



**Mary Taylor, CPA**  
Auditor of State



**CITY OF INDEPENDENCE  
CUYAHOGA COUNTY**

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Members of City Council  
City of Independence  
Cuyahoga County  
6800 Brecksville Road  
Independence, Ohio 44131

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Independence, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Independence, Cuyahoga County, Ohio, as of December 31, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the City restated the December 31, 2005 net assets due to an understatement of capital assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2007, on our consideration of the City'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

August 27, 2007

**City of Independence, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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The discussion and analysis of the City of Independence's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are encouraged to consider the information presented here in conjunction with the transmittal letter, the basic financial statements, and the accompanying notes to those financial statements to enhance their understanding of the City's financial performance.

### **Financial Highlights**

Key financial highlights for 2006 are as follows:

- ❖ The City's total net assets increased by \$1,702,149 or 2.61 percent mainly as a result of a \$1,789,650 increase in municipal income tax revenue.
- ❖ Total current assets decreased by \$6,131,924 or 22.34 percent compared to 2005 current assets. The decrease is largely due to the City continuing to spend down the money it had borrowed, along with grant money received, for the both Phases of the Rockside Road widening project.
- ❖ Total current liabilities decreased by \$947,989 or 19.09 percent from 2005, due mainly to amounts owed on the Rockside Road widening project.
- ❖ The City began Phase II of the Rockside Road Widening Project in 2006. In anticipation of this project starting the City borrowed \$5,800,000 in 2005. Phase II of the Rockside Road Widening Project is included as a Tax Increment Financing (TIF) expansion project.
- ❖ The general fund transferred \$2,750,000 to the capital improvements fund in order to fund capital improvement projects.

### **Using this Annual Financial Report**

This annual report consists of a series of financial statements some of which focus on the City as a whole (government-wide) and some of which focus on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden the basis for comparison (year to year or government to government) and enhance the City's accountability.

The statement of Net Assets and Statement of Activities provides information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

**City of Independence, Ohio**  
*Management's Discussion and Analysis*  
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*Unaudited*

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***Reporting the City of Independence as a Whole***

*Statement of Net Assets and the Statement of Activities*

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 Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

From the Statement of Net Assets, you can determine what the City's current financial position is by subtracting total liabilities (what the City owes) from total assets (what the City owns). Over time, increases or decreases in the City's net assets are one indicator of whether the City's financial health is improving or deteriorating. From the Statement of Activities, you can determine what the cost of governmental services are and how much of that cost is financed by taxpayers, where the City gets its money from and how it is used, whether the City is better or worse off financially and why, and will the City be able to finance services in the future. Other non-financial factors such as changes in the City's property tax base, income tax base, and the condition of the City's capital assets to assess the overall health of the City also should be considered.

***Reporting on the Most Significant Funds of the City of Independence***

*Fund Financial Statements*

The fund financial statements, which begin on page 13, provide detailed information about the City's major funds and include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. These statements tell how City services charged to major funds were financed in the short-term as well as what remains for future spending. For the City of Independence, the most significant governmental funds are the General, Quadrant TIF, Capital Improvements, and Street Resurfacing.

All of the City's services are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or less financial resources that can be spent in the near future on services provided to our residents. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds is reconciled in the fund financial statements.



**City of Independence, Ohio**  
*Management's Discussion and Analysis*  
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**The City of Independence as a Whole**

*Statement of Net Assets*

As noted earlier, the Statement of Net Assets looks at the City as a whole and can prove to be a useful indicator of the City's financial position. Table 1 provides a summary of the City's net assets for 2006 and 2005.

**Table 1**  
**Net Assets**

	Governmental Activities		
	2006	2005	Change
<b>Assets</b>			
Current and Other Assets	\$21,313,990	\$27,445,914	(\$6,131,924)
Capital Assets, Net	88,942,105	83,931,145	5,010,960
<b>Total Assets</b>	<b>110,256,095</b>	<b>111,377,059</b>	<b>(1,120,964)</b>
<b>Liabilities</b>			
Current and Other Liabilities	4,016,716	4,964,705	(947,989)
Long Term Liabilities			
Due Within One Year	1,509,848	1,401,332	108,516
Due in More than One Year	37,689,106	39,672,746	(1,983,640)
<b>Total Liabilities</b>	<b>43,215,670</b>	<b>46,038,783</b>	<b>(2,823,113)</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	51,169,988	44,444,252	6,725,736
Restricted:			
Capital Projects	4,666,275	8,822,024	(4,155,749)
State Highway	102,812	68,799	34,013
Street Construction Maintenance and Repair	319,972	335,249	(15,277)
Other Purposes	313,121	31,478	281,643
Unrestricted	10,468,257	11,636,474	(1,168,217)
<b>Total Net Assets</b>	<b>\$67,040,425</b>	<b>\$65,338,276</b>	<b>\$1,702,149</b>

Total assets decreased by \$1,120,964 which can be attributed to the net effect of decreased equity in pooled cash and cash equivalents and intergovernmental receivable with the increase of municipal income taxes receivable.

Current liabilities decreased by \$947,989 or 19.09 percent mainly due to payables for the Rockside Road project.

**City of Independence, Ohio**  
*Management's Discussion and Analysis*  
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Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by covenants, enabling legislation, or other legal requirements, decreased by \$1,168,217.

The City continues to stress the importance of increasing its unrestricted net asset total each year.

Table 2 shows the changes in net assets for fiscal year 2006 and corresponds to the Statement of Activities. Table 2 indicates that total revenue exceeded total expenses by \$1,702,149.

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		
	2006	2005	Change
<b>Revenues</b>			
Program Revenues			
Charges for Services and Sales	\$1,084,283	\$1,076,037	\$8,246
Operating Grants and Contributions	474,954	506,166	(31,212)
Capital Grants and Contributions	425,251	254,184	171,067
<i>Total Program Revenues</i>	<u>1,984,488</u>	<u>1,836,387</u>	<u>148,101</u>
General Revenues			
Property Taxes	2,498,742	2,060,121	438,621
Municipal Income Taxes	21,378,552	19,588,902	1,789,650
Grant and Entitlements, Not Restricted to Specific Programs	859,930	939,083	(79,153)
Payments in Lieu of Taxes	226,583	0	226,583
Interest	604,679	992,603	(387,924)
Miscellaneous	950,187	1,119,263	(169,076)
<i>Total General Revenues</i>	<u>26,518,673</u>	<u>24,699,972</u>	<u>1,818,701</u>
<i>Total Revenues</i>	<u>28,503,161</u>	<u>26,536,359</u>	<u>1,966,802</u>
<b>Program Expenses</b>			
General Government	8,191,861	4,879,456	3,312,405
Security of Persons and Property	7,642,209	8,103,488	(461,279)
Public Health and Welfare	150,106	99,259	50,847
Leisure Time Activities	2,780,531	3,224,755	(444,224)
Community Environment	2,020,142	2,412,397	(392,255)
Basic Utility Services	938,050	1,031,008	(92,958)
Transportation	3,459,425	5,101,022	(1,641,597)
Interest and Fiscal Charges	1,618,688	1,489,443	129,245
<i>Total Expenses</i>	<u>26,801,012</u>	<u>26,340,828</u>	<u>460,184</u>
<i>Increase in Net Assets</i>	1,702,149	195,531	1,506,618
<i>Net Assets Beginning of Year</i>	<u>65,338,276</u>	<u>65,142,745</u>	<u>195,531</u>
<i>Net Assets End of Year</i>	<u>\$67,040,425</u>	<u>\$65,338,276</u>	<u>1,702,149</u>

**City of Independence, Ohio**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2006*  
*Unaudited*

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***Governmental Activities***

Several revenue sources fund our governmental activities with income tax revenue being the largest source. The City levies a municipal income tax of 2 percent on all income earned within the City as well as on income of residents earned outside of the City. In the latter case, the City allows a credit of 100 percent, up to the amount owed to the City, on the income earned outside of the City and paid to another municipality. On a full accrual basis, the City received \$21,378,552 in income tax collections or 75 percent of total 2006 revenue.

The City's strong commercial employment tax base has provided for a consistent level of withholding tax collections. This strong base has enabled the City to enjoy increased collections during economically strong periods, while at the same time maintaining fairly level collections during economic downturns. In an effort to maintain and increase the commercial tax base, the City has completed Phase I of the Rockside Road Widening project (a TIF project), which will improve the infrastructure to allow for future growth in the area.

The following schedule presents a summary of governmental activity expenses and the net cost of providing these services (excluding general revenues).

**Table 3**  
**Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
General Government	\$8,191,861	\$6,997,840	\$8,005,181	\$4,713,680
Security of Persons and Property	7,642,209	8,103,488	7,257,068	7,780,685
Public Health and Welfare	150,106	99,259	144,505	95,175
Leisure Time Activities	2,780,531	3,224,755	2,391,632	2,796,666
Community Environment	2,020,142	2,412,397	1,945,488	2,313,851
Basic Utility Services	938,050	1,031,008	918,745	1,009,593
Transportation	3,459,425	2,982,638	2,535,217	4,305,348
Interest and Fiscal Charges	1,618,688	1,489,443	1,618,688	1,489,443
Total Expenses	\$26,801,012	\$26,340,828	\$24,816,524	\$24,504,441

Transportation expense totaled \$3,459,425 or 12.91 percent of total 2006 expenses.

Security of Persons and Property expenses totaled \$7,642,209 or 28.51 percent of total 2006 expenses. A significant portion of these expenses can be attributed to salaries, wages and employee benefits. As of December 31, 2006, the City employed 35 full-time police officers and 24 full-time firefighters.

General Government expenses totaled \$8,191,861 or 30.57 percent of total 2006 expenses. In 2006, the City began paying all of their utilities out of the General Government expense which accounted for the majority of the \$1,194,021 increase from 2005 to 2006.

**City of Independence, Ohio**  
*Management's Discussion and Analysis*  
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**The City's Funds**

Information about the City's major government funds begins on page 13. Total revenue and expenditures for the general fund (on a modified accrual basis) are \$25,794,666 and \$18,369,966, respectively. The general fund balance increased \$1,867,700. This increase indicates that the revenue base continues to meet City obligations and reflects the current solid financial condition of the City as a whole. The Quadrant TIF, Capital Improvements, and Street Resurfacing funds had balances of (\$3,115,828), \$2,473,660, and \$888,818, respectively, at December 31, 2006, a decrease of \$2,999,016, \$239,633, and \$3,979,251, respectively, from the prior year. These decreases are the result of the construction projects underway in the City.

**General Fund Budgeting Highlights**

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the general fund. The legal level of budgetary control for the City is at the object level for the General and Street, Construction, Maintenance and Repair funds and at the fund level for all other funds. Any budgetary modifications at this level may only be made by ordinance of City Council. City policy permits fund transfers within control levels with the approval of the Mayor and Director of Finance. During the course of 2006, the City amended its general fund budget several times. In addition to day-to-day budget monitoring, the Director of Finance closely examines the budget with the preparation of the monthly financial statements and quarterly budget analysis reports.

For the general fund, original budgeted revenues were \$23,450,000; final budget amounts were \$24,820,000; and actual revenue collections were \$25,486,361. The majority of the increase in actual revenue over the final budgeted amount is due to municipal income taxes. For the general fund, original appropriations were \$17,573,862; final appropriations were \$19,423,862; and actual expenditures were \$19,206,952. Actual expenditures were \$216,910 under the final appropriations.

**Capital Assets and Debt Administration**

*Capital Assets*

Table 4 compares capital assets as of December 31, 2006 to balances at December 31, 2005.

Total capital assets as of December 31, 2006 were \$88,942,105, which is an increase of \$5,010,960 from 2005 capital assets. The most significant increase was in construction in progress, which is a direct result of several road projects which the City began in 2006.

Each year the Mayor and Service Director review the condition of the City's infrastructure and determine what work needs to be completed. The projects are then prioritized and submitted to Council. During the budget process, the Mayor, Council and Director of Finance determine which projects will be budgeted for the following year.

**City of Independence, Ohio**  
*Management's Discussion and Analysis*  
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See Note 2 and Note 9 in the financial statements for more information regarding the City's capital assets.

**Table 4**  
**Capital Assets at December 31 (Net of Depreciation)**

	Governmental Activities	
	2006	2005 - Restated
Land	\$15,696,861	\$13,386,930
Construction in Progress	5,128,209	0
Buildings and Improvements	31,572,073	32,230,435
Machinery and Equipment	1,180,337	1,170,113
Furniture and Fixtures	441,251	523,581
Vehicles	1,899,809	1,830,290
Infrastructure	33,023,565	34,789,796
<i>Total</i>	<u>\$88,942,105</u>	<u>\$83,931,145</u>

**Debt**

Table 5 summarizes outstanding debt at December 31, 2006 compared to December 31, 2005.

**Table 5**  
**Outstanding Debt at Year End**

	Governmental Activities	
	2006	2005
Special Assessment Bonds	\$649,630	\$681,482
Various Improvement Notes	8,900,000	9,400,000
OPWC Loans	50,753	57,520
Capital Lease Payable	19,042	46,144
Police and Fire Liability	74,111	77,312
General Obligation Bonds	29,567,177	30,797,995
<i>Total</i>	<u>\$39,260,713</u>	<u>\$41,060,453</u>

The special assessment bonds will be paid from the proceeds of special assessments levied against benefited property owners. The various improvement notes will be paid out of the capital improvements, street resurfacing, and drain water capital projects funds. See Note 16 and Note 17 in the financial statements for more information regarding the City's outstanding debt.

**City of Independence, Ohio**  
*Management's Discussion and Analysis*  
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**Current Financial Related Activities**

The City's budget for 2007 uses a conservative estimate for revenues. Most of the major revenue sources for the City have been budgeted at an amount less than or equal to what was actually received in 2006. The City's strong financial position and the City's commitment to protecting the level of services afforded all citizens continue to be underlying theme during the budget process.

In order to maintain services provided to citizens and improve the economic and operational efficiency of the City, the City has been focused on facility expansion issues. In 2006, the City began Phase II of the Rockside Road Widening project. This final phase of the widening project will facilitate future growth to the City's most vital commercial district which is estimated to be one-third undeveloped at this time.

**Contacting the City's Finance Department**

This financial report is designed to provide 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 John M. Veres, CPA, CPFA, Director of Finance at the City of Independence, 6800 Brecksville Road, Independence, Ohio 44131, 216-524-4131, or email at [Veresj@independenceohio.org](mailto:Veresj@independenceohio.org).

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**City of Independence, Ohio**

*Statement of Net Assets*

*December 31, 2006*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$13,758,616
Cash and Cash Equivalents	
In Segregated Accounts	21,891
Materials and Supplies Inventory	108,961
Accounts Receivable	79,904
Intergovernmental Receivable	581,091
Prepaid Items	67,285
Municipal Income Taxes Receivable	4,146,025
Property Taxes Receivable	1,503,641
Accrued Interest Receivable	1,059
Special Assessments Receivable	639,506
Deferred Charges	406,011
Nondepreciable Capital Assets	20,825,070
Depreciable Capital Assets, Net	<u>68,117,035</u>
<i>Total Assets</i>	<u>110,256,095</u>
<b>Liabilities</b>	
Accounts Payable	341,338
Accrued Wages	413,383
Contracts Payable	34,897
Intergovernmental Payable	810,107
Accrued Interest Payable	358,843
Notes Payable	600,000
Deferred Revenue	1,335,090
Retainage Payable	123,058
Long-Term Liabilities:	
Due Within One Year	1,509,848
Due In More Than One Year	<u>37,689,106</u>
<i>Total Liabilities</i>	<u>43,215,670</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	51,169,988
Restricted for:	
Capital Projects	4,666,275
State Highway Improvement	102,812
Street Construction Maintenance and Repair	319,972
Other Purposes	313,121
Unrestricted	<u>10,468,257</u>
<i>Total Net Assets</i>	<u><u>\$67,040,425</u></u>

See accompanying notes to the basic financial statements



**City of Independence, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
<b>Governmental Activities:</b>					
General Government	\$8,191,861	\$186,680	\$0	\$0	(\$8,005,181)
Security of Persons and Property	7,642,209	380,208	4,933	0	(7,257,068)
Public Health and Welfare	150,106	5,601	0	0	(144,505)
Leisure Time Activities	2,780,531	388,899	0	0	(2,391,632)
Community Environment	2,020,142	74,654	0	0	(1,945,488)
Basic Utility Services	938,050	19,305	0	0	(918,745)
Transportation	3,459,425	28,936	470,021	425,251	(2,535,217)
Interest and Fiscal Charges	1,618,688	0	0	0	(1,618,688)
<i>Totals</i>	<u>\$26,801,012</u>	<u>\$1,084,283</u>	<u>\$474,954</u>	<u>\$425,251</u>	<u>(24,816,524)</u>
<b>General Revenues</b>					
Property and Other Local Taxes Levied for:					
General Purposes					2,024,599
Debt Service					313,916
Police Pension					160,227
Municipal Income Tax Levied For					
General Purposes					21,378,552
Grants and Entitlements not Restricted to Specific Programs					859,930
Payment in Lieu of Taxes					226,583
Investment Income					604,679
Miscellaneous					950,187
<i>Total General Revenues</i>					<u>26,518,673</u>
Change in Net Assets					1,702,149
<i>Net Assets Beginning of Year (Restated - Note 3)</i>					<u>65,338,276</u>
<i>Net Assets End of Year</i>					<u>\$67,040,425</u>

See accompanying notes to the basic financial statements

**City of Independence, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2006*

	General	Quadrant TIF	Capital Improvements	Street Resurfacing
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,334,164	\$290,172	\$1,047,396	\$3,713,457
Cash and Cash Equivalents				
In Segregated Accounts	21,891	0	0	0
Materials and Supplies Inventory	108,961	0	0	0
Accounts Receivable	79,904	0	0	0
Interfund Receivable	4,051,000	0	1,875,000	0
Intergovernmental Receivable	355,169	0	0	0
Prepaid Items	64,732	0	0	0
Accrued Interest Receivable	1,059	0	0	0
Special Assessments Receivable	0	0	0	0
Property Taxes Receivable	1,020,328	0	0	0
Municipal Income Taxes Receivable	4,146,025	0	0	0
<i>Total Assets</i>	<u>\$14,183,233</u>	<u>\$290,172</u>	<u>\$2,922,396</u>	<u>\$3,713,457</u>
<b>Liabilities</b>				
Accounts Payable	\$97,944	\$0	\$140,073	\$93,737
Accrued Wages	380,656	0	0	5,775
Contracts Payable	25,566	0	0	2,069
Intergovernmental Payable	606,329	0	0	0
Retainage Payable	0	0	0	123,058
Accrued Interest Payable	0	0	8,663	0
Notes Payable	0	0	300,000	200,000
Interfund Payable	0	3,406,000	0	2,400,000
Deferred Revenue	1,892,963	0	0	0
<i>Total Liabilities</i>	<u>3,003,458</u>	<u>3,406,000</u>	<u>448,736</u>	<u>2,824,639</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	615,292	34,067	738,082	2,097,939
Reserved for Long-Term Advances	1,704,500	0	0	0
Unreserved, Undesignated, Reported in:				
General Fund	8,859,983	0	0	0
Special Revenue Funds	0	0	0	0
Debt Service Fund	0	0	0	0
Capital Projects Funds (Deficit)	0	(3,149,895)	1,735,578	(1,209,121)
<i>Total Fund Balances (Deficit)</i>	<u>11,179,775</u>	<u>(3,115,828)</u>	<u>2,473,660</u>	<u>888,818</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$14,183,233</u>	<u>\$290,172</u>	<u>\$2,922,396</u>	<u>\$3,713,457</u>

See accompanying notes to the basic financial statements

**City of Independence, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
December 31, 2006*

Other Governmental Funds	Total Governmental Funds	<b>Total Governmental Funds Balances</b>	<b>\$12,361,110</b>
\$1,337,143	\$10,722,332	<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
0	21,891	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	88,942,105
0	108,961	Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
0	79,904	Property Taxes	168,551
0	5,926,000	Municipal Income Taxes	650,571
225,922	581,091	Intergovernmental	374,206
0	64,732	Special Assessments	639,506
0	1,059		
639,506	639,506	Total	1,832,834
483,313	1,503,641	Bond Issuance costs are considered deferred charges and will be amortized over the life of the bonds on the statement of net assets.	406,011
0	4,146,025	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported due.	(341,518)
<b>\$2,685,884</b>	<b>\$23,795,142</b>	An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	3,038,837
\$9,584	\$341,338	Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.	
32,727	419,158	Compensated Absences	(538,241)
7,262	34,897	General Obligation Bonds	(29,567,177)
203,778	810,107	Special Assessment Bonds	(649,630)
0	123,058	OPWC Loan Payable	(50,753)
2,887	11,550	Police and Fire Liability	(74,111)
100,000	600,000	Notes Payable	(8,300,000)
120,000	5,926,000	Capital Lease Payable	(19,042)
1,274,961	3,167,924	Total	(39,198,954)
1,751,199	11,434,032	<i>Net Assets of Governmental Activities</i>	<b>\$67,040,425</b>
207,779	3,693,159		
0	1,704,500		
0	8,859,983		
457,896	457,896		
364,832	364,832		
(95,822)	(2,719,260)		
934,685	12,361,110		
<b>\$2,685,884</b>	<b>\$23,795,142</b>		

**City of Independence, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2006*

	General	Quadrant TIF	Capital Improvements	Street Resurfacing
<b>Revenues</b>				
Property and Other Local Taxes	\$1,930,233	\$0	\$0	\$0
Municipal Income Taxes	21,342,489	0	0	0
Payments in Lieu of Taxes	0	226,583	0	0
Rentals	1,808	0	0	0
Intergovernmental	908,963	0	0	381,071
Investment Income	310,313	0	144,461	0
Fees, Licenses and Permits	379,038	0	0	0
Fines and Forfeitures	268,130	0	0	0
Charges for Services	18,021	0	0	0
Special Assessments	0	0	0	0
Miscellaneous	635,671	0	7,770	300,041
<i>Total Revenues</i>	<u>25,794,666</u>	<u>226,583</u>	<u>152,231</u>	<u>681,112</u>
<b>Expenditures</b>				
Current:				
General Government	5,233,963	0	0	0
Security of Persons and Property	7,096,139	0	0	0
Public Health and Welfare	156,935	0	0	0
Leisure Time Activities	2,436,257	0	0	0
Community Environment	2,096,295	0	0	0
Basic Utility Services	540,928	0	0	0
Transportation	809,449	0	0	0
Capital Outlay	0	2,241,401	1,344,825	5,514,834
Debt Service:				
Principal Retirement	0	285,000	625,328	6,767
Interest and Fiscal Charges	0	699,198	871,711	38,762
<i>Total Expenditures</i>	<u>18,369,966</u>	<u>3,225,599</u>	<u>2,841,864</u>	<u>5,560,363</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>7,424,700</u>	<u>(2,999,016)</u>	<u>(2,689,633)</u>	<u>(4,879,251)</u>
<b>Other Financing Sources (Uses)</b>				
Current Refunding	0	0	(6,800,000)	(600,000)
Refunding Notes Issued	0	0	6,500,000	400,000
Transfers In	0	0	2,750,000	1,100,000
Transfers Out	(5,557,000)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(5,557,000)</u>	<u>0</u>	<u>2,450,000</u>	<u>900,000</u>
<i>Net Change in Fund Balances</i>	1,867,700	(2,999,016)	(239,633)	(3,979,251)
<i>Fund Balances Beginning of Year</i>	<u>9,312,075</u>	<u>(116,812)</u>	<u>2,713,293</u>	<u>4,868,069</u>
<i>Fund Balances End of Year</i>	<u>\$11,179,775</u>	<u>(\$3,115,828)</u>	<u>\$2,473,660</u>	<u>\$888,818</u>

See accompanying notes to the basic financial statements

**City of Independence, Ohio**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2006*

Other Governmental Funds	Total Governmental Funds		
		<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>(\$5,246,446)</b>
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$429,443	\$2,359,676	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
0	21,342,489	Capital Outlay	8,313,299
0	226,583	Depreciation	(3,205,708)
0	1,808	Total	5,107,591
529,502	1,819,536	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(96,631)
11,535	466,309	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
302,031	681,069	Property and Other Local Taxes	139,066
126,655	394,785	Municipal Income Tax	36,063
0	18,021	Intergovernmental	(103,581)
54,674	54,674	Charges for Services	(11,400)
6,705	950,187	Special Assessments	(10,494)
1,460,545	28,315,137	Total	49,654
		In the statement of activities, interest is accrued on outstanding bonds, bond issuance costs and bond premium are amortized over the term of the bonds, whereas in governmental funds, an expenditure is reported when bonds are issued.	
0	5,233,963	Accrued Interest	103,461
588,354	7,684,493	Amortization of Bond Issuance Costs	(23,760)
0	156,935	Amortization of Accounting Loss	(5,333)
407,028	2,843,285	Amortization of Bond Premium	58,003
2,405	2,098,700	Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(24,616)
0	540,928	Repayment of long term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	10,147,070
1,308,762	2,118,211	Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.	
185,879	9,286,939	Refunding Notes Issued	(8,300,000)
329,975	1,247,070	The internal service fund used to charge costs of insurance to individual funds is not reported in the City-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.	(66,844)
141,388	1,751,059	<i>Change in Net Assets of Governmental Activities</i>	<b>\$1,702,149</b>
2,963,791	32,961,583		
(1,503,246)	(4,646,446)		
(1,500,000)	(8,900,000)		
1,400,000	8,300,000		
1,707,000	5,557,000		
0	(5,557,000)		
1,607,000	(600,000)		
103,754	(5,246,446)		
830,931	17,607,556		
\$934,685	\$12,361,110		

**City of Independence, Ohio**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP Basis) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2006*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Revenues</b>				
Property and Other Local Taxes	\$3,275,898	\$1,487,346	\$1,930,233	\$442,887
Municipal Income Taxes	16,918,198	20,700,000	21,052,911	352,911
Intergovernmental	912,654	912,654	912,654	0
Investment Income	403,446	300,000	273,830	(26,170)
Fees, Licenses and Permits	650,052	450,000	441,208	(8,792)
Fines and Forfeitures	400,887	300,000	272,093	(27,907)
Charges for Services	46,857	50,000	31,803	(18,197)
Miscellaneous	842,008	620,000	571,629	(48,371)
<i>Total Revenues</i>	<u>23,450,000</u>	<u>24,820,000</u>	<u>25,486,361</u>	<u>666,361</u>
<b>Expenditures</b>				
Current:				
General Government	8,166,804	5,490,289	5,441,358	48,931
Security of Persons and Property	4,962,517	7,371,041	7,299,130	71,911
Public Health and Welfare	70,756	104,474	102,128	2,346
Leisure Time Activities	1,791,765	2,645,609	2,595,687	49,922
Community Environment	1,604,116	2,368,538	2,344,566	23,972
Basic Utility Services	391,456	578,000	565,351	12,649
Transportation	586,448	865,911	858,732	7,179
<i>Total Expenditures</i>	<u>17,573,862</u>	<u>19,423,862</u>	<u>19,206,952</u>	<u>216,910</u>
<i>Excess of Revenues Over Expenditures</i>	<u>5,876,138</u>	<u>5,396,138</u>	<u>6,279,409</u>	<u>883,271</u>
<b>Other Financing Sources (Uses)</b>				
Advances In	0	133,500	133,500	0
Advances Out	(2,325,000)	(2,325,000)	(2,325,000)	0
Transfers Out	(5,557,000)	(5,557,000)	(5,557,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(7,882,000)</u>	<u>(7,748,500)</u>	<u>(7,748,500)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(2,005,862)</u>	<u>(2,352,362)</u>	<u>(1,469,091)</u>	<u>883,271</u>
<i>Fund Balance Beginning of Year</i>	4,277,597	4,277,597	4,277,597	0
Prior Year Encumbrances Appropriated	666,762	666,762	666,762	0
<i>Fund Balance End of Year</i>	<u>\$2,938,497</u>	<u>\$2,591,997</u>	<u>\$3,475,268</u>	<u>\$883,271</u>

See accompanying notes to the basic financial statements

**City of Independence, Ohio**

*Statement of Fund Net Assets*

*Internal Service Fund*

*December 31, 2006*

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	<u>Insurance</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$3,036,284
Prepaid Items	<u>2,553</u>
<i>Total Assets</i>	3,038,837
<b>Liabilities</b>	<u>0</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$3,038,837</u></u>

See accompanying notes to the basic financial statements

**City of Independence, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Internal Service Fund  
For the Year Ended December 31, 2006*

	Insurance
<b>Operating Revenues</b>	\$0
<b>Operating Expenses</b>	
Purchased Services	4,658
Claims	200,556
<i>Total Operating Expenses</i>	205,214
<i>Operating Loss</i>	(205,214)
<b>Non-Operating Revenues</b>	
Interest	138,370
<i>Change in Net Assets</i>	(66,844)
<i>Net Assets Beginning of Year</i>	3,105,681
<i>Net Assets End of Year</i>	\$3,038,837

See accompanying notes to the basic financial statements



**City of Independence, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Year Ended December 31, 2006

	Insurance
<i>Decrease in Cash and Cash Equivalents</i>	
<b>Cash Flows from Operating Activities</b>	
Cash Payments for Services	(\$4,658)
Cash Payments for Claims	(200,556)
<i>Net Cash Used in Operating Activities</i>	(205,214)
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	138,370
<i>Net Decrease in Cash and Cash Equivalents</i>	(66,844)
<i>Cash and Cash Equivalents Beginning of Year</i>	3,105,681
<i>Cash and Cash Equivalents End of Year</i>	\$3,038,837
 <b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>	
<i>Operating Loss</i>	(\$205,214)
<i>Net Cash Used In Operating Activities</i>	(\$205,214)
 See accompanying notes to the basic financial statements	

**City of Independence, Ohio**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*December 31, 2006*

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**Assets**

Equity in Pooled Cash and Cash Equivalents	<u>\$162,322</u>
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**Liabilities**

Undistributed Monies	<u>\$162,322</u>
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See accompanying notes to the basic financial statements

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**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Note 1 - Reporting Entity**

The City of Independence is a home rule municipal corporation formed under the laws of the State of Ohio. The City operates under its own Charter made effective November 4, 1958. The Charter, as amended, provides for a Council-Mayor form of government.

The Mayor, elected by the voters for a four-year term, is the head of the municipal government for ceremonial, administrative, and executive purposes, performs the judicial functions of the City and presides at Council meetings. The chief conservator of the peace, he oversees the enforcement of all laws and ordinances. He also appoints all department heads and executes all contracts, conveyances, and evidences of indebtedness of the City.

Legislative authority is vested in a seven member council with all seven members elected at large for a term of two years. Council enacts ordinances and resolutions relating to tax levies, appropriates and borrows money, and accepts bids for materials and services and other municipal purposes.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, agencies, departments and offices that are not legally separate from the City. For the City of Independence this includes the departments and agencies that provide the following services: police and fire protection, emergency medical, parks, recreation, a cemetery, street maintenance and Mayor's court.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

The City participates in two jointly governed organizations, the Southwest Council of Governments and the Northeast Ohio Public Energy Council. These organizations are presented in Note 19 of the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund unless those pronouncements conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***A. Basis of Presentation***

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

***Fund Financial Statements*** During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

***B. Fund Accounting***

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

***Governmental Funds*** Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

***General Fund*** The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***Quadrant TIF Fund*** The quadrant TIF fund accounts for all TIF funds approved by Council. Each TIF fund is created to provide additional revenue for the City to help pay for qualified infrastructure improvements in or near each TIF district. The additional revenue represents property taxes that would have gone to the County, but because of the TIF created, it now goes to the City to help pay for the infrastructure improvements in whole or part.

***Capital Improvements Fund*** The capital improvements fund is used to account for general obligation bond proceeds for departmental capital improvements such as machinery and equipment, furniture, fixtures and equipment and vehicles.

***Street Resurfacing Fund*** The street resurfacing fund accounts for general obligation bond proceeds and grant monies for infrastructure improvements made within the City including roads, water lines, storm sewers and sanitary sewers. The City purchases its water from the Cleveland Division of Water, however, it maintains the upkeep of water lines within the City. The Northeast Ohio Regional Sewer District (NEORS) maintains the upkeep of the sanitary and storm sewers.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

***Proprietary Funds*** Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City has no enterprise funds. The following is a description of the City's internal service fund.

***Internal Service Fund*** The Internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service fund reports on the City's activity of the self-insured general liability program for all lawsuits.

***Fiduciary Funds*** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City only utilizes the agency fund type. The agency funds accounts for deposits from various contractors, developers or individuals to insure compliance with various City ordinances.

***C. Measurement Focus***

***Government-wide Financial Statements*** The government-wide financial statements are presented using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***Fund Financial Statements*** All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statements presented for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Nonexchange Transactions*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fees, fines and forfeitures, interest, grants and entitlements.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***Deferred Revenue*** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

***Expenses/Expenditures*** On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***E. Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations ordinance is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within the general fund and the street construction, maintenance and repair special revenue fund and at the fund level for all other funds. Any budgetary modifications at this level may only be made by ordinance of Council. Authority to further allocate Council appropriations within departments has been given to the Finance Director for all funds except for the General fund and the Street Construction, Maintenance and Repair special revenue fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the final amended certificate of estimated resources in effect at the time final appropriations were enacted by Council.

The appropriation ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

***F. Cash and Cash Equivalents***

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".



**City of Independence, Ohio**  
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During 2006, investments were limited to STAROhio, U.S. Treasury Bonds, Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds and Federal Home Loan Mortgage Corporation Bonds.

Investments are reported at fair value which is based on quoted market prices.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2006.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2006 amounted to \$310,313, which includes \$119,172 assigned from other City funds.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented on the balance sheet as "cash and cash equivalents in segregated accounts."

***G. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

***H. Inventory***

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

***I. Capital Assets***

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of one thousand dollars with the exception of land as land was listed regardless of cost. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
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All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 Years
Machinery and Equipment	10 Years
Furniture and Fixtures	20 Years
Vehicles	8-20 Years
Infrastructure	20-100 Years

The City's infrastructure consists of roadways, water lines, sanitary sewers and storm sewers and includes infrastructure acquired prior to December 31, 1980.

***J. Interfund Balances***

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. Interfund balance amounts are eliminated in the statement of net assets.

***K. Compensated Absences***

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

***L. Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
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***M. Fund Balance Reserves***

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. As a result, encumbrances and long term advances are recorded as a reservation of fund balance.

***N. Net Assets***

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The government-wide statement of net assets reports \$5,402,180 of restricted net assets, none of which is restricted by enabling legislation.

Net assets restricted for other purposes include law enforcement, FEMA grants, drug enforcement and education, police pension, and recreation activities.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

***O. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs that have been incurred in order to provide the good or service that is the primary activity of the fund. Any revenues and expenses not meeting the definition of operating are reported as nonoperating.

***P. Interfund Activity***

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

***Q. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
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***R. Estimates***

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Note 3 – Change in Accounting Principle and Restatement of Prior Year Net Assets**

***A. Change in Accounting Principle***

For 2006, the City has implemented GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 47 established standards of accounting and financial reporting for termination benefits. The implementation of GASB Statement No. 47 did not materially affect the presentation of the financial statements of the City.

***B. Restatement of Prior Year Net Assets***

At December 31, 2005, capital assets were understated by \$4,236,767 due to an error in the calculation of depreciation. This restatement caused the net assets to increase from \$61,101,509 to \$65,338,276.

**Note 4 - Budgetary Basis of Accounting**

While reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

- a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- c) Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
- d) Unrecorded cash represents amounts received but not included as revenue on the budget basis statements. These amounts are included as revenue on the GAAP basis operating statements.
- e) Investments are reported at cost (budget basis) rather than at fair value (GAAP basis).
- f) Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

**City of Independence, Ohio**  
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The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	General
GAAP Basis	\$1,867,700
Net Adjustment for Revenue Accruals	(272,130)
Beginning Fair Value Adjustment for Investments	99,507
Ending Fair Value Adjustment for Investments	(138,738)
Advances In	133,500
Advances Out	(2,325,000)
Net Adjustment for Expenditure Accruals	(118,380)
Beginning Unrecorded Cash	4,608
Ending Unrecorded Cash	(1,552)
Encumbrances	(718,606)
Budget Basis	(\$1,469,091)

**Note 5 – Accountability**

The following funds had deficit fund balances as of December 31, 2006.

	Deficits
<b>Major Fund:</b>	
Debt Service Fund:	
Quadrant TIF	\$3,115,828
<b>Nonmajor Funds:</b>	
Special Revenue Fund:	
Police Pension	45,704
Capital Projects Fund:	
Rockside Road	66,706

Fund deficits in the Quadrant TIF, Police Pension, and Rockside Road funds are due to adjustments for accrued liabilities. The General fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Note 6 - Deposits and Investments**

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the City treasury. Active monies must be maintained either as cash in the City treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2006

2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

**Deposits**

**Custodial Credit Risk** Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. At year-end, the carrying amount of the City's deposits was \$5,940,560 and the bank balance was \$6,042,923. Of the bank balance, \$218,814 was covered by Federal depository insurance and \$5,824,109 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of the State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

Investments are reported at fair value. As of December 31, 2006, the City had the following investments:

	Fair Value	Average Maturity
STAROhio	\$25,723	35 days
Federal Home Loan Bank Bonds	1,404,443	303 days
Federal National Mortgage Association Bonds	1,969,359	471 days
Federal Home Loan Mortgage Corporation Bonds	4,122,692	481 days
U.S. Treasury Bonds	480,052	360 days
Total	\$8,002,269	

**Interest Rate Risk** As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within one year from the date of purchase and that the City's investment portfolio be structured so that the securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

**City of Independence, Ohio**  
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**Custodial Credit Risk** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds, Federal National Mortgage Association Bonds, and the Federal Home Loan Mortgage Corporation Bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent but not in the City's name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the finance director or qualified trustee.

**Credit Risk** STAROhio carries a rating of AAA by Standard's and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. Federal Home Loan Bank Bonds and Federal Home Loan Mortgage Corporation Bonds carry a rating of A-1+ by Standard and Poor's. Federal National Mortgage Association Bonds carry a rating of AA- by Standard and Poor's. The City investment policy does not address credit risk.

## **Note 7 – Receivables**

Receivables at December 31, 2006, consisted primarily of property and other taxes, municipal income taxes, accounts (billings for user charged services), special assessments, and intergovernmental receivables arising from grants, entitlements and shared revenues.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

Special assessments expected to be collected on the Oak Tree Issue II capital projects fund within one year amount to \$30,000 and in more than one year amount to \$590,000. At December 31, 2006, there was \$19,506 in delinquent special assessments.

### **A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) are for 2006 taxes.

2006 real property taxes are levied after October 1, 2006 on the assessed value as of January 1, 2006, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.



**City of Independence, Ohio**  
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2006 tangible personal property taxes are levied after October 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may be annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable September 20.

The full tax rate for all City operations for the year ended December 31, 2006 was \$2.80 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were based are as follows:

Real Property:	
Residential/Agricultural	\$243,061,090
Other Real Estate	242,628,230
Public Utility Personal Property	19,920,220
Tangible Personal Property	<u>31,350,145</u>
Total	<u><u>\$536,959,685</u></u>

The Cuyahoga County Treasurer collects property tax on behalf of all taxing districts within the County, including the City of Independence. The County Auditor periodically remits to the taxing districts their portions of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the governmental funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

***B. Income Tax***

The City levies a municipal income tax of two percent on all wages, salaries, commissions and other compensation and net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. In 2006, the proceeds were allocated entirely to the general fund.

**City of Independence, Ohio**  
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**C. Intergovernmental Receivable**

A summary of the governmental activities principal items of intergovernmental receivables follows:

	Amount
Local Government	\$495,798
Estate Tax	36,489
Homestead and Rollback	37,565
Liquor Fees	8,401
Prisoner Housing	2,788
Court Fines	50
Total Intergovernmental Receivables	\$581,091

**Note 8 - Risk Management**

**A. Property and Liability**

The City is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2006, the City contracted with St. Paul Travelers Insurance Agency for various types of insurance as follows:

Type	Coverage	Deductible
Inland Marine		
Contractor's Equipment	\$607,588	\$2,500
Property	42,968,653	10,000
Crime	25,000	1,000
Automobile	1,000,000	1,000

Settled claims have not exceeded this coverage in any of the last three years. There has not been significant reduction in coverage from the prior year.

The City accounts for activity of the self-insured general liability program for all lawsuits within the internal service fund. There were no outstanding claims at December 31, 2006. Changes in the fund's claims liability amount for 2005 and 2006 were:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2005	\$0	\$75,396	\$75,396	\$0
2006	0	200,556	200,556	0

**B. Workers' Compensation**

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

**City of Independence, Ohio**  
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**Note 9 - Capital Assets**

Capital asset activity for the year ended December 31, 2006, was as follows:

	Restated Balance 12/31/05	Additions	Reductions	Balance 12/31/06
<b>Governmental Activities:</b>				
<b>Capital Assets, Not Being Depreciated</b>				
Land	\$13,386,930	\$2,309,931	\$0	\$15,696,861
Construction in progress	0	5,128,209	0	5,128,209
<i>Total Capital Assets, Not Being Depreciated</i>	<u>13,386,930</u>	<u>7,438,140</u>	<u>0</u>	<u>20,825,070</u>
<b>Capital Assets, Being Depreciated</b>				
Buildings and Improvements	38,508,704	122,417	0	38,631,121
Machinery and Equipment	3,163,097	258,043	(56,656)	3,364,484
Furniture and Fixtures	1,722,344	5,924	(13,342)	1,714,926
Vehicles	4,970,455	488,775	(218,976)	5,240,254
Infrastructure		0		
Roads	31,315,009	0	0	31,315,009
Water Lines	5,432,820	0	0	5,432,820
Sanitary Sewers	2,670,596	0	0	2,670,596
Storm Sewers	9,234,048	0	0	9,234,048
<i>Total Capital Assets, Being Depreciated</i>	<u>97,017,073</u>	<u>875,159</u>	<u>(288,974)</u>	<u>97,603,258</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and Improvements	(6,278,269)	(780,779)	0	(7,059,048)
Machinery and Equipment	(1,992,984)	(232,348)	41,185	(2,184,147)
Furniture and Fixtures	(1,198,763)	(85,540)	10,628	(1,273,675)
Vehicles	(3,140,165)	(340,810)	140,530	(3,340,445)
Infrastructure				
Roads	(10,447,337)	(1,491,614)	0	(11,938,951)
Water Lines	(772,794)	(54,328)	0	(827,122)
Sanitary Sewers	(456,451)	(35,608)	0	(492,059)
Storm Sewers	(2,186,095)	(184,681)	0	(2,370,776)
<i>Total Accumulated Depreciation</i>	<u>(26,472,858)</u>	<u>(3,205,708) *</u>	<u>192,343</u>	<u>(29,486,223)</u>
Total Capital Assets, Being Depreciated, Net	<u>70,544,215</u>	<u>(2,330,549)</u>	<u>(96,631)</u>	<u>68,117,035</u>
Governmental Activities Capital Assets, Net	<u>\$83,931,145</u>	<u>\$5,107,591</u>	<u>(\$96,631)</u>	<u>\$88,942,105</u>

\*Depreciation expense was charged to governmental activities as follows:

General Government	\$890,859
Security of Persons and Property	298,338
Leisure Time Activities	66,610
Community Environment	18,018
Basic Utility Services	440,269
Transportation	<u>1,491,614</u>
Total	<u>\$3,205,708</u>

**City of Independence, Ohio**  
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**Note 10 - Contingencies**

***A. Grants***

The City receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or any other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City.

***B. Litigation***

The City is a party to legal proceedings. The City management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City and that the City has adequate liability insurance coverage to protect itself against any material loss.

**Note 11 - Defined Benefit Pension Plans**

***A. Ohio Public Employees Retirement System***

The City of Independence participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9.00 percent. The City's contribution rate for pension benefits for 2006 was 13.7 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 16.93 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

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The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$603,747, \$567,936, and \$538,983 respectively; 70.12 percent has been contributed for 2006 and 100 percent for 2005 and 2004. Contributions to the member-directed plan for 2006 were \$15,577 made by the City and \$10,233 made by the plan members.

***B. Ohio Police and Fire Pension Fund***

The City of Independence contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 19.5 percent for police officers and 24 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$295,373 and \$273,641 for the year ended December 31, 2006, \$292,009 and \$270,307 for the year ended December 31, 2005, and \$268,688 and \$245,502 for the year ended December 31, 2004, respectively. The full amount has been contributed for 2005 and 2004. 65.59 percent for police and 68.70 percent for firefighters has been contributed for 2006.

**Note 12 - Postemployment Benefits**

***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.7 percent of covered payroll (16.93 percent for public safety and law enforcement); 4.50 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .50 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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The number of active contributing participants in the traditional and combined plans was 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$295,311. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

***B. Ohio Police and Fire Pension Fund***

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2006 and 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$194,821 for police and \$130,506 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

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**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Note 13 – Compensated Absences**

Employees earn five to twenty-five days of vacation per year, depending upon length of service. Upon termination, employees are paid for accrued unused vacation up to ten days. Employees earn sick leave at different rates depending upon length of service and type of employment. Sick leave accrual is continuous, without limit. Upon retirement, an employee can be paid a maximum of one fourth of 960 hours of accumulated, unused sick leave.

**Note 14 – Capital Leases**

In 2004, the City entered into a lease agreement for a communications system. In 2005, the City entered into a vehicle lease for a Buick LaSabre for use by the City’s deputy detective. These lease obligations meet the criteria of a capital lease as defined by Financial Accounting Standards Board Statement No. 13, “Accounting for Leases”, and have been recorded on the government-wide statements.

The assets acquired through capital leases are as follows:

	Governmental Activities
Asset:	
Machinery and equipment	\$136,753
Vehicles	21,577
Less: Accumulated depreciation	(46,420)
Total	\$111,910

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of minimum lease payments as of December 31, 2006:

Year Ending December 31,	Governmental Activities
Total Minimum Lease Payments - 2007	\$20,212
Less: Amount Representing Interest	(1,170)
Present Value of Minimum Lease Payments	\$19,042



**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

**Note 15 – Contractual Commitments**

The City had the following contractual commitments outstanding at December 31, 2006:

Project	Contract Amount	Amount Paid to Date	Amount Remaining on Contract
Sanitary Sewer	\$99,988	\$9,728	\$90,260
Roadway Maintenance	200,000	40,658	159,342
Creek Maintenance	82,125	0	82,125
Rockside Road	2,206,363	1,362,145	844,218
<b>Total</b>	<b>\$2,588,476</b>	<b>\$1,412,531</b>	<b>\$1,175,945</b>

**Note 16 – Note Debt**

During 2006, the City paid \$500,000 of the outstanding \$9,400,000 in bond anticipation notes and reissued \$8,900,000. On May 3, 2007, the City paid \$600,000 against the \$8,900,000 and refinanced the remaining \$8,300,000 into a new note. Therefore, the \$8,900,000 liability outstanding at December 31, 2006 will be split with \$8,300,000 presented as a long-term liability and \$600,000 presented as a fund liability in the financial statements.

<i>Types / Issues</i>	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
2005 - 4.25% General Purpose Bond Anticipation Notes	\$500,000	\$0	\$500,000	\$0
2006 - 4.25% General Purpose Bond Anticipation Notes	0	600,000	0	600,000
<b>Total Governmental Funds</b>	<b>\$500,000</b>	<b>\$600,000</b>	<b>\$500,000</b>	<b>\$600,000</b>

All the notes are backed by the full faith and credit of the City of Independence and mature within one year. The maturity date for all outstanding notes is May 7, 2007. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended. The notes will be paid out of the capital improvements, street resurfacing, and drain water capital projects funds.

By Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. There are limitations on the number of times a note can be renewed. All notes outstanding at year-end are bond anticipation notes. The notes will be refinanced until the projects are complete and the City determines it to be advantageous to issue bonds.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2006

**Note 17 - Long-Term Obligations**

The changes in long-term obligations during the year were as follows:

	Balance 12/31/05	Additions	Reductions	Balance 12/31/06	Amounts Due in One Year
<b>General Obligation Bonds</b>					
2003 \$2,520,000 - 2% to 3%					
Civic Center	\$1,825,000	\$0	(\$290,000)	\$1,535,000	\$295,000
Unamortized Premium	10,919	0	(1,820)	9,099	0
Unamortized Accounting Loss	(32,000)	0	5,333	(26,667)	0
2003 \$15,000,000 - 2% to 5%					
Shared Facilities	13,825,000	0	(605,000)	13,220,000	615,000
Unamortized Premium	671,251	0	(39,485)	631,766	0
2003 \$7,125,000 - 2% to 5%					
Northwest Quadrant TIF	6,760,000	0	(190,000)	6,570,000	195,000
Unamortized Premium	171,057	0	(7,437)	163,620	0
2003 \$1,675,000 - 2% to 5%					
Southwest Quadrant TIF	1,585,000	0	(45,000)	1,540,000	45,000
Unamortized Premium	39,844	0	(1,732)	38,112	0
2005 \$5,800,000 - 2% to 5%					
Northeast Quadrant TIF	5,800,000	0	(50,000)	5,750,000	150,000
Unamortized Premium	141,924	0	(5,677)	136,247	0
<b>Total General Obligation Bonds</b>	<b>30,797,995</b>	<b>0</b>	<b>(1,230,818)</b>	<b>29,567,177</b>	<b>1,300,000</b>
<b>Special Assessment Bonds</b>					
2003 \$700,000 - 2% to 5%					
Oaktree	650,000	0	(30,000)	620,000	30,000
Unamortized Premium	31,482	0	(1,852)	29,630	0
<b>Total Special Assessment Bonds</b>	<b>681,482</b>	<b>0</b>	<b>(31,852)</b>	<b>649,630</b>	<b>30,000</b>
<b>Notes</b>					
2005 - 4.25% General Purpose Bond Anticipation Notes	8,900,000	0	(8,900,000)	0	0
2006 - 4.25% General Purpose Bond Anticipation Notes	0	8,900,000	(600,000)	8,300,000	0
<b>Total Notes</b>	<b>8,900,000</b>	<b>8,900,000</b>	<b>(9,500,000)</b>	<b>8,300,000</b>	<b>0</b>
<b>OPWC Loan</b>					
1994 \$335,095 - 0%					
Quarry Road Bridge	57,520	0	(6,767)	50,753	6,767
<b>Other Long-term Obligations</b>					
Capital Lease Obligation	46,144	0	(27,102)	19,042	19,042
Police and Fire Pension	77,312	0	(3,201)	74,111	3,339
Compensated Absences	513,625	45,916	(21,300)	538,241	150,700
<b>Total General Long-term Obligations</b>	<b>\$41,074,078</b>	<b>\$8,945,916</b>	<b>(\$10,821,040)</b>	<b>\$39,198,954</b>	<b>\$1,509,848</b>

On May 15, 2003, the City of Independence issued \$26,320,000 and \$700,000 in general obligation and special assessment bonds, respectively, at various interest rates varying from 2.00 percent to 5.00 percent. A portion of the general obligation bond proceeds were used to refund \$2,700,000 of the 1991 Civic Center general obligation bonds. An analysis of the information follows:

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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The City issued \$2,520,000 in voted general obligation bonds for the purpose of refunding the 1991 Civic Center issue at a lower interest rate. The bonds were issued for a nine year period with a final maturity in 2011.

The City issued \$15,000,000 in unvoted general obligation bonds for the purpose of constructing a shared use facility with the Independence Local School District. The bonds were issued for a twenty year period with a final maturity in 2022.

The City issued \$7,125,000 and \$1,675,000 in unvoted and voted general obligation bonds for the purpose of widening Rockside Road. The bonds were issued for a twenty-six year period with a final maturity in 2028.

The City issued \$700,000 in special assessment bonds for the purpose of constructing a portion of Oaktree Boulevard North. The bonds were issued for a twenty year period with a final maturity in 2022.

In 1994, the City received \$335,095 in Ohio Public Works Commission loans for the Quarry Road Bridge Project. The loans were issued for a twenty-one year period with a final maturity in 2014.

In 2005, the City issued \$5,800,000 in unvoted general obligation bonds for the purpose of TIF expansion projects for each of City's specified quadrants. The bonds were issued for a twenty-five year period with a final maturity in 2030.

General obligation bonds will be paid from the general bond retirement debt service fund from property taxes. Special assessment bonds were paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The OPWC loans will be paid from the capital improvements capital projects fund. The capital lease obligation will be paid from the federal forfeiture special revenue and capital improvements capital projects funds.

All the notes are backed by the full faith and credit of the City of Independence. The maturity date for all outstanding notes is May 7, 2007. All note proceeds have been fully expended. The notes will be paid out of the capital improvements, street resurfacing, and drain water capital projects funds.

Compensated absences will be paid from the General fund and the Street Construction, Maintenance and Repair special revenue fund.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
For the Year Ended December 31, 2006

The City's overall legal debt margin was \$37,565,753 with an unvoted debt margin of \$29,532,783 at December 31, 2006. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006 are as follows:

	General Obligation		Special Assessment		OPWC
	Bonds		Bonds		Loan
	Principal	Interest	Principal	Interest	Principal
2007	\$1,300,000	\$1,243,616	\$30,000	\$26,345	\$6,767
2008	1,325,000	1,162,115	30,000	25,745	6,767
2009	1,350,000	1,132,310	30,000	25,100	6,767
2010	1,405,000	1,075,586	30,000	23,900	6,767
2011	1,440,000	1,044,950	30,000	23,075	6,767
2012-2016	6,345,000	4,208,990	185,000	93,525	16,918
2017-2021	7,970,000	2,788,725	230,000	44,963	0
2022-2026	4,965,000	1,103,088	55,000	2,200	0
2027-2030	2,515,000	224,399	0	0	0
<b>Total</b>	<b>\$28,615,000</b>	<b>\$13,983,779</b>	<b>\$620,000</b>	<b>\$264,853</b>	<b>\$50,753</b>

**Note 18 – Interfund Transactions**

**A. Interfund Balances**

Interfund Payable	Interfund Receivable		
	General	Capital Improvement	Totals
Major Funds:			
Street Resurfacing	\$2,400,000	\$0	\$2,400,000
Quadrant TIF	1,531,000	1,875,000	3,406,000
Nonmajor Funds:			
Oaktree	20,000	0	20,000
Rockside Road	100,000	0	100,000
	<u>\$4,051,000</u>	<u>\$1,875,000</u>	<u>\$5,926,000</u>

The interfund receivables and payables are advances for grant monies that were not repaid by year end, except those related to the Quadrant TIF fund. The City advances grant monies in the event that the award was not received when expected. The interfund receivables and payables relating to the Quadrant TIF fund are advances to finance capital projects. The General fund will receive \$4,051,000 from various funds, while the Capital Improvement fund will receive \$1,875,000 from the Quadrant TIF fund. All interfund balances, except TIF related balances, are expected to be repaid within one year.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

***B. Interfund Transfers***

Interfund transfers for the year ended December 31, 2006, consisted of the following:

Transfers To	Transfer From
	General
<i>Major Funds:</i>	
Capital Improvements	\$2,750,000
Street Resurfacing	1,100,000
Total Major Funds	3,850,000
<i>Nonmajor Funds:</i>	
Street Construction, Maintenance and Repair	880,000
Twenty Five and Alive	2,000
Recreation Trust	100,000
Police Pension	475,000
Drain Water	250,000
Total Nonmajor Funds	1,707,000
Total All Funds	\$5,557,000

The transfer to the Capital Improvements fund was to provide money for capital purchases and expenditures while the transfer to the Street Construction, Maintenance and Repair and Recreation Trust special revenue funds were to help cover costs of yearly expenditures. The transfer to the Police Pension special revenue fund was to help fund pension costs, the transfers to the Street Resurfacing and Drain Water funds were to provide money for capital purchases and expenditures, and the transfer to the Twenty Five and Alive fund was to help fund program costs.

**Note 19 – Jointly Governed Organizations**

***A. Southwest Council of Governments***

The Southwest Council of Governments helps foster cooperation between municipalities in areas affecting health, safety, welfare, education, economic conditions and regional development. The board is comprised of one member from each of the sixteen participating entities. The board exercises total control over the operation of the Council including budgeting, appropriating, contracting and designating management. Budgets are adopted by the Board. Each City’s degree of control is limited to its representation on the board. In 2006, the City contributed \$7,500 which represents 5.4 percent of total contributions.

The Council has established two subsidiary organizations, the Hazardous Material Response Team (“HAZ MAT”) which provides hazardous material protection and assistance and the Southwest Enforcement Bureau which provides extra assistance to cities in the form of a SWAT Team. The Council’s financial statements may be obtained by contacting the Southwest Council of Governments, Parma Heights, Ohio 44130.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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***B. Northeast Ohio Public Energy Council (NOPEC)***

The City is a member of The Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives on the governing board from each county then elect one person to serve on the eight-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. The City did not contribute to NOPEC during 2006. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 175 South Main Street, Akron, Ohio 44308 or at the website [www.nopecinfo.org](http://www.nopecinfo.org).

**Note 20 – Shared Facilities Joint Operating Agreement**

On July 30, 2002, the City entered into a contribution agreement for constructing, equipping and furnishing a new high school facility, community auditorium, community center and a community field house (shared facility) on property owned by the City and to be partially leased to the School District.

Under the terms of the contribution agreement, the City will contribute \$13,000,000 to the School District, which is 38 percent of the cost of the shared facility project and includes the costs of constructing, equipping and furnishing the shared facility; the cost of constructing, equipping and furnishing related joint use areas; and the costs of related design and other professional services. The City will also purchase some unused School District property for \$2,000,000. In 2003, the City issued \$15,000,000 in general obligation bonds to meet its obligations. The land, community center and community field house shall be owned by the City; the high school facility and community auditorium shall be owned by the School District.

The City's contributions were payable based on the percent of project completion as determined by the School District. By the end of 2005, the total principal borrowed had been used for construction. The shared facility was completed in September of 2005.

The development and use agreement includes provisions for capital improvement funding. Under these provisions, both the City and the School District are required to establish and maintain a community gym fund. For the first year of operation, the City and School District will contribute \$6,000, and \$3,000 respectively. These amounts will increase three-percent annually and will be used for capital improvements and contracted maintenance as jointly decided.

The School District will be responsible for maintaining liability insurance for activities in the shared facility with coverage limits not less than \$2,000,000 for bodily injury and property damage and \$1,000,000 for each occurrence. The City and School District are responsible for personal property insurance on the shared facility owned by them. The City and School District also have additional annual obligations for housekeeping, custodial, equipment, supply and utility costs.

**City of Independence, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Year Ended December 31, 2006*

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**Note 21 – Subsequent Event**

On May 3, 2007, the City reissued the various purpose bond anticipation notes in the amount of \$8,300,000 at a rate of 4.50 percent. The notes will mature on May 2, 2008.

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

City of Independence  
Cuyahoga County  
6800 Brecksville Road  
Independence, Ohio 44131

To the Members of City Council

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Independence, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 27, 2007, wherein we noted the City restated the December 31, 2005 net assets due to an understatement of capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

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

We noted a certain matter that we reported to the City's management in a separate letter dated August 27, 2007.

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[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

### **Compliance and Other Matters**

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the City's management in a separate letter dated August 27, 2007.

We intend this report solely for the information and use of management and City Council. We intend it for no one other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

August 27, 2007



**Mary Taylor, CPA**  
Auditor of State

**CITY OF INDEPENDENCE**

**CUYAHOGA COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 18, 2007**