



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

May 17, 2013

Contact: Andy Nielsen
515/281-5834

The Office of Auditor of State today released an audit report on the City of Independence, Iowa.

The City's receipts totaled \$8,454,050 for the year ended June 30, 2012, a 15% decrease from the prior year. The receipts included \$2,185,621 in property tax, \$950,088 from tax increment financing, \$3,099,409 from charges for service, \$764,737 from operating grants, contributions and restricted interest, \$410,214 from capital grants, contributions and restricted interest, \$526,236 from local option sales tax, \$110,341 from unrestricted interest on investments, \$78,213 from loan proceeds and \$329,191 from other general receipts.

Disbursements for the year totaled \$8,514,133, a 2% decrease from the prior year, and included \$1,541,741 for public safety, \$1,362,701 for public works and \$1,075,096 for culture and recreation. Also, disbursements for business type activities totaled \$2,331,486.

The significant decrease in receipts is due primarily to airport grant receipts in the prior year.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1220-0076-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, 2012

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City of Independence

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Carl E. Scharff	Mayor	Jan 2014
Cheryl Hand	Council Member	Jan 2012
Robert Hill	Council Member	Jan 2012
Arletta Schweitzer	Council Member	Jan 2012
Bonita Davis	Council Member	Jan 2014
Richard Engen	Council Member	Jan 2014
Jeanne Hermsen	Council Member	Jan 2014
Jon Holland	Council Member	Jan 2014
Steven T. Diers	City Manager	Indefinite
Barbara K. Rundle	Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite
(After January 2012)		
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	Clerk/Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

City of Independence



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component units and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Independence's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Independence Light and Power, Telecommunications, a discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the condensed financial information included in Note 12 for the discretely presented component unit, is based on the report of the other auditor.

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

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


As described in Note 12, the City has chosen to present condensed financial information for Independence Light and Power, Telecommunications, a discretely presented component unit, since complete financial statements of the component unit have been audited by another auditor and are available from the component unit. The report of the other auditor, dated August 28, 2012, expressed an unqualified opinion on the financial statements.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the discretely presented component units and the aggregate remaining fund information of the City of Independence as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 3, 2013 on our consideration of the City of Independence's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Independence's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Additionally, the financial statements for the five years ended June 30, 2009 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the 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.

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. Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 34 through 36 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information 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.


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 3, 2013

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 14%, or approximately \$961,000, from fiscal year 2011 to fiscal year 2012. Capital grants, contributions and restricted interest decreased approximately \$1,123,000 due to funding for airport and street projects in the prior year.
- Disbursements for governmental activities decreased 7%, or approximately \$441,000, from fiscal year 2011 to fiscal year 2012. Capital projects disbursements decreased approximately \$1,256,000 due to the completion of airport parallel taxiway construction and hangar extension projects during fiscal year 2011. Community and economic development function disbursements increased approximately \$598,000 due to the commercial corridor project disbursements.
- The City's total cash basis net assets decreased less than 1%, or \$60,083, from June 30, 2011 to June 30, 2012. Of this amount, the cash basis net assets of the governmental activities decreased \$10,588 and the cash basis net assets of the business type activities decreased \$49,495.

USING THIS ANNUAL REPORT

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

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

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

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

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

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 Statement of Activities and Net Assets reports information which helps answer this question.

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

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

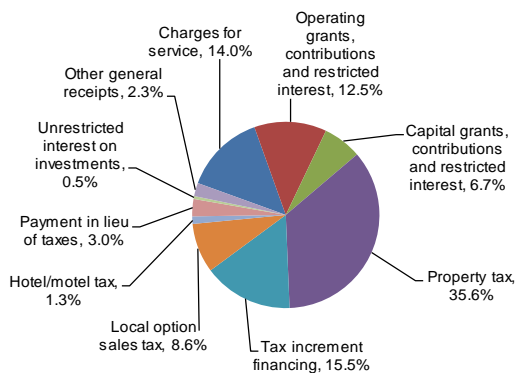
The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

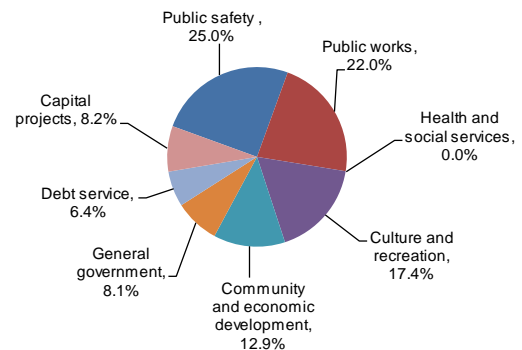
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$3,993,914 to \$3,983,326. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 857,812	796,394
Operating grants, contributions and restricted interest	764,737	754,488
Capital grants, contributions and restricted interest	410,214	1,532,765
General receipts:		
Property tax	2,185,621	2,036,251
Tax increment financing	950,088	1,137,199
Local option sales tax	526,236	522,740
Hotel/motel tax	79,181	74,449
Payment in lieu of taxes	182,000	130,000
Unrestricted interest on investments	33,610	24,760
Other general receipts	142,160	83,683
Total receipts	6,131,659	7,092,729
Disbursements:		
Public safety	1,541,741	1,533,732
Public works	1,362,701	1,321,296
Health and social services	1,000	1,000
Culture and recreation	1,075,096	1,033,014
Community and economic development	798,111	199,882
General government	501,051	441,649
Debt service	395,928	329,762
Capital projects	507,019	1,763,135
Total disbursements	6,182,647	6,623,470
Change in cash basis net assets before transfers	(50,988)	469,259
Operating transfers, net	40,400	50,000
Change in cash basis net assets	(10,588)	519,259
Cash basis net assets beginning of year	3,993,914	3,474,655
Cash basis net assets end of year	\$ 3,983,326	3,993,914

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities decreased 14%, or approximately \$961,000, from the prior year. The total cost of all programs and services increased approximately \$441,000, or 7%, with no new programs added this year. The decrease in receipts was primarily the result of decreases in capital grants. The decrease in disbursements was primarily the result of a decrease in capital projects disbursements.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 622,256	617,183
Sewer	1,619,341	1,509,284
General receipts:		
Unrestricted interest on investments	76,731	89,556
Bond proceeds	-	645,138
Other general receipts	4,063	3,047
Total receipts	<u>2,322,391</u>	<u>2,864,208</u>
Disbursements:		
Water	537,172	529,149
Sewer	1,794,314	1,518,992
Total disbursements	<u>2,331,486</u>	<u>2,048,141</u>
Change in cash basis net assets before transfers	(9,095)	816,067
Operating transfers, net	<u>(40,400)</u>	<u>(50,000)</u>
Change in cash basis net assets	(49,495)	766,067
Cash basis net assets beginning of year	4,846,051	4,079,984
Cash basis net assets end of year	<u>\$ 4,796,556</u>	<u>4,846,051</u>

Total business type activities receipts decreased approximately \$542,000, or 19%, primarily due to receiving bond proceeds in the prior year. Total disbursements for the fiscal year increased 14%, or approximately \$283,000, primarily due to an increase in capital projects disbursements. The cash balance decreased \$49,495 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$3,983,326, a decrease of \$10,588 compared to last year's total of \$3,993,914. 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 \$65,824 from the prior year to \$748,173. The decrease is attributable to an overall increase in receipts of \$23,218 offset by an increase in disbursements of \$93,126.
- The Special Revenue, Road Use Tax Fund cash balance increased \$132,410 to \$112,875 during the fiscal year. This increase was primarily due to a decrease in public works disbursements of \$63,916 and an increase in receipts of \$65,722.
- The Special Revenue, Employee Benefits Fund cash balance increased \$18,201 from \$377,547 to \$395,474. Receipts increased \$221,543 and disbursements increased \$115,557 due to increasing the property tax levy to pay for public works function benefits.

- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$36,408 from \$998,281 to \$961,873. Receipts decreased \$186,675 due to a decrease in the amount the City certified for an internal loan. Disbursements increased \$599,095 due to disbursements for the commercial corridor project.
- The Special Revenue, Local Option Sales Tax Fund was established to account for special sales tax collected. At the end of the fiscal year, the cash balance was zero. Receipts and transfers out to other funds were similar to the prior year.
- The Debt Service Fund cash balance decreased \$2,030 to \$393,890 at the end of the fiscal year.
- The Capital Projects Fund cash balance decreased \$78,405 to \$1,121,787 at the end of the fiscal year. The City spent a total of \$507,019 on construction projects in the current year, compared to \$1,763,135 in the prior year. Intergovernmental receipts decreased \$1,122,552 from the prior year, primarily due to federal grants received for the airport project in fiscal year 2011.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased from \$1,902,662 to \$1,965,986. Total receipts decreased \$5,912 and disbursements decreased \$8,023.
- The Enterprise, Sewer Fund cash balance decreased \$112,819 to \$2,830,570. Total receipts decreased \$535,905, due primarily to receiving bond proceeds in the prior year. Disbursements increased \$275,322 due to the sewer trunk/outfall project.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 29, 2012 and resulted in an increase of \$863,702 in disbursements, primarily for capital project disbursements for emergency response equipment and business type activities disbursements. The amendment also increased receipts \$394,250 and reduced other financing sources \$150,000.

The City's receipts were \$315,156 less than budgeted. Total disbursements were \$542,576, or 6% less than the amended budget.

Disbursements exceeded the amount budgeted in the community and economic development function during the current year. Additionally, disbursements exceeded the amounts budgeted in the public works and capital projects functions prior to the budget amendment on May 29, 2012.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$8,392,134 of bonds/notes and other long-term debt outstanding, compared to \$9,037,418 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation bonds/notes	\$ 2,415,000	2,715,000
Sewer revenue bonds	5,865,000	6,270,000
Capital lease purchase agreement	41,091	52,418
Revenue loan agreement	71,043	-
Total	\$ 8,392,134	9,037,418

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 \$2,501,022, including annually appropriated TIF developer agreements of \$44,931, is significantly below its constitutional debt limit of approximately \$15,563,000.

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 2013 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City averaged 4.7% for fiscal year 2012. This compares with the State's unemployment rate of 5.3%.

These factors were taken into account when adopting the budget for fiscal year 2013. Property tax receipts available for appropriation in the fiscal year 2013 operating budget are \$342,995 higher than the fiscal year 2012 actual of \$2,178,481. The City will use this increase in receipts to finance programs we currently offer. Budgeted disbursements are expected to decrease \$2,598,017 from the final fiscal year 2012 budget to \$6,436,833. The City has added no major new programs or initiatives.

If these estimates are realized, the City's June 30, 2013 budgeted cash balance is expected to increase approximately \$249,000 by the close of fiscal year 2013.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

City of Independence

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 1,541,741	12,371	151,688	-
Public works	1,362,701	496,256	565,882	-
Health and social services	1,000	-	-	-
Culture and recreation	1,075,096	240,662	47,167	-
Community and economic development	798,111	-	-	-
General government	501,051	108,523	-	-
Debt service	395,928	-	-	-
Capital projects	507,019	-	-	410,214
Total governmental activities	6,182,647	857,812	764,737	410,214
Business type activities:				
Water	537,172	622,256	-	-
Sewer	1,794,314	1,619,341	-	-
Total business type activities	2,331,486	2,241,597	-	-
Total	\$ 8,514,133	3,099,409	764,737	410,214
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				
Loan proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Employee benefits				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

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

Governmental Activities	Business Type Activities	Total
(1,377,682)	-	(1,377,682)
(300,563)	-	(300,563)
(1,000)	-	(1,000)
(787,267)	-	(787,267)
(798,111)	-	(798,111)
(392,528)	-	(392,528)
(395,928)	-	(395,928)
(96,805)	-	(96,805)
(4,149,884)	-	(4,149,884)
-	85,084	85,084
-	(174,973)	(174,973)
-	(89,889)	(89,889)
(4,149,884)	(89,889)	(4,239,773)
1,978,311	-	1,978,311
207,310	-	207,310
950,088	-	950,088
526,236	-	526,236
79,181	-	79,181
182,000	-	182,000
33,610	76,731	110,341
78,213	-	78,213
63,947	4,063	68,010
40,400	(40,400)	-
4,139,296	40,394	4,179,690
(10,588)	(49,495)	(60,083)
3,993,914	4,846,051	8,839,965
\$ 3,983,326	4,796,556	8,779,882
\$ 95,000	-	95,000
112,875	-	112,875
395,474	-	395,474
1,355,763	736,388	2,092,151
1,121,787	175,000	1,296,787
154,254	-	154,254
748,173	3,885,168	4,633,341
\$ 3,983,326	4,796,556	8,779,882

City of Independence

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

As of and for the year ended June 30, 2012

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Tax Increment Financing
Receipts:				
Property tax	\$ 1,411,662	-	559,509	-
Tax increment financing	-	-	-	950,088
Other city tax	86,321	-	-	-
Licenses and permits	102,148	-	-	-
Use of money and property	50,139	-	-	18,661
Intergovernmental	283,551	644,822	-	-
Charges for service	695,363	-	-	-
Special assessments	-	-	-	-
Miscellaneous	55,969	8,151	12,045	-
Total receipts	2,685,153	652,973	571,554	968,749
Disbursements:				
Operating:				
Public safety	1,116,734	-	403,148	-
Public works	487,126	771,707	103,868	-
Health and social services	1,000	-	-	-
Culture and recreation	898,986	-	172,194	-
Community and economic development	83,257	-	-	714,854
General government	372,392	-	128,659	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	2,959,495	771,707	807,869	714,854
Excess (deficiency) of receipts over (under) disbursements	(274,342)	(118,734)	(236,315)	253,895
Other financing sources (uses):				
Loan proceeds	-	78,213	-	-
Operating transfers in	283,862	172,931	254,516	15,000
Operating transfers out	(75,344)	-	-	(305,303)
Total other financing sources (uses)	208,518	251,144	254,516	(290,303)
Change in cash balances	(65,824)	132,410	18,201	(36,408)
Cash balances beginning of year	813,997	(19,535)	377,273	998,281
Cash balances end of year	\$ 748,173	112,875	395,474	961,873
Cash Basis Fund Balances				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for:				
Streets	-	112,875	-	-
Employee benefits	-	-	395,474	-
Debt service	-	-	-	961,873
Capital projects	-	-	-	-
Other purposes	-	-	-	-
Committed for library purposes	10,000	-	-	-
Unassigned	738,173	-	-	-
Total cash basis fund balances	\$ 748,173	112,875	395,474	961,873

See notes to financial statements.

Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
-	207,310	-	-	2,178,481
-	-	-	-	950,088
526,236	-	-	-	612,557
-	-	-	-	102,148
-	-	-	-	68,800
-	-	410,214	-	1,338,587
-	-	-	-	695,363
-	2,181	-	-	2,181
-	-	-	29,076	105,241
526,236	209,491	410,214	29,076	6,053,446
-	-	-	21,859	1,541,741
-	-	-	-	1,362,701
-	-	-	-	1,000
-	-	-	3,916	1,075,096
-	-	-	-	798,111
-	-	-	-	501,051
-	395,928	-	-	395,928
-	-	507,019	-	507,019
-	395,928	507,019	25,775	6,182,647
526,236	(186,437)	(96,805)	3,301	(129,201)
-	-	-	-	78,213
-	199,407	18,400	18,167	962,283
(526,236)	(15,000)	-	-	(921,883)
(526,236)	184,407	18,400	18,167	118,613
-	(2,030)	(78,405)	21,468	(10,588)
-	395,920	1,200,192	227,786	3,993,914
-	393,890	1,121,787	249,254	3,983,326
-	-	-	95,000	95,000
-	-	-	-	112,875
-	-	-	-	395,474
-	393,890	-	-	1,355,763
-	-	1,121,787	-	1,121,787
-	-	-	154,254	154,254
-	-	-	-	10,000
-	-	-	-	738,173
-	393,890	1,121,787	249,254	3,983,326

Exhibit C

City of Independence

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

As of and for the year ended June 30, 2012

	Enterprise			Internal Service
	Water	Sewer	Total	Health Insurance
Operating receipts:				
Charges for service	\$ 621,412	1,619,341	2,240,753	99,106
Miscellaneous	844	-	844	-
	<u>622,256</u>	<u>1,619,341</u>	<u>2,241,597</u>	<u>99,106</u>
Operating disbursements:				
Public safety	-	-	-	37,194
Public works	-	-	-	5,613
Culture and recreation	-	-	-	14,417
General government	-	-	-	22,489
Business type activities	462,213	682,913	1,145,126	19,393
Total operating disbursements	<u>462,213</u>	<u>682,913</u>	<u>1,145,126</u>	<u>99,106</u>
Excess of operating receipts over operating disbursements	<u>160,043</u>	<u>936,428</u>	<u>1,096,471</u>	<u>-</u>
Non-operating receipts (disbursements):				
Interest on investments	50,240	26,491	76,731	-
Farm rent	-	4,063	4,063	-
Debt service	-	(683,850)	(683,850)	-
Capital projects	(74,959)	(427,551)	(502,510)	-
Total non-operating receipts (disbursements)	<u>(24,719)</u>	<u>(1,080,847)</u>	<u>(1,105,566)</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>135,324</u>	<u>(144,419)</u>	<u>(9,095)</u>	<u>-</u>
Operating transfers in	-	31,600	31,600	-
Operating transfers out	(72,000)	-	(72,000)	-
Net operating transfers in (out)	<u>(72,000)</u>	<u>31,600</u>	<u>(40,400)</u>	<u>-</u>
Change in cash balances	63,324	(112,819)	(49,495)	-
Cash balances beginning of year	1,902,662	2,943,389	4,846,051	-
Cash balances end of year	<u>\$ 1,965,986</u>	<u>2,830,570</u>	<u>4,796,556</u>	<u>-</u>
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ -	736,388	736,388	-
Future capital outlay	-	175,000	175,000	-
Unrestricted	<u>1,965,986</u>	<u>1,919,182</u>	<u>3,885,168</u>	<u>-</u>
Total cash basis fund balances	<u>\$ 1,965,986</u>	<u>2,830,570</u>	<u>4,796,556</u>	<u>-</u>

See notes to financial statements.

City of Independence

Notes to Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Blended Component Unit

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

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

Discretely Presented Component Units

The Independence Public Library Foundation, Inc. (Foundation) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable, educational and scientific purposes which benefit or support the Independence Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by the Foundation are substantially for the direct benefit of the City of Independence Library. Condensed financial information of the Foundation is presented in Note 11.

Independence Light and Power, Telecommunications (Utility), established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Utility is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial information presented in Note 12 was prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements for the year ended December 31, 2011 can be obtained from the Utility's administrative office, P.O. Box 754, 400 7th Avenue NE, Independence, Iowa 50664.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

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

The Tax Increment 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 additional 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 assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

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

D. Governmental Cash Basis Fund Balances

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

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

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the community and economic development function. In addition, disbursements exceeded the amounts budgeted in the public works and capital projects functions prior to the budget amendment.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Long-Term Debt

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

Year Ending June 30,	General Obligation Bonds/Notes		Sewer Revenue Bonds		Total		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	\$ 315,000	81,533	350,000	261,817	665,000	343,350	1,008,350
2014	315,000	72,442	360,000	247,708	675,000	320,150	995,150
2015	325,000	62,615	375,000	232,967	700,000	295,582	995,582
2016	335,000	52,250	390,000	217,387	725,000	269,637	994,637
2017	340,000	40,793	410,000	200,888	750,000	241,681	991,681
2018-2022	785,000	55,425	2,345,000	718,308	3,130,000	773,733	3,903,733
2023-2025	-	-	1,635,000	162,353	1,635,000	162,353	1,797,353
Total	\$ 2,415,000	365,058	5,865,000	2,041,428	8,280,000	2,406,486	10,686,486

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$5,035,000 and \$3,325,000 of sewer revenue bonds issued in September 2003 and May 2005, respectively. Proceeds from the bonds provided financing for improvements to the system and refunding outstanding revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2025. For the year ended June 30, 2012, principal and interest payments on the bonds required less than 73% of net receipts. The total principal and interest remaining to be paid on the bonds is \$7,906,428. For the current year, principal and interest paid and total customer net receipts were \$682,850 and \$936,428, respectively.

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

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

Capital Lease Purchase Agreement

On June 28, 2011, the City entered into a capital lease purchase agreement for computer software for \$52,418. The agreement requires 60 monthly payments of \$991, including interest at 5.5% per annum. The first and last monthly payments totaling \$1,982 were due at the signing of the lease and were paid by the City in July 2011. The remaining 58 monthly payments began on August 5, 2011. During the year ended June 30, 2012, the City made the initial payment and 12 monthly payments totaling \$13,872 under the agreement, leaving an outstanding principal balance of \$41,092 at June 30, 2012.

Revenue Loan Agreement

On July 28, 2011, the City entered into a loan agreement for 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 \$7,170 and \$565,882, respectively. The outstanding loan balance at June 30, 2012 was \$71,043.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% 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, 2012, 2011 and 2010 were \$168,329, \$150,825 and \$125,717, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 37 active and 9 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a partially self-funded plan with Wellmark. The City pays the single premium for certain retirees under age 65. Although the City has discontinued this benefit, 4 retirees who were grandfathered in under the prior policy are receiving this benefit at June 30, 2012. 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 \$80 per month towards the premium.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$422 for single coverage and \$1,044 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$435,424 and plan members eligible for benefits contributed \$34,460 to the plan.

(6) Development Agreements

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

The total to be paid by the City under the agreements is not to exceed \$995,061. The total amount rebated during the year ended June 30, 2012 was \$43,384. The City has rebated a total of \$737,290 of incremental property tax under the agreements. The outstanding balance of the agreements at June 30, 2012 was \$257,771.

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 \$44,931 which has been appropriated at June 30, 2012 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, 2012, primarily relating to the General Fund and the Enterprise, Water and Sewer Funds, is as follows:

Type of Benefit	Amount
Vacation	\$ 88,000
Compensatory	12,000
Holiday	80,000
Casual	8,000
Total	<u>\$188,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2012.

(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, 2012, the City paid \$99,106 to Group Services for claims and administrative fees.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Tax Increment Financing	\$ 108,303
	Local Option Sales Tax	133,559
	Enterprise:	
	Water	42,000
		<u>283,862</u>
Special Revenue:		
Road Use Tax	Special Revenue:	
	Tax Increment Financing	35,000
	Local Option Sales Tax	107,931
	Enterprise:	
	Water	30,000
		<u>172,931</u>
Employee Benefits	General	57,177
	Special Revenue:	
	Local Option Sales Tax	197,339
		<u>254,516</u>
Tax Increment Financing	Debt Service	15,000
LMI Urban Renewal	General	18,167
Debt Service	Special Revenue:	
	Tax Increment Financing	112,000
	Local Option Sales Tax	87,407
		<u>199,407</u>
Capital Projects	Special Revenue:	
	Tax Increment Financing	18,400
Enterprise:		
Sewer	Special Revenue:	
	Tax Increment Financing	31,600
Total		<u>\$ 993,883</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 663 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or

any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150% of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

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

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2012 were \$82,013.

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

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2012, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

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

(11) Independence Public Library Foundation, Inc.

The Independence Public Library Foundation, Inc. (Foundation) is incorporated under the Iowa Nonprofit Corporation Act and directly benefits the Independence Public Library. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. The following is the condensed financial information for the Foundation for the year ended December 31, 2011.

Receipts:	
Capital donations	\$ 114,810
Material donations	15,790
Summer reading program	4,860
Buchanan County Community Foundation	3,086
Programming	800
Interest	1,616
Miscellaneous	706
Total receipts	<u>141,668</u>
Disbursements:	
Equipment and additional furnishings	6,666
Parking	1,951
Sculpture	2,940
Interior and exterior signage	93
Landscaping	1,027
Capital contribution to City	10,000
Materials	10,686
Summer reading program	2,957
Buchanan County Community Foundation	2,908
Programming	3,164
Publicity and marketing	1,046
Miscellaneous	419
Total disbursements	<u>43,857</u>
Excess of receipts over disbursements	97,811
Balance beginning of year	<u>241,894</u>
Balance end of year	<u><u>\$ 339,705</u></u>

(12) Independence Light and Power, Telecommunications

Independence Light and Power, Telecommunications (Utility) provides electric and telecommunications services to the City and its residents. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. The following is the condensed financial information for the Utility for the year ended December 31, 2011.

Condensed Statement of Net Assets	
Assets:	
Current assets	\$ 3,393,653
Capital assets, net of accumulated depreciation	10,575,417
Other	4,993,604
Total assets	<u>18,962,674</u>
Liabilities:	
Current liabilities	2,148,424
Other	4,041,803
Total liabilities	<u>6,190,227</u>
Net assets:	
Invested in capital assets, net of related debt	10,575,417
Unrestricted	<u>2,197,030</u>
Total net assets	<u>\$ 12,772,447</u>

Condensed Statement of Revenues, Expenses and Changes in Net Assets	
Revenues:	
Sales to customers	\$ 10,808,892
Other	118,918
Total revenue	<u>10,927,810</u>
Operating expenses:	
Generation	5,582,862
Distribution	371,924
Customer account	124,395
Administration and general	849,157
Cable and internet	1,738,789
Depreciation and amortization	934,566
Benefits to community and city	457,580
Total expenses	<u>10,059,273</u>
Operating income	<u>868,537</u>
Non-operating revenue (expenses):	
Interest income	62,787
Income expense	(153,250)
Other non-operating revenues	31,698
Total non-operating revenues (expenses)	<u>(58,765)</u>
Change in net assets	809,772
Net assets beginning of year	<u>11,962,675</u>
Total net assets	<u>\$ 12,772,447</u>

(13) Commitments

Construction commitments for a downtown curb and sidewalk project at June 30, 2012 totaled \$659,108, of which \$452,580 has been paid. The balance of \$206,528 will be paid as work on the project progresses.

(14) Subsequent Event

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.

City of Independence

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, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 2,178,481	-	-
Tax increment financing	950,088	-	-
Other city tax	612,557	-	-
Licenses and permits	102,148	-	-
Use of money and property	68,800	80,794	-
Intergovernmental	1,338,587	-	-
Charges for service	695,363	2,240,753	-
Special assessments	2,181	-	-
Miscellaneous	105,241	844	26,506
Total receipts	<u>6,053,446</u>	<u>2,322,391</u>	<u>26,506</u>
Disbursements:			
Public safety	1,541,741	-	21,859
Public works	1,362,701	-	-
Health and social services	1,000	-	-
Culture and recreation	1,075,096	-	-
Community and economic development	798,111	-	-
General government	501,051	-	-
Debt service	395,928	-	-
Capital projects	507,019	-	-
Business type activities	-	2,331,486	-
Total disbursements	<u>6,182,647</u>	<u>2,331,486</u>	<u>21,859</u>
Excess (deficiency) of receipts over (under) disbursements	(129,201)	(9,095)	4,647
Other financing sources (uses), net	118,613	(40,400)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(10,588)	(49,495)	4,647
Balances beginning of year	3,993,914	4,846,051	7,426
Balances end of year	<u>\$ 3,983,326</u>	<u>4,796,556</u>	<u>12,073</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
2,178,481	2,178,090	2,727,110	(548,629)
950,088	945,077	945,077	5,011
612,557	588,059	578,637	33,920
102,148	67,170	66,936	35,212
149,594	206,863	195,063	(45,469)
1,338,587	1,201,718	922,684	415,903
2,936,116	2,986,260	3,004,217	(68,101)
2,181	30,000	6,200	(4,019)
79,579	67,000	218,563	(138,984)
<u>8,349,331</u>	<u>8,270,237</u>	<u>8,664,487</u>	<u>(315,156)</u>
1,519,882	1,695,035	1,554,478	34,596
1,362,701	1,232,286	1,387,947	25,246
1,000	1,000	1,000	-
1,075,096	1,063,353	1,094,514	19,418
798,111	882,392	731,891	(66,220)
501,051	463,733	542,732	41,681
395,928	397,788	397,788	1,860
507,019	260,000	726,028	219,009
2,331,486	2,175,561	2,598,472	266,986
<u>8,492,274</u>	<u>8,171,148</u>	<u>9,034,850</u>	<u>542,576</u>
(142,943)	99,089	(370,363)	227,420
<u>78,213</u>	<u>150,000</u>	<u>-</u>	<u>78,213</u>
(64,730)	249,089	(370,363)	305,633
<u>8,832,539</u>	<u>6,923,203</u>	<u>8,830,073</u>	<u>2,466</u>
<u>8,767,809</u>	<u>7,172,292</u>	<u>8,459,710</u>	<u>308,099</u>

City of Independence

Notes to Other Information – Budgetary Reporting

June 30, 2012

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 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 \$863,702. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amount budgeted in the community and economic development function. In addition, disbursements exceeded the amounts budgeted in the public works and capital projects functions prior to the budget amendment.

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, 2012

	Special Revenue	
	Independence Fire Department	LMI Urban Renewal
Receipts:		
Miscellaneous	\$ 26,506	-
Disbursements:		
Operating:		
Public safety	21,859	-
Culture and recreation	-	-
Total disbursements	21,859	-
Excess of receipts over disbursements	4,647	-
Other financing sources:		
Operating transfers in	-	18,167
Change in cash balances	4,647	18,167
Cash balances beginning of year	7,426	122,898
Cash balances end of year	\$ 12,073	141,065
Cash Basis Fund Balances		
Nonspendable - Cemetery perpetual care	\$ -	-
Restricted for other purposes	12,073	141,065
Total cash basis fund balances	\$ 12,073	141,065

See accompanying independent auditor's report.

Friends of the Library	Permanent Cemetery Perpetual Care	Total
2,570	-	29,076
-	-	21,859
3,916	-	3,916
3,916	-	25,775
(1,346)	-	3,301
-	-	18,167
(1,346)	-	21,468
2,462	95,000	227,786
1,116	95,000	249,254
-	95,000	95,000
1,116	-	154,254
1,116	95,000	249,254

City of Independence
Schedule of Indebtedness
Year ended June 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds/notes:			
Refunding, series 2005B	May 1, 2005	2.85-4.30%	\$ 2,565,000
Library, series 2007	Dec 10, 2007	3.20-3.70	700,000
Urban renewal street improvement, series 2009	Apr 1, 2009	2.25-4.10	995,000
Sewer improvement, series 2011	Feb 24, 2011	1.00-3.15	650,000
Total			
Revenue bonds:			
Sewer revenue improvement and refunding, series 2003	Sep 1, 2003	3.70-4.25%	\$ 5,035,000
Sewer revenue improvement, series 2005A	May 1, 2005	4.40-5.00	3,325,000
Total			
Capital lease purchase agreement:			
Computer software	Jun 28, 2011	5.50%	\$ 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
700,000	-	100,000	600,000	28,300
525,000	-	65,000	460,000	18,542
840,000	-	80,000	760,000	28,625
650,000	-	55,000	595,000	18,461
\$ 2,715,000	-	300,000	2,415,000	93,928
3,190,000	-	275,000	2,915,000	131,462
3,080,000	-	130,000	2,950,000	146,388
\$ 6,270,000	-	405,000	5,865,000	277,850
52,418	-	11,326	41,092	2,546
-	78,213	7,170	71,043	-

City of Independence
Bond and Note Maturities
June 30, 2012

Year Ending June 30,	General Obligation Bonds/Notes					
	Refunding Bonds Series 2005B		Library Notes Series 2007		Urban Renewal Street Improvement Bonds Series 2009	
	Issued May 1, 2005		Issued Dec 10, 2007		Issued Apr 1, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	3.90%	\$ 100,000	3.40%	\$ 70,000	2.60%	\$ 85,000
2014	4.00	100,000	3.45	70,000	2.85	85,000
2015	4.05	100,000	3.50	75,000	3.00	90,000
2016	4.10	100,000	3.60	80,000	3.35	90,000
2017	4.20	100,000	3.65	80,000	3.70	95,000
2018	4.30	100,000	3.70	85,000	4.00	100,000
2019		-		-	4.05	105,000
2020		-		-	4.10	110,000
2021		-		-		-
Total		<u>\$ 600,000</u>		<u>\$ 460,000</u>		<u>\$ 760,000</u>

Year Ending June 30,	Revenue Bonds				
	Sewer Revenue Improvement and Refunding Series 2003		Sewer Revenue Improvement Series 2005A		Total
	Issued Sept 1, 2003		Issued May 1, 2005		
	Interest Rates	Amount	Interest Rates	Amount	
2013	3.800%	215,000	4.40%	\$ 135,000	350,000
2014	3.900	220,000	4.40	140,000	360,000
2015	4.000	230,000	4.40	145,000	375,000
2016	4.125	240,000	4.40	150,000	390,000
2017	4.200	250,000	4.50	160,000	410,000
2018	4.250	260,000	4.60	165,000	425,000
2019	4.250	275,000	4.65	175,000	450,000
2020	4.250	285,000	4.75	180,000	465,000
2021	4.250	300,000	4.80	190,000	490,000
2022	4.250	315,000	4.85	200,000	515,000
2023	4.250	325,000	4.90	210,000	535,000
2024		-	5.00	535,000	535,000
2025		-	5.00	565,000	565,000
Total		<u>\$ 2,915,000</u>		<u>\$ 2,950,000</u>	<u>5,865,000</u>

See accompanying independent auditor's report.

Sewer Improvement Bonds
 Series 2011
 Issued Feb 24, 2011

Interest		
Rates	Amount	Total
1.00%	\$ 60,000	315,000
1.65	60,000	315,000
1.65	60,000	325,000
2.25	65,000	335,000
2.25	65,000	340,000
2.80	70,000	355,000
2.80	70,000	175,000
3.15	70,000	180,000
3.15	75,000	75,000
	<u>\$ 595,000</u>	<u>2,415,000</u>

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

For the Last Eight Years

	2012	2011	2010
Receipts:			
Property tax	\$ 2,178,481	2,029,915	\$ 2,038,194
Tax increment financing	950,088	1,137,199	975,591
Other city tax	612,557	603,525	613,167
Licenses and permits	102,148	59,786	29,581
Use of money and property	68,800	93,636	85,804
Intergovernmental	1,338,587	2,366,866	1,657,781
Charges for service	695,363	650,042	644,702
Special assessments	2,181	6,734	8,211
Miscellaneous	105,241	133,377	178,906
Total	\$ 6,053,446	7,081,080	6,231,937
Disbursements:			
Operating:			
Public safety	\$ 1,541,741	1,533,732	\$ 1,208,401
Public works	1,362,701	1,321,296	1,046,893
Health and social services	1,000	1,000	350
Culture and recreation	1,075,096	1,033,014	908,038
Community and economic development	798,111	199,882	793,123
General government	501,051	441,649	529,177
Debt service	395,928	329,762	357,810
Capital projects	507,019	1,763,135	920,784
Total	\$ 6,182,647	6,623,470	5,764,576

See accompanying independent auditor's report.

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

City of Independence



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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component units and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated May 3, 2013. Our report was modified to include a reference to other auditors. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Another auditor audited the financial statements of Independence Light and Power, Telecommunications, a discretely presented component unit, as described in our report on the City of Independence's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters reported separately by the other auditor.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

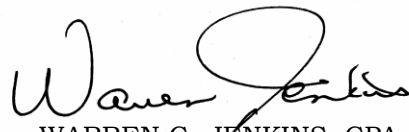
As part of obtaining reasonable assurance about whether the City of Independence's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and 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, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 3, 2013

City of Independence

Schedule of Findings

Year ended June 30, 2012

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.

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

Response – We have reviewed practices and policies and implemented changes to the extent we are able with the staff available to segregate duties. We have one individual who collects and deposits monies; another individual who posts receipts and prepares journal entries; two individuals who share the responsibility of reconciling and balancing; monthly financial statements are provided to the City Council and approved under the consent agenda; the City Clerk, Deputy City Clerk and Mayor affix their signatures to the monthly reconciled reports once the City Council has approved them; monthly payroll reports and registers are provided to the City Council.

Conclusion – Response acknowledged. The City should ensure payroll rates and compensated absence balances are reviewed by an independent person.

(B) Financial Reporting – Various adjustments to the financial statements were required, including:

- Certain journal entries should have been recorded as transfers between funds.
- Interest of \$30,344 was received by the City by June 30, 2012 but was not recorded in cash receipts until July 2012.

City of Independence

Schedule of Findings

Year ended June 30, 2012

- The City utilizes accounts receivable and accounts payable in its general ledger. Since the City reports on a cash basis, the balance in these accounts should be zero. Adjustments to receipts and disbursements were necessary to report on a cash basis.

Adjustments were subsequently made to properly record these amounts in the financial statements.

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

Response – The City recently purchased and implemented a new financial software system in March 2012. This migration to a new Windows based platform from an MS-DOS system has presented a number of challenges. With new software there are nuances to data input which have created adverse results, such as this instance. Staff are now familiar with these issues and will be more conscientious with data entry. We will ensure balances are accurately reflected and transfers properly journalized.

Conclusion – Response accepted.

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

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

Response – The City does not have an overall Disaster Recovery Plan. We are conscientious of the importance of such a plan and discussions have occurred for the implementation of such a plan. Written disaster recovery plans for the computer system would be a component of the overall Disaster Recovery Plan for the entire community. Development of this plan is under consideration for adoption with the City of Independence.

Conclusion - Response accepted.

- (D) Bank Reconciliations – The cash and investment balances on the City’s general ledger balance sheet did not properly reconcile to the bank and investment balances at June 30, 2012.

Recommendation – The City should ensure the bank and investment balances reconcile to the general ledger balance sheet.

Response – We will ensure accounts are properly reconciled and balanced.

Conclusion - Response accepted.

- (E) Independence Fire Department - All accounting functions are handled by the Treasurer, pre-numbered receipts are not issued, paid invoices or other supporting documentation are not properly canceled and accounting records did not facilitate the proper classification of receipts or disbursements.

City of Independence

Schedule of Findings

Year ended June 30, 2012

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

Response - City Administration will continue to work with Fire Department personnel to improve their accounting practices. Current practices will be reviewed and recommendations made to the Fire Chief for implementing changes.

Conclusion - Response accepted.

- (F) 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 - City Administration has held meetings with the Library Director, Board President and Board members to encourage them to segregate duties and issue pre-numbered receipts. The Board has opted not to implement this practice. City Administration continues to hold meetings with Library Administration to properly address these issues.

Conclusion - Response accepted.

City of Independence

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2012 exceeded the amount budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Although the City Council acted to increase certain budgets by amendment on May 29, 2012, disbursements for the public works and the capital projects functions exceeded the amounts budgeted prior to the amendment.

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

Response – Unanticipated disbursements which were not apparent during the budget amendment in May 2012 were realized by the City and paid without adequate time to further amend the budget. The City will strive to avoid additional disbursements which will necessitate an amendment, especially when there is not enough time to hold an additional amendment.

Conclusion – Response accepted.

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

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Carl Scharff	Candy for parade	\$ 39
Chuong Garden	Volunteer meals	25
Carl Scharf	Volunteer meals	95
Independence Community Schools	High School prom	150
Trott Trophies	Council plaque	53

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

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – The City will review these instances and City Council will adopt a policy which addresses these uses for future needs.

Conclusion - Response accepted.

City of Independence

Schedule of Findings

Year ended June 30, 2012

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

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

Name, Title and Business Connection	Transaction Description	Amount
Daniel Eschen, Water Department, Father owns Napa Auto Parts	Miscellaneous parts	\$ 8,950
Carmon McGraw, Secretary/Receptionist, Husband owns Indy Crop Care, Inc.	Chemicals	411
Roger Kremer, Fire Department, Owner of Kremer's Vending	Concessions	365

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Indy Crop Care, Inc. and Kremer's Vending do not appear to represent conflicts of interest since the total transactions are each less than \$1,500 during the fiscal year.

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

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

Response – The owner of NAPA is the father of one of our City employees who works in the Water Department. This employee does not have decision making authority on where supplies are purchased. Supplies for the Water Department are purchased from numerous stores and vendors. NAPA is an auto parts store in the community which carries many of the items we need.

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

(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 – Except as noted, no transactions were found that we believe should have been approved in the City Council minutes but were not.

Although City policy allows for payment of bills prior to City Council approval to avoid fees and penalties, certain other disbursements were paid prior to City Council approval.

Recommendation – Except as allowed by City policy, disbursements should be approved by the City Council prior to payment.

City of Independence

Schedule of Findings

Year ended June 30, 2012

Response – The City Council via resolution has authorized the issuance of checks prior to City Council meetings to avoid late payments and past due billings to occur. An Expense Approval Report is prepared prior to the Council meeting which includes paid and outstanding claims within a specified date range which includes the checks issued prior to the meeting.

Conclusion - Response acknowledged. The City should ensure only disbursements allowed by the City's policy are paid prior to approval.

- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds – No instances of non-compliance with the revenue bond resolutions were noted.
- (9) Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Except for assistance for low and moderate income family housing discussed in Chapter 403.22 of the Code of Iowa, indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(5)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

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

Recommendation – The City should consult TIF legal counsel to determine the disposition of the City's TIF certifications, including the amount of TIF debt to be decertified, if any.

Response – The City has been working with bond counsel as well as our financial advisors. We have discussed and developed a plan to utilize the high Special Revenue, TIF Fund balance toward existing TIF eligible projects as well as paying off some existing general obligation debt. These TIF eligible projects were going to require future certification which now will not be needed by utilizing these existing funds. The end result will bring the Special Revenue, TIF Fund balance down to an amount around \$30,000.

City of Independence

Schedule of Findings

Year ended June 30, 2012

Conclusion – Response acknowledged. The City should decertify the excess balance in the Special Revenue, Tax Increment Financing Fund and certify additional TIF debt when incurred.

- (10) Debt Service Fund – The Debt Service Fund had a balance of \$393,890 at June 30, 2012, which may be excessive when compared to the annual debt service requirements and the property tax levied annually to cover these requirements. The balance is partially attributable to budget errors made during the years ended June 30, 2010 and June 30, 2011 related to the Series 2009 general obligation urban renewal street improvement bonds. The City levied debt service property tax for the bonds and certified and received tax increment financing (TIF) receipts for the bonds which were transferred from the Special Revenue, Tax Increment Financing Fund to the Debt Service Fund. Funding the bonds from two sources created an excess balance in the Debt Service Fund, as shown below:

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

For the year ended June 30, 2010, the TIF transfers of \$170,028 exceeded the debt service requirement of \$113,098 by \$56,930 and the TIF transfers for the year ended June 30, 2011 met the debt service requirements for the year.

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

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

Response – The Debt Service Fund balance is also being addressed through discussions with bond counsel and financial advisors. The City is reducing the Debt Service Fund balance by utilizing \$350,000 of the balance for paying down and refinancing existing sewer debt. The end result will significantly reduce the Debt Service Fund balance.

Conclusion – Response acknowledged. The City should consult bond counsel to discuss the propriety of using the Debt Service Fund to pay the sewer revenue bonds since this does not appear allowable under Chapter 384.4 of the Code of Iowa. In addition, the City should reimburse the Special Revenue, Tax Increment Financing Fund for the excess transferred to the Debt Service Fund during fiscal year 2010.

City of Independence

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Darryl J. Brumm, CPA, Senior Auditor II
Lara K. Van Wyk, Staff Auditor
Karie A. Meisgeier, CPA, Staff Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State