiscal year 2013 decreasing payments in fiscal year 2014. Additionally, transfers in from the Special Revenue, Tax Increment Financing Fund decreased \$530,205 and receipts decreased \$137,698.
- The Capital Projects Fund cash balance decreased \$219,822 to \$927,925 at the end of the fiscal year. The City spent a total of \$1,724,067 on construction projects in the current year, compared to \$545,853 in the prior year. During fiscal year 2014, the City deposited \$848,447 of bond proceeds in the Capital Projects Fund. Intergovernmental receipts increased \$267,737 over the prior year, primarily due to increased federal grants received for various projects. Additionally, transfers in from the Special Revenue, Tax Increment Financing Fund totaled \$53,600.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance decreased from \$2,069,275 to \$1,992,049. Total receipts increased \$12,362 and disbursements increased \$44,623. In addition, transfers of \$155,000 were made from the Water Fund to the Special Revenue, Economic Development and Capital Projects Funds.
- The Enterprise, Sewer Fund cash balance increased \$264,323 to \$2,490,388. Total receipts increased \$288,189 over the prior year. Disbursements decreased \$2,816,068 as sewer revenue bonds were called and retired during the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on April 28, 2014 and resulted in an increase of \$649,050 in budgeted disbursements due to increasing the debt service function and decreasing other functions for projects not anticipated to be completed during fiscal year 2014. The amendment also decreased receipts \$261,362 for funding related to projects which is not expected to be received.

The City's receipts were \$103,601 less than budgeted. Total disbursements were \$127,930, or 1.2%, less than the amended budget. The debt service function was \$1,666,479 less than the amended budget. The function was amended for significantly more than the disbursements made related to debt service. The amendment decreased the capital projects function by \$491,029 for projects not anticipated to be completed. However, capital projects function disbursements for the fiscal year were \$2,101,026.

Disbursements exceeded the amounts budgeted in capital projects and the business type activities functions for the year ended June 30, 2014.

DEBT ADMINISTRATION

At June 30, 2014, the City had \$7,281,111 of bonds/notes and other long-term debt outstanding, compared to \$6,779,397 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2014	2013
General obligation bonds/notes	\$ 4,530,000	3,870,000
Sewer revenue bonds	2,675,000	2,815,000
Capital lease purchase agreement	20,710	31,175
Revenue loan agreement	55,401	63,222
Total	<u>\$ 7,281,111</u>	<u>6,779,397</u>

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 \$4,591,810, including annually appropriated TIF developer agreements of \$41,100, is significantly below its constitutional debt limit of approximately \$15,985,000.

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 2015 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 2014. This compares with the State’s unemployment rate of 4.4%.

These factors were taken into account when adopting the budget for fiscal year 2015. Property tax receipts available for appropriation in the fiscal year 2015 operating budget are \$115,387 higher than the fiscal year 2014 actual of \$2,570,302. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease \$883,461 from the final fiscal year 2014 budget to \$8,706,483. The City has added no major new programs or initiatives.

If these estimates are realized, the City’s June 30, 2015 cash balance is expected to increase approximately \$125,000 by the close of fiscal year 2015.

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, 2014

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,637,420	46,326	128,347	-
Public works	1,359,284	514,452	596,142	23,605
Health and social services	1,000	-	-	-
Culture and recreation	1,239,917	229,690	50,854	-
Community and economic development	209,003	-	-	-
General government	507,195	44,435	-	-
Debt service	602,639	-	-	-
Capital projects	2,101,026	-	-	472,198
Total governmental activities	7,657,484	834,903	775,343	495,803
Business type activities:				
Water	531,593	662,313	-	-
Sewer	1,317,905	1,809,801	-	23,605
Total business type activities	1,849,498	2,472,114	-	23,605
Total	\$ 9,506,982	3,307,017	775,343	519,408
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
(1,462,747)	-	(1,462,747)
(225,085)	-	(225,085)
(1,000)	-	(1,000)
(959,373)	-	(959,373)
(209,003)	-	(209,003)
(462,760)	-	(462,760)
(602,639)	-	(602,639)
(1,628,828)	-	(1,628,828)
(5,551,435)	-	(5,551,435)
-	130,720	130,720
-	515,501	515,501
-	646,221	646,221
(5,551,435)	646,221	(4,905,214)
2,500,588	-	2,500,588
76,053	-	76,053
161,435	-	161,435
551,026	-	551,026
103,206	-	103,206
156,000	-	156,000
7,815	47,354	55,169
1,146,550	-	1,146,550
107,559	9,298	116,857
515,751	(515,751)	-
5,325,983	(459,099)	4,866,884
(225,452)	187,122	(38,330)
3,214,907	4,295,340	7,510,247
\$ 2,989,455	4,482,462	7,471,917
\$ 95,000	-	95,000
132,552	-	132,552
548,162	-	548,162
558,156	279,732	837,888
927,925	175,000	1,102,925
275,267	-	275,267
452,393	4,027,730	4,480,123
\$ 2,989,455	4,482,462	7,471,917

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

As of and for the year ended June 30, 2014

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Tax Increment Financing
Receipts:				
Property tax	\$ 1,766,151	-	728,098	-
Tax increment financing	-	-	-	161,435
Other city tax	109,545	-	-	-
Licenses and permits	69,066	-	-	-
Use of money and property	59,219	-	-	-
Intergovernmental	290,692	619,747	-	-
Charges for service	706,356	-	-	-
Special assessments	-	-	-	-
Miscellaneous	84,158	376	18,569	-
Total receipts	<u>3,085,187</u>	<u>620,123</u>	<u>746,667</u>	<u>161,435</u>
Disbursements:				
Operating:				
Public safety	1,215,905	-	376,451	-
Public works	551,453	692,694	115,139	-
Health and social services	1,000	-	-	-
Culture and recreation	1,049,246	-	190,712	-
Community and economic development	149,098	-	-	26,927
General government	385,277	-	121,946	-
Debt service	-	-	-	-
Capital projects	376,959	-	-	-
Total disbursements	<u>3,728,938</u>	<u>692,694</u>	<u>804,248</u>	<u>26,927</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(643,751)</u>	<u>(72,571)</u>	<u>(57,581)</u>	<u>134,508</u>
Other financing sources (uses):				
Bond proceeds, net of \$3,450 discount	298,103	-	-	-
Sale of capital assets	3,500	-	-	-
Transfers in	240,481	195,840	193,618	-
Transfers out	-	-	-	(262,765)
Total other financing sources (uses)	<u>542,084</u>	<u>195,840</u>	<u>193,618</u>	<u>(262,765)</u>
Change in cash balances	<u>(101,667)</u>	<u>123,269</u>	<u>136,037</u>	<u>(128,257)</u>
Cash balances beginning of year	<u>691,772</u>	<u>9,283</u>	<u>412,125</u>	<u>30,019</u>
Cash balances end of year	<u>\$ 590,105</u>	<u>132,552</u>	<u>548,162</u>	<u>(98,238)</u>
Cash Basis Fund Balances				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Streets	-	132,552	-	-
Employee benefits	-	-	548,162	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	39,580	-	-	-
Committed for library purposes	2,557	-	-	-
Unassigned	547,968	-	-	(98,238)
Total cash basis fund balances	<u>\$ 590,105</u>	<u>132,552</u>	<u>548,162</u>	<u>(98,238)</u>

See notes to financial statements.

Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
-	76,053	-	-	2,570,302
-	-	-	-	161,435
551,026	-	-	-	660,571
-	-	-	-	69,066
-	-	-	-	59,219
-	-	472,198	-	1,382,637
-	-	-	-	706,356
-	9,308	-	-	9,308
-	-	-	44,234	147,337
551,026	85,361	472,198	44,234	5,766,231
-	-	-	45,099	1,637,455
-	-	-	-	1,359,286
-	-	-	-	1,000
-	-	-	-	1,239,958
-	-	-	32,978	209,003
-	-	-	-	507,223
-	602,639	-	-	602,639
-	-	1,724,067	-	2,101,026
-	602,639	1,724,067	78,077	7,657,590
551,026	(517,278)	(1,251,869)	(33,843)	(1,891,359)
-	-	848,447	-	1,146,550
-	-	-	-	3,500
-	455,996	183,600	35,000	1,304,535
(497,819)	(18,200)	-	(10,000)	(788,784)
(497,819)	437,796	1,032,047	25,000	1,665,801
53,207	(79,482)	(219,822)	(8,843)	(225,558)
43,103	637,638	1,147,747	243,220	3,214,907
96,310	558,156	927,925	234,377	2,989,349
-	-	-	95,000	95,000
-	-	-	-	132,552
-	-	-	-	548,162
-	558,156	-	-	558,156
-	-	927,925	-	927,925
96,310	-	-	139,377	275,267
-	-	-	-	2,557
-	-	-	-	449,730
96,310	558,156	927,925	234,377	2,989,349

City of Independence

Reconciliation of the Statement of Cash Receipts,
Disbursements and Changes in Cash Balances to the
Cash Basis Statement of Activities and Net Position –
Governmental Funds

As of and for the year ended June 30, 2014

Total governmental funds cash balances (page 19) \$ 2,989,349

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

106

Cash basis net position of governmental activities (page 17) \$ 2,989,455

Change in cash balances (page 19)

\$ (225,558)

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

106

Change in cash basis net position of governmental activities (page 17) \$ (225,452)

See notes to financial statements.

City of Independence

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

As of and for the year ended June 30, 2014

	Enterprise			Internal
	Water	Sewer	Total	Service Health Insurance
Operating receipts:				
Charges for service	\$ 661,824	1,809,631	2,471,455	103,449
Miscellaneous	489	170	659	-
Total operating receipts	662,313	1,809,801	2,472,114	103,449
Operating disbursements:				
Public safety	-	-	-	27,336
Public works	-	-	-	1,601
Culture and recreation	-	-	-	31,967
General government	-	-	-	22,473
Business type activities	410,463	856,608	1,267,071	19,941
Total operating disbursements	410,463	856,608	1,267,071	103,318
Excess of operating receipts over operating disbursements	251,850	953,193	1,205,043	131
Non-operating receipts (disbursements):				
Intergovernmental	\$ -	23,605	23,605	-
Interest on investments	29,571	17,783	47,354	-
Farm rent	-	4,063	4,063	-
Insurance proceeds	-	5,235	5,235	-
Debt service	-	(275,228)	(275,228)	-
Equipment	-	(159,172)	(159,172)	-
Capital projects	(121,147)	(26,905)	(148,052)	-
Net non-operating disbursements	(91,576)	(410,619)	(502,195)	-
Excess of receipts over disbursements	160,274	542,574	702,848	131
Transfers in	-	19,250	19,250	-
Transfers out	(237,500)	(297,501)	(535,001)	-
Net transfers out	(237,500)	(278,251)	(515,751)	-
Change in cash balances	(77,226)	264,323	187,097	131
Cash balances beginning of year	2,069,275	2,226,065	4,295,340	-
Cash balances end of year	\$ 1,992,049	2,490,388	4,482,437	131
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ -	279,732	279,732	-
Future capital outlay	-	175,000	175,000	-
Unrestricted	1,992,049	2,035,656	4,027,705	131
Total cash basis fund balances	\$ 1,992,049	2,490,388	4,482,437	131

See notes to financial statements.

City of Independence

Reconciliation of the Statement of Cash Receipts,
Disbursements and Changes in Cash Balances to the
Cash Basis Statement of Activities and Net Position –
Proprietary Funds

As of and for the year ended June 30, 2014

Total enterprise funds cash balances (page 21) \$ 4,482,437

Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

25

Cash basis net position of business type activities (page 17) \$ 4,482,462

Change in cash balances (page 21)

\$ 187,097

Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

25

Change in cash basis net position of business type activities (page 17) \$ 187,122

See notes to financial statements.

City of Independence

Notes to Financial Statements

June 30, 2014

(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 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 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 the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances 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, 2014, disbursements exceeded the amounts budgeted in the capital projects and the business type activities functions.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2014 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 ensure 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 \$ 943,689 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		Sewer Revenue Bonds		Total	
	Bonds/Notes		Principal	Interest	Principal	Interest
	Principal	Interest				
2015	\$ 605,000	102,740	145,000	128,567	750,000	231,307
2016	545,000	92,675	150,000	122,188	695,000	214,863
2017	555,000	81,578	160,000	115,587	715,000	197,165
2018	570,000	69,430	165,000	108,388	735,000	177,818
2019	500,000	55,563	175,000	100,397	675,000	155,960
2020-2024	1,755,000	113,282	1,315,000	372,050	3,070,000	485,332
2025	-	-	565,000	28,250	565,000	28,250
Total	\$ 4,530,000	515,268	2,675,000	975,427	7,205,000	1,490,695

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$3,325,000 of sewer revenue bonds issued in May 2005. Proceeds from the bonds provided financing for improvements and extensions to the system. The bonds are payable solely from sewer customer net receipts and are payable through 2025. For the year ended June 30, 2014, principal and interest payments on the bonds required approximately 29% of net receipts. Total principal and interest remaining to be paid on the bonds is \$3,650,427. For the current year, principal and interest paid and total customer net receipts were \$274,728 and \$953,193, respectively.

The resolution providing for the issuance of the sewer revenue bonds includes 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 is to be established and maintained. Monthly transfers to the reserve account 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, 2014, the City made 12 monthly payments totaling \$11,890 under the agreement, leaving an outstanding principal balance of \$20,710 at June 30, 2014.

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 \$595,728, respectively. The outstanding loan balance at June 30, 2014 was \$55,401.

Internal Advance

On November 25, 2013, the City passed a resolution directing an amount not in excess of \$320,600 be advanced from the Enterprise, Water Fund to fund various urban renewal projects and initiatives set forth in the City's Urban Renewal Area. The City advanced \$35,000 to the Special Revenue, Economic Development Fund and \$120,000 to the Capital Projects Fund for a total of \$155,000 from the Enterprise Water Fund. These advances, without interest, will be repaid no later than June 1, 2015, provided there are incremental property tax receipts available for such purpose which have been allocated to or accrued in the Special Revenue, Tax Increment Financing Fund.

(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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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, 2014, 2013 and 2012 were \$189,250, \$177,356 and \$168,329, 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 and dental benefits for employees, retirees and their spouses. There are 39 active and 8 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug and dental 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, 3 retirees who were grandfathered in under the prior policy are receiving this benefit at June 30, 2014. 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 \$120 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 health and dental for the City and plan members are \$380 and \$24 for single coverage and \$949 and \$81 for family coverage, respectively. The same monthly premiums apply to retirees. For the year ended June 30, 2014, the City contributed \$407,567 and plan members eligible for benefits contributed \$47,098 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 \$301,383. The total amount rebated during the year ended June 30, 2014 was \$19,167. The City has rebated a total of \$130,806 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2014 was \$198,600.

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 \$41,100 which has been appropriated at June 30, 2014 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, 2014, primarily relating to the General Fund and the Enterprise, Water and Sewer Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 71,000
Compensatory time	12,000
Holiday	53,000
Casual	<u>7,000</u>
Total	<u>\$143,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

(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, 2014, the City paid \$103,318 to Group Services for claims and administrative fees.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 222,281
	Debt Service	18,200
		<u>240,481</u>
Special Revenue: Road Use Tax	Special Revenue:	
	Tax Increment Financing	80,000
	Enterprise:	
	Water	82,500
	Sewer	<u>33,340</u>
		<u>195,840</u>
Employee Benefits	Special Revenue:	
	Local Option Sales Tax	<u>193,618</u>
Economic Development	Enterprise	
	Water	<u>35,000</u>
Debt Service	Special Revenue:	
	Tax Increment Financing	109,915
	Local Option Sales Tax	81,920
	Enterprise:	
	Sewer	<u>264,161</u>
		<u>455,996</u>
Capital Projects	Special Revenue:	
	Tax Increment Financing	53,600
	LMI Urban Renewal	10,000
	Enterprise:	
	Water	<u>120,000</u>
		<u>183,600</u>
Enterprise: Sewer	Special Revenue:	
	Tax Increment Financing	<u>19,250</u>
Total		<u>\$ 1,323,785</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 700 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 estimated for the fiscal 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 at a level determined by the Board not to exceed 300% of basis rate 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 property operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses, reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal 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, 2014 were \$83,730.

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 through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence and each location. Property risks exceeding \$150,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred. As of June 30, 2014, 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. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

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, 2013.

Receipts:	
Capital donations	\$ 1,604
Material donations	14,415
Summer reading program	2,080
Buchanan County Community Foundation	5,035
Programming	2,807
Interest	11,696
Renovations	1,897
Miscellaneous	6,853
Total receipts	<u>46,387</u>
Disbursements:	
Equipment and additional furnishings	1,802
Landscaping	155
Supplies	135
Materials	21,935
Summer reading program	2,547
Buchanan County Community Foundation	5,138
Programming	6,903
Miscellaneous	3,526
Total disbursements	<u>42,141</u>
Excess of receipts over disbursements	4,246
Balance beginning of year	<u>332,913</u>
Balance end of year	<u>\$ 337,159</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.

(13) Subsequent Events

In March 2015, the claim by the former Mayor against one of the City's police officers was settled and the case was dismissed with prejudice.

In May 2015, the City issued \$2.2 million of general obligation corporate purpose and refunding bonds, series 2015A.

(14) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and other information.

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, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total
Receipts:				
Property tax	\$ 2,570,302	-	-	2,570,302
Tax increment financing	161,435	-	-	161,435
Other city tax	660,571	-	-	660,571
Licenses and permits	69,066	-	-	69,066
Use of money and property	59,219	51,417	-	110,636
Intergovernmental	1,382,637	23,605	-	1,406,242
Charges for service	706,356	2,574,904	103,449	3,177,811
Special assessments	9,308	-	-	9,308
Miscellaneous	147,337	5,894	44,234	108,997
Total receipts	5,766,231	2,655,820	147,683	8,274,368
Disbursements:				
Public safety	1,637,455	27,336	72,435	1,592,356
Public works	1,359,286	1,601	1,601	1,359,286
Health and social services	1,000	-	-	1,000
Culture and recreation	1,239,958	31,967	31,967	1,239,958
Community and economic development	209,003	-	-	209,003
General government	507,223	22,473	22,473	507,223
Debt service	602,639	-	-	602,639
Capital projects	2,101,026	-	-	2,101,026
Business type activities	-	1,869,464	19,941	1,849,523
Total disbursements	7,657,590	1,952,841	148,417	9,462,014
Excess (deficiency) of receipts over (under) disbursements	(1,891,359)	702,979	(734)	(1,187,646)
Other financing sources (uses), net	1,665,801	(515,751)	-	1,150,050
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(225,558)	187,228	(734)	(37,596)
Balances beginning of year	3,214,907	4,295,340	17,155	7,493,092
Balances end of year	\$ 2,989,349	4,482,568	16,421	7,455,496

See accompanying independent auditor's report.

Budgeted Amounts		Final to Total Variance
Original	Final	
2,552,269	3,050,389	(480,087)
158,785	158,785	2,650
617,385	726,680	(66,109)
36,750	32,711	36,355
190,921	142,952	(32,316)
2,087,151	984,938	421,304
2,898,570	2,328,550	849,261
18,200	10,173	(865)
79,300	942,791	(833,794)
8,639,331	8,377,969	(103,601)
2,058,095	1,678,885	86,529
1,426,765	1,426,765	67,479
1,000	1,000	-
1,175,603	1,245,158	5,200
191,668	213,139	4,136
517,572	512,898	5,675
532,453	2,269,118	1,666,479
1,113,581	622,552	(1,478,474)
1,924,157	1,620,429	(229,094)
8,940,894	9,589,944	127,930
(301,563)	(1,211,975)	24,329
-	1,222,157	(72,107)
(301,563)	10,182	(47,778)
7,360,596	7,360,596	132,496
7,059,033	7,370,778	84,718

City of Independence

Notes to Other Information – Budgetary Reporting

June 30, 2014

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 \$649,050. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the capital projects and the business type activities functions.

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, 2014

	LMI Urban Renewal	Special Economic Development
Receipts:		
Miscellaneous	\$ -	-
Disbursements:		
Operating:		
Public safety	-	-
Community and economic development	-	32,978
Total disbursements	-	32,978
Excess (deficiency) of receipts over (under) disbursements	-	(32,978)
Other financing sources (uses):		
Transfers in	-	35,000
Transfers out	(10,000)	-
Total other financing sources (uses)	(10,000)	35,000
Change in cash balances	(10,000)	2,022
Cash balances beginning of year	131,065	-
Cash balances end of year	\$ 121,065	2,022
Cash Basis Fund Balances		
Nonspendable – Cemetery perpetual care	\$ -	-
Restricted for other purposes	121,065	2,022
Total cash basis fund balances	\$ 121,065	2,022

See accompanying independent auditor's report.

<u>Revenue</u>	<u>Permanent</u>	
<u>Independence</u>	<u>Cemetery</u>	
<u>Fire</u>	<u>Perpetual</u>	
<u>Department</u>	<u>Care</u>	<u>Total</u>
44,234	-	44,234
45,099	-	45,099
-	-	32,978
45,099	-	78,077
(865)	-	(33,843)
-	-	35,000
-	-	(10,000)
-	-	25,000
(865)	-	(8,843)
17,155	95,000	243,220
16,290	95,000	234,377
-	95,000	95,000
16,290	-	139,377
16,290	95,000	234,377

City of Independence
Schedule of Indebtedness
Year ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
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	0.40-2.50	2,270,000
City hall, recreation center and fire truck, series 2013B	Oct 9, 2013	2.00-3.00	1,150,000
Total			
Revenue bonds:			
Sewer revenue improvement, series 2005A	May 1, 2005	4.40-5.00%	\$ 3,325,000
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
390,000	-	70,000	320,000	13,985
675,000	-	85,000	590,000	24,415
535,000	-	60,000	475,000	13,392
2,270,000	-	275,000	1,995,000	29,122
-	1,150,000	-	1,150,000	17,189
\$ 3,870,000	1,150,000	490,000	4,530,000	98,103
2,815,000	-	140,000	2,675,000	134,728
31,175	-	10,465	20,710	1,425
63,222	-	7,821	55,401	-

City of Independence
Bond and Note Maturities
June 30, 2014

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		
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		-		-		-		
2024		-		-		-		
Total		<u>\$ 320,000</u>		<u>\$ 590,000</u>		<u>\$ 475,000</u>		

Year Ending June 30,	Revenue Bonds	
	Sewer Revenue Improvement, Series 2005A	
	Issued May 1, 2005	
	Interest	
	Rates	Amount
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>\$ 2,675,000</u>

See accompanying independent auditor's report.

Refunding Bonds, Series 2013A Issued Jun 25, 2013		City Hall, Recreation Center and Fire Truck Series 2013B Issued Oct 9, 2013		
Interest Rates	Amount	Interest Rates	Amount	Total
0.60%	\$ 275,000	2.00%	\$ 105,000	605,000
0.80	205,000	2.00	105,000	545,000
1.00	205,000	2.00	110,000	555,000
1.25	205,000	2.00	110,000	570,000
1.50	215,000	2.00	110,000	500,000
1.75	215,000	2.15	115,000	510,000
2.00	220,000	2.40	120,000	415,000
2.25	225,000	2.60	120,000	345,000
2.50	230,000	2.80	125,000	355,000
	-	3.00	130,000	130,000
	<u>\$ 1,995,000</u>		<u>\$ 1,150,000</u>	<u>4,530,000</u>

City of Independence

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

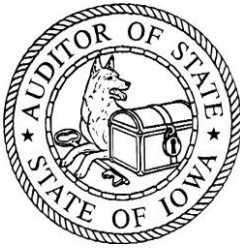
For the Last Ten Years

	2014	2013	2012
Receipts:			
Property tax	\$ 2,570,302	2,519,123	2,178,481
Tax increment financing	161,435	106,940	950,088
Other city tax	660,571	636,612	612,557
Licenses and permits	69,066	60,148	102,148
Use of money and property	59,219	72,964	68,800
Intergovernmental	1,382,637	1,185,984	1,338,587
Charges for service	706,356	701,425	695,363
Special assessments	9,308	23,108	2,181
Miscellaneous	147,337	91,872	105,241
Total	<u>\$ 5,766,231</u>	<u>5,398,176</u>	<u>6,053,446</u>
Disbursements:			
Operating:			
Public safety	\$ 1,637,455	1,670,893	1,541,741
Public works	1,359,286	1,499,710	1,362,701
Health and social services	1,000	1,000	1,000
Culture and recreation	1,239,958	1,132,898	1,075,096
Community and economic development	209,003	171,297	798,111
General government	507,223	467,402	501,051
Debt service	602,639	900,081	395,928
Capital projects	2,101,026	625,272	507,019
Total	<u>\$ 7,657,590</u>	<u>6,468,553</u>	<u>6,182,647</u>

See accompanying independent auditor's report.

2011	2010	2009	2008	2007	2006	2005
2,029,915	2,038,194	1,928,088	1,949,099	1,801,693	1,680,132	1,772,674
1,137,199	975,591	1,045,424	850,023	924,900	740,900	1,300,775
603,525	613,167	95,033	101,238	22,104	51,308	7,149
59,786	29,581	67,059	33,591	34,136	63,706	63,091
93,636	85,804	72,977	89,531	95,688	63,329	14,860
2,366,866	1,657,781	4,918,407	5,624,583	1,806,638	1,685,868	1,748,426
650,042	644,702	544,987	540,132	622,263	627,273	603,223
6,734	8,211	10,687	14,039	33,281	40,707	63,632
133,377	178,906	359,361	1,152,369	360,942	212,944	152,247
7,081,080	6,231,937	9,042,023	10,354,605	5,701,645	5,166,167	5,726,077
1,533,732	1,208,401	1,188,864	1,604,746	1,519,395	1,328,680	1,275,999
1,321,296	1,046,893	1,065,016	944,049	910,403	899,601	859,456
1,000	350	-	-	-	-	-
1,033,014	908,038	823,228	780,356	715,978	751,392	623,785
199,882	793,123	770,263	411,246	592,420	345,010	469,086
441,649	529,177	461,238	460,743	433,101	392,797	368,922
329,762	357,810	386,846	535,053	544,152	549,959	776,233
1,763,135	920,784	4,719,815	6,346,405	1,592,051	621,700	516,989
6,623,470	5,764,576	9,415,270	11,082,598	6,307,500	4,889,139	4,890,470

City of Independence



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Mary Mosiman, CPA
Auditor of State

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, 2014, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 9, 2015. 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 a deficiency in internal control we consider to be a material weakness and other deficiencies we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (B) through (H) to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 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 9, 2015

City of Independence

Schedule of Findings

Year ended June 30, 2014

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.
 - (5) Payroll – no independent review of rates entered into the computer system after entry by payroll personnel.

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 – The City of Independence will provide for the maximum segregation of duties possible within the staff capacities which continue to limit full segregation of duties as prescribed.

Conclusion – Response accepted.

- (B) Bank Reconciliations – Although the cash and investment balances were reconciled to the City's bank statement register (general ledger) at June 30, 2014, the bank statement register did not reconcile to the City's balance sheet activity by fund. A variance of \$11,307 was not resolved at June 30, 2014.

Recommendation – The City should establish procedures to ensure cash and investment balances per the bank are reconciled monthly to the City's general ledger and balance sheet activity by fund. Variances, if any, should be investigated and resolved timely.

Response – Bank reconciliations will be completed monthly with reports to the City Manager and City on a monthly basis to ensure compliance.

Conclusion – Response accepted.

City of Independence

Schedule of Findings

Year ended June 30, 2013

- (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 – The City is reviewing our disaster recovery plan options and will be creating our plan this year.

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 – The last time the auditors were here we talked with them and these are the things we have put into place:

1. On any checks greater than \$1,000, it takes the Treasurer and Fire Chief to sign checks.
2. When we do our seals in the fall, it now takes two of us to open those received by mail.
3. Receipts are issued upon request.

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 – The Independence Public Library Foundation will provide pre-numbered receipts for Foundation donations and Friends of the Library donations. The Friends Book store (on-going sale) transactions will be documented on a spreadsheet and the Friends Book Sale (biannual sale) volunteers will continue to use pre-numbered receipts. The Foundation will segregate duties to the extent possible for the Foundation Programming Fund, Foundation Building Fund and Friends of the Library Fund.

Conclusion – Response accepted.

City of Independence

Schedule of Findings

Year ended June 30, 2014

- (F) Petty Cash – Petty cash funds are maintained at City Hall, Parks and Recreation locations and the Library. Amounts in the petty cash funds are not verified by surprise counts.

Recommendation – The amounts maintained in the petty cash funds should be periodically verified by an independent person performing surprise counts.

Response – Petty cash funds will be verified through surprise counts throughout the year in each location.

Conclusion – Response accepted.

- (G) Countersignature of Checks – Although the City requires dual signatures for a check to be issued, signatures are created by the computer program when a check is printed.

Recommendation - To strengthen internal control, each check should be prepared by one person and then the supporting vouchers and invoices should be made available along with the check to a second or independent person for review and approval.

Response – The City of Independence will review options and alternatives for the current check signing and countersigning process.

Conclusion – Response accepted.

- (H) Capital Projects – The City does not formally reconcile total contract awards and subsequent change orders to payments. The City relies on outside grant administrators and/or the contracted City engineer to reconcile each contract and subsequent change orders to payments.

Recommendation – The City should ensure all awarded contracts are appropriately reconciled to ensure approved contract totals are not exceeded.

Response – The City of Independence will track internally all capital improvement projects and compare our tracking with that of the independent contractor or engineer.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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, 2014 exceeded the amounts budgeted in the capital projects and the business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – The City of Independence will follow Iowa Code in addressing future budget amendments as necessary.

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
Amy McGraw, Librarian, Brother-in-law owns McGraw's Carpet	Carpets/Flooring	\$ 27,082
Daniel Eschen, Water Department, Father owns NAPA Auto Parts	Miscellaneous parts	11,206
Daniel Eschen, Water Department, Uncle owns Eschen's Clothing	Clothing/Uniforms	2,584
Carmon McGraw, Secretary/Receptionist, Husband owns Indy Crop Care, Inc.	Chemicals	618

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, McGraw’s Carpet and Eschen’s Clothing may represent conflicts 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.

City of Independence

Schedule of Findings

Year ended June 30, 2014

Response – The City of Independence will consult with legal counsel to determine whether a conflict of interest exists and obtain their legal opinion. The City will comply with the Code of Iowa.

Conclusion – Response accepted.

- (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 resolution 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 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 did 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 appears 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 (11) 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. During fiscal year 2013, 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. During fiscal year 2014, the City transferred \$80,000, \$53,600 and \$19,240 from the Special Revenue, Tax Increment Financing Fund to the Special Revenue, Road Use Tax Fund, the Capital Projects Fund and the Sewer Fund, respectively, for urban

City of Independence

Schedule of Findings

Year ended June 30, 2013

renewal projects. However, the City did not properly reflect this activity on the TIF certifications to the County for either year. 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 certify the additional debt incurred for urban renewal projects.

Response – The City of Independence has worked with Speer Financial and Dorsey Whitney on all of our financing concerns. We will continue to use both firms more diligently to ensure compliance with all TIF regulations.

Conclusion – Response accepted.

- (10) Tax Increment Financing Indebtedness Certification – On November 25, 2013, the City Council passed a resolution authorizing an internal advance from the Enterprise, Water Fund, not to exceed \$320,600, to fund a portion of the costs related to various urban renewal projects. The City Council also passed a resolution authorizing the tax increment financing debt certification request for available TIF increment tax revenue for fiscal year 2015 which only included \$100,000 for an interfund loan for TIF projects. During fiscal year 2014, the City transferred \$120,000 to the Capital Projects Fund and \$35,000 to the Special Revenue, Economic Development Fund from the Enterprise, Water Fund for urban renewal purposes.

Recommendation – The City should include the total amount authorized for tax increment financing on its tax increment financing debt certificate.

Response – The City of Independence will include the total amount authorized to TIF on future debt certificates.

Conclusion – Response accepted.

- (11) Debt Service Fund – At June 30, 2013, the City’s Debt Service Fund had a balance of \$637,638 which appears to 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. During the prior year audit, a recommendation was made to transfer \$500,000 from the Debt Service Fund to the Special Revenue, Tax Increment Financing Fund. During fiscal year 2014, this corrective transfer was not made.

Recommendation – The City should transfer \$500,000 from the Debt Service Fund to the Special Revenue, Tax Increment Financing Fund.

City of Independence

Schedule of Findings

Year ended June 30, 2014

Response – The Government Performance Finance Committee will meet after the City has received the final audit report to review the recommendations. A summary report will be provided to the full City Council for approval and authorizing the City Clerk/Treasurer to prepare the necessary corrective adjustments to the general ledger to agree with the audit.

Conclusion – Response accepted.

- (12) 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 \$497,980 for internal loans which could not be verified as certified, \$687,250 for G.O. bonds which were refunded in June 2013 and \$28,625 by overstating interest on the 2009 G.O. bonds. 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 – The City of Independence has worked with Speer Financial and Dorsey Whitney on all of our financing concerns. We will continue to use both firms more diligently to ensure compliance with all TIF reporting requirements and regulations.

Conclusion – Response accepted.

- (13) Tax Increment Financing Rebates – On January 11, 2007, the City entered into a rebate agreement with Bachman Tool and Die Co. which states the City agrees to assist with a plant expansion project by rebating a percentage of incremental property tax actually paid by Bachman Tool and Die Co. for a period of five years, as follows:

In the first year, 80% of taxes paid, not to exceed \$10,437,
in the second year, 60% of taxes paid, not to exceed \$7,828,
in the third year, 40% of taxes paid, not to exceed \$5,219,
in the fourth fiscal year, 40% of taxes paid, not to exceed \$5,219 and,
in the fifth year, 20% of taxes paid, not to exceed \$2,609.
The maximum rebate payments total \$31,312.

The City made rebate payments to Bachman Tool and Die Co. in fiscal year 2010 through fiscal year 2014 of \$10,437, \$7,828, \$6,208, \$6,550 and \$3,797, respectively, with a total paid of \$34,820. This is \$3,508 more than the maximum rebate payment specified in the agreement.

Recommendation – The City should consult TIF legal counsel to determine the disposition of the excess rebate payment to Bachman Tool and Die Co., including the need to recoup the excess amount identified.

Response – The City will consult with bond counsel to discuss the excess rebate payment to Bachman Tool and Die Co. and obtain an opinion of the need to recoup the amount.

Conclusion – Response accepted.

City of Independence

Schedule of Findings

Year ended June 30, 2013

- (14) Financial Condition – At June 30, 2014, the City had a deficit balance of \$98,238 in the Special Revenue, Tax Increment Financing Fund.

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

Response – This issue will be resolved in the 2015 bond issue and should be reflected in the June 30, 2015 audit.


Conclusion – Response accepted.

City of Independence

Staff

This audit was performed by:

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