



**Auditor of State
Betty Montgomery**

**CITY OF INDEPENDENCE
CUYAHOGA COUNTY**

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Auditor of State Betty Montgomery

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, 2005, 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, 2005, and the respective changes in financial position thereof and where applicable, cash flows and the 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 fund balance for the Street Resurfacing Fund and the capital assets for the year ended December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2006, 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.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 30, 2006

City of Independence
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The discussion and analysis of the City of Independence's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. 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 2005 are as follows:

- ❑ The City's total net assets decreased by \$4,041,236 or 6.20% mainly as a result of depreciation on capital assets.
- ❑ Total current assets decreased by \$2,136,404 or 7.22% compared to 2004 current assets. The decrease is largely due to the City continuing to spend down the money it had borrowed in 2003 for the Shared Use Facility and Rockside Road widening projects.
- ❑ Total current liabilities increased by \$862,209 or 21.02% from 2004, due mainly to amounts owed on the Rockside Road project.
- ❑ The City completed construction on two of the largest projects in its history: the Rockside Road Widening Project and the Shared Use Facility. In 2005, the City borrowed \$5,800,000 for tax incremental financing (TIF) expansion projects which will begin in 2006. The Phase II of the Rockside Road Widening Project is included in the expansion projects.
- ❑ The general fund transferred \$1,700,000 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
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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 14, 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, Capital Improvements, Street Resurfacing, and Oaktree Funds.

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
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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 2005 and 2004.

Table 1
Net Assets

	Governmental Activities		
	2005	2004	Change
Assets			
Current and Other Assets	\$27,445,914	\$29,582,318	(\$2,136,404)
Capital Assets, Net	79,694,378	76,955,930	2,738,448
Total Assets	107,140,292	106,538,248	602,044
Liabilities			
Current and Other Liabilities	4,964,705	4,102,496	862,209
Long Term Liabilities			
Due Within One Year	1,401,332	1,297,112	104,220
Due in More than One Year	39,672,746	35,995,895	3,676,851
Total Liabilities	46,038,783	41,395,503	4,643,280
Net Assets			
Invested in Capital Assets, Net of Related Debt	40,207,485	48,789,995	(8,582,510)
Restricted:			
Capital Projects	8,822,024	4,847,751	3,974,273
State Highway	68,799	183,949	(115,150)
Street Construction Maintenance and Repair	335,249	263,556	71,693
Other Purposes	31,478	306,066	(274,588)
Unrestricted	11,636,474	10,751,428	885,046
Total Net Assets	\$61,101,509	\$65,142,745	(\$4,041,236)

Total assets increased by \$602,044 which can be attributed to large additions to the City's capital assets.

Current liabilities increased by \$862,209 or 21.02% mainly due to payables for the Rockside Road project.

City of Independence
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, increased by \$885,046.

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 2005 and corresponds to the Statement of Activities. Table 2 indicates that total expenses exceeded total revenue by \$4,041,236.

Table 2
Changes in Net Assets

	Governmental Activities	
	2005	2004
Revenues		
Program Revenues		
Charges for Services and Sales	\$1,076,037	\$1,287,628
Operating Grants and Contributions	506,166	511,867
Capital Grants and Contributions	254,184	2,730,500
<i>Total Program Revenues</i>	<u>1,836,387</u>	<u>4,529,995</u>
General Revenues		
Property Taxes	2,060,121	2,276,757
Municipal Income Taxes	19,588,902	19,452,865
Grant and Entitlements, Not Restricted to Specific Programs	939,083	892,046
Interest	992,603	516,584
Miscellaneous	1,119,263	613,729
<i>Total General Revenues</i>	<u>24,699,972</u>	<u>23,751,981</u>
<i>Total Revenues</i>	<u>26,536,359</u>	<u>28,281,976</u>
Program Expenses		
General Government	9,116,223	10,885,297
Security of Persons and Property	8,103,488	8,054,485
Public Health and Welfare	99,259	86,338
Leisure Time Activities	3,224,755	2,979,761
Community Environment	2,412,397	2,413,794
Basic Utility Services	1,031,008	992,297
Transportation	5,101,022	5,340,467
Interest and Fiscal Charges	1,489,443	1,244,926
<i>Total Expenses</i>	<u>30,577,595</u>	<u>31,997,365</u>
<i>Increase (Decrease) in Net Assets</i>	(4,041,236)	(3,715,389)
<i>Net Assets Beginning of Year</i>	<u>65,142,745</u>	<u>68,858,134</u>
<i>Net Assets End of Year</i>	<u>\$61,101,509</u>	<u>\$65,142,745</u>

City of Independence
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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 2.00 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 2%, on the income earned outside of the City and paid to another municipality. On a full accrual basis, the City received \$19,588,902 in income tax collections or 73.82% of total 2005 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	
	2005	2004	2005	2004
General Government	\$9,116,223	\$10,885,297	\$8,950,447	\$10,692,759
Security of Persons and Property	8,103,488	8,054,485	7,780,685	7,575,438
Public Health and Welfare	99,259	86,338	95,175	82,375
Leisure Time Activities	3,224,755	2,979,761	2,796,666	2,537,011
Community Environment	2,412,397	2,413,794	2,313,851	2,304,229
Basic Utility Services	1,031,008	992,297	1,009,593	970,303
Transportation	5,101,022	5,340,467	4,305,348	2,060,329
Interest and Fiscal Charges	1,489,443	1,244,926	1,489,443	1,244,926
Total Expenses	\$30,577,595	\$31,997,365	\$28,741,208	\$27,467,370

Transportation expense totaled \$5,101,022 or 16.68% of total 2005 expenses.

Security of Persons and Property expenses totaled \$8,103,488 or 26.50% of total 2005 expenses. A significant portion of these expenses can be attributed to salaries, wages and employee benefits. As of December 31, 2005, the City employed 34 full-time police officers and 24 full-time firefighters.

City of Independence
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The City's Funds

Information about the City's major government funds begins on page 14. Total revenue and expenditures for the general fund (on a modified accrual basis) are \$24,345,172 and \$17,734,915, respectively. The general fund balance increased \$1,506,881. 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 Capital Improvements and Street Resurfacing capital projects funds had balances of \$2,713,293 and \$4,868,069, respectively, at December 31, 2005, a decrease of \$2,870,342 and \$310,052, 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 2005, 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 \$22,927,636; final budget amounts were \$24,024,326; and actual revenue collections were \$24,257,157. The majority of the increase in actual revenue over the original and final budgeted amounts is due to municipal income taxes.

Capital Assets and Debt Administration

Capital Assets

Table 4 compares capital assets as of December 31, 2005 to balances at December 31, 2004.

Total capital assets as of December 31, 2005 were \$79,694,378, which is an increase of \$2,738,448 from 2004 capital assets. The most significant increase was in buildings and improvements, which largely represents the improvements made to the Shared Facility. Meanwhile, \$18,831,205 in construction in progress was placed in service in 2005, with \$13,106,236 going toward buildings and improvements and \$5,724,969 going toward street improvements.

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
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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	
	2005	2004
Land	\$13,386,930	\$13,386,930
Construction in Progress	0	9,923,109
Buildings and Improvements	27,993,668	19,574,151
Machinery and Equipment	1,170,113	1,241,442
Furniture and Fixtures	523,581	581,538
Vehicles	1,830,290	2,031,081
Infrastructure	34,789,796	30,217,679
<i>Total</i>	\$79,694,378	\$76,955,930

Debt

Table 5 summarizes outstanding debt at December 31, 2005 compared to December 31, 2004.

Table 5
Outstanding Debt at Year End

	Governmental Activities	
	2005	2004
Special Assessment Bonds	\$681,482	\$708,334
Various Improvement Notes	9,400,000	9,900,000
OPWC Loans	57,520	64,287
Compensated Absences Payable	513,625	476,278
General Obligation Bonds	30,797,995	26,011,213
<i>Total</i>	\$41,450,622	\$37,160,112

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 bond retirement fund. See Note 15 and Note 16 in the financial statements for more information regarding the City's outstanding debt.

City of Independence
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Current Financial Related Activities

The City's budget for 2006 anticipates the current economic downturn will continue to turnaround. 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 2005. The City's strong financial position and the City's commitment to protecting the level of services afforded all citizens continues to be the 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 will begin 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.

City of Independence, Ohio

Statement of Net Assets

December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$20,209,911
Cash and Cash Equivalents	
In Segregated Accounts	25,854
Materials and Supplies Inventory	155,969
Accounts Receivable	101,715
Intergovernmental Receivable	700,677
Prepaid Items	65,927
Municipal Income Taxes Receivable	3,820,384
Property Taxes Receivable	1,284,955
Accrued Interest Receivable	751
Special Assessments Receivable	650,000
Deferred Charges	429,771
Nondepreciable Capital Assets	13,386,930
Depreciable Capital Assets, Net	<u>66,307,448</u>
<i>Total Assets</i>	<u>107,140,292</u>
Liabilities	
Accounts Payable	342,317
Accrued Wages	404,296
Contracts Payable	412,816
Intergovernmental Payable	713,687
Accrued Interest Payable	458,614
Notes Payable	500,000
Deferred Revenue	1,255,470
Retainage Payable	877,505
Long-Term Liabilities:	
Due Within One Year	1,401,332
Due In More Than One Year	<u>39,672,746</u>
<i>Total Liabilities</i>	<u>46,038,783</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	40,207,485
Restricted for:	
Capital Projects	8,822,024
State Highway	68,799
Street Construction Maintenance and Repair	335,249
Other Purposes	31,478
Unrestricted	<u>11,636,474</u>
<i>Total Net Assets</i>	<u><u>\$61,101,509</u></u>

See accompanying notes to the basic financial statements

City of Independence, Ohio
Statement of Activities
For the Year Ended December 31, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
Governmental Activities:					
General Government	\$9,116,223	\$165,776	\$0	\$0	(\$8,950,447)
Security of Persons and Property	8,103,488	322,733	70	0	(7,780,685)
Public Health and Welfare	99,259	4,084	0	0	(95,175)
Leisure Time Activities	3,224,755	428,089	0	0	(2,796,666)
Community Environment	2,412,397	98,546	0	0	(2,313,851)
Basic Utility Services	1,031,008	21,415	0	0	(1,009,593)
Transportation	5,101,022	35,394	506,096	254,184	(4,305,348)
Interest and Fiscal Charges	1,489,443	0	0	0	(1,489,443)
<i>Totals</i>	<u>\$30,577,595</u>	<u>\$1,076,037</u>	<u>\$506,166</u>	<u>\$254,184</u>	<u>(28,741,208)</u>
General Revenues					
Property and Other Local Taxes Levied for:					
					1,685,417
					271,231
					103,473
Municipal Income Tax Levied For					
					19,588,902
					939,083
					992,603
					1,119,263
					<u>24,699,972</u>
					(4,041,236)
					<u>65,142,745</u>
					<u>\$61,101,509</u>

See accompanying notes to the basic financial statements

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City of Independence, Ohio

Balance Sheet

Governmental Funds

December 31, 2005

	General	Capital Improvements	Street Resurfacing	Oak Tree
Assets				
Equity in Pooled Cash and Cash Equivalents	\$5,048,474	\$2,785,890	\$7,144,404	\$392,452
Cash and Cash Equivalents In Segregated Accounts	25,854	0	0	0
Materials and Supplies Inventory	155,969	0	0	0
Accounts Receivable	101,406	0	0	0
Interfund Receivable	1,859,500	0	227,500	0
Intergovernmental Receivable	417,760	0	0	0
Prepaid Items	63,752	0	0	0
Accrued Interest Receivable	751	0	0	0
Special Assessments Receivable	0	0	0	650,000
Property Taxes Receivable	871,935	0	0	0
Municipal Income Taxes Receivable	3,820,384	0	0	0
<i>Total Assets</i>	<u>\$12,365,785</u>	<u>\$2,785,890</u>	<u>\$7,371,904</u>	<u>\$1,042,452</u>
Liabilities				
Accounts Payable	\$204,471	\$70,469	\$39,680	\$0
Accrued Wages	371,351	0	0	0
Contracts Payable	182,632	0	175,143	0
Intergovernmental Payable	516,449	0	0	0
Retainage Payable	0	2,128	875,377	0
Accrued Interest Payable	0	0	13,635	0
Notes Payable	0	0	500,000	0
Interfund Payable	0	0	900,000	361,000
Deferred Revenue	1,778,807	0	0	650,000
<i>Total Liabilities</i>	<u>3,053,710</u>	<u>72,597</u>	<u>2,503,835</u>	<u>1,011,000</u>
Fund Balances				
Reserved for Encumbrances	450,743	805,464	2,404,261	182,805
Reserved for Long-Term Advances	1,704,500	0	227,500	0
Undesignated, Reported in:				
General Fund	7,156,832	0	0	0
Special Revenue Funds	0	0	0	0
Debt Service Fund	0	0	0	0
Capital Projects Funds (Deficit)	0	1,907,829	2,236,308	(151,353)
<i>Total Fund Balances</i>	<u>9,312,075</u>	<u>2,713,293</u>	<u>4,868,069</u>	<u>31,452</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$12,365,785</u>	<u>\$2,785,890</u>	<u>\$7,371,904</u>	<u>\$1,042,452</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, 2005*

Other Governmental Funds	Total Governmental Funds
\$1,735,185	\$17,106,405
0	25,854
0	155,969
309	101,715
0	2,087,000
282,917	700,677
0	63,752
0	751
0	650,000
413,020	1,284,955
0	3,820,384
<u>\$2,431,431</u>	<u>\$25,997,462</u>
\$27,697	\$342,317
32,945	404,296
55,041	412,816
197,238	713,687
0	877,505
0	13,635
0	500,000
826,000	2,087,000
609,843	3,038,650
<u>1,748,764</u>	<u>8,389,906</u>
231,938	4,075,211
0	1,932,000
0	7,156,832
251,256	251,256
278,323	278,323
(78,850)	3,913,934
<u>682,667</u>	<u>17,607,556</u>
<u>\$2,431,431</u>	<u>\$25,997,462</u>

Total Governmental Funds Balances \$17,607,556

***Amounts reported for governmental activities in the
statement of net assets are different because***

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds 79,694,378

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	29,485
Municipal Income Taxes	614,508
Intergovernmental	477,787
Charges for Services	11,400
Special Assessments	<u>650,000</u>

Total 1,783,180

Bond Issuance costs are considered deferred charges and will be amortized over the life of the bonds on the statement of net assets. 429,771

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported due. (444,979)

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. 3,105,681

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences	(513,625)
General Obligation Bonds	(30,797,995)
Special Assessment Bonds	(681,482)
OPWC Loan Payable	(57,520)
Police and Fire Liability	(77,312)
Notes Payable	(8,900,000)
Capital Lease Payable	<u>(46,144)</u>

Total (41,074,078)

Net Assets of Governmental Activities \$61,101,509

See accountant's compilation report

City of Independence, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Capital Improvements	Street Resurfacing	Oak Tree
Revenues				
Property and Other Local Taxes	\$1,764,123	\$0	\$0	\$0
Municipal Income Taxes	19,936,358	0	0	0
Special Assessments	0	0	0	38,970
Intergovernmental	881,576	0	240,214	0
Investment Income	342,724	164,864	386,189	0
Fees, Licenses and Permits	346,484	0	0	0
Fines and Forfeitures	334,545	0	0	0
Charges for Services	38,864	0	0	0
Miscellaneous	700,498	38,053	0	14,000
<i>Total Revenues</i>	<u>24,345,172</u>	<u>202,917</u>	<u>626,403</u>	<u>52,970</u>
Expenditures				
Current:				
General Government	4,027,205	0	0	0
Security of Persons and Property	7,104,723	0	0	0
Public Health and Welfare	99,105	0	0	0
Leisure Time Activities	2,727,730	0	0	0
Community Environment	2,392,569	0	0	0
Basic Utility Services	519,660	0	0	0
Transportation	863,923	0	0	0
Capital Outlay	0	3,374,904	7,566,571	2,047
Debt Service:				
Principal Retirement	0	615,328	6,767	25,000
Principal Retirement - Current Refunding	0	0	500,000	0
Interest and Fiscal Charges	0	783,027	53,117	27,445
Issuance Costs	0	0	0	0
<i>Total Expenditures</i>	<u>17,734,915</u>	<u>4,773,259</u>	<u>8,126,455</u>	<u>54,492</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>6,610,257</u>	<u>(4,570,342)</u>	<u>(7,500,052)</u>	<u>(1,522)</u>
Other Financing Sources (Uses)				
General Obligation Notes Issued	0	6,800,000	600,000	0
General Obligation Bonds Issued	0	0	0	0
Current Refunding	0	(6,800,000)	(600,000)	0
Inception of Capital Leases	0	0	0	0
Bond Premium	0	0	0	0
Transfers In	0	1,700,000	7,190,000	0
Transfers Out	(5,103,376)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(5,103,376)</u>	<u>1,700,000</u>	<u>7,190,000</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	1,506,881	(2,870,342)	(310,052)	(1,522)
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>7,805,194</u>	<u>5,583,635</u>	<u>5,178,121</u>	<u>32,974</u>
<i>Fund Balances End of Year</i>	<u>\$9,312,075</u>	<u>\$2,713,293</u>	<u>\$4,868,069</u>	<u>\$31,452</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, 2005*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$1,961,163)
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$411,986	\$2,176,109	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	19,936,358	Capital Outlay	9,706,556
0	38,970	Depreciation	(6,956,086)
534,792	1,656,582	Total	2,750,470
20,058	913,835	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.	(12,022)
315,788	662,272	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
28,956	363,501	Property and Other Local Taxes	(115,988)
0	38,864	Municipal Income Tax	(347,456)
366,712	1,119,263	Intergovernmental	28,881
		Charges for Services	11,400
1,678,292	26,905,754	Special Assessments	(25,000)
		Total	(448,163)
		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.	
21,335	4,048,540	Accrued Interest	(217,125)
668,741	7,773,464	Amortization of Bond Issuance Costs	(23,761)
0	99,105	Amortization of Accounting Loss	(5,334)
437,787	3,165,517	Amortization of Bond Premium	58,005
2,413	2,394,982	Total	(188,215)
0	519,660	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.	(37,347)
1,650,627	2,514,550	Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	10,572,783
245,219	11,188,741	Other financing sources in the governmental funds increase long-term liabilities in the statement of net assets.	
525,688	1,172,783	Bond Anticipation Notes Issued	(8,900,000)
0	500,000	General Obligation Bonds Issued	(5,800,000)
437,639	1,301,228	Bond Premium	(147,601)
157,525	157,525	Bond Issuance Costs	157,525
4,146,974	34,836,095	Total	(14,690,076)
(2,468,682)	(7,930,341)	Inception of a captial lease is an other financing source in the governmental funds, but increases liabilities in the governmental activities.	(21,577)
1,500,000	8,900,000	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.	(5,926)
5,800,000	5,800,000		
(1,500,000)	(8,900,000)	<i>Change in Net Assets of Governmental Activities</i>	<i>(\$4,041,236)</i>
21,577	21,577		
147,601	147,601		
1,653,376	10,543,376		
(5,440,000)	(10,543,376)		
2,182,554	5,969,178		
(286,128)	(1,961,163)		
968,795	19,568,719		
\$682,667	\$17,607,556		

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, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property and Other Local Taxes	\$1,899,658	\$1,907,626	\$1,826,932	(\$80,694)
Municipal Income Taxes	18,400,000	19,500,000	19,913,794	413,794
Intergovernmental	1,032,934	1,036,675	998,787	(37,888)
Investment Income	179,444	180,160	172,904	(7,256)
Fees, Licenses and Permits	385,010	386,547	370,979	(15,568)
Fines and Forfeitures	320,366	321,645	308,691	(12,954)
Charges for Services	40,470	40,631	38,995	(1,636)
Miscellaneous	669,754	651,042	626,075	(24,967)
<i>Total Revenues</i>	<u>22,927,636</u>	<u>24,024,326</u>	<u>24,257,157</u>	<u>232,831</u>
Expenditures				
Current:				
General Government	4,251,601	4,184,419	4,135,277	49,142
Security of Persons and Property	7,120,078	7,162,218	7,135,448	26,770
Public Health and Welfare	97,932	100,230	99,040	1,190
Leisure Time Activities	2,744,101	2,814,243	2,803,816	10,427
Community Environment	2,519,866	2,588,519	2,572,651	15,868
Basic Utility Services	507,877	533,133	531,841	1,292
Transportation	859,510	911,203	910,532	671
<i>Total Expenditures</i>	<u>18,100,965</u>	<u>18,293,965</u>	<u>18,188,605</u>	<u>105,360</u>
<i>Excess of Revenues Over Expenditures</i>	<u>4,826,671</u>	<u>5,730,361</u>	<u>6,068,552</u>	<u>338,191</u>
Other Financing Uses				
Advances Out	(3,155,000)	(155,000)	(155,000)	0
Transfers Out	(4,958,376)	(5,103,376)	(5,103,376)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(8,113,376)</u>	<u>(5,258,376)</u>	<u>(5,258,376)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(3,286,705)	471,985	810,176	338,191
<i>Fund Balance Beginning of Year</i>	2,936,456	2,936,456	2,936,456	0
Prior Year Encumbrances Appropriated	530,965	530,965	530,965	0
<i>Fund Balance End of Year</i>	<u>\$180,716</u>	<u>\$3,939,406</u>	<u>\$4,277,597</u>	<u>\$338,191</u>

See accompanying notes to the basic financial statements

City of Independence, Ohio

Statement of Fund Net Assets

Internal Service Fund

December 31, 2005

	<u>Insurance</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,103,506
Prepaid Items	<u>2,175</u>
<i>Total Assets</i>	<u>3,105,681</u>
Liabilities	<u>0</u>
Net Assets	
Unrestricted	<u><u>\$3,105,681</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, 2005*

	Insurance
Operating Revenues	\$0
Operating Expenses	
Purchased Services	9,298
Claims	75,396
<i>Total Operating Expenses</i>	84,694
<i>Operating Loss</i>	(84,694)
Non-Operating Revenues	
Interest	78,768
<i>Change in Net Assets</i>	(5,926)
<i>Net Assets Beginning of Year</i>	3,111,607
<i>Net Assets End of Year</i>	\$3,105,681

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, 2005

	Insurance
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
Cash Flows from Operating Activities	
Cash Payments for Contractual Services	(\$11,473)
Cash Payments for Claims	(75,396)
<i>Net Cash Used in Operating Activities</i>	(86,869)
Cash Flows from Investing Activities	
Interest on Investments	78,768
<i>Net Decrease in Cash and Cash Equivalents</i>	(8,101)
<i>Cash and Cash Equivalents Beginning of Year</i>	3,111,607
<i>Cash and Cash Equivalents End of Year</i>	\$3,103,506
 Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
<i>Operating Loss</i>	(\$84,694)
Adjustments:	
Increase in Prepaid Items	(2,175)
<i>Net Cash Used In Operating Activities</i>	(\$86,869)

See accompanying notes to the basic financial statements

City of Independence, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Fund
December 31, 2005

Assets

Equity in Pooled Cash and Cash Equivalents	<u>\$163,049</u>
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Liabilities

Undistributed Monies	<u>\$163,049</u>
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See accompanying notes to the basic financial statements

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005

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.

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.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 Division (NEORS) maintains the upkeep of the sanitary and storm sewers.

Oak Tree Fund The oak tree fund accounts for special assessment monies used for improvements to Oak Tree North.

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.

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.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

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, 2005, but which were levied to finance year 2006 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.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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".

During 2005, investments were limited to STAROhio, U.S. Treasury bills and 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. The fair value of the mutual funds is based on current share 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, 2005.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2005 amounted to \$342,724, which includes \$95,808 assigned from other City funds.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005, 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.

All capital assets are depreciated except for land. 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.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

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 \$9,257,550 of restricted net assets, of which \$372,122 is restricted by enabling legislation.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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

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.

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 Principles and Restatement of Prior Year’s Fund Balance and Net Assets

A. Change in Accounting Principles

For 2005, the City has implemented GASB Statement No. 40, “Deposit and Investment Risk Disclosures” and GASB Statement No. 42, “Accounting and Financial Reporting Impairment of Capital Assets and for Insurance Recoveries.”

GASB Statement No. 40 establishes new disclosure requirements associated with deposits and investments.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

The implementation of GASB Statement No. 40 and GASB Statement No. 42 did not affect the presentation of the financial statements of the City.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

B. Restatement of Prior Year Fund Balance and Net Assets

During 2004, the \$9,900,000 bond anticipation note was reported as a long-term liability. The note was partially refinanced in 2005. The portion of the note that was repaid should have been reported as a fund liability. This restatement had the following effect on fund balance as it was previously reported.

	General	Capital Improvements	Street Resurfacing	Oak Tree	Other Governmental Funds	Total Governmental Funds
Fund Balance, December 31, 2004	\$7,805,194	\$5,583,635	\$5,678,121	\$32,974	\$968,795	\$20,068,719
Notes Payable	0	0	(500,000)	0	0	(500,000)
Adjusted Fund Balance, December 31, 2004	<u>\$7,805,194</u>	<u>\$5,583,635</u>	<u>\$5,178,121</u>	<u>\$32,974</u>	<u>\$968,795</u>	<u>\$19,568,719</u>

During 2005, it was determined that capital assets were overstated in governmental activities by \$5,900,000 at December 31, 2004. This restatement decreased net assets for governmental activities from \$71,042,745 to \$65,142,745.

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).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Net Change in Fund Balance	
	General
GAAP Basis	\$1,506,881
Net Adjustment for Revenue Accruals	(48,854)
Beginning Fair Value Adjustment for Investments	45,512
Ending Fair Value Adjustment for Investments	(99,507)
Advances Out	(155,000)
Net Adjustment for Expenditure Accruals	213,072
Beginning Unrecorded Cash	19,442
Ending Unrecorded Cash	(4,608)
Encumbrances	(666,762)
Budget Basis	\$810,176

Note 5 – Accountability

The following funds had deficit fund balances as of December 31, 2005.

	Deficits
Nonmajor Funds:	
Special Revenue Fund:	
Police Pension	\$177,846
Debt Service Fund:	
Quadrant TIF	116,811
Capital Projects Fund:	
Rockside Woods Special Assessment	81,450

Fund deficits in the Police Pension, Quadrant TIF and the Rockside Woods Special Assessment 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.

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

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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;
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.

City of Independence, Ohio
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For the Year Ended December 31, 2005

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 \$9,908,546 and the bank balance was \$10,319,135. Of the bank balance, \$317,093 was covered by Federal depository insurance and \$10,002,042 was collateralized with securities held by the pledging financial institutions' trust department or agent, but not in the City's name. Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution, by surety company bonds or by a single collateral pool established by the financial institution.

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, 2005, the City had the following investments:

	<u>Fair Value</u>	<u>Average Maturity</u>
STAROhio	\$24,498	39.41 days
Federal Home Loan Bank Bonds	896,173	694 days
Federal National Mortgage Association Bonds	2,191,946	131 days
Federal Home Loan Mortgage Corporation Bonds	6,793,753	320 days
U.S. Treasury Bills	99,218	60 days
U.S. Treasury Bonds	482,017	360 days
Total	<u>\$10,487,605</u>	

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.

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 AAAM 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.

City of Independence, Ohio
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For the Year Ended December 31, 2005

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, 2005, consisted primarily of property and other taxes, municipal 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 \$620,000. At December 31, 2005, there were no 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 2005 for real and public utility property taxes represents collections of the 2004 taxes. Property tax payments received during 2005 for tangible personal property (other than public utility property) are for 2005 taxes.

2005 real property taxes are levied after October 1, 2005 on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2005 real property taxes are collected in and intended to finance 2006.

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. 2005 public utility property taxes became a lien December 31, 2004, are levied after October 1, 2005, and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent for inventories.

The full tax rate for all City operations for the year ended December 31, 2005 was \$4.10 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property:	
Residential/Agricultural	\$219,661,670
Other Real Estate	244,877,290
Public Utility Personal Property	20,241,990
Tangible Personal Property	40,970,389
Total	<u><u>\$525,751,339</u></u>

City of Independence, Ohio
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For the Year Ended December 31, 2005

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.

Tangible personal property taxes paid by multi-city taxpayers are due September 20. Single city taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

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, 2005 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 2005 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 2005, the proceeds were allocated entirely to the general fund.

C. Intergovernmental Receivable

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

Governmental Activities	Amount
Local Government	\$437,826
Gasoline Excise Tax	105,254
Estate Tax	72,008
Homestead and Rollback	70,693
City of Shaker Heights Overtime Reimbursement	4,587
Katrina Reimbursement	4,383
Liquor Fees	3,881
Prisoner Housing	1,975
Court Fines	70
Total Intergovernmental Receivables	\$700,677

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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 2005, 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	42,986,653	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, 2005. Changes in the fund's claims liability amount for 2004 and 2005 were:

	Beginning of Year	Year Claims	Payments	End of Year
2004	\$0	\$56,074	\$56,074	\$0
2005	0	75,396	75,396	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
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$13,386,930	\$0	\$0	\$13,386,930
Construction in progress	9,923,109	8,908,096	(18,831,205)	0
<i>Total Capital Assets, Not Being Depreciated</i>	<u>23,310,039</u>	<u>8,908,096</u>	<u>(18,831,205)</u>	<u>13,386,930</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	25,252,017	13,256,687	0	38,508,704
Machinery and Equipment	3,001,158	182,299	(20,360)	3,163,097
Furniture and Fixtures	1,698,284	28,515	(4,455)	1,722,344
Vehicles	4,972,731	182,756	(185,032)	4,970,455
Infrastructure				
Roads	25,362,101	5,952,908	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	9,207,548	26,500	0	9,234,048
<i>Total Capital Assets, Being Depreciated</i>	<u>77,597,255</u>	<u>19,629,665</u>	<u>(209,847)</u>	<u>97,017,073</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(5,677,866)	(4,837,170)	0	(10,515,036)
Machinery and Equipment	(1,759,716)	(244,756)	11,488	(1,992,984)
Furniture and Fixtures	(1,116,746)	(85,570)	3,553	(1,198,763)
Vehicles	(2,941,650)	(381,299)	182,784	(3,140,165)
Infrastructure				
Roads	(9,314,663)	(1,132,674)	0	(10,447,337)
Water Lines	(718,466)	(54,328)	0	(772,794)
Sanitary Sewers	(420,843)	(35,608)	0	(456,451)
Storm Sewers	(2,001,414)	(184,681)	0	(2,186,095)
<i>Total Accumulated Depreciation</i>	<u>(23,951,364)</u>	<u>(6,956,086) *</u>	<u>197,825</u>	<u>(30,709,625)</u>
Total Capital Assets, Being Depreciated, Net	<u>53,645,891</u>	<u>12,673,579</u>	<u>(12,022)</u>	<u>66,307,448</u>
Governmental Activities Capital Assets, Net	<u>\$76,955,930</u>	<u>\$21,581,675</u>	<u>(\$18,843,227)</u>	<u>\$79,694,378</u>

* Depreciation expense was charged to governmental activities as follows:

General Government	\$4,981,085
Security of Persons and Property	282,599
Leisure Time Activities	57,515
Community Environment	14,871
Basic Utility Services	487,342
Transportation	1,132,674
Total	<u>\$6,956,086</u>

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 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 percent. The City's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Independence, Ohio
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For the Year Ended December 31, 2005

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$567,936, \$538,983, and \$528,252 respectively; 71.06 percent has been contributed for 2005 and 100 percent for 2004 and 2003. Contributions to the member-directed plan for 2005 were \$12,744 made by the City and \$7,994 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 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to OP&F for police and firefighters were \$292,009 and \$270,307 for the year ended December 31, 2005, \$268,688 and \$245,502 for the year ended December 31, 2004, and \$255,365 and \$238,291 for the year ended December 31, 2003, respectively. The full amount has been contributed for 2004 and 2003. 66.87 percent for police and 68.83 percent for firefighters has been contributed for 2005.

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 primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. 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 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 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 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. 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.

City of Independence, Ohio
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For the Year Ended December 31, 2005

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$265,701. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted the Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, 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 health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in *GASB Statement No. 12*. 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 2005 and 2004. 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 2005 that were used to fund postemployment benefits were \$192,602 for police and \$128,915 for firefighters. The OP&F's total health care expense for the year ended December 31, 2004, (the latest information available) was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

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

During 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

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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	(30,048)
Total	\$128,282

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, 2005:

Year Ending December 31,	Governmental Activities
2006	\$29,207
2007	20,212
Total Minimum Lease Payments	49,419
Less: Amount Representing Interest	(3,275)
Present Value of Minimum Lease Payments	\$46,144

Note 15 – Note Debt

During 2005, the City paid \$500,000 of the outstanding \$9,900,000 in bond anticipation notes and reissued \$9,400,000. On May 10, 2006, the City paid \$500,000 against the \$9,400,000 and refinanced the remaining \$8,900,000 into a new note. Therefore, the \$9,400,000 liability outstanding at December 31, 2005 will be split with \$8,900,000 presented as a long-term liability and \$500,000 presented as a fund liability in the financial statements.

<i>Types / Issues</i>	Balance 12/31/04	Additions	Deletions	Balance 12/31/05
2004 - 2.25% Various Purpose Bond Anticipation Notes	\$9,900,000	\$0	\$9,900,000	\$0
2005 - 4.25% General Purpose Bond Anticipation Notes	0	9,400,000	0	9,400,000
Total Governmental Funds	\$9,900,000	\$9,400,000	\$9,900,000	\$9,400,000

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 10, 2006. The note liability is reflected in the funds which received the proceeds. All note proceeds have been fully expended. The note will be paid from the street resurfacing fund.

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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.

Note 16 - Long-Term Obligations

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

	Balance 12/31/04	Additions	Reductions	Balance 12/31/05	Amounts Due in One Year
General Obligation Bonds					
2003 \$2,520,000 - 2% to 3%					
Civic Center	\$2,110,000	\$0	(\$285,000)	\$1,825,000	\$290,000
Unamortized Premium	12,739	0	(1,820)	10,919	0
Unamortized Accounting Loss	(37,334)	0	5,334	(32,000)	0
2003 \$15,000,000 - 2% to 5%					
Shared Facilities	14,420,000	0	(595,000)	13,825,000	605,000
Unamortized Premium	710,736	0	(39,485)	671,251	0
2003 \$7,125,000 - 2% to 5%					
Northwest Quadrant TIF	6,945,000	0	(185,000)	6,760,000	50,000
Unamortized Premium	178,495	0	(7,438)	171,057	0
2003 \$1,675,000 - 2% to 5%					
Southwest Quadrant TIF	1,630,000	0	(45,000)	1,585,000	190,000
Unamortized Premium	41,577	0	(1,733)	39,844	0
2005 \$5,800,000 - 2% to 5%					
Northeast Quadrant TIF	0	5,800,000	0	5,800,000	45,000
Unamortized Premium	0	147,601	(5,677)	141,924	0
Total General Obligation Bonds	26,011,213	5,947,601	(1,160,819)	30,797,995	1,180,000
Special Assessment Bonds					
2003 \$700,000 - 2% to 5%					
Oaktree	675,000	0	(25,000)	650,000	30,000
Unamortized Premium	33,334	0	(1,852)	31,482	0
Total Special Assessment Bonds	708,334	0	(26,852)	681,482	30,000
OPWC Loan					
1994 \$335,095 - 0%					
Quarry Road Bridge	64,287	0	(6,767)	57,520	6,767
Other Long-term Obligations					
Capital Lease Obligation	52,514	21,577	(27,947)	46,144	27,102
Police and Fire Pension	80,381	0	(3,069)	77,312	3,201
Compensated Absences	476,278	38,083	(736)	513,625	154,262
Total General Long-term Obligations	\$27,393,007	\$6,007,261	(\$1,226,190)	\$32,174,078	\$1,401,332

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, 2005

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 bonds 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 Obligation Bond Retirement debt service fund and the Capital Improvement and Quadrant TIF Special Assessment capital project funds from property taxes. Special assessment bonds were paid from the proceeds of special assessments levied against benefited property owners from the Quadrant TIF Special Assessment capital project fund. 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 Street Resurfacing capital projects fund.

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

The City's overall legal debt margin was \$37,893,891 with an unvoted debt margin of \$13,716,324 at December 31, 2005. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005 are as follows:

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

	General Obligation		Special Assessment		OPWC
	Bonds		Bonds		Loan
	Principal	Interest	Principal	Interest	Principal
2006	\$1,180,000	\$1,316,679	\$30,000	\$26,945	\$6,767
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
2011-2015	6,400,000	4,488,977	175,000	101,575	23,685
2016-2020	7,610,000	3,147,700	220,000	55,413	0
2021-2025	5,875,000	1,366,701	105,000	6,775	0
2026-2030	3,350,000	366,774	0	0	0
Total	\$29,795,000	\$15,300,458	\$650,000	\$291,798	\$57,520

Note 17 – Contractual Commitments

The City had the following contractual commitments outstanding at December 31, 2005:

Project	Contract Amount	Amount Paid to Date	Amount Remaining on Contract
Sanitary Sewer	\$103,944	\$33,026	\$70,918
Roadway Maintenance	358,000	118,723	239,277
Creek Maintenance	85,160	27,789	57,371
Shared Facilities	13,000,000	12,969,564	30,436
Rockside Road	14,011,362	5,548,932	8,462,430
Total	\$27,558,466	\$18,698,034	\$8,860,432

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

Note 18 – Interfund Transactions

A. Interfund Balances

Interfund Payable	Interfund Receivable		Totals
	General	Street Resurfacing	
<i>Major Funds:</i>			
Street Resurfacing	\$900,000	\$0	\$900,000
Oaktree	133,500	227,500	361,000
<i>Nonmajor Funds:</i>			
All TIF Funds	721,000	0	721,000
Hillside and 21 TIF	5,000	0	5,000
Rockside Woods	100,000	0	100,000
	<u>\$1,859,500</u>	<u>\$227,500</u>	<u>\$2,087,000</u>

The interfund receivables and payables are advances for grant monies that were not repaid by year end. The City advances grant monies in the event that the award was not received when expected. The general fund will receive \$1,859,500 from various funds, while the street resurfacing fund will receive \$227,500 from the oaktree fund. All interfund balances will be repaid within one year.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, consisted of the following:

Transfers To	Transfer From		Total
	General	Quadrant TIF	
<i>Major Funds:</i>			
Capital Improvements	\$1,700,000	\$0	\$1,700,000
Street Resurfacing	1,750,000	5,440,000	7,190,000
Total Major Funds	<u>3,450,000</u>	<u>5,440,000</u>	<u>8,890,000</u>
<i>Nonmajor Funds:</i>			
Street Construction, Maintenance and Repair	1,100,000	0	1,100,000
FEMA Grant	13,376	0	13,376
Recreation Trust	100,000	0	100,000
Police Pension	280,000	0	280,000
Drain Water	160,000	0	160,000
Total Nonmajor Funds	<u>1,653,376</u>	<u>0</u>	<u>1,653,376</u>
Total All Funds	<u>\$5,103,376</u>	<u>\$5,440,000</u>	<u>\$10,543,376</u>

The general fund transfer to the capital improvements capital projects fund was to provide money for capital purchases and expenses for year 2005. The General fund transfers to the Street Construction, Maintenance and Repair and Recreation Trust special revenue funds were to help cover costs of yearly expenditures. The

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

general fund transfer to the Police Pension special revenue fund was to help fund pension costs. The general fund transfers to the Street Resurfacing and Drain Water capital projects funds were to fund improvements and provided expenses for year 2005. The transfer from the Quadrant TIF fund to the Street Resurfacing Fund was to help fund street repairs needed as a result of the TIF expansion projects.

Note 19 – Jointly Governed Organization

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 2005, the City contributed \$7,500 which represents 2.9 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.

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 2005. 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.

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,

City of Independence, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

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; 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.

Note 21 – Subsequent Event

On March 14, 2006, the City reissued the various purpose bond anticipation notes in the amount of \$8,900,000 at a rate of 6.00%. The notes will mature on May 9, 2007.

On June 13, 2006, the City authorized the purchase of 19.6 acres of property from Kleber, Ltd for \$1,850,000. The land will be used to construct a basketball facility.



**Auditor of State
Betty Montgomery**

**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, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 30, 2006, wherein we noted the City restated the fund balance for the Street Resurfacing Fund and the capital assets for the year ended December 31, 2004. 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 to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated October 30, 2006, we reported other matters involving internal control over financial reporting we did not deem a reportable conditions.

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*. In a separate letter to the City's management dated October 30, 2006, we reported another matter related to noncompliance we deemed immaterial.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

City of Independence
Cuyahoga County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and members of City Council. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

October 30, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JANUARY 4, 2007**