

CITY OF INDEPENDENCE

Financial Statements

June 30, 2008

CITY OF INDEPENDENCE

INDEPENDENT AUDITOR'S REPORT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2008

CITY OF INDEPENDENCE

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CITY OF INDEPENDENCE

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Frank Brimmer	Mayor	January 2010
Cheryl Hand	Council Member at Large	January 2008
Paul Paisley	Council Member at Large	January 2010
Mike Hayward	Council Member Ward 1	January 2010
Dolores Shannon	Council Member Ward 2	January 2008
Richard Engen	Council Member Ward 3	January 2010
Julie Wulfekuhle *	Council Member Ward 4	January 2008
Greg Bressler *	Council Member Ward 5 (until 7/8/07)	January 2010
Jason Kilby	Council Member Ward 5 (8/13/07 to 11/12/07)	January 2008
Carl Scharff	Council Member Ward 5 (after 11/12/07)	January 2010

- The mayor pro tem was Greg Bressler until his resignation. Julie Wulfekuhle became the new mayor pro tem on July 9, 2007.

(After December 2007)

Frank Brimmer	Mayor	January 2010
Mike Hayward	Mayor Pro Tem Council Member Ward 1	January 2010
Robert Hill	Council Member at Large	January 2012
Paul Paisley	Council Member at Large	January 2010
Cheryl Hand	Council Member Ward 2	January 2012
Richard Engen	Council Member Ward 3	January 2010
Steve Matteson	Council Member Ward 4	January 2012
Carl Scharff	Council Member Ward 5	January 2010
Alan Johnson	City Manager	Indefinite
Debra Lynn	City Clerk	Indefinite
Sarah Dooley-Rothman	City Attorney	Indefinite

CITY OF INDEPENDENCE

Independent Auditor's Report

**To the Honorable Mayor and
Members of the City Council:**

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2008, 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I 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. I believe that my audit provides a reasonable basis for my opinion.

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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Independence as of June 30, 2008, 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, I have also issued my reports dated March 19, 2009 on my consideration of the City of Independence's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants agreement and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and results of that testing and not to provide an opinion on internal control over financial reporting or 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Independence's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 and (none of which are presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. office of management and budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 19, 2009

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, 2008. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 94%, or approximately \$5.35 million, from fiscal 2007 to fiscal 2008. Property tax increased approximately \$147,000. Tax increment financing proceeds decreased approximately \$73,000. A majority of the increase came from Federal and State grants for both the Airport and Library projects.
- Disbursements for governmental activities increased 76%, or approximately \$4.8 million, in fiscal 2008 from fiscal 2007.
- The City's total cash basis net assets increased 5%, or approximately \$281,000, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased approximately \$467,000 and the assets of the business type activities decreased by approximately \$186,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES*Government-wide Financial Statement*

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out to 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 and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects 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 statements for governmental funds include 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.

CITY OF INDEPENDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, from \$1.8 million to \$2.3 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for services	\$ 540	622
Operating grants, contributions, and restricted interest	736	724
Capital grants, contributions, and restricted interest	5,341	521
General receipts:		
Property tax	1,949	1,802
Tax increment financing	850	925
Local option sales tax	468	521
Unrestricted investment earnings	90	96
Other general receipts	382	491
Proceeds from debt issued	698	0
Transfers	497	40
Total receipts	11,551	5,742
Disbursements and transfers:		
Public Safety	1,605	1,519
Public Works	944	911
Culture & Recreation	780	716
Community & Economic Development	705	593
General Government	461	433
Debt Service	535	544
Capital Projects	6,053	1,592
Total disbursements and transfers	11,083	6,308
Increase in cash basis net assets	468	(566)
Cash basis net assets beginning of year	1,845	2,411
Cash basis net assets end of year	\$ 2,313	1,845

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's total receipts for governmental activities, less transfers, were \$11.05 million compared to \$5.7 million last year, an increase of 94%, or \$5.3 million.

The total cost of all programs and services was \$11.1 million compared to 6.3 million for June 30, 2007. This increased by approximately \$4.8 million, or 76%.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2008	2007
Receipts:		
Program receipts:		
Charges for services		
Water	\$ 671	642
Sewer	1,194	1,165
General receipts:		
Interest on investments	130	130
Other general receipts	0	0
Total receipts and transfers	1,995	1,937
Disbursements:		
Water	435	453
Sewer	1,249	1,486
Transfers	497	40
Total disbursements and transfers	2,181	1,979
Increase (decrease) in cash balance	(186)	(42)
Cash basis net assets beginning of year	3,924	3,966
Cash basis net assets end of year	\$ 3,738	3,924

Total business type activities receipts for the fiscal year were \$1.995 million compared to \$1.937 million last year. This increased by approximately \$58,000, or 3%.

The cash balance decreased by approximately \$186,000 from the prior year. Total disbursements and transfers for the fiscal year increased by 10% or \$202,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$2.30 million, an increase of approximately \$467,000 above last year's total of \$1.85 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$411,700 from the prior year to \$958,000.
- Local Option Sales Tax Fund ended with \$508,600, up \$136,600 from the prior year.
- At the end of the fiscal year, the cash balance of the Employees' Benefits Fund was \$486,400. This is an increase of \$113,000.
- Capital project for the Airport ended with \$191,000, up \$191,000 from the prior year.
- At the end of the fiscal year, the cash balance of the Capital project for the Library was \$140,600. This is an increase of \$141,000.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

For the propriety funds, the City reported a combined fund balance of \$3.74 million, a decrease of approximately \$186,500 below last year's total of \$3.92 million. The following are the major reasons for the changes in fund balances from the prior year.

- The Water Fund cash balance decreased by \$180,000 to \$1.94 million.
- The Sewer Fund cash balance decreased by \$26,400 to \$1.80 million.

BUDGETARY HIGHLIGHTS

The City amended its budget on May 27, 2008. The amendment provided for an additional \$2.8 million in disbursements. The amendment also provided for an additional \$2.2 million in revenues.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$9.18 million in bonds and other long-term debt, compared to approximately \$9.22 million last year, as shown below:

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30,	
	2008	2007
General obligation bonds	\$ 1,880	1,655
Municipal Light Plant loan	0	12
Sewer revenue bonds	7,300	7,550
Total	\$ 9,180	9,217

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 taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Independence's elected and appointed officials and department heads considered many factors when setting the fiscal year 2009 budget, tax rates, and fees that will be charged for various City activities.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. For fiscal year 2009, both the Airport and Library projects are expected to be completed.

These indicators were taken into account when adopting the budget for fiscal year 2009. Amounts available for appropriation in the operating budget are \$11.97 million, a decrease of 6.3% over the final 2008 budget. Budgeted disbursements are expected to fall by approximately \$794,000.

If these estimates are realized, the City's budgeted cash balances are expected to increase by approximately \$187,000 by the end of the City's next fiscal year end.

For fiscal year 2009, the property tax levy will be at \$13.175 per \$1,000 of taxable valuation versus \$14.660 for fiscal year 2008, a decrease of \$1.485 per \$1,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide 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 Debra A. Lynn, City Clerk/Treasurer, 331 First Street East, Independence, Iowa 50644.

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE

Basic Financial Statements

CITY OF INDEPENDENCE

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2008

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 1,604,746	5,524	97,465	0
Public works	944,049	355,572	523,186	0
Culture and recreation	780,356	178,837	39,993	0
Community and economic development	704,539	0	74,782	0
General government	460,743	199	0	0
Debt service	535,053	0	0	0
Capital projects	6,053,112	0	0	5,340,717
Total governmental activities	11,082,598	540,132	735,426	5,340,717
Business type activities:				
Water	434,691	670,752	0	0
Sewer	1,249,610	1,194,025	0	0
Total business type activities	1,684,301	1,864,777	0	0
Totals	\$ 12,766,899	2,404,909	735,426	5,340,717

General Receipts:

- Property tax levied for:
 - General purposes
 - Tax increment financing
 - Debt service
- Local option sales tax
- Unrestricted interest on investments
- Miscellaneous
- Proceeds from debt issued

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
 - Debt service
- Unrestricted

Total Cash Basis Net Assets

See notes to financial statements.

Governmental Activities	Business Type Activities	Total
(1,501,757)	0	(1,501,757)
(65,291)	0	(65,291)
(561,526)	0	(561,526)
(629,757)	0	(629,757)
(460,544)	0	(460,544)
(535,053)	0	(535,053)
(712,395)	0	(712,395)
(4,466,323)	0	(4,466,323)

0	236,061	236,061
0	(55,585)	(55,585)

0	180,476	180,476
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(4,466,323)	180,476	(4,285,847)
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1,610,013	0	1,610,013
850,023	0	850,023
339,086	0	339,086
467,523	0	467,523
89,531	129,907	219,438
382,154	0	382,154
698,486	0	698,486
496,834	(496,834)	0

4,933,650	(366,927)	4,566,723
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467,327	(186,451)	280,876
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1,845,398	3,924,328	5,769,726
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\$ 2,312,725	3,737,877	6,050,602
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\$ 203,113	839,036	1,042,149
2,109,612	2,898,841	5,008,453

\$ 2,312,725	3,737,877	6,050,602
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CITY OF INDEPENDENCE

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

As of and for the year ended June 30, 2008

	General	Special Revenue	
		Local Option Sales Tax	Employees' Benefit
Receipts:			
Property tax	\$ 1,235,007	0	375,006
Tax Increment Financing (TIF) receipts	0	0	0
Other city tax	101,238	0	0
Licenses and permits	33,591	0	0
Use of money and property	36,798	13,489	6,080
Intergovernmental	293,458	467,523	0
Charges for services	540,132	0	0
Special assessments	0	0	0
Miscellaneous	118,003	34,189	0
Total receipts	2,358,227	515,201	381,086
Disbursements:			
Operating:			
Public Safety	1,344,439	0	260,307
Public Works	401,209	0	0
Culture & Recreation	667,229	0	113,127
Community & Economic Development	51,407	209,839	0
General Government	397,318	0	63,425
Debt Service	0	0	0
Capital Projects	0	0	0
Total disbursements	2,861,602	209,839	436,859
Excess of receipts over disbursements	(503,375)	305,362	(55,773)
Other financing sources (uses):			
Proceeds of debt issued	0	0	0
Operating transfers in	915,050	0	168,750
Operating transfers out	0	(168,750)	0
Total other financing sources (uses)	915,050	(168,750)	168,750
Net change in cash balances	411,675	136,612	112,977
Cash balances beginning of year	546,162	372,033	373,455
Cash balances end of year	\$ 957,837	508,645	486,432
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ 0	0	0
Unreserved:			
General fund	957,837	0	0
Special revenue funds	0	508,645	486,432
Capital projects funds	0	0	0
Total cash basis fund balances	\$ 957,837	508,645	486,432

See notes to financial statements.

Capital Projects		Other Nonmajor Governmental Funds	Total
Airport Project	Library Project		
0	0	339,086	1,949,099
0	0	850,023	850,023
0	0	0	101,238
0	0	0	33,591
0	0	33,164	89,531
3,548,775	550,000	764,827	5,624,583
0	0	0	540,132
0	0	14,039	14,039
0	1,000,177	0	1,152,369
<u>3,548,775</u>	<u>1,550,177</u>	<u>2,001,139</u>	<u>10,354,605</u>
0	0	0	1,604,746
0	0	542,840	944,049
0	0	0	780,356
0	0	443,293	704,539
0	0	0	460,743
0	0	535,053	535,053
3,104,539	2,107,901	840,672	6,053,112
<u>3,104,539</u>	<u>2,107,901</u>	<u>2,361,858</u>	<u>11,082,598</u>
444,236	(557,724)	(360,719)	(727,993)
0	698,486	0	698,486
165,206	0	373,485	1,622,491
(418,216)	0	(538,691)	(1,125,657)
<u>(253,010)</u>	<u>698,486</u>	<u>(165,206)</u>	<u>1,195,320</u>
191,226	140,762	(525,925)	467,327
0	(125)	553,873	1,845,398
<u>191,226</u>	<u>140,637</u>	<u>27,948</u>	<u>2,312,725</u>
0	0	203,113	203,113
0	0	0	957,837
0	0	29,234	1,024,311
191,226	140,637	(204,399)	127,464
<u>191,226</u>	<u>140,637</u>	<u>27,948</u>	<u>2,312,725</u>

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
 Proprietary Funds
 As of and for the year ended June 30, 2008

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 670,752	1,194,025	1,864,777
Miscellaneous	0	0	0
Total operating receipts:	670,752	1,194,025	1,864,777
Operating disbursements:			
Business type activities	434,691	671,620	1,106,311
Excess (deficiency) of operating receipts over (under) operating disbursements	236,061	522,405	758,466
Non-operating receipts (disbursements)			
Interest on investments	80,716	49,191	129,907
Debt service	0	(577,990)	(577,990)
Net non-operating receipts (disbursements)	80,716	(528,799)	(448,083)
Excess (deficiency) of receipts over (under) disbursements	316,777	(6,394)	310,383
Operating transfers in (out), net	(496,834)	0	(496,834)
Net change in cash balances	(180,057)	(6,394)	(186,451)
Cash balances beginning of year	2,116,748	1,807,580	3,924,328
Cash balances end of year	\$ 1,936,691	1,801,186	3,737,877
Cash Basis Fund Balances			
Reserve for debt service	\$ 0	839,036	839,036
Unreserved	1,936,691	962,150	2,898,841
Total cash basis fund balances	\$ 1,936,691	1,801,186	3,737,877

See notes to financial statements.

CITY OF INDEPENDENCE
Notes to the Financial Statements

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(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, public improvements and general government services. The City also provides water and sewer for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Independence has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has 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.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Buchanan County Assessor's Conference Board, Buchanan County Emergency Management Commission, and Buchanan County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. 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 services.

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

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.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

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

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. 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 disbursement, the fixed charges and the capital improvement costs that are not paid for other funds.

Special Revenue:

The Local Option Sales Tax Fund is used to account for the receipts and disbursements of the projects it financed.

The Employees' Benefits Fund is used to account for the collection of payroll taxes and provide social security and medicare, IPERS, and health insurance benefits to its employees.

Capital Projects:

The Airport Project is used to account for the expansion of the airport.

The Library Project is used to account for the construction of a new library.

The City reports the following major proprietary funds:

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(1) Summary of Significant Accounting Policies, Continued

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

C. Measurement Focus and Basis of Accounting

The City of Independence 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the function of Public Safety. While the budget was amended to cover the expenditure, the budget should have been amended before disbursing the funds.

(2) Deposits and Investments

The City's deposits and investments at June 30, 2008 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; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2008 the City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

CITY OF INDEPENDENCE

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(3) **Bonds Payable**

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

Year Ending June 30,	Obligation Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	305,000	68,928	255,000	317,940	560,000	386,868
2010	185,000	58,913	380,000	308,505	565,000	367,418
2011	165,000	52,588	395,000	293,475	560,000	346,063
2012	165,000	46,843	405,000	277,850	570,000	324,693
2013	170,000	40,915	350,000	261,818	520,000	302,733
2014	170,000	34,635	360,000	247,707	530,000	282,342
2015	175,000	28,220	375,000	232,968	550,000	261,188
2016	180,000	21,545	390,000	217,388	570,000	238,933
2017	180,000	14,565	410,000	200,888	590,000	215,453
2018	185,000	7,445	425,000	183,188	610,000	190,633
2019 and after	0	0	3,555,000	697,874	3,555,000	697,874
TOTALS	1,880,000	374,597	7,300,000	3,239,601	9,180,000	3,614,198

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

Urban Renewal Tax Increment Financing Revenue Bonds

Included in the general obligation bonds are Urban Renewal Tax Increment Financing Bonds of \$50,000 that were refunded in 2005 and are due in 2009. The bonds are payable solely from the TIF receipts generated by increased property values in the City's TIF district.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$5,035,000 and \$3,325,000 in sewer revenue notes issued in September of 2003 and May of 2005, respectively. Proceeds from the bonds provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2025. Annual principal and interest payments on the bonds are expected to require a majority of net sewer receipts. The total principal and interest remaining to be paid on the bonds is \$10,539,601. For the current year, principal and interest paid and total customer net receipts were \$577,990 and \$571,596, respectively.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(3) Bonds Payable, Continued

(b) Sufficient monthly transfers shall be made to the sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

(c) Additional monthly transfers of \$5,000 to the wastewater treatment improvement fund, and 1/12 of the next year's obligation to a sewer revenue bond sinking fund within the Enterprise Funds shall be made until specific minimum balance have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

(d) All funds remaining in the sewer rental account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account within the Enterprise Funds until a minimum of \$175,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.

(4) Municipal Light Plant Loan

On March 11, 1996, the City entered into a loan agreement with the Independence Light Plant in the amount of \$72,000. The City used the money for the addition of a van to the Independence Fire Department. Then on August 26, 1999, the City borrowed an additional \$64,026 for the purchase of air packs for the Independence Fire Department. This amount was added to the balance of the loan dated March 11, 1996. The City is to make \$13,800 payments per year on the 15th day of July each year thereafter until paid in full. This debt is interest free. This loan was paid off during the year ended June 30, 2008.

(5) 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.

Plan members are required to contribute 3.90% of their annual salary and the City is required to contribute 6.05% of annual covered payroll except for police employees, in which case the percentages are 5.64% and 8.47%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$107,869, \$115,826 and \$111,901 respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick 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 and sick leave termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$105,596
Sick Leave *	593,741 *
Total	\$699,337

* Sick leave is not payable upon termination, retirement or death.

This liability has been computed based on rates of pay as of June 30, 2008.

(7) Litigation

The City had no pending litigation, claims, or assessments at June 30, 2008.

(8) Risk Management

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

(9) Related Party Transactions

The City had no business transactions between the City and the City's officials and employees.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2008, disbursements in the Public Safety function exceeded the amount budgeted. While the budget was amended to cover the expenditure, the budget should have been amended before disbursing the funds.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

(11) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise Water	496,834
General	Capital Projects Airport Project	418,216
Special Revenue Employees' Benefits	Special Revenue Local Option Sales Tax	168,750
Debt Service	Special Revenue Urban Renewal TIF	94,485
Capital Projects Street Improvements Airport Project	Special Revenue Urban Renewal TIF Urban Renewal TIF	279,000 165,206

(12) Deficit Balance

The following funds had deficit balances at June 30, 2008.

Urban Renewal Tax Increment Financing	91,709
Capital Project - Street Improvements	245,590

The deficit balances were a result of project or event costs incurred prior to availability of funds. The deficits will be eliminated upon receipt of grant money, TIF taxes, or transfers.

(13) Subsequent Events

The City is considering the issuance of \$1.1 million in general obligation bonds for street improvements. It is also considering putting an issuance of \$1.8 million in general obligation bonds to a vote of its citizens for remodeling and construction of offices for city government.

CITY OF INDEPENDENCE
Required Supplementary Information

CITY OF INDEPENDENCE

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 1,949,099	0
Tax Increment Financing (TIF) receipts	850,023	0
Other city tax	101,238	0
Licenses and permits	33,591	0
Use of money and property	89,531	129,907
Intergovernmental	5,624,583	0
Charges for services	540,132	1,864,777
Special Assessments	14,039	0
Miscellaneous	1,152,369	0
Total receipts	10,354,605	1,994,684
Disbursements:		
Public Safety	1,604,746	0
Public Works	944,049	0
Health & Social Services	0	0
Culture & Recreation	780,356	0
Community & Economic Development	704,539	0
General Government	460,743	0
Debt Service	535,053	0
Capital Projects	6,053,112	0
Business type activities	0	1,684,301
Total disbursements	11,082,598	1,684,301
Excess of receipts over disbursements	(727,993)	310,383
Other financing sources, net	1,195,320	(496,834)
Excess of receipts and other financing sources over disbursements and other financing uses	467,327	(186,451)
Balances beginning of year	1,845,398	3,924,328
Balances end of year	\$ 2,312,725	3,737,877

See accompanying independent auditor's report.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance	Net as % of Final Budget
1,949,099	1,968,419	1,968,419	(19,320)	99.0%
850,023	826,087	826,087	23,936	102.9%
101,238	511,170	542,225	(440,987)	18.7%
33,591	58,640	58,640	(25,049)	57.3%
219,438	176,207	189,719	29,719	115.7%
5,624,583	8,767,463	9,344,414	(3,719,831)	60.2%
2,404,909	2,419,055	2,419,055	(14,146)	99.4%
14,039	75,000	75,000	(60,961)	18.7%
1,152,369	894,814	2,394,030	(1,241,661)	48.1%
<u>12,349,289</u>	<u>15,696,855</u>	<u>17,817,589</u>	<u>(5,468,300)</u>	<u>69.3%</u>
1,604,746	1,428,266	1,825,100	220,354	87.9%
944,049	1,037,901	1,076,951	132,902	87.7%
0	100	100	100	0.0%
780,356	799,325	813,130	32,774	96.0%
704,539	798,645	923,071	218,532	76.3%
460,743	467,290	497,350	36,607	92.6%
535,053	535,053	535,053	0	100.0%
6,053,112	8,618,893	10,822,893	4,769,781	55.9%
1,684,301	1,745,036	1,755,436	71,135	95.9%
<u>12,766,899</u>	<u>15,430,509</u>	<u>18,249,084</u>	<u>5,482,185</u>	<u>70.0%</u>
(417,610)	266,346	(431,495)		
<u>698,486</u>	<u>0</u>	<u>698,486</u>		
280,876	266,346	266,991		
<u>5,769,726</u>	<u>6,180,530</u>	<u>6,180,530</u>		
<u>6,050,602</u>	<u>6,446,876</u>	<u>6,447,521</u>		

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2008

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Disbursements for the Proprietary Funds are required to be budgeted. During the year, a budget amendment increased budgeted disbursements by \$2,818,575. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the Public Safety function. While the budget was amended to cover the expenditure, the budget should have been amended before disbursing the funds.

CITY OF INDEPENDENCE
Other Supplementary Information

CITY OF INDEPENDENCE

Schedule 1

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Nonmajor Governmental Funds

As of and for the year ended June 30, 2008

	Special Revenue	
	Road Use	Urban Renewal Tax Increment
Receipts:		
Property tax	\$ 0	0
Tax increment financing (TIF)	0	850,023
Intergovernmental	523,062	0
Special assessments	0	0
Use of money and property	0	33,138
Total receipts:	523,062	883,161
Disbursements:		
Operating:		
Public works	542,840	0
Community & Economic development	0	443,293
Debt service	0	0
Capital projects	0	0
Total disbursements	542,840	443,293
Excess (deficiency) of receipts over (under) disbursements	(19,778)	439,868
Operating transfers in (out), net	0	(538,691)
Net change in cash balances	(19,778)	(98,823)
Cash balances beginning of year	140,721	7,114
Cash balances end of year	\$ 120,943	(91,709)
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ 0	0
Unreserved:		
Special revenue fund	120,943	(91,709)
Capital project fund	0	0
Total cash basis fund balances	\$ 120,943	(91,709)

See accompanying independent auditor's report.

Capital Projects

Debt Service	Urban Renewal	Street Improvement	Storm Sewer Improvement	Skateboard Park	Total
339,086	0	0	0	0	339,086
0	0	0	0	0	850,023
0	0	241,765	0	0	764,827
14,039	0	0	0	0	14,039
0	0	0	0	26	33,164
353,125	0	241,765	0	26	2,001,139
0	0	0	0	0	542,840
0	0	0	0	0	443,293
535,053	0	0	0	0	535,053
0	0	840,672	0	0	840,672
535,053	0	840,672	0	0	2,361,858
(181,928)	0	(598,907)	0	26	(360,719)
94,485	0	279,000	0	0	(165,206)
(87,443)	0	(319,907)	0	26	(525,925)
290,556	32,470	74,317	5,501	3,194	553,873
203,113	32,470	(245,590)	5,501	3,220	27,948
203,113	0	0	0	0	203,113
0	0	0	0	0	29,234
0	32,470	(245,590)	5,501	3,220	(204,399)
203,113	32,470	(245,590)	5,501	3,220	27,948

CITY OF INDEPENDENCE

Schedule of Indebtedness

Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
G. O. refunding bonds, Series 2005 B	May 1, 2005	2.85 to 4.30	2,565,000
G. O. Library bonds, Series 2007	December 10, 2007	3.20 to 3.70	700,000
Total General obligation bonds			
Revenue bonds:			
Sewer revenue improvement and refunding bonds	September 1, 2003	3.70 to 4.25	5,035,000
Sewer revenue improvement bonds, series 2005 A	May 1, 2005	4.40 to 5.00	3,325,000
Total Revenue bonds			
Loan from Independence Light Plant:			
Municipal Light Plant	March 11, 1996	none	72,000
Totals			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued during Year	Redeemed during Year	Balance End of Year	Interest Paid	Fees Paid	Interest Due and Unpaid
1,655,000	0	475,000	1,180,000	59,653	400	6,146
0	700,000	0	700,000	0	0	10,099
1,655,000	700,000	475,000	1,880,000	59,653	400	16,245
4,225,000	0	250,000	3,975,000	170,023	400	13,398
3,325,000	0	0	3,325,000	157,167	400	13,097
7,550,000	0	250,000	7,300,000	327,190	800	26,495
11,826	0	11,826	0	0	0	0
9,216,826	700,000	736,826	9,180,000	386,843	1,200	42,740

CITY OF INDEPENDENCE

Schedule 3

Bond Maturities

June 30, 2008

General Obligation Bonds G. O. Refunding Bonds, Series 2005 B \$2,565,000 Issued May 1, 2005			General Obligation Bonds Library Bonds Series 2007 \$700,000 Issued December 10, 2007		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total Revenue Bonds
2009	3.30%	255,000	3.20%	50,000	305,000
2010	3.50%	125,000	3.25%	60,000	185,000
2011	3.60%	100,000	3.30%	65,000	165,000
2012	3.75%	100,000	3.35%	65,000	165,000
2013	3.90%	100,000	3.40%	70,000	170,000
2014	4.00%	100,000	3.45%	70,000	170,000
2015	4.05%	100,000	3.50%	75,000	175,000
2016	4.10%	100,000	3.60%	80,000	180,000
2017	4.20%	100,000	3.65%	80,000	180,000
2018	4.30%	100,000	3.70%	85,000	185,000
Totals		\$1,180,000		\$700,000	\$1,880,000

Revenue Bonds

Sewer Revenue Improvement and Refunding Bonds \$5,035,000 Issued September 1, 2003			Sewer Revenue Improvement Bonds, Series 2005 A \$3,325,000 Issued May 1, 2005		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total Revenue Bonds
2009	3.70%	255,000		0	255,000
2010	3.75%	260,000	4.40%	120,000	380,000
2011	3.75%	270,000	4.40%	125,000	395,000
2012	3.75%	275,000	4.40%	130,000	405,000
2013	3.80%	215,000	4.40%	135,000	350,000
2014	3.90%	220,000	4.40%	140,000	360,000
2015	4.00%	230,000	4.40%	145,000	375,000
2016	4.125%	240,000	4.40%	150,000	390,000
2017	4.20%	250,000	4.50%	160,000	410,000
2018	4.25%	260,000	4.60%	165,000	425,000
2019	4.25%	275,000	4.65%	175,000	450,000
2020	4.25%	285,000	4.75%	180,000	465,000
2021	4.25%	300,000	4.80%	190,000	490,000
2022	4.25%	315,000	4.85%	200,000	515,000
2023	4.25%	325,000	4.90%	210,000	535,000
2024		0	5.00%	535,000	535,000
2025		0	5.00%	565,000	565,000
Totals		\$3,975,000		\$3,325,000	\$7,300,000

See accompanying independent auditor's report.

Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds

For the Last Four Years ended June 30,

	2008	2007	2006	2005
Receipts:				
Property tax	\$ 1,949,099	1,801,693	1,680,132	1,772,674
Tax Increment Financing (TIF) receipts	850,023	924,900	740,900	1,300,775
Other city tax	101,238	22,104	51,308	7,149
Licenses and permits	33,591	34,136	63,706	63,091
Use of money and property	89,531	95,688	63,329	14,860
Intergovernmental	5,624,583	1,806,638	1,685,868	1,748,426
Charges for services	540,132	622,263	627,273	603,223
Special assessments	14,039	33,281	40,707	63,632
Miscellaneous	1,152,369	360,942	212,944	152,247
Total receipts	\$10,354,605	5,701,645	5,166,167	5,726,077
Disbursements:				
Operating:				
Public Safety	\$ 1,604,746	1,519,395	1,328,680	1,275,999
Public Works	944,049	910,403	899,601	859,456
Culture & Recreation	780,356	715,978	751,392	623,785
Community & Economic Development	411,246	592,420	345,010	469,086
General Government	460,743	433,101	392,797	368,922
Debt Service	535,053	544,152	549,959	776,233
Capital Projects	6,346,405	1,592,051	621,700	516,989
Total disbursements	\$11,082,598	6,307,500	4,889,139	4,890,470

See accompanying independent auditor's report.

CITY OF INDEPENDENCE

Schedule 5

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

Program	CFDA Number	Grant Number	Program Expenditures
Direct:			
Department of Transportation			
Federal Aviation Administration			
Runway Engineering	20.106	3-19-0045-04	\$ 150,590
Reconstruction	20.106	3-19-0045-05	2,689,427
Property Acquisition	20.106	3-19-0045-06	65,081
			<u>\$ 2,905,098</u>

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

See accompanying independent auditor's report.

CITY OF INDEPENDENCE

**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**

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:**

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2008, which collectively comprise of the City's basic financial statements listed in the table of contents and have issued my report thereon dated March 19, 2009. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Independence's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Independence, Iowa's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Independence, Iowa's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies, including deficiencies I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Independence, Iowa's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Independence, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the City of Independence, Iowa's internal control. I consider the deficiencies in internal control described in Part II of the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Independence, Iowa's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-08 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-08.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Independence's financial statement are free of material misstatements, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the Accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my 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 the statutes.

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

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

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

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 19, 2009

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and on Internal Control over Compliance with OMB Circular A-133

Independent Auditor's Report on Compliance with Requirements
Applicable to each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133

**To the Honorable Mayor and
Members of the City Council:**

Compliance

I have audited the compliance of the City of Independence, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2008. The City of Independence, Iowa's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Independence, Iowa's management. My responsibility is to express an opinion on City of Independence, Iowa's compliance based on my audit.

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

In my opinion, the City of Independence, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects that City's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

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

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

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

March 19, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

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

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-08 Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that several of the accounting procedures are sometimes done by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, that City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

No material weaknesses in internal control over major program was noted.

Part IV: Other Findings Related to Statutory Reporting:

IV-A-08 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2008.

IV-B-08 Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the Public Safety function. Chapter 384.18 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - While the budget was amended once during the year, it should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended earlier, if applicable.

Conclusion - Response accepted.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

Part IV: Other Findings Related to Statutory Reporting Continued:

IV-C-08 Questionable Disbursements - No disbursements were noted for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-08 Business Transactions - There were no business transactions between the City and City officials or employees.

IV-F-08 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 insure that the coverage is adequate for current operations.

IV-G-08 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

While the expenditures were published in the newspaper, a few instances of Library disbursements were found that were not published in accordance with an Attorney General's opinion.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish expenditures as required.

Response - We will publish expenditures as required.

Conclusion - Response accepted.

CITY OF INDEPENDENCE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2008

Part III: Other Findings Related to Statutory Reporting Continued:

IV-H-08 Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

IV-I-08 Revenue Bonds and Notes - The City has complied with revenue bond and note resolutions.

IV-J-08 Payment of General Obligation Bonds - The City properly paid for its general obligation bonds out of the Debt Service Fund.

IV-K-08 Financial Condition - The Capital Projects Street Improvements Fund and the Special Revenue Urban Renewal Tax Increment Fund, both had deficit balances at June 30, 2008. Street Improvements had a deficit of \$245,590 and Urban Renewal Tax Increment had a deficit of \$91,709.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return these funds to a sound financial position.

Response - For the Capital Project, the deficit was due to construction costs incurred prior to receipt of a grant. As for the Special Revenue, expenditures in the TIF district were made prior to the receipt of TIF property taxes.

Conclusion - Response accepted.

This audit was performed by:

Roger L. Shaffer, C.P.A., Owner & Manager of the Firm

SHAFFER COMPANY, P.C.

A handwritten signature in black ink, appearing to read 'R. Shaffer', with a long horizontal flourish extending to the left.

ROGER L. SHAFFER
Certified Public Accountant